

## CD Innovative Design & Construction Private Limited

### Rating

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

*\* 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 CD Innovative Design & Construction Private Limited (CDPL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of CDPL are constrained by project implementation risk associated with under construction project with relatively higher dependence on outside debt for financing the project which could lead to increased burden on debt servicing in the initial stages of operations. The rating also factors in saleability risk for ongoing project particularly if the funding challenges currently faced by the real estate industry and residential housing gets significantly prolonged, 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, derives strength from 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; 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 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. CDPL has achieved financial closure for total debt amount of Rs. 654.70 Mn. Till mid-October 2022, the company had achieved financial progress of 70%. The work related to acquisition of land and construction of structural works has been completed and the finishing works including works related to electrical, sanitary and wooden works is ongoing. The project is expected to be fully completed by the Mid-July 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.

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

**More dependence on outside debt for financing the projects on account of booking not yet started**

Since the booking for the houses has not yet started, the whole project cost has been funded by bank borrowings and promoters contribution, thus leading to higher dependence on outside debt for financing the projects. Although the company has planned to start the booking of houses from December 2022 onwards, the extent to which it is able to collect advances/receipts from customers in the current market dynamics remains to be seen. Thus, 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. 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 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 an 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, a 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 the real estate sector which has a 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 rates 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 a slowdown in the coming fiscals. With the cost of ownership elevated amid higher interest rates, a lot of the buyers postpone their purchase decisions, which could impact the saleability 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, 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**

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]
<b>Total</b>		<b>654.70</b>	

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