October 08, 2020

Karda Constructions Limited: Update on Material Event; ratings placed on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	33.00	33.00	[ICRA]BB-&; rating placed on watch with developing implications
Long-term – Fund-based – Term Loans	31.00	31.00	[ICRA]BB-&; rating placed on watch with developing implications
Long-term/Short-term – Fund-based/ Non-fund based	36.00	36.00	[ICRA]BB-&/[ICRA]A4&; ratings placed on watch with developing implications
NCD/Debt	50.00	50.00	[ICRA]BB-&; rating placed on watch with developing implications
Total	**150.00**	**150.00**	

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

Material Event

ICRA is given to understand that Karda Constructions Limited (KCL or the company) has made an application to its lender for one-time restructuring of its loans. The application for restructuring was made and intimated to ICRA on the same date, i.e., September 30, 2020, which was the due date of payment. The bank has not taken any decision yet on whether the loan restructuring, as requested by the company, will be permissible under the RBI circular dated August 06, 2020, regarding "Resolution Framework for COVID-19-related Stress".

Impact of the Material Event

ICRA has placed the long-term rating of [ICRA]BB- (pronounced as ICRA double B minus) and the short-term rating of [ICRA]A4 (pronounced as ICRA A four) outstanding on the bank facilities of KCL under rating watch with developing implications. Given that KCL has applied for restructuring of the loan on the due date, KCL has subsequently missed its repayment obligations on its sanctioned Rs. 31.00 crore loan, which was due on September 30, and the same was confirmed by the bank on October 4, 2020. However, there is uncertainty around whether the client's request for restructuring be considered under the purview of the Reserve Bank of India's (RBI's) resolution framework for Covid-19 related stress announced on August 6, 2020 by its lender, or under any earlier framework for restructuring. ICRA hence, has not recognised the missed payment as default in accordance with the rating approach published recently on ICRA's website and available here (click here). However, if the resolution plan is not permitted under the aforesaid Covid-19 related stress resolution framework, the missed payment by the company will be treated as a default. ICRA will continue to monitor the development related to the finalisation of the restructuring framework and will take rating action once clarity emerges on the same.

The previous detailed rating rationale is available on the following link: Click here

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 flats 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.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	105.30	114.12
PAT (Rs. crore)	12.10	9.64
OPBDIT/ OI (%)	28.44%	24.00%
RoCE (%)	13.97%	14.03%
Total Outside Liabilities/Tangible Net Worth (times)	1.82	1.81
Total Debt/ OPBDIT (times)	4.46	3.79
Interest Coverage (times)	1.75	1.53
DSCR	0.38	0.35

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed
Source: Financial statements of KCL and ICRA research

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 Sep-2020	Rating	Rating	FY2020	FY2019	FY2018
					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]BB-&	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Negative)
2	Fund based Term Loan	Long Term	31.00	19.70	[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]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]BB-&	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	-	-

Amount in Rs. Crore
&- under rating 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]BB-&; rating placed on watch with developing implications
NA	Cash Credit	-	-	-	33.00	[ICRA]BB-&; rating placed on watch with developing implications
NA	Fund-based/ Non-fund based	-	-	-	36.00*	[ICRA]BB-&/[ICRA]A4&; rating placed on watch with developing implications
NA	Proposed non-convertible debenture	-	-	-	50.00*	[ICRA]BB-&; rating placed on watch with developing implications

Source: KCL

**Proposed*

&- under rating watch with developing implications

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:

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) 2556 0194/ 6606 9999

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