

S.K. Ventures Private Limited

Ratings

Instruments/ Facilities	Amount (Rs. in Million)	Rating ^[1]	Rating Action
Long Term Bank Facilities	26.60	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	473.40	CARE-NP A4 [A Four]	Assigned
Total Bank Facilities	500.00 (Five Hundred Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned ratings of 'CARE-NP B+' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of S.K. Ventures Private Limited (SKV).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SKV are constrained by short track record of operations, weak financial risk profile, project execution risk of ongoing and new projects coupled with expected high reliance on debt for its funding. The ratings are further constrained by geographical concentration of projects, cyclical and seasonality associated with the industry, exposure to local demand-supply dynamic and marketability risk and market competition.

The ratings however, derive strength from experienced and resourceful promoter providing continuous financial support for operations of the company.

Going forward, the ability of company to mobilize fund for successfully executing the projects in time, releasing the customer advances in timely manner and as per envisaged rates will be key rating sensitivities.

Detailed Rationale & Key Rating Drivers

Key Rating Weakness

Short track record of operations and weak financial risk profile

SKV commenced its business operations in 2016 and has a relatively short track record of operations as compared to other established players in the similar business. Being new in the market, ability of the company to achieve the envisaged scale of business remains crucial. The company had earned revenue in the form of brokerages till FY20 (FY refers to 12 months' period ended mid-July). Total operating income (TOI) was low in FY21 (unaudited) and stood at Rs. 56 Mn. There was significant increase of TOI in FY21 over previous years on account of change in business model whereby company started revenue booking by sale and purchase of real estate assets instead of commission in previous years. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits.

Project execution risk of ongoing and new projects with expected high reliance on debt for its funding

Currently, the company is developing a residential project in Budhanilkantha, on a land area of 136,900 sq. ft. for construction of 77 residential housings. The total estimated cost of the project is Rs. 3.08 Bn. The company has already identified required land for the project for which SKV has also made advance payment and final transaction is expected to be completed by December, 2021. The project is at initial stages, hence exposing company to project execution risk. The debt requirement to finance the project is yet to be tied up. Further, SKV plans to develop 12 different projects with total saleable area of 174,223 sq. ft. having cost of Rs. 1,133 Mn for acquisition of the total land and Rs. 1,398 Mn for development of the housing project.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Geographical concentration of project

SKV is exposed to high geographical concentration risk with presence of its projects mainly in Kathmandu valley. The company is developing all its housing projects in Kathmandu valley. Thereby, the company's operations are highly exposed to vagaries of the micro market forces of the region. In the event of regional slowdown in the economic activity or any other developments including political or civil unrest, disruption or sustained economic downturn that reduces demand in the real estate sector in the region could adversely affect the business and financial performance of the company.

Cyclical and seasonality associated with real estate industry and exposure to local demand-supply dynamic

The company is exposed to the cyclical nature associated with real estate sector which has direct linkage with the general macroeconomic scenario, interest rates and level of disposable income available with individuals. The cyclical nature associated with the real estate industry could have a significant impact upon the revenues and profit margins of the company. Volatility in the cash flows due to the cyclical nature could pose challenges, especially during periods of weak demand, given significant reliance upon debt and related service obligations of the company.

Marketability risk and market competition

The real estate industry is highly competitive in nature with the presence of a large number of organized and unorganized players spread across various regions. There are already well-established players in the market coming with projects at affordable prices, thereby giving competition to SKV. With operations of the company at nascent stage, booking of the housing and receipt of advances from the customers remains crucial exposing company to higher marketability risk. Also, with the ongoing pandemic situation, it is expected that there would be slow recovery in demand of real estate inventory which may have an impact of company business growth.

Key Rating Strengths***Experienced promoter***

SKV is promoted by Mr. Sohyal Karki and is managing director of the company. He has seven years of experience in the real estate business related to property management, property development, housings, plotting, etc. Over his seven years of experience, he has been able to execute and sell various land and house properties. Board of directors are further supported by an experienced team across various functions/ departments.

Resourceful promoter providing continuous financial support for operation of the company

The promoter has also been infusing funds to support the operational needs of the company. The promoter had infused around Rs. 140 Mn during FY20 and FY21 in the form of equity. Apart from this, the promoter has also extended need-based support in the form of interest free unsecured loans to meet the liquidity requirements of the company. The amount of unsecured loans extended by the promoters stood at Rs. 30 Mn as on mid-July, 2021.

About the Company

S.K. Ventures Private Limited (SKV) is a real estate company of Nepal which was incorporated on May 26, 2016 with registered office based in Ward No.2, Kathmandu, Nepal. SKV was initially incorporated as a marketing arm for promoter's real estate business. Later on, the company has also been involved in trading of land and developing various housing projects.

Financial Performance

(Rs. in Million)

For the Period Ended / as at Mid-July	2019	2020	2021
	(12m, A)	(12m, A)	(12m, UA)
Total Operating Income	8.00	21.00	56.00
PBILDT Margin (%)	21.93	18.10	31.39
Overall Gearing Ratio (times)	-	-	0.88
Interest Coverage (times)	-	-	2.34
Current Ratio (times)	24.65	3.20	1.87
Total Debt/ Gross Cash Accruals (times)	-	-	14.22

A: Audited; UA: Unaudited

Annexure 1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings assigned
Long Term Bank Facilities	Term Loan	26.60	CARE-NP B+
Short Term Bank Facilities	Fund Based Limits	473.40	CARE-NP A4
Total		500.00	

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About CARE Ratings Nepal Limited:

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