

## Roadshow Real Estate Private Limited

### Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	56.79	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	1,086.52	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>1,143.31</b> <b>(One Thousand One Hundred Forty - Three Million and Three Hundred Ten Thousand 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 and 'CARE-NP A4 [A Four]' to the short-term bank facilities of Roadshow Real Estate Private Limited (RREPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RREPL is constrained by its below average financial risk profile during FY22 (Audited: FY refers to the twelve-month period ending mid-July) amid highly leveraged capital structure with modest debt service coverage indicators and salability risk associated with in-hand projects. The ratings also factor in 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, RREPL's long track record of operations and favorable location of the existing housing 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, despite sluggish near-term demand scenario owing to credit/liquidity crunch in the financial sector.

*Going forward, the company's ability to profitably scale up the existing scale of operations, releasing the customer advances in timely manner while improving coverage and solvency indicators will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Highly leveraged capital structure

RREPL's capital structure stood highly leveraged with overall gearing of 3.81x at the end of FY22 (FY21: 3.71x). The company's debt levels remain on the higher side commensurate to its operations, leading to increased financial burden on the company. The interest coverage ratio of the company stood modest at 1.27x (FY21: 2.10x). However, it was mainly on account of interest capitalization for under-construction housing and apartment projects in the project cost. Total debt/ Gross Cash Accruals of the company stood very high at 157.27x in FY22 (FY21: 44x). Minimal gearing headroom coupled with muted cash generation from operations could impact the financial flexibility of the company and its ability to service debt going forward. Hence, timely delivery of the apartments leading to cash accruals and subsequent settlement of debt as envisaged will be key monitorable aspect.

##### Saleability risk associated with in hand inventory amid near-term industry headwinds

The company currently has existing land bank with book value of Rs. 194 Mn and three apartment projects (ready to be sold) at hand with the total cost of Rs. 1,503 Mn. The booking advances received by the company for these projects

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

amounts to Rs. 887 Mn as on mid-January 2023 and the revenue base of the company is expected to improve in upcoming years. However, timely delivery of the apartments and booking of the respective revenue as envisaged could remain a challenge as salability risk remains a key concern over the near-term given the ongoing challenges in the financial sector limiting funding avenues for homeowners. The company's ability to liquidate the inventory at hand as envisaged will remain a 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 real estate sector and release the funds to be directed towards 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 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.

#### **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 depends upon 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 near term. With cost of ownership elevated amid higher interest rates, a lot of the buyers postpone their purchase decisions, which could impact the salability of projects under inventory. However, Nepal Bankers Association's decision to lower 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 development and sale of housing and apartment projects, RREPL 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 operations**

RREPL commenced its business operations in July 30, 1997 and has long track record of operations in the real estate business. Its sister concern, Roadshow Investment Company Private Limited [CARE-NP BB-/A4] has been involved in purchase and sale of land since January 01, 2004. 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 Investment Company Private Limited and Machhapuchhre Brick Factory Private Limited.

### Favourable location of apartment and housing projects

The apartment and housing projects of RREPL are mainly located in Kathmandu and Pokhara district. Pokhara is one of the finest locations from tourism and investment aspects, close proximity to Pokhara City with availability of different facilities gives an additional advantage to the residents. Kathmandu on the other hand, being the capital city of Nepal has access to numerous educational institutions, hospitals, ATMs, shopping malls, retail shops, banks and other job opportunities within close proximity.

### 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 RREPL are likely to benefit from stable uptick in demand over the medium term.

### About the Company

Roadshow Real Estate Private Limited (RREPL) is a real estate company of Nepal which was incorporated in July 30, 1997 with registered office based in Mahendrapul-09, Pokhara, 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 involved in the business of land plotting and selling as well development and sale of housing and apartment projects.

Brief financials of RREL 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	760	460	492
PBILDT Margin (%)	4.11	14.34	7.41
Overall Gearing (times)	6.13	3.71	3.81
Interest Coverage (times)	1.31	2.10	1.27
Total Debt/Gross Cash Accruals (times)	210.93	44.00	157.27

### 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	56.79	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based Limit	1,073.11	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	13.41	CARE-NP A4 [A Four]
<b>Total</b>		<b>1,143.31</b>	

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