

## Aadar Multi-Investment Company Limited: [ICRANP] LBB/ [ICRANP] A4+ assigned

April 26, 2021

### Summary of rated instruments:

Instrument*	Rated Amount (NPR Million)	Rating Action
Long-term limits	1,400.00	[ICRANP] LBB (Assigned)
Short-term limits	100.00	[ICRANP] A4+ (Assigned)
<b>Total</b>	<b>1,500.00</b>	

\*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 1,400 million long-term loans of Aadar Multi-Investment Company Limited (AMICL). ICRA Nepal has also assigned the short-term rating of [ICRANP] A4+ (pronounced ICRA NP A Four plus) to the NPR 100 million short-term loan limit of AMICL.

### Rationale

The rating assigned to AMICL (the special purpose vehicle (SPV) formed to develop a commercial complex named Aadar Trade Mall) derives comfort from the favourable location of the project, its promoters' prior experience in the sector and their industry traction as well as the healthy demand prospects for commercial spaces in Kathmandu city, the economic and political capital of Nepal. The rating also factors in the low gearing level on account of bank loans, given the adequate funding support from customer advances/booking advances and infusion of entire promoter's equity required for the project construction. The healthy rate of collection of booking advances against the demand raised coupled with adequate headroom in the sanctioned bank loan limits provides liquidity support required for the project development over the near term, which remains a positive.

Nonetheless, the rating remains constrained by the market risk associated with AMICL's business, given the volatility in real estate prices and the industry cyclical nature. Rating concerns also emanate from the ongoing impact of Covid-19 that could put pressure on the timely collection of booking advances, which in turn could stretch the liquidity profile and debt repayment capacity of the company. Further, the mid-stages of the project development expose AMICL to project execution risks, including the risk of time and costs overrun. ICRA Nepal also notes that real estate sector financing remains vulnerable to changes in Central Bank policies towards 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 and from the competitive pressures from other established players in the industry.

### Key rating drivers

#### Credit strengths

##### Strategic location of the project

The under-construction Aadar Trade Mall is in Balkhu area of Kathmandu city and is conveniently located beside the city's ring road, which remains a positive from the logistical standpoint. Its convenient location as well as adequate space (over 400,000 square feet of saleable space spread over 2,000 shops) remain well suited for the businesses of wholesale traders (the target customer segment).

##### Healthy demand prospects supported by promoters' traction within industry

AMICL is an end-user based crowd-funded project with over 500 individual promoters, all with prior experience in wholesale trading business in Kathmandu's Mahabouddha area, a popular shopping district in the city. The under-construction trade mall was conceived as an alternative business space for the traders in the Mahabouddha area, which is one of the oldest settlements in Kathmandu and therefore poses infrastructural and logistical limitations to modern day businesses. The promoters' strong traction among the target customer segment coupled with the infrastructural limitation of Mahabouddha and similar other areas in Kathmandu supports the demand prospect for Aadar Trade Mall.

**Strong support from booking advances reduces reliance on bank loans and gearing level for AMICL**

AMICL has been funding a significant portion of the project construction through booking advances from its customers. As of 8M FY2021, ~24% of the projected saleable area has been booked with healthy rate of collection against the demand raised from the customers for the booked unit (~90% of the demand raised has been received as of 8M FY2021, equivalent to ~40% of the total value of booked units). Till 8M FY2021, the booking advances have supported ~43% of the incurred project cost of ~NPR 3,970 million. Moreover, with a headroom of NPR 500 million unutilised loans within the sanctioned bank loans and healthy rate of receipt against customer advances, the company's near-term liquidity profile is expected to remain comfortable. Further, as of FY2020-end, the company's gearing stood at 0.66 times, which is expected to increase to over 1 time by FY2021-end upon the utilisation of the entire loan limit.

**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. AMICL's project—Aadar Trade Mall—is in its construction stage with ~56% of financial progress as of 8M FY2021. With only around ~24% of the saleable space booked up to date, a major portion of the available spaces remains susceptible to volatility in real estate prices. Any correction in the current real estate prices could affect the sales realisation and ultimately the project's expected profitability and cashflows.

**High execution risk associated with the project**

Development work on the project started from 2019 and is expected to be fully commissioned by the end of FY2023. The pace of development of the project will depend on the timely receipt of customer bookings and the subsequent advances. The completion of the project within the time and cost estimates will remain a key monitorable, especially amid the ongoing pandemic. Any major overrun in cost and time estimates could deteriorate the project liquidity and profitability.

**Liquidity risk from cashflow mismatch**

The repayments of loans availed by AMICL will commence from the end of FY2021 and will last until FY2025. The bank loan repayments are expected to be supported by customer advances for the already booked units and future booking. Therefore, the company's liquidity and debt repayment capacity will depend on its ability to generate adequate bookings and collection in timely manner. Although the headroom within the sanctioned bank loans offers immediate liquidity cushion, any weakness in future bookings might expose the company to inadequate cashflow to meet the funds required for construction and debt repayment. The ongoing difficult environment caused by the Covid-19 pandemic could impact future bookings/recovery and exacerbate the liquidity situation. It, therefore, remains a rating concern.

Liquidity risks also arise from the lumpiness in real estate transaction, especially for the premium-priced units under AMICL. The sector's liquidity is also prone to the changes in Central Bank policies and lending norms towards the real estate sector.

**Increasing competition and existence of leasing out market**

The number of organised commercial real estate developers is on the rise in the recent years. Also, there is a large market for use of leased out units in commercial complexes by businessmen. With many such units in supply, the competitive intensity in the industry is on an upward trend. Any slack in the occupancy and rentals of the commercial spaces in the industry might affect the demand outlook for AMICL.

**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

Aadar Multi-Investment Company Limited (AMICL) was set up in 2017. It is an SPV that is currently developing a multi-storey commercial complex called Aadar Trade Mall in the Balkhu area of central Kathmandu. The company is an end-user based crowd-funded project, started with an intention to provide favourable space, convenient for conducting business for the existing traders based in Mahaboudha, Kathmandu. The complex is expected to hold ~2,100 units of saleable shop spaces. The promoter shareholders of the company are 522 members, based out of Mahaboudha, involved in wholesale trade of imported Chinese goods.

### Annexure-1: Instrument Details

Instrument	Rated Amount (NPR Million)	Rating Action
Long-term Limits (A)	<b>1,400.00</b>	[ICRANP] LBB (Assigned)
Fund-based limits; Demand Loan	1,400.00	
Short-term Limits (B)	<b>100.00</b>	[ICRANP] A4+ (Assigned)
Fund-based limits; Overdraft	100.00	
<b>Total (A+B)</b>	<b>1,500.00</b>	

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### About ICRA Nepal Limited:

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