

Roadshow Investment Company Private Limited

Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	515.60	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	371.13	CARE-NP A4 [A Four]	Assigned
Total Facilities	886.73 (Eight Hundred Eighty-Six Million and Seven Hundred Thirty Thousand Only)		

* 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 and 'CARE-NP A4 [A Four]' to the short-term bank facilities of Roadshow Investment Company Private Limited (RICPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RICPL are constrained by real estate project implementation risk associated with its two under construction housing projects. The ratings also factor in below average financial risk profile of the company during FY22 (Audited: FY refers to the twelve-month period ending mid-July), 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 strengths from experienced promoter in the related filed, its long track record of operations and favorable location of the upcoming apartment projects. The ratings also factor in stable demand outlook for the real estate sector over the medium term with increasing preference for ready to move-in homes. The ratings also factor in relatively low funding and salability risk for ongoing project with full financial closure of debt and partial collection of booking advances.

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

Project implementation risk associated with under construction housing projects

The company is developing two apartment projects, (Annapurna Apartment- Masbar: 40 units) and (Annapurna -Lakeside sedi: 60 units) with total saleable area of 132,354 sq. ft. The total cost for development of the apartment projects combined is estimated to be Rs. 1,499 Mn which is proposed to be funded with Promoter's fund, Debt, and Customer Advances in the ratio of 14:45:41. RICPL has achieved financial closure for total debt amount of Rs. 676 Mn. The company has also already collected the booking advances of Rs. 608 Mn. As on March 12, 2023, the company has achieved 54.40% financial progress with regard to Annapurna Apartment- Masbar and 37.22% with regard to Annapurna Apartment-Lakeside Sedi. With the projects still under-construction, the company remains exposed to the risks associated with project implementation without any significant time and cost overruns.

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

Below average financial performance

The financial profile of the company remains below average, although it has been improving in year -to year- basis. Besides the upcoming housing projects, RICPL is also involved in purchase and sale of land and equity shares. RICPL's total operating income (TOI) grew 194% year-or-year to Rs. 400 Mn in FY22, mainly on account of lower base of the company in previous year. With growth in revenue including higher margins earned on land sales during FY22, PBILDT margin improved to 30.15% in FY22 (FY21:13.36%). During FY22, the net profit of the company increased to Rs. 59 Mn in FY22 as compared to Rs. 1 Mn in FY21.

The capital structure of the company is moderately leveraged marked by overall gearing ratio of 2.42x at the end of FY22 (FY21: 2.16x). With the increase in scale of operations and two under-construction apartment projects, total debt of the company increased to Rs. 422 Mn as on mid-July 2022 as compared to Rs. 248 Mn as on mid-July 2021. The interest coverage ratio of the company stood moderate at 2.97x (FY21: 1.02x). Total debt/ GCA of the company stood at 7.10x in FY22. The ongoing debt funded capex is likely to elevate the gearing ratio of the company in FY23. Timely delivery of the apartments leading to cash accruals and subsequent settlement of debt as envisaged will be key monitorable aspect.

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 increasing trend in real estate transaction, this has remained sluggish in FY22 and H1FY23 amid the economic slowdown.

The Monetary Policy 2022/23 has introduced various contractionary policies to limit the investment of funds towards the real estate sector and release the funds to be directed towards the productive sector. The loan to value ratio against the collateral of land and houses which was 40% inside Kathmandu valley and 50% outside valley has been reduced to 30% within Kathmandu valley and 40% outside Kathmandu valley for overdraft loans, mortgage loans, property loans, and personal term loans. With the limitation created in property loans coupled with higher interest rates in the economy on account of ongoing liquidity crisis in the nation, the demand of the 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 rates

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 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 near term. With the cost of ownership elevated amid higher interest rates, a lot of the buyers postpone their purchase decisions, which could impact the salability of upcoming projects. However, Nepal Bankers Association's decision to lower the premium on loans by 1% from March 2023 could provide some relief in interest rates. With the company's long track record of operations in land plotting and sales in

these areas, RICPL is likely to face lower challenges for marketability of land and housing projects compared to new entrants.

Key Rating Strengths

Experienced promoter in the related field and long track record of operation

RICPL commenced its business operations in January 01, 2004 and has long track record of operations in the real estate business. Its sister concern, Roadshow Real Estate Private Limited has also been involved in construction and sale of housing projects since July 30, 1997. Mr. Kalu Gurung is the single shareholder of the company. He has more than twenty-five years of experience in property management, real-estate investment management, property development, housings, plotting, construction and other real estate arena. Mr. Gurung is also Chairman of Annapurna Cable Car Private Limited [CARE-NP B+/A4], Roadshow Real Estate Private Limited and Machhapuchhre Brick Factory Private Limited.

Favourable Location

The apartment projects, Annapurna Apartment- Masbar and Annapurna -Lakeside Sedi are centrally located in Pokhara, Kaski district. One of the finest locations from tourism and investment prospects, close proximity to Pokhara City with availability of different facilities gives an additional advantage to the residents. Pokhara has access to numerous educational institutions, hospitals, ATMs, shopping malls, retail shops, banks and other job opportunities within close proximity. Also, majority of land banks of the company are across various locations in Kathmandu valley and Pokhara district.

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. The real estate industry like RICPL are likely to benefit from stable uptick in demand over the medium term

About the Company

Roadshow Investment Company Private Limited (RICPL), incorporated in January 01, 2004 with registered office based in Sundhara-11, Kathmandu, Nepal is real estate company of Nepal. The company is promoted by Mr. Kalu Gurung who has considerable experience in real estate sector and holds 100% shares of the company. The company is majorly involved in the business of land plotting and selling. Currently, the company is under process of developing two apartment projects located in Pokhara district.

Brief financials of RICPL for the past three years ended FY22 are given below:

For the year ended Mid-July	(Rs. Million)		
	FY20 (Audited)	FY22 (Audited)	FY22 (Audited)
Income from Operations	43	136	400
PBILD Margin (%)	24.51	13.36	30.15
Overall Gearing (times)	1.02	2.16	2.42
Interest Coverage (times)	1.60	1.02	2.97
Total Debt/Gross Cash Accruals (times)	29.05	636.28	7.10

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	515.60	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	331.13	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	40.00	CARE-NP A4 [A Four]
Total		886.73	

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