June 25, 2021

Ashiana Housing Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	20.0	20.0	[ICRA]A (Stable); reaffirmed
Term Loan	10.0	0.00	-
Non-Convertible Debentures	65.2	65.2	[ICRA]A (Stable); reaffirmed
Unallocated	40.0	50.00	[ICRA]A (Stable); reaffirmed
Total	**135.2**	**135.2**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account Ashiana Housing Limited's (AHL's) long and established track record in residential real estate development, with demonstrated project execution capabilities and strong brand image in its key markets. Despite the initial disruptions in Q1 FY2021 due to the onset of the Covid-19 pandemic, the company was able to demonstrate healthy operational performance in FY2021. This is reflected in the healthy bookings and collections during this period. The healthy collections in FY2021 were driven by substantial bookings in the last two years, both in the ongoing projects as well as the new launches in its key markets. Consequently, AHL's debt[1] improved to negative net debt of Rs. 93.3 crore as on December 31, 2020 against Rs. 26.7 crore as on March 31, 2020. Further, committed receivables from sold inventory at the end of December 31, 2020 stood at a healthy Rs. 430.8 crore, which coupled with low debt resulted in healthy cashflow adequacy ratio[2] of 75.6%. Moreover, the company maintained healthy liquidity with estimated consolidated cash and equivalents of Rs. 252.2 as on March 31, 2021.

Nevertheless, the ratings remain constrained by AHL's modest scale of operations and profitability. The company reported operating profitability margin of 3.8% in 9M FY2021 and an operating loss in FY2020. The losses for AHL in FY2020 occurred on account of the moderation in revenues because of lower deliveries, high overheads (including marketing, employee expenses and maintenance cost of the unsold inventory) as well as low margin and muted realisations of certain projects. However, ICRA notes the improvement in the company's profitability in 9M FY2021 on the back of increase in deliveries, and cost cutting measures. Nevertheless, prolonged modest profitability could continue to constrain the rating while further sustainable improvement in profitability margin will be a credit positive. The ratings are also constrained by the expected pressure on its cash flows in FY2022 due to the continuing impact of Covid-19 pandemic. Further, the ratings factor in the company's sizeable expansion plans [including projects requiring incremental land acquisition, in partnership with International Finance Corporation (IFC)]. ICRA also notes AHL's its exposure to high execution and funding risks, given the large area under development and as most of the construction cost is planned to be met through timely and adequate customer collections.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that AHL will continue to benefit from its long and established track record, its healthy sales, execution and collection velocity, strong cash flow adequacy ratio and liquidity position. ICRA will, however, continue to monitor the continuing restrictions and lockdowns due to the Covid-19 pandemic and possible impact on the cash flows and risk profile of companies such as AHL.

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[1] including lease liabilities

[2] Cashflow adequacy ratio = Receivables from sold area / (pending construction cost + total debt outstanding)

Key rating drivers and their description

Credit strengths

Established position and brand name in mid-income housing and senior living segments with demonstrated track record of project delivery – AHL has a track record of more than 40 years in the real estate market. It is currently developing 18 projects, including a combination of additional phases of completed projects as well as greenfield projects. Besides, it has 17 completed projects (multiple phases of these projects have unsold inventory). The company has strong in-house project execution capability as well as a robust sales track record, as demonstrated through 60% of area sold as on December 31, 2020. Moreover, AHL has strong brand presence in regions like Jaipur, Bhiwadi, Jodhpur and Jamshedpur. It has also established its presence in the senior living segment.

Healthy operational performance in FY2021 despite pandemic-induced challenges – Like other players in the residential real estate sector, AHL too faced initial disruptions due to the pandemic in Q1 FY2021. Nonetheless, the company was able to report healthy bookings, increase in average unit realisation and improvement in collections in FY2021. AHL sold 14.98 lakh sq ft area in FY2021 against 19.82 lakh sq ft area in FY2020; the collections are estimated to be higher on a YoY basis. Also, the newly launched projects in FY2021 witnessed strong bookings.

Healthy cashflow adequacy – The cash flow adequacy ratio on an aggregate basis as on December 2020 stood at 76% (including receivables from completed projects) on the back of considerable committed receivables of Rs. 374.9 crore from ongoing projects and Rs. 55.9 crore from completed projects. Decline in the debt outstanding also provided support.

Strong liquidity and capital structure – Despite pandemic-related disruption, AHL has been able to maintain its negative net debt position of Rs. 93.3 crore as on December 31, 2020 owing to prepayments made in the previous years on account of collection-linked cash sweeps. Also, the company has maintained healthy liquidity with estimated consolidated cash and equivalents of Rs. 252.2 as on March 31, 2021.

Credit challenges

High execution and funding risks due to planned significant launches in medium term; likely to increase net debt levels – AHL has launched multiple projects in the last two years and will also be launching a new project in partnership with IFC in Sector 93 Gurgaon in the medium term with significant saleable area. This, however, exposes it to project execution risk as well as funding risks. The project land acquired for around Rs. 200 crore comprises a saleable area of 21 lakh square feet. The acquisition has been funded through issuance of debentures to IFC, bank borrowings and internal accruals. While ICRA favourably notes that most of the debt required to finance the land has been tied-up, AHL will be significantly relying on customer advances for funding the construction costs. Timely execution of the new projects would be a key monitorable going forward. Apart from this agreement, AHL will continue to launch phases in its existing projects and new development on its existing land bank.

Moderate scale of operations and profitability – AHL's scale of operations and profitability remains modest relative to other players in the same rating category. The profitability in the past remained muted due to moderation in revenues because of lower deliveries and fixed nature of expenses incurred including marketing, employee expenses and maintenance cost of the unsold inventory. Additionally, the low profitability and muted growth in realisations of certain projects impacted the profitability. Nonetheless, ICRA favourably notes the improvement in the company's profitability in 9M FY2021, recovering from losses in FY2020.

Exposure of cash flows towards Covid-19 impact – The sales velocity and cash flows in the real estate sector have been impacted by the disruption caused by the second wave of Covid-19, which could result in a weakening of its credit risk profile and increased reliance on debt funding if there is sustained pressure on operating metrics such as sales and collections. The rating factors in the exposure to high execution and marketing risks associated with the large unsold area and significant ongoing and planned projects.

Exposure to risks and cyclicality in real estate sector in India – The real estate sector is cyclical and marked by volatile prices and a highly fragmented market structure because of the presence of a large number of regional players. Moreover, the multiplicity of property laws and non-standardised Government regulations across states are likely to affect the tenure of project execution. In addition, being a cyclical industry, the real estate is highly dependent on macro-economic factors, which in turn make the company's sales vulnerable to any downturn in the real estate demand and competition within the region from various established developers.

Liquidity position: Strong

Despite the investment in the new project in Gurgaon, AHL's liquidity position is expected to remain strong on the back of healthy cash and equivalents and cash flow adequacy ratio. The company has maintained healthy liquidity with estimated consolidated cash and equivalents of Rs. 252.2 as on March 31, 2021. Further, the cash flow adequacy ratio stood at a robust 76% as on December 31, 2020.

Rating sensitivities

Positive factors – Significant and sustainable improvement in the scale of operations and profitability while maintaining healthy credit metrics would be a positive trigger. Additionally, satisfactory project execution along with healthy sales, collections and net leverage position on a consistent basis will be credit positives.

Negative factors – Pressure on the ratings could emerge in case of significant decline in scale or profitability, delays in project execution, or significant unbudgeted debt-funded investments, leading to deterioration in the liquidity and cash flow position. Further, drop in cash flow adequacy ratio below 60% on a prolonged basis will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of AHL as enlisted in Annexure-2.

About the company

AHL was incorporated in 1986 in Kolkata by Mr. Om Prakash Gupta. The company has been involved in real estate development activities since inception. It is primarily present in the residential housing segment. At present, the company is developing several projects, primarily residential housing projects and including senior living. The projects are being developed in phases and are in different stages of completion. Some of the projects are being developed in joint ventures with other developers.

Key financial indicators (audited)

AHL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	337.5	303.8
PAT (Rs. crore)	13.8	-30.2
OPBDIT/OI (%)	10.1%	-4.3%
PAT/OI (%)	4.1%	-9.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.6
Total Debt/OPBDIT (times)	4.8	-10.5
Interest Coverage (times)	2.3	-1.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					June 25, 2021	June 8, 2020	June 21,2019	July 24, 2018
1	Non-Convertible Debentures	Long Term	20.0	8.85	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)
2	Term Loans	Long Term	-	-	-	[ICRA]A (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)
3	Non-Convertible Debentures	Long Term	65.2	50.05	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA] A(SO) (Stable)	[ICRA] A (SO) (Stable)
4	Unallocated	Long Term	50.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA] A (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Unallocated	Not applicable
Non-Convertible Debentures 1	Simple
Non-Convertible Debentures 2	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE365D08018	NCD	July 2018	-	-	20.0	[ICRA] A (Stable)
INE365D07077	NCD	April 2018	10.1%	March 2024	65.2	[ICRA] A (Stable)
-	Unallocated	-	-	-	50.0	[ICRA] A (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	AHL Ownership	Consolidation Approach
Ashiana Housing Limited	**100.00% (rated entity)**	**Full Consolidation**
Ashiana Maintenance Services LLP	99.7	Full Consolidation
Latest Developers Advisory Ltd	100%	Full Consolidation
Topwell Projects Consultants Ltd	100%	Full Consolidation
Ashiana Amar Developers	100%	Full Consolidation
Kairav Developers Ltd	100%	Full Consolidation
Ashiana Manglam Developers	65%	Full Consolidation
Ashiana Greenwood Developers	50%	Full Consolidation
Megha Colonizers	50%	Full Consolidation
Ashiana Manglam Builders	50%	Full Consolidation
Vista Housing	50%	Full Consolidation

Source: AHL annual report for FY2020

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About ICRA Limited:

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