June 21, 2019 Revised

Ashiana Housing Limited: Ratings reaffirmed

Summary of rated 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	50.0	10.0	[ICRA]A (Stable); reaffirmed
Non-Convertible Debentures	100.0	100.0	[ICRA]A (SO) (Stable); reaffirmed
Unallocated	0.0	40.0	[ICRA]A (Stable); reaffirmed
Total	**170.0**	**170.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the healthy growth in areas sold by Ashiana Housing Limited (AHL) to 1.1 million sqft (mn sqft) in FY2019 from 0.7 mn sqft in FY2018, driven by two ongoing projects (Vrinda 3B and Gulmohar Gardens Phase 8) and one launch – Umang Phase 4. The rating reaffirmation also factors in the company's low debt levels (debt stood at Rs. 144.9 crore as on March 31, 2019) with respect to the cash flows, the scale of operations and the size of projects being executed. Further, the company maintains healthy liquidity with cash and liquid investments (unencumbered Rs. 104 crore as on March 31, 2019), which provide financial flexibility. The ratings further factor in the steady execution across all the projects, enabling stable construction-linked inflows and timely delivery of multiple projects in FY2019. The committed receivables against the sales stood at Rs. 123 crore as on March 31, 2019, which were sufficient to cover the majority of the committed construction cost. However, the cash flow adequacy (defined as committed receivables to total outstanding debt and committed construction cost) was modest at 44%. Nonetheless, given the healthy execution, the company has significant completed projects and the unsold inventory provides financial flexibility to it. The ratings continue to draw comfort from AHL's long track record in the residential mid-income housing and the senior living segments.

The ratings are, however, constrained by AHL's exposure to market risk with significant unsold area in the completed and ongoing projects and sluggish sales in Anmol, Navrang, Town and Utsav Lavasa. Out of the total saleable area of 1.6 mn sqft in nine ongoing projects, 46% remains unsold as on March 31, 2019. The significant supply in the immediate vicinity of the company's projects and the ongoing slowdown in the residential real estate market pose challenges in liquidating inventory. Also, the absorption is expected to be gradual. ICRA further notes that AHL's agreement with IFC[1] to jointly invest Rs. 375 crore in new projects in the near term will expose it to high execution and funding risks. AHL will be identifying new projects to utilise IFC's capital of Rs. 150 crore (with a committed range of IRR) and will make its own contribution of Rs. 225 crore towards land payments/purchase of development rights. Apart from this agreement, AHL will continue to launch phases in its existing projects and new development on its existing land bank, which will also expose it to execution and funding risks. The net debt levels in the last two years have increased and ICRA expects the same to rise further on account of the non-convertible debentures (NCD) drawdown from IFC for new projects. The company's dependence on additional sales will remain high, given the significant launches in the near term. Nonetheless,

[1] *IFC = International Finance Corporation*

comfort can be drawn from AHL's established track record. Further, it is exposed to geographical-concentration risks, with a major part of the ongoing and completed projects in Bhiwadi.

Going forward, AHL's ability to sustain a healthy sales velocity, ensure timely collection from the existing and the new bookings, execute the new projects within the budgeted cost and time, and achieve liquidation of the finished inventory would be critical for maintaining its credit risk profile. The movement in borrowing levels, including drawdown from IFC and raising of fresh debt, would be the other key rating monitorables.

Outlook: Stable

ICRA believes that AHL will continue to benefit from its healthy execution and collection pace, which will help it in addressing the committed cost obligations and debt servicing. Further, its ability to scale up its operations as planned and secure adequate sales as well as manage the net leverage will be key rating factors. The outlook may be revised to Positive in case of substantial growth in the scale in the backdrop of the new projects and improvement in sales velocity, alongside maintenance of the leverage. 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 or higher-than-expected outflows for new projects, which would lead to pressure on cashflows and may result in increased reliance on debt.

Key rating drivers

Credit strengths

Established position and brand name in mid-income housing and senior living segments – AHL has a track record of more than 20 years in the real estate markets and is currently developing nine projects. Besides, it has 16 completed projects in its inventory. The company has strong in-house project execution capability, as demonstrated through the construction of 13,571 units across more than 22 mn sqft. Moreover, the company has strong brand presence in regions like Jaipur, Bhiwadi, Jodhpur and Jamshedpur. It has also established its presence in the senior living segment.

Timely execution in present project portfolio and healthy sales velocity in FY2019 – At present, the company is developing nine residential projects, which were launched in phases and have a combined saleable area of 1.6 mn sqft. It has a track record of executing projects in a phased manner and has completed the same in a timely manner. The sales velocity of AHL improved in FY2019 on the back of continued good response for its Jaipur-based projects (Vrinda and Gulmohar Gardens), senior living project in Chennai (Shubham) and mid-housing project in Bhiwadi (Ashiana Town). This apart, the completed projects witnessed traction with improved closing inventory of 0.7 mn sqft in FY2019 compared with 0.9 mn sqft in the previous year. This helped the company to sell 1.1 mn sqft area for a sales value of ~Rs. 333 crore. The current level of committed receivables against these sales stands at Rs. 123 crore as on March 31, 2019 and can cover majority of the total construction cost.

Comfortable leverage and liquidity position – AHL maintains low debt levels as well as healthy cash reserves and liquid investments (unencumbered Rs. 104 crore as on March 31, 2019). The company's debt levels increased in the last two years and are likely to increase further on account of the NCD drawdown from IFC. Nonetheless, the leverage is likely to remain comfortable.

Credit challenges

Exposure to market risks – The company is exposed to market risks with significant unsold area in the completed and ongoing projects, and sluggish sales in Anmol, Town, Navrang and Utsav. The unsold area stood at 1.4 mn sqft (16%) as on FY2019 (including 0.7 mn sqft of completed projects), exposing the company to market risks. As per the sales velocity in the last 12 months, it would take 1.3 years to sell the inventory. This, however, is an improvement from the previous year. The exposure to market risk will be further accentuated with many planned launches in the medium term in a relatively weak market.

Exposure to execution and funding risks due to planned launches in coming years – AHL has entered into an agreement with IFC[2] to jointly invest Rs. 375 crore in new projects in the near term. The company will be identifying the new projects to utilise IFC's capital of Rs. 150 crore (with a contracted range of IRR). AHL will make its own contribution of Rs. 225 crore towards land payments/purchase of development rights. Apart from this agreement, it will continue to launch phases in its existing projects and pursue new development on its existing land bank.

Debt to increase going forward – AHL will be identifying new projects under IFC's agreement. For the same, AHL will further drawdown IFC's NCD of Rs. 150 crore and will make its own contribution of Rs. 225 crore towards land payments/purchase of development rights. ICRA expects the company's dependence on raising fresh debt to increase to support the execution of the new projects.

Liquidity position

The company had healthy cash reserves and liquid investments of ~Rs. 127.0 crore as on March 31, 2019, which provides liquidity buffer. The liquidity profile is also supported by committed receivables of Rs. 123 crore, which covers the majority of the construction cost. This, along with current low debt levels and available completed inventory, provides further flexibility.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Real Estate Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone approach

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 22 mn sqft of area (primarily residential) till March 31, 2019. At present, the company is developing several projects, primarily residential housing projects, 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. 21.78 crore (total comprehensive income) on an operating income (OI) of Rs. 301.8 crore in FY2019 compared with a net profit of Rs. 46.17 crore (total comprehensive income) on an OI of Rs. 288.9 crore in the previous year.

[2] *IFC = International Finance Corporation*

Key financial indicators (Audited) - Standalone

	FY2018	FY2019
Operating Income (Rs. crore)	288.98	301.82
PAT (Rs. crore)*	46.17	21.78
OPBDIT/OI (%)	19.1%	12.9%
RoCE (%)	6.9%	4.5%
Total Debt/TNW (times)	0.17	0.20
Total Debt/OPBDIT (times)	2.42	4.11
Interest Coverage (times)	4.82	2.61

**total comprehensive income*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2019	Date & Rating in FY2019 July 2018	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)	[ICRA] A (Stable)	-	-	-
2	Term Loans	Long Term	10.0	10.0	[ICRA] A (Stable)	[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)	[ICRA]A(SO) (Stable)	-	-
4	Unallocated	Long Term	40.0	0.0	[ICRA] A (Stable)	-	-	-	-

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
INE365D08018	NCD*	July 2018	-	-	20.0	**[ICRA] A (Stable)**
-	Term Loan	April 2016	-	April 2020	10.0	**[ICRA] A (Stable)**
INE365D07077	NCD	April 2018	10.1%	March 2024	100.0	**[ICRA] A (SO) (Stable)**
-	Unallocated	-	-	-	40.0	**[ICRA] A (Stable)**

Source: Company

** committed range of IRR between 8-14% on per project basis, the maturity date will be eight years from the start of a particular project.*

Corrigendum

Document dated June 21, 2019 has been corrected with revision as detailed below:

Revision in the Analytical Approach section - standalone/ consolidated approach, instead of “Not applicable” it has been revised to Standalone approach

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