January 08, 2021

Karda Constructions Limited: Ratings downgraded to [ICRA]D/ [ICRA]D and removed from watch

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based – Term Loan	31.00	31.00	[ICRA]D; Downgraded from [ICRA]BB-& and removed from watch
Long-term - Fund-based – Cash Credit	33.00	33.00	[ICRA]D; Downgraded from [ICRA]BB-& and removed from watch
Long Term/Short Term - Fund based/Non-fund based	36.00	36.00	[ICRA]D/[ICRA]D; Downgraded from [ICRA]BB-&/ [ICRA]A4& and removed from watch
Long Term – NCD/Debt	50.00	50.00	[ICRA]D; Downgraded from [ICRA]BB-& and removed from watch
Total	**150.00**	**150.00**	

**Instrument details are provided in Annexure-1*
& - under ratings watch with developing implications

Rationale

The rating action reflects the recent delays in servicing of the debt obligations by Karda Constructions Limited ('KCL') driven by material weakening of the company's liquidity profile arising from slow collections and sluggish bookings. ICRA, in October 2020, had placed the ratings on watch with developing implications, given that KCL had applied for restructuring of the loan on the due date, and had subsequently missed its repayment obligations on its sanctioned term loan which was due on 30th September 2020 and the same was confirmed by the bank on October 4, 2020. ICRA hence, had not recognized the missed payment as default in accordance with the rating approach published in September 2020. ICRA, however now, has confirmed with the company as well as lender that the no restructuring plan has gone through. Given the dues outstanding as of 30th September 2020, were paid in tranches and dues as of 31st December 2020 still remain overdue, the same has been recognized as default.

However, the ratings factor in the established track record and the extensive experience of its promoters in real-estate development in Nashik.

Key rating drivers and their description

Credit strengths

Established track record and extensive experience in real-estate development – Karda is promoted by Mr. Naresh Karda, who is a civil engineer by qualification and is the Managing Director of the company. Collectively the Karda Group has developed over 21-lakh square feet of area with all the projects based in Nashik, Maharashtra. The promoters of the Group have extensive experience in the real estate and construction business and the company has in-house project management capabilities. It is a reputed player in Nashik with vast experience and knowledge of the local market dynamics, giving it a competitive edge.

Credit challenges

Delays in debt servicing due to liquidity issues – The firm was not able to service its debt obligations in timely and regular manner due to delay in receipt of pending receivables from its customers. Hence its account was moved to special mention accounts (SMA) category by the bank on January 01, 2021. Weak inflow of customer advances coupled with low sales led to deterioration in the liquidity position of the company.

Exposed to inherent project execution and moderate marketing risk, risk heightened in the current pandemic scenario - There are several ongoing projects including residential as well as residential-cum-commercial and sole commercial ones too. The current pandemic scenario has further accentuated the project execution and marketing risks associated with these projects.

Geographical concentration risk with presence limited to Nashik – The company has moderate scale of operations and is involved in residential and commercial project construction in Nashik, Maharashtra. Its presence in only one city exposes Karda to geographical concentration risk. However, diversification across all housing segments reduces the exposure to demand volatility and competition in any particular segment.

Intense competition and inherent cyclicality in real estate industry - Being a cyclical industry, real estate is highly dependent on macro-economic factors, which make the company's sales vulnerable to downturn in real-estate demand and competition from regional established developers.

Liquidity position: Poor

Liquidity is poor given the delays in servicing debt obligations led by issues faced by the company in getting timely collections from its customers and sluggish sales.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating in case of regularization in debt servicing on a sustained basis for more than three months.

Negative triggers – Not applicable

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	Standalone

About the company

Incorporated in 2008, KCL is involved in the development of residential as well as commercial real estate projects. The company is promoted by Mr. Naresh Karda, who is the managing director of the company and a civil engineer by qualification. A major number of the projects of the Group are residential with homes ranging from 1BHK apartments to penthouses. The company is listed on NSE and BSE.

In FY2020, the company reported a net profit of Rs. 9.64 crore on an operating income of Rs. 114.12 crore, compared to a net profit of Rs. 12.10 crore on an OI of Rs. 105.30 crore in FY2019. Further, in H1 FY2021, the company reported a net profit of Rs 3.85 crore on an operating income of Rs. 36.44 crore.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	H1FY2021 (Provisionals)
Operating Income (Rs. crore)	105.30	114.12	36.44
PAT (Rs. crore)	12.10	9.64	3.85
OPBDIT/ OI (%)	28.44%	24.00%	22.55%
RoCE (%)	13.97%	14.03%	10.60%
Total Outside Liabilities/Tangible Net Worth (times)	1.82	1.81	1.74
Total Debt/ OPBDIT (times)	4.46	3.79	6.43
Interest Coverage (times)	1.75	1.53	1.32

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)							Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding as of Dec-2020	Rating	Rating	Rating	Rating	FY2020	FY2019	FY2018
					08-Jan-2021	18-Nov-2020	08-Oct-2020	28-May-2020	29-Jul-2019	28-Jun-2018	03-Nov-2017
1	Fund-based- Cash Credit	Long Term	33.00	-	[ICRA]D	[ICRA]BB-&	[ICRA]BB-&	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Negative)
2	Fund based Term Loan	Long Term	31.00	17.18	[ICRA]D	[ICRA]BB-&	[ICRA]BB-&	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Negative)
3	Fund based/ Non-fund based	Long Term/ Short Term	36.00	-	[ICRA]D/ [ICRA]D	[ICRA]BB-&/ [ICRA]A4&	[ICRA]BB-&/ [ICRA]A4&	[ICRA]BB-(Stable)/ [ICRA]A4	[ICRA]BB-(Stable)/ [ICRA]A4	[ICRA]BB-(Stable)/ [ICRA]A4	[ICRA]BB-(Negative)/ [ICRA]A4
4	Proposed non-convertible debenture	Long Term	50.00	-	[ICRA]D	[ICRA]BB-&	[ICRA]BB-&	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-

Amount in Rs. Crore
&- under ratings watch with developing implications

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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2015	-	FY2023	31.00	[ICRA]D
NA	Cash Credit	-	-	-	33.00	[ICRA]D
NA	Fund-based/ Non-fund based	-	-	-	36.00	[ICRA]D/ [ICRA]D
NA	Proposed non-convertible debenture	-	-	-	50.00*	[ICRA]D

Source: KCL

**Proposed*

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Annexure-2: List of entities considered for consolidated analysis – Not applicable

Analyst Contacts

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Preeti Kumaran
+91 22 6169 3356
preeti.kumaran@icraindia.com

Viraj Kadwadkar
+91 22 6114 3457
viraj.kadwadkar@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
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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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) 2556 0194/ 6606 9999