

CD Innovative Design & Construction Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	654.70	CARE-NP BB- [Double B Minus]	Reaffirmed
Total Facilities	654.70 (Six Hundred Fifty-Four Million and Seventy Thousand Only)		

** Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB-' assigned to the long-term bank facilities of CD Innovative Design & Construction Private Limited (CDPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of CDPL continues to remain constrained by project implementation risk associated with under construction project with relatively higher dependence on outside debt for financing the project. The rating also factors in salability 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 cyclicity and seasonality associated with real estate industry and exposure to volatile interest rates.

The rating, however, derives strength from the experienced promoter 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.

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

Saleability risk associated with the project and timely receipt of payments

CDPL's project has been funded by bank borrowings and promoters' contribution. Booking for the houses has not yet started thus leading to higher dependence on outside debt for financing the projects. Going forward the scheduled servicing of the debt availed for the construction of the project would be dependent on the company's ability to sell the houses at the envisaged rates within the expected timeframe. However, 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. Hence, the project remains exposed to salability risk and timely receipt of booking advances and remaining amount thereafter.

Residual Project implementation risk associated with under construction project

CDPL is developing Aakriti Colony (Hepali Height Project) – a ready to move-in homes project comprising of 28 units at an estimated cost of Rs. 1,067.83 Mn, which is proposed to be financed with debt amount of Rs. 654.70 Mn and equity of Rs. 413.13 Mn in debt-to-equity ratio of 61:39. Till mid-October 2023, the company has achieved financial progress of around 92%, funded through debt of Rs. 654.70 Mn and equity of Rs. 330.46 Mn. All the structural works of the project has been

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

completed, and the company is in process of completing interior works. The project is expected to be completed by the mid-June 2024. Hence, the project remains exposed to residual implementation risk associated with the project.

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.

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 demand prospects of upcoming projects.

Key Rating Strengths**Experienced promoter of the company**

CDPL is managed under the overall guidance of the company's Chairman, Mr. Deepak Kunwar, who has more than a decade of experience in real estate acquisition and development. He is also the founder and CEO of CD Developers Private Limited, Chairman of Lotse Bahuudeshya Private Limited and Director of Lessee Builders Private Limited. Board of Directors are further supported by an experienced team across various functions/ departments.

Favourable location

The colony is favorably located in an appealing residential area in Budanilkantha Municipality Ward No. 07, Hepali Height, Kathmandu district and is 1.5 km from the highway. 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 for access to better services and facilities, the location is considered favorable for residential 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 been increasing due to change in people 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

CD Innovative Design & Construction Pvt. Ltd. (CDPL) incorporated in November 09, 2015 as a private limited company is engaged in the business of real estate development in both residential and commercial segments. The company is in process of developing a residential project namely Aakriti Colony (Hepali Height Project) located in Budanilkantha, Kathmandu which spread over 7,525.62-meter square of land including 28 houses.

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	654.70	CARE-NP BB- [Double B Minus]
Total		654.70	

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