

CG Hills Private Limited: [ICRANP] LBB/[ICRANP] A4+ assigned

April 5, 2021

Summary of rated instruments

Instrument*	Rated Amount (NPR Million)	Rating Action
Long-term limits	550.00	[ICRANP] LBB (Assigned)
Short-term limits	50.00	[ICRANP] A4+ (Assigned)
Total	600.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA Nepal has assigned the long-term rating of [ICRANP] LBB (pronounced ICRA NP L double B) to the NPR 550-million long-term loans of CG Hills Private Limited (CGHPL). ICRA Nepal has also assigned the short-term rating of [ICRANP] A4+ (pronounced ICRA NP A four plus) to the NPR 50-million short-term loan limits of CGHPL.

Rationale

The ratings assigned to CGHPL (a special purpose vehicle (SPV) formed to develop a residential housing project named CG Premium Hills) derive comfort from the favourable location of the project and the healthy demand for residential properties in Kathmandu, the economic and political capital of the country. ICRA Nepal also factors in the strong reputation, financial strength, and established track record of the company's promoter group (including a 50% equity stake of the Chaudhary Group). The ratings also take into account the company's moderate gearing levels and the expected decline in the gearing after the commencement of project booking, which is expected in the near future.

However, the ratings remain constrained by the market risk associated with CGHPL's business, given the volatility in real estate prices and the industry cyclicality. Rating concerns also arise as the bookings for CGHPL's units have not yet commenced but the interest payment/loan repayments have already started. The management's ability to generate adequate bookings and sales in a timely manner also remains a concern, given the premium pricing of the property. The early stage of project development also increases project execution risks, including the risk of time and cost overrun. Further, real estate sector financing remains vulnerable to the changes in the Central Bank's policies for the sector. Any untoward changes in the policy could affect the liquidity and valuation of the sector and affect the demand outlook. Rating concerns also arise as the company is a single property development project with limited diversification and from the competitive pressure from other established players in the industry.

Key rating drivers

Credit strengths

Strategic location of the project and healthy demand for housing in Kathmandu – CG Premium Hills is located in Bhaisepati, which is a sought-after residential area in Kathmandu, thereby supporting the demand prospect for CGHPL. The demand prospect also remains supported by Kathmandu's position as the political and economic capital of the country.

Strong promoter profile – A 50% stake in CGHPL is held by the Chaudhary Group via CG Developers Private Limited and the other half is owned in equal proportions by two individuals. The Chaudhary Group is one of the established and reputed business houses in Nepal with a strong presence and track record in multiple sectors such as manufacturing, trading, and financial services (including controlling interest in Nabil Bank Limited, the oldest private sector bank with a long-term issuer rating of AA- by ICRA Nepal). The Group also has a strong presence in the real estate sector in Nepal and has successfully developed three other residential projects in the past within the Kathmandu valley.

Moderate gearing level; expected to decline after commencement of booking – CGHPL is in the process of obtaining a planning permit from the local authorities, which will allow it to open booking for its residential units. As of mid-July 2020, the company's gearing level was moderate with total debt to net worth of 1.68 times and total outside liability to

total net worth of 1.83 times. The gearing levels are likely to moderate after the booking proceeds are used to reduce the bank loans.

Credit challenges

Market risk related to real estate prices and industry cyclicality – Real estate prices are prone to volatility, which could affect the demand outlook. CGHPL’s maiden project, CG Premium Hills, is in a nascent stage of development with only land acquisition having been completed. The project awaits the receipt of the related permit for the commencement of construction and for opening bookings for the residential units. Any correction in real estate prices prior to the commencement of sales could affect the sales realisation for the developers, the profitability and the cashflows vis-à-vis the projected levels. However, this risk remains partly mitigated by the limited number of units and the expected commencement of project booking in the near future.

High execution risk associated with the project – The development work on the project started in FY2018. Till 8M FY2021, the project had achieved ~44% financial progress, largely comprising land acquisition and preliminary development work. The construction work is yet to start and its pace will depend on the receipt of planning approval, response to bookings and the receipt of booking advances and subsequent customer payments. Since the project is in the early stage of development, its timely commissioning within the budgeted cost remains a concern. As sales realisation is determined by market forces, execution risks such as time and cost overrun could directly impact the company’s profitability.

Liquidity risk – The loan facilities availed by CGHPL are repayable in annual instalments from FY2021 over a period of 3-4 years. Therefore, the interest and principal repayment has already begun for the project while near-term revenue visibility remains obscured pending the receipt of the planning permit and the commencement of project booking. Therefore, the company is likely to depend on the promoter’s support and/or additional bank limits to maintain its short-term liquidity. The proposed bank loans limit is likely to alleviate some of the liquidity pressure on the company.

Liquidity risk also arises from the lumpiness in real estate transactions, especially for the premium priced units under CGHPL. The sector’s liquidity is also prone to changes in the Central Bank’s policies and lending norms for the real estate sector.

Increasing competition among property developers – In line with the strong demand for residential properties in Kathmandu, the city has witnessed a rise in multiple residential projects from multiple developers in the last few decades. Since the number of organised real estate players in the region is increasing, the competitive intensity in the housing market has also increased.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

CG Hills Private Limited (CGHPL), which was incorporated in 2017, is a special purpose vehicle (SPV) set up for developing a residential housing project (Premium Hills) comprising 62 standalone bungalows in the Bhaisepati area of Kathmandu. CG Developers Private Limited, a Chaudhary Group holding, has a 50% stake in CGHPL. The Group (CG) has completed a few housing societies in Kathmandu such as Kathmandu Residency, Mount View Residency and CG Hills-Hattigauda with all the units receiving a strong response from the buyers.

Annexure-1: Instrument details

Instrument	Rated Amount (NPR Million)	Rating Action
Long-term Limits (A)	550.00	[ICRANP] LBB (Assigned)
Fund-based Limits; Demand Loan (Existing)	400.00	
Fund-based Limits; Demand Loan (Proposed)	150.00	
Short-term Limits B)	50.00	[ICRANP] A4+ (Assigned)
Fund-based Limits; Overdraft	50.00	
Total (A+B)	600.00	

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About ICRA Nepal Limited:

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Our parent company, 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.

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