July 29, 2019

Karda Constructions Limited: Ratings reaffirmed

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]BB-(Stable) reaffirmed
Long-term - Fund-based – Cash Credit	33.00	33.00	[ICRA]BB-(Stable) reaffirmed
Long Term/Short Term - Fund based/Non-fund based	36.00	36.00	[ICRA]BB-(Stable)/[ICRA]A4 reaffirmed
Long Term – NCD/Debt	-	50.00	[ICRA]BB-(Stable) assigned
Total	**100.00**	**150.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in the established track record and the extensive experience of its promoters in real-estate development in Nashik, its diversified presence through multiple ongoing projects along with presence across affordable to premium segments. ICRA also takes note of the low regulatory risk with all projects being Real Estate Regulatory Authority (RERA) approved and the ability of the company to maintain satisfactory collection efficiency for all its projects.

The rating is, however, constrained by project execution risks and marketing risk pertaining to the thirteen ongoing projects with a consolidated 44% construction work pending as on March 31, 2019. Further there is high reliance on advances from customers (estimated to meet 35% of the total funding requirements) which necessitates maintaining steady sales velocity and collections from customers in the near to medium term, given the high debt repayments scheduled in next three years starting FY2020. The rating continues to factor in the geographical concentration risk with all the projects located in Nashik and risks associated with recent entry into civil construction projects.

Outlook: Stable

ICRA believes that the company's good track record and brand recall in Nashik's residential market will support its operations. The outlook may be revised to Positive in case of better-than-expected sales performance and increased collections in ongoing projects, resulting in improved cash flows. Downward pressure on the rating could emerge if the pace of bookings is slower than expected or if there are any cash flow mismatches leading to a strain on the project cash flows.

Key rating drivers

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.

Presence in all housing segments - The company has diversified its presence across all housing segments namely affordable, mid-range and premium catering to customers from all income groups. A major part of the sales is to end-users, who are financed by banks. This lowers the booking cancellation risk to an extent and ensures higher collection efficiency over the project execution period. With a price range of Rs. 2,700-3,800 per square feet, Nashik has better potential for property price appreciation in the long term than any other tier-2 or tier-3 city in Maharashtra, owing to its growth and expanding economic opportunities. Nashik is also attracting property seekers from its neighbouring cities like Pune and Mumbai as well as second-home buyers. Moreover, developments along the commercial belt and the presence of many educational institutions are attracting end-users.

Low regulatory risk with all projects being RERA approved; satisfactory collection efficiency for all its projects - At present, the company has thirteen ongoing projects out of which five projects were launched in the first half of 2019. The 13 projects under consideration have depicted satisfactory collection efficiency (collections as a percentage of the demand raised) of 72% as of March 31, 2019. The ability to maintain satisfactory collection efficiency provides comfort from the cash flow perspective, given that ~35% of the consolidated project funding is met through customer advances. Karda adheres to regulatory stipulations and contractual obligations. All the requisite approvals are in place to carry out the construction and all the thirteen projects are RERA approved ensuring transparency and accountability.

Credit challenges

Exposed to inherent project execution and moderate marketing risk - There are 13 ongoing projects while the construction and collection for five other projects is completed as on date. Seven are residential, four are residential-cum-commercial and two are commercial. Given that ~44% of the consolidated construction work on the ongoing projects is pending, the company is exposed to an inherent project execution risk. As on Mar '19, 50% of total area has been sold. The company has seven upcoming projects which are yet to be launched which are exposed to inherent project execution and marketing risk.

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.

Risks associated with recent entry into civil construction projects – The company has received its PWD license and recently ventured into undertaking construction contracts for public sector and private sector with major portion of orders coming from private sector clients. Currently, the company successfully secured 8 contracts. However, the company will be vulnerable to the order cycle, new contract awards, payment release and execution risks associated with these projects.

High level of debt repayments in the near to medium term - With 45% of the total estimated funding requirements being met through bank debt, there is considerable debt funding. The term loan outstanding, as on March 31, 2019, was ~Rs. 106.81 crore and the scheduled repayment of debt is in the range of Rs. 23-60 crore from FY2019 till FY2023 and reducing from FY2021 onwards. With dependence on customer advances (35% of the total project funding), the repayments to some extent are also contingent upon customer advances.

Leveraged capital structure – Karda's gearing reduced to 1.42 times as on March 31, 2019 in comparison to 1.95 times as on March 31, 2018 with capital infusion in FY2018. However, the capital structure will continue to be leveraged in the near term with loans being taken for upcoming projects and proposed NCD issue of Rs. 50 crore.

Liquidity position

The company has a total debt of Rs. 133.56 crore with Rs. 106.81 crore being term loans and Rs. 26.74 crore of drop-line overdraft facilities. It has an undrawn working capital limit of Rs. 14.46 crore as on May, 2019. The scheduled repayment of term loans availed are high in next three years starting FY2020 and is expected to reduce FY2022 onwards. The repayments to some extent are contingent upon customer advances. However, considering the satisfactory pace of project execution and high collection efficiency from booked units, the debt repayment risk is mitigated to a large extent. The company also has cash and bank balances of Rs. 6.50 crore and liquid investments of Rs. 27.23 crore supporting its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	-
Consolidation/Standalone	Standalone approach

About the company

Incorporated in 2008, Karda is involved in the development of residential as well as commercial real-estate projects. The company is promoted by Mr. Naresh Karda, who is a Managing Director of the company and a Civil Engineer by qualification. A major number of the projects of the Group are residential and the Group provides homes ranging from a 1-BHK flats to penthouses. At present, there are 13 projects under consideration.

In FY2019, the company reported a net profit of Rs. 12.10 crore on an operating income of Rs. 105.30 crore, as compared to a net profit of Rs. 13.06 crore on an OI of Rs. 125.50 crore in the previous fiscal.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	125.50	105.30
PAT (Rs. crore)	13.06	12.10
OPBDIT/ OI (%)	23.77%	28.44%
RoCE (%)	18.74%	13.97%
Total Debt/ TNW (times)	1.95	1.42
Total Debt/ OPBDIT (times)	5.46	4.46
Interest Coverage (times)	1.51	1.75

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Jul 2019	Date & Rating in FY2018 Jun 2018	Date & Rating in FY2017 Nov 2017	Date & Rating in FY2016 Apr 2016
1	Term Loan	Long Term	31.00	31.00	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Negative)	[ICRA]BB-(Stable)
2	Cash Credit	Long Term	33.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Negative)	[ICRA]BB-(Stable)
3	Fund based/ Non-fund based	Long and Short Term	36.00	-	[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]BB-(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
NA	Term Loan	FY2015	-	FY2023	31.00	[ICRA]BB-(Stable)
NA	Cash Credit	-	-	-	33.00	[ICRA]BB-(Stable)
NA	Fund-based/ Non-fund based	-	-	-	36.00	[ICRA]BB-(Stable)/[ICRA]A4
NA	Proposed non-convertible debenture	FY2020*	13%*	FY2025*	50.00*	[ICRA]BB-(Stable)

**Proposed*

Source: Karda

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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.

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