

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

### Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	600.00	<b>CARE-NP B+ [Single B Plus]</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>600.00 (Six Hundred Million Only)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP B+ [Single B Plus]' 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 are constrained by project implementation risk associated with under construction apartment project and significant dependence on sales for project execution and debt repayment. The rating also factors in saleability risk for ongoing project, 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, derive strength from experienced promoter of the company and strategic locational advantage of the project.

*Going forward, the ability of the company to timely complete the project with in estimates 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 apartment project

The company is developing a real estate service apartment project at an estimated cost of Rs. 1,538 Mn, which is proposed to be financed with debt of Rs. 600 Mn, equity of Rs. 430 Mn and customer advance of Rs. 508 Mn (debt to equity to customer advance ratio of 39:28:33). BNB has achieved financial closure amounting to Rs. 600 Mn. Till July 16, 2022, the promoters of the company have already infused the requisite equity component of the project cost in full. The project is at preliminary stage of implementation. As on mid-October, 2022, around 30% of the construction work had been completed. The expected commercial operation date (COD) is July 2024. Hence, the company remains exposed to the risks associated with the ongoing project implementation.

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

Around 33% of the project cost is proposed to be funded through customer advances. However, booking is yet to start for the under construction project exposing it to the corresponding funding risk. 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.

#### Inherent risk associated with real estate sector

For Real Estate sector, with consumers becoming more discerning, ready-to-move-in homes are expected be the main demand drivers in the coming period. However, as developers will continue to focus on reducing their present inventory,

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

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 and with time share model being a relatively new concept in the country, how buyers respond to such model remains to be seen. 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.

### **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 elevated interest rates, the real estate sector is expected to witness slowdown in the coming fiscals. Most of the buyers have postponed their purchase decisions due to higher 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 and founder member of Gandaki Medical College. He has been involved in real estate business for more than five years. BODs are 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 location 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 invest in the vacation residence property. The place is well connected to Prithivi highway road.

#### **About the Company**

BNB was incorporated on August 07, 2018 under the Companies Act, 2006. BNB is constructing a Service Apartment which spread over 1,65,528 Sq. ft. of land which will include apartment with a total of 112 room capacity. It is located in Pokhara, Nepal.

### **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	600.00	CARE-NP B+ [Single B Plus]
<b>Total</b>		<b>600.00</b>	

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