

Urban Pentagon Private Limited: [ICRANP] LB+ reaffirmed; [ICRANP] A4 assigned

December 11, 2023

Summary of rating action

Instrument (Amounts in NPR million)	Last rated amount	Current rated amount	Rating Action
Long-term, fund-based (Term Loans)	977	977	[ICRANP] LB+; reaffirmed
Short-term, fund-based (working Capital Loan)	-	143	[ICRANP] A4; assigned
Total	977	1,120	

Rating action

ICRA Nepal has reaffirmed a long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to the long-term loan limits of Urban Pentagon Private Limited (UPPL or the company) and assigned a short-term rating of [ICRANP] A4 (pronounced ICRA NP A Four) to its short-term loans.

Rationale

The ratings continue to remain constrained by the early stages of the development for the company's proposed commercial complex and associated execution risk. Following major design change (including additional built-up area), the project cost has gone up significantly since the last rating while the construction activities are yet to begin pending regulatory approvals. The project is yet to tie up debt for increased cost while sizeable portion of promoter equity is yet to be infused, which exposes the project to funding risk. Furthermore, the stringent regulatory requirements for real estate financing (including a greater risk weightage and a low loan-to-value ratio) may impact demand for the residential spaces in the proposed project. Rating concerns also emerge from concentration risks as UPPL is a single project-based company. Furthermore, competitive pressures from other recently developed/under-construction commercial real estate properties could impact the occupancy for the retail/commercial spaces in the proposed building, which also remains an area of concern.

Nonetheless, the ratings factor in the project's favourable location in one of the prime commercial areas of the Kathmandu valley. The ratings also consider the company's experienced promoter profile, mainly promoters from Brihat Group which has a past track record in real-estate projects. Their reputation and the traction with various stakeholders could support the company's demand prospects. Going forward, the company's ability to generate adequate bookings, and timely progress and commission the project, would be the key rating monitorable.

Key rating drivers

Credit strengths

Strategic location of the project – The company's proposed project i.e. 'Kumaripati Square' is planned to be constructed in central Kumaripati (Kathmandu Valley), which is an established marketplace for trade and business affairs. Strategic location of the project could contribute to the demand aspects for the rental spaces as well as residential apartments to be offered for outright sales.

Established promoter profile – UPPL's promoters include seasoned businesspersons from various established business houses including the IME, Panchakanya, IMS, Brihat etc, among others. Among the promoter groups, Brihat Group has a good track record of being primarily engaged in real-estate project development/sales, which is expected to provide the necessary know-how required for the development and sales of UPPL's sole project- 'Kumaripati Square'.

Credit challenges

High execution risk – Earlier, the project was an entirely commercial complex (Built over area of 97,695 sqs ft., the 120 retail shops were then proposed to be sold outright), but the company has since made major revisions in project model (now being proposed in a residential as well commercial complex with total built up area of 222,322 sq. ft, with 150,502 sq. ft being allocated for rentals to retailers and businesses, while the rest proposed to sold as 55 apartments). Given the design changes, the project is yet to receive regulatory approvals and just the land acquisition has been done so far, among the major milestones. Hence, the project remains exposed to execution risks along with the risk of time and cost escalations, which could affect its profitability and financial metrics.

High funding risks – With the design changes, the earlier project cost estimate of NPR 1,716 million has been increased to NPR 4,567 million, which is proposed to be funded in a debt to equity mix of ~33:67. So far, only ~65% of the debt requirements have been tied up and only ~16% of equity requirements have been infused. Thus, the timely completion of funding gaps will remain crucial for smooth project execution. Furthermore, the promoter's ability to timely infuse additional funds, in case of unanticipated time and cost overruns, will also remain critical.

Market risk related to real-estate prices and industry cyclicity – Real estate prices are prone to volatility which could affect the demand outlook. UPPL's maiden project 'Kumaripati Square' would be a new model in the industry and hence the customer traction remains to be seen. Furthermore, any correction in the real estate prices (due to regulatory changes or market pressures) prior to the start of bookings/sales might influence the developers' sales realisation and hence the profitability and cash flows in comparison to their current expectations.

Liquidity risks associated with the project – UPPL's borrowings have been subject to interest payments during the under-construction periods, being a real estate project. Although the lender (Employees' Provident Fund) has granted a three-year construction moratorium period for principal repayments, the company is required to make interest payments in the interim. As the customer bookings are not opened yet, this will entail promoter to inject equity or loan to serve the interim interest costs. The industry's liquidity is also vulnerable to changes in the central bank's policies and lending regulations toward the real estate sector, which might potentially impact demand outlook from prospective consumers.

Intense competition among property developers – In accordance with the high demand for residential properties in Kathmandu, the city has seen an increase in many residential/commercial developments from various developers in recent years. As the number of organized real-estate businesses in the region continues to rise, the competitive intensity is also increasing in the industry. A supply glut, especially in the event of subdued demand, could result in delayed and/or lower realization vis-à-vis the projected estimates.

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

Link to the applicable criteria:

[Corporate Credit Rating Methodology](#)

Link to the last rating rationale:

[Rationale-Urban Pentagon-Fresh BLR-August 2022](#)

About the company

Incorporated in 2021, Urban Pentagon Private Limited (UPPL) is a special purpose vehicle (SPV) set up to develop a project 'Kumaripati Square' in Kumaripati area of Lalitpur within the Kathmandu valley. The project specifications have been recently revised and would now be based on mix of residential as well as commercial model with the proposed build-up area of 222,322 square feet. At present, the project is in its initial phases of development, with planned completion in late 2028. The company is promoted by eight individuals/private companies from various business houses and the major shareholders as of mid-July 2023 included Kumari Holdings Private Limited (35% stake), IME Developers Private Limited (15%), Mr. Deepak Kumar Malhotra (15%), among others.

Analyst Contacts:

Mr. Sailesh Subedi (Tel No. +977-1-4519910/20)

sailesh@icranepal.com

Mr. Rajib Maharjan (Tel No. +977-1-4519910/20)

rajib@icranepal.com

Mr. Sameer Rai (Tel No. +977-1-4519910/20)

sameer.raai@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha (Tel No. +977-1-4519910/20)

barsha@icranepal.com

About ICRA Nepal Limited:

ICRA Nepal Limited, the first credit rating agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licenced by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, and technical and analytical skill augmentation.

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.

For more information, visit www.icranepal.com

ICRA Nepal Limited,

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal

Phone: +977-1-4519910/20

Email: info@icranepal.com

Web: www.icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents