

Radhe Kripa Housing and Investments Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	700.00	CARE-NP BB- [Double B Minus]	Assigned
Total Facilities	700.00 (Seven Hundred Million Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB- [Double B Minus]' to the long term bank facilities of Radhe Kripa Housing and Investments Private Limited (RKH).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of RKH is primarily constrained by project implementation risk and partial funding risk associated with under construction project. The rating also factors in salability risk for the project particularly if the funding challenges currently faced by the real estate industry and residential housing gets significantly prolonged which could lead to increased burden on debt servicing in the initial stages of operations. Additionally, the rating also takes cognizance of inherent risk associated with real estate sector, susceptibility to cyclicity and seasonality associated with real estate industry and exposure to volatile interest rates.

The rating, however, derives strength from experienced promoters of the company and favorable location of the project. The rating also factors in stable demand outlook for the real estate sector over the medium term with increasing preference for ready to move-in homes; however slightly moderated on account of tightened monetary policy for the current fiscal year.

Going forward, the ability of the company to timely complete the project with in estimated cost, achieving envisaged sales coupled with timely collection of customer receipts will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation risk associated with under construction project

The company is developing a real estate residential apartments project comprising of 48 units at an estimated cost of Rs. 1,025 Mn, which is proposed to be financed with debt amount of Rs. 615 Mn and equity of Rs. 410 Mn in debt to equity ratio of 60:40. As on mid-December, 2022, around 80% of the construction work had been completed. The project is expected to be fully completed by the September 2023. With the proposed project still under-construction, the company remains exposed to the risks associated with project implementation without any significant time and cost overruns.

Low booking status and funding risk as partial debt is yet to be tied up

RKH has achieved financial closure amounting to Rs. 558 Mn of the total debt component of Rs. 615 Mn required for the project. Although majority of the debt requirement is already tied up, financial closure for remaining portion is pending leading to residual funding risk. Furthermore, as on December 15, 2022, the promoters of the company have infused Rs. 166 Mn (40% of the total equity component) of the project cost. Timely infusion of the remaining equity and arrangement for the remaining debt fund will be key from credit perspective.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

Furthermore, as booking from the customers have already been started, this provides some cushion towards the residual project funding. However, the extent to which the company will be able to collect advances/receipts from customers in the current market dynamics remains to be seen. Furthermore, going forward the scheduled servicing of the debt availed for the construction of the project would also be dependent on the company's ability to sell the apartments at the envisaged rates within the expected timeframe. Hence, the project also remains exposed to risk associated with timely receipt of booking advances and remaining amount thereafter.

Inherent risk associated with real estate sector

For Real Estate sector, with consumers becoming more discerning, ready-to-move-in homes are expected to be a major demand driver in the coming period. However, as developers will continue to focus on reducing their present inventory, before launching new projects, the demand trend in the industry plays a crucial role. The developer's track record, quality of construction and delivery timelines will be crucial aspects that home buyers will consider in their purchase decisions. Furthermore, Budget 2022/23 and the Finance Act have increased the capital gains tax on real estate transactions to 7.5% from 5%. Although Government Economic Survey 2020/21 shows increasing trend in real estate transaction, this has remained sluggish in FY22 amid the economic slowdown.

Cyclical and seasonality associated with real estate industry and exposure to volatile interest rate

The life cycle of a real estate project is long and the state of the economy at every point in time, right from land acquisition to construction to actual delivery, has an impact on the project. This capital intensive sector is extremely vulnerable to the economic cycles. Currently, slowdown in sales and increased input costs has increased liquidity concerns for highly leveraged players. 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 real estate sector is sensitive to the economic cycle and interest rates. Adverse movement in interest rate affects the real estate players in both ways - by hampering demand as well as increasing the cost of construction. With elevated interest rates, the real estate sector is expected to witness slowdown in the coming fiscals. With cost of ownership elevated amid higher interest rates, a lot of the buyers postpone their purchase decisions, which could impact the salability of upcoming projects.

Key Rating Strengths

Experienced promoters of the company

The company is managed under the overall guidance of its Board of directors (BoD) who possess wide industry experience. Mr. Prabhat Roongta, Managing Director, has around two decades of industry experience and is also Managing Director at Maruti Pharma Private Limited. Mr. Manish Agrawal, Director, also Managing Director at Galaxy Packaging Private Limited (CARE-NP BB/A4+) and founder of Rizvi Trading, has 25 years of experience in diversified sectors. Mr. Pashupati Kumar Khandelwal, Director, has work experience of around two decades in various business. He is also Managing Director at Shreyash Exim Private Limited. BODs are further supported by an experienced team across various functions/ departments.

Favourable Location

RKH is centrally located in Birgunj, Parsa which is around 22 Km away from Simara Airport. Birgunj is one of the fastest developing metropolitan cities in Nepal and is also known as the 'Gateway to Nepal' and 'Commercial Capital of Nepal'. Being located in an industrial city, access to numerous manufacturing and trading industries, educational institutions, hospitals, ATMs, shopping malls, retail shops, banks etc. are within close proximity of the project. Also, with the increasing demand of the people to live far enough from the hustles of the city, however close enough access to better services and facilities, Birgunj could be considered as a favourable location for residential purpose.

Stable demand outlook for real estate sector over medium term, albeit likely to remain sluggish over near term on account of tightened monetary policy

Real estate has been one of the main sectors for banks' lending over the years. The increase in the demand for land and building, especially in urban areas has been recognized due to inelastic supply of land and absence of viable investment opportunity. The investment in apartments and colonies has been increasing due to change in people preference towards ready to move homes as compared to self-constructed houses. However, the real estate loan to value ratio (Real estate loan to Fair Market value of mortgage) which was 40% inside Kathmandu valley and 50% outside valley has been further tightened by Monetary Policy 2022/23 thus reducing the loan to value ratio to 30% within Kathmandu valley and 40% outside Kathmandu valley in order to limit the investment of fund towards real estate sector and release the funds to be directed towards productive sector. With the limitation created in real estate loan and residential housing loan coupled with increasing interest rate in the economy on account of ongoing liquidity crisis in the nation, the demand of real estate sector has slightly moderated but likely to improve over the medium term as the economy recovers.

About the Company

RKH was incorporated on April 29, 2019 under the Companies Act, 2006. The company is in process of developing a residential project namely Radhe Kripa Housing Society located in Birgunj, Nepal. The project will be a total of 48 units of various capacities (3BHK, 4BHK, 5BHK and Penthouse).

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fund Based Limit	700.00	CARE-NP BB- [Double B Minus]
Total		700.00	

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