

B.N.B. Lake View Resort Apartment Private Limited

Ratings

Facility/Instrument	Amount (Rs. Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	600.00	CARE-NP B+ [Single B Plus]	Reaffirmed
Total Facilities	600.00 (Six Hundred Million Only)		

Details of Facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP B+ [Single B Plus]' assigned to the long term bank facilities of B.N.B. Lake View Resort Apartment Private Limited (BNB).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of BNB continues to remain constrained by project implementation risk associated with its under-construction service apartment project with significant dependence on sales for project execution and debt repayment. The rating also factors in saleability risk for ongoing project, particularly if demand prospects remain impacted by the funding challenges faced by the real estate industry and residential housing, inherent risk associated with real estate sector, susceptibility to cyclical and seasonality associated with real estate industry and exposure to volatile interest rates. The rating, however, continues to derive strength from the experienced promoter of the company and strategic locational advantage 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.

Going forward, the ability of the company to timely complete the project within the estimated cost and 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 apartment project

BNB is developing a real estate service apartment project at an estimated cost of Rs. 1,765 Mn, which is proposed to be financed with debt of Rs. 600 Mn, equity of Rs. 515 Mn and customer advance of Rs. 650 Mn (debt to equity to customer advance ratio of 34:29:37). BNB has achieved financial closure for the term debt. Till July 16, 2023, the promoters of the company have already infused the requisite equity component of the project cost in full. As on August 25, 2023, the company has achieved financial progress of around 56%. The project is expected to be completed by July 2025. However, with 37% of the project cost to be funded from customer advances (only 1% received till December end, 2023), the project's expected execution timelines will depend on its ability to collect advances in a timely manner as envisaged. Hence, the company remains exposed to the risks associated with project implementation within the estimated time and cost.

Saleability risk associated with the project and timely receipt of payments

Till December end 2023, BNB has received booking for 12 units out of 117 units and received the booking advance of Rs. 25 Mn. With relatively low advances received so far, the project is exposed to corresponding funding risk to complete the project within the estimated timelines. 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

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

and timeframe. Hence, effective execution of project and timely collection of advances will remain critical determinant for the credit profile of the company.

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.

Cyclicality 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 cyclicality 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 economic slowdown, a lot of the buyers postponed their purchase decisions which has direct impact on the demand prospects of upcoming projects. Since the company has significant portion of debt required for project execution, the funding from banks is exposed to the volatility of interest rates.

Key Rating Strengths

Experienced promoter of the company

BNB is managed under the overall guidance of the company's Chairman, Mr. Hom Bahadur Basel, who has more than 20 years of work experience in various business including real estate. He is also director at BNB Housing Company and BNB Engineering group. He has been involved in real estate business for more than five years. BOD is further supported by an experienced team across various functions/ departments.

Strategic location advantage

The apartment is centrally located in Pokhara, Kaski which is around 8 Km away from Pokhara International Airport. One of the finest locations from tourism and investment aspects, close proximity to Pokhara city with availability of different facilities gives an additional advantage for the people who want to live or invest in the vacation residence property. The place is well connected to Prithivi highway road. With the increasing demand of the people to live in a hustle-free area, however close enough for access to better services and facilities, the location is considered favorable for residential purpose as well as vacation purpose.

Stable demand outlook for real estate sector over medium term

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 also been increasing due to change in people's preference towards ready-to-move homes as compared to self-constructed houses. NRB has increased the housing loan limit from Rs. 15 Mn to Rs. 20 Mn as per the monetary policy for FY24. This is expected to improve fund accessibility of buyers, leading to a possible spur in demand. Additionally, NRB has also reduced risk weightage on residential home loans for licensed

constructors to 100% from 150%. These moves are expected to provide additional incentives to the sector, arguing well for a favorable environment for real estate sector.

About the Company

B.N.B. Lake View Resort Apartment Private Limited (BNB) was incorporated on August 07, 2018 under the Companies Act, 2006. The company is constructing a Service Apartment which spread over 1,65,528 Sq. ft. of land which will include apartment with a total capacity of 117 unit in Pokhara, Nepal.

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	600.00	CARE-NP B+ [Single B Plus]
Total		600.00	

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