Ashiana Housing Limited

July 24, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	-	20.0	[ICRA]A (Stable) assigned
Term Loan	50.0	50.0	[ICRA]A (Stable); Outstanding
Non-Convertible Debentures	100.0	100.0	[ICRA]A (SO) (Stable); Outstanding
Total	**150.0**	**170.0**	

Rating action

ICRA has assigned the long-term rating of [ICRA]A (pronounced A) to the Rs. 20.0-crore[1] proposed non-convertible debentures (NCD) programme of Ashiana Housing Limited (AHL[2]). The outlook on the long-term rating is 'stable'. ICRA also has an outstanding long-term rating of [ICRA]A (pronounced ICRA A) on the Rs. 50.0-crore fund-based limits and [ICRA]A (SO) (pronounced A structured obligation) on the Rs. 100.0-crore NCD programme of AHL. The outlook on the long-term rating is 'stable'.

Rationale

The assigned rating continues to derive comfort from AHL's established track record in residential mid-income housing and senior living segments with strong execution capabilities. The same is evident in the steady construction progress across total area under development of 17.58 lakh sqft. The rating, however, is constrained by the company's exposure to market risks given that a weak market scenario has relatively slowed down the inventory's absorption. Nevertheless, the company has witnessed good traction in sales over the last two quarters. ICRA further notes that steady construction and collections has resulted in reduced committed receivables keeping the company dependent on new sales for addressing its obligations.

AHL had entered into an agreement with IFC[3] to jointly invest Rs. 375 crore in new projects in middle income residential projects including senior living. AHL has the first project to develop a mid-housing residential project in Jaipur in three phases starting from June 2019. ICRA also notes that AHL will be identifying more 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. ICRA will continue to monitor the implementation of the transaction structure and cashflow mechanism for the same. Apart from this agreement, AHL will continue to launch phases in its existing projects and new development on its existing land bank. ICRA expects significant planned launches in the short to medium term which can expose AHL to execution and funding risks as a large part of the project costs will be funded through expected internal surpluses and customer advances. ICRA though notes that AHL has successfully developed larger project areas in the past. The company's dependence on additional sales given significant launches in near term and its ability to generate the required funding will remain critical. Nevertheless, the rating takes into account low leveraged balance sheet as on March 31, 2018 and healthy liquidity with cash and liquid investments of more than Rs 160 crore, which is expected to be utilised towards land payments/ purchase of development rights in these new projects.

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[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*

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 12 residential projects which were launched in phases and have a combined saleable area of 17.58 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. ICRA notes that the absolute construction pace has slowed down in the last two years due to lower launches, AHL has constructed 25.6 lakh sq ft over the last two years with lowest constructed area of 8.2 lakh sqft in FY2018. However, with company looking to add new projects in its portfolio to fuel its growth and higher launches in the last three quarters of FY2018, ICRA expects that the construction pace will improve from the current levels.

Moderate sales velocity–AHL sold 6.93 lakh sq ft area for a sales value of approx. Rs 217 crore in FY2018 on the back of moderate sales velocity as compared to previous few years for its ongoing projects as well as substantial traction in demand in completed projects. Given the steady execution progress, in the same period AHL was able to collect of Rs 147 crore from the ongoing projects in FY2018.

Healthy liquidity position–AHL remains a net debt free company amid large cash reserves and liquid investments (approx Rs 160.0 crore as on March 31, 2018) and comparatively much lower debt levels. ICRA notes that the company has an overdraft limit of Rs 135 crore in-lien with the investment and fixed deposits as on March 31, 2018. However the limits has been paid off in the current year through the NCD proceeds of Rs 100 crore availed earlier. Further, the liquidity buffer will be used for the planned execution in the short term and address any mismatches in new projects.

Credit challenges

Market risks remain for unsold area – The sales velocity in AHL remained in FY2018 of 6.93 lakh sqft remained in-line with previous year on the back of continued good response for its Jaipur based projects namely Vrinda and Gulmohar Gardens, senior living project in Chennai - Shubham and mid housing project in Bhiwadi - Ashiana Town. This apart, the completed projects 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. The unsold area stands at 20.65 lac sq ft as on FY2018 (including 9.4 lac sqft of completed projects) exposing the company to market risks. As per the sales velocity in last 12 months the years to sell unsold inventory stands high at 3 years improved from that witnessed in H1FY2018. The risk will be further accentuated with many planned launches in the medium term in a relatively weak market.

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[4] *RERA = Real Estate Regulation Authority*
[5] *GST = Goods and Service Tax*

Exposure to execution and funding risks due to planned launches in coming years –AHL has plans to launch many new projects in the medium term in order to revive its scale of operations and area under development. However, the company will also be exposed to high execution risks given consecutive launches though the same is mitigated to an extent by the company's ability to deliver larger areas in the past (more than 20 lakh sqft construction area in a year which has come down to 8.2 lakh sqft as on FY2018). The company will also be 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 own equity contribution towards land payments/ purchase of development rights will be crucial for project progress 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, the implementation of the transaction structure and cashflow mechanism for the same.

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

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Real Estate Entities

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 more than 200 lacs sqft of area (primarily residential) till March 31, 2018. 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. 46.2 crore (Total Comprehensive Income) on an operating income (OI) of Rs. 288.9 crore in FY2018 compared with a net profit of Rs. 72.9 crore (Total Comprehensive Income) on an OI of Rs. 355.9 crore in the previous year.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	355.9	288.9
PAT* (Rs. crore)	72.9	46.2
OPBDIT/OI (%)	25.7%	19.1%
RoCE (%)	12.8%	6.9%
Total Debt/TNW (times)	0.1	0.2
Total Debt/OPBDIT (times)	1.0	2.4
Interest Coverage (times)	13.8	4.7

*total comprehensive income

Interest coverage (times) is based on OPBDIT

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 February, 2018	Date & Rating in FY2018s June, 2017	Date & Rating in FY2016 January, 2016
1	Non-Convertible Debentures	Long Term	20.0	20.0	[ICRA] A (Stable)	-	-	-
2	Term Loans*	Long Term	50.0	0.0	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A- (Stable)
3	Non-Convertible Debentures^	Long Term	100.0	100.0	[ICRA] A(SO) (Stable)	[ICRA]A(SO) (Stable)	-	-

*Repaid in April, 2018

^Raised in April, 2018

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	July 2018	-	-	20.0	**[ICRA] A (Stable)**
-	Term Loan	April 2014	-	April 2018	50.0	**[ICRA] A (Stable)**
INE365D07077	NCD	April 2018	10.1%	March 2024	100.0	**[ICRA] A (SO) (Stable)**

Source: Company

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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

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