Ashiana Housing Limited

February 02, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures*	-	100.0	[ICRA]A (SO) (Stable); assigned
Fund based – Term Loans	50.0	50.0	[ICRA]A (Stable); Outstanding
Total	**50.0**	**150.0**	

*proposed

Rating action

ICRA has assigned the long-term rating of [ICRA] A (SO) (pronounced A structured obligation) to the Rs. 100.0-crore[1] proposed non-convertible debentures(NCD) programme of Ashiana Housing Limited(AHL[2]). The outlook on the long-term rating is Stable. An SO rating is specific to the rated issue, its terms and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. ICRA also has an outstanding long-term rating of [ICRA]A (pronounced ICRA A) on the Rs. 50.0-crore fund-based limits of AHL. The outlook on the long-term rating is Stable.

Rationale

The assigned rating derives comfort from AHL's established position in residential mid-income housing and senior living segments in cities like Jaipur, Chennai, Bhiwadi etc. and strong execution capabilities in these segments. The rating also draws comfort from the better-than-expected collections in the current year, primarily supported by good traction in units in completed projects including Ashiana Town, Umang, Vrinda Gardens, Gulmohar Gardens projects. The rating, however, is constrained by the company's exposure to market risks given its large unsold inventory and weak market scenario which has slowed down the inventory's absorption. Backed by steady construction progress and collection, AHL's committed receivables reduced significantly owing to healthy collection efficiency over the last 1HFY2018. Consequently, it's ratio with respect to committed inflow to committed outflows (including outstanding project debt) stood moderate, indicating dependence on additional sales.

AHL has entered into an agreement with IFC[3] to jointly invest Rs. 375 crore in land bank/ purchase of development rights in new projects. AHL will be identifying these projects over the medium term so as to utilise IFC's capital of Rs 150 crore and AHL's own contribution of Rs 225 crore towards land payments/ purchase of development rights. The partners shall share returns as per agreed terms on each project's surplus over a period of eight years from the date of drawdown. This arrangement apart, AHL will continue to launch phases in its existing projects and will also be executing joint development of additional projects in cities like Pune, Jaipur, National Capital Region (NCR), Chennai and Jamshedpur. Thus, AHL has significant planned launches in the short to medium term which can expose it to execution and funding risks as a large part of the project costs will be funded through expected internal surpluses and customer advances. ICRA notes that AHL has successfully developed larger project areas in the past. However, the company is expected to add many new projects in quick succession and as such, its ability to sell the same and timely generate the required funding

---

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[3] *IFC = International Finance Corporation*

will remain critical. Nevertheless, the rating takes into account the healthy liquidity already available with AHL in the form of cash balances and liquid investments, which is expected to be utilised towards land payments/ purchase of development rights in these new projects. The rating of the proposed NCDs rating factors in the presence of an escrow mechanism, interest servicing reserve account (ISRA) and as well as charge on receivables on two projects.

Outlook: Stable

ICRA believes that AHL will continue to benefit from its healthy execution and collection pace which helps in addressing committed cost obligations. Further, its ability to scale up its operations as planned and secure adequate sales will be key rating factors. The outlook may be revised to Positive in case of substantial growth in scale in the backdrop of the new projects along with improvement in sales velocity. The outlook however may be revised to 'Negative' if there are funding constraints as a result of slow sales, collections and larger than expected launches.

Key rating drivers

Credit strengths

Timely execution in present project portfolio – At present, the company is developing 10 residential projects (as on 1HFY2018) which were launched in phases and have a combined saleable area of 19.10 lakh sq.ft. The company has a track record of executing projects in a phased manner and over the past two years, the company completed different phases of current ongoing projects. AHL constructed 40.8 lakh sq ft over the last two years and in the current year too, it constructed 4.2 lakh sqft area in the 1HFY2018. Further, the percentage area constructed in the on-going projects has significantly improved in the current financial year. The company is now looking to add new projects in its portfolio to fuel its growth.

Collections supported by sales growth in completed projects–AHL sold 3.08 lakh sq ft area for a sales value of approx. Rs 94.7 crore in 1HFY2018 on the back of moderate sales velocity as compared to previous few years for its ongoing projects and substantial traction in demand in completed projects especially – Ashiana Town(Bhiwadi), Gulmohar Gardens, Rangoli Gardens, Umang and Vrinda Gardens in Jaipur. Moreover, given the steady execution progress, in the same period 1HFY2018 AHL was able to collect of Rs 136 crore.

Healthy liquidity position–AHL remains a net debt free companyamid large cash reserves and liquid investments (Rs 150.6 crore as on September 30, 2017) and comparatively much lower debt levels. The same is however expected to be utilised towards new projects in the medium term. Nevertheless, it provides adequate buffer to manage planned execution in the short term and address any mismatches. ICRA notes that the company has outstanding debt of Rs 69 crore as on 1HFY2018 against its projects indicating limited project leverage. Further, the company plans to refinance some of its existing corporate loans with the proposed NCDs with better pricing.

Presence of an escrow and waterfall mechanism in the NCD –For the proposed NCD, the company will have an escrow mechanism in place for the routing of available cash flows of two projects – Ashiana Town and Anmol with presence of cash waterfall mechanism. This apart, the rating factors in the presence of cushion of three months interest in the ISRA as well as an accelerated repayment mechanism.

Credit challenges

Market risks remain for unsold area –The sales velocity in AHL in 1HFY2018 has slightly improved on the back of continued good response for its Jaipur based projects namely Umang, Gulmohar Gardens and Vrinda Gardens. This apart, the completed phases of the ongoing projects like Vrinda, Umang and Gulmohar Gardens from Jaipur and Town (Bhiwadi) have shown improvement. However, the sales velocity weakened in the last two years as compared to historical peak levels on the back of due to demonetization, RERA[4], GST[5] and overall sluggish demand. In one of the

[4] *RERA = Real Estate Regulation Authority*

largest projects Town; based on 1HFY2018 sales velocity, the years to sell unsold inventory stands high at 10 years as compared to a healthy 2 years for the cumulative unsold area of other projects. The unsold area stands at 18 lac sq ft as on 1HFY2018 (including 10 lac sqft of completed projects) exposing the company to market risks. The risk will be further accentuated with many planned launches in the medium term.

Exposure to execution and funding risks due to planned launches in coming years –AHL has plans to launch new projects in the medium term. This will help the AHL to increase its visibility in terms of scale of operations and area under development. However, the company will also be exposed to high execution risks given new projects will be launched in the medium term. The company will also exposed to approval related risk for land acquisition and ICRA will continue to monitor the progress on the new launches. This apart, ability of AHL to get timely funding from internal accruals for construction and to meet the own contribution of Rs 225 crore towards land payments/ purchase of development rights will be the key credit rating monitorable. The risk however is mitigated by the fact that the company in the past has developed higher area (more than 20 lakh sqft construction area in a year which has come down to 4.2 lakh sqft as on 1HFY2018 on a prorata basis. Further, the timing of the launches of these projects will remain a key sensitivity. ICRA will also monitor the project's performance and the impact on AHL's committed obligations in the backdrop of returns payable to IFC as per the agreed terms.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Real Estate Methodology

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 and has constructed around 200 lacs sqft of area (primarily residential) till March 31, 2017. 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.

On a standalone basis, AHL reported a net profit of Rs. 72.9 crore (Total Comprehensive Income) on an operating income (OI) of Rs. 355.9 crore in FY2017 compared with a net profit of Rs. 112.9 crore (Total Comprehensive Income) on an OI of Rs. 505.9 crore in the previous year. The tangible net worth (TNW) of the company stood at Rs 723.4 crore in FY2017 compared with a TNW of Rs 650.5 crore in the previous year. The company, on a provisional basis, reported a net profit of Rs. 30.64 crore(Total Comprehensive Income) on an OI of Rs. 173.5 crore in 1HFY2018.

[5] *GST = Goods and Service Tax*

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	505.9	355.9
PAT* (Rs. crore)	112.9	72.9
OPBDIT/ OI (%)	27.9%	25.7%
RoCE (%)	23.9%	13.5%
Total Debt/ TNW (times)	0.10	0.12
Total Debt/ OPBDIT (times)	0.48	0.97
Interest Coverage (times)	52.4	13.8
NWC/ OI (%)	72%	145%

*total comprehensive income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017 June, 2017	Date & Rating in FY2016 January, 2016	Date & Rating in FY2015 January, 2015
1	Non-Convertible Debentures*	Long Term	100.0	100.0	[ICRA] A(SO) (Stable)	-	-	-
2	Term Loans	Long Term	50.0	50.0	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)

*proposed

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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
Yet to be placed	NCD	January 2018	10.08%	January 2023	100.0	**[ICRA] A (SO) (Stable)**
	Term Loan	2014	-	2021	50.0	**[ICRA] A (Stable)**

Source: AHL

ANALYST CONTACTS

K. Ravichandran
+91-44-45964301
ravichandran@icraindia.com

Manish Ballabh
+91-124-4545812
manish.ballabh@icraindia.com

Sheetal Sharad
+91-124-4545374
sheetal.sharad@icraindia.com

Pallavi Singh
+91-124-4545393
pallavi.singh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999