

## Kalimati Trade Centre Private Limited

### Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	674.50	CARE-NP B [Single B]	Assigned
Short Term Bank Facilities	25.50	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>700.00</b> <b>(Seven Hundred Million Only)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP B' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Kalimati Trade Centre Private Limited (KTC).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KTC are constrained by its weak financial performance marked by slow sales velocity and low profitability during FY23 (Unaudited; FY refers to the twelve-month period ending mid-July) leading to modest debt protection metrics. The ratings also factor in funding risk and project implementation risk associated with under construction residential project. The project still needs to secure financing for its debt component, and the funding risk is elevated due to the project's significant reliance on customer advances. The ratings also factor in salability risk for ongoing project, inherent risk associated with real estate sector, susceptibility to cyclical and seasonality associated with real estate industry and exposure to volatile interest rates.

The ratings, however, derive strength from established promoters of the company in related field and favorable locational of the projects. The ratings also factor in likely improvement in demand outlook for the real estate sector over the medium term with increasing preference for ready to move-in homes, despite sluggish near-term demand scenario.

*Going forward, the ability of company to successfully execute the under-construction projects within estimated time and cost will be key rating sensitivities. Also, the company's ability to profitably scale up the existing scale of operations while improving coverage and solvency indicators will also be rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Sluggish operating performance leading to weak debt coverage indicators

KTC's operating performance in FY23 remained weak due to lower sales realization. During FY23, total operating income (TOI) was Rs. 49 Mn. PBILDT margin during FY23 was around 10% (FY22: 13.60%). Booking advance received by the company for the operational business complex amounts to Rs. 256 Mn as on mid-July 2023 and the revenue base of the company is expected to improve in upcoming years. The capital structure of the company is moderate marked by overall gearing ratio of 1.98x at the end of FY23 (FY22: 2.25x). However, with ongoing debt funded capex, overall gearing ratio is likely to elevate in FY24. Similarly, interest coverage ratio including capitalized interest portion of the company stood below unity for FY21-FY23. Total debt/ GCA stood high at 52.54x in FY23. Hence, the ability of the company to liquidate the inventory at hand as envisaged leading to sufficient cash accruals to cover debt servicing from operations will be crucial from analytical perspective.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications.

**Project implementation risk associated with under construction housing project**

The company is developing a residential apartment project at an estimated cost of Rs. 1,890 Mn, which is proposed to be financed with debt of Rs. 500 Mn, equity of Rs. 180 Mn and balance from customer advances of Rs. 1,210 Mn. The company is yet to achieve full financial closure for the project. As on September 2023, the promoters have infused Rs. 130 million, constituting 72% of their committed contribution to the total equity component. The expected commercial operation date (COD) of the project is January 2026. Given the preliminary stage of the project and the absence of construction commencement, the company is exposed to risks associated with project implementation.

**Significant dependence on sales for project execution and debt repayment**

Substantial amount of funding (64% of the project cost) is proposed to be financed through customer advances. However, booking is yet to start for the project, exposing it to the corresponding funding risk. The company's ability to achieve sales at envisaged price could be thwarted by the sluggish demand prospects in the real estate industry amid slow pace of economic growth in the country. 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 remains exposed to high risk associated with timely receipt of booking advances and remaining amount thereafter from its customers.

**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. Government Economic Survey 2021/22 shows increasing trend in real estate transaction, this has remained sluggish in FY22 and FY23 amid the economic slowdown.

The Monetary Policy 2023/24 has introduced various policies to limit the investment of funds towards real estate sector and release the funds to be directed towards productive sector. The loan to value ratio against the collateral of land and houses has been reduced for overdraft loans, mortgage loans, property loans, and personal term loans. With the limitation created in property loans, the demand of real estate sector has slightly moderated but is likely to improve over the medium term as the economy recovers.

**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 depends upon 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 the promoter's long track record in real estate development projects, KTC is likely to face lower challenges for marketability of housing projects compared to new entrants.

## Key Rating Strengths

### Established promoters in related field

KTC is managed under the overall guidance of the company's board of directors (BOD) who possess wide industry experience. The company is promoted by two institutional promoters which are also involved in real estate business (Roadshow Investment Company Private Limited (CARE-NP BB-/A4) and Image Housing and Developers Private Limited). The company has two directors in its board, chaired by Mr. Kalu Gurung, who has more than 25 years of experience in related business. BOD is further supported by an experienced team across various functions/ departments.

### Favorable location of projects

Both projects (Multipurpose business complex and Apartment) are centrally located in Kathmandu Valley. One of the finest locations from business aspects, as well availability of different facilities gives an additional advantage to the residents. Kathmandu being the capital city has access to numerous educational institutions, hospitals, ATMs, shopping malls, retail shops, banks and other job opportunities within close proximity. Also, with the increasing demand of the people to live far from the hustles of the city, however close enough access to better services and facilities, Budanilkantha is considered at favourable location for residential purpose.

### About the Company

Kalimati Trade Centre Private Limited (KTC) was incorporated in September 11, 2017 with registered office based in Kathmandu-13, Kalimati, Nepal. The company is majorly involved in development of business complex and apartment projects. Currently, the company is under process of developing an apartment project located in Budhanilkantha, Kathmandu.

### Financial Performance

(Rs. Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	233	33	49
PBILDT Margin (%)	4.72	13.60	10.17
Overall Gearing (times)	2.41	2.25	1.98
Current Ratio (times)	1.69	1.65	1.60
Total Debt/Gross Cash Accruals (times)	23.53	63.48	52.54

A: Audited, UA: Unaudited

### Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	674.50	CARE-NP B [Single B]
Short Term Bank Facilities	Fund Based Limit	25.50	CARE-NP A4 [A Four]
<b>Total</b>		<b>700.00</b>	

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