

## Wonderful Real Estate Private Limited: [ICRANP] LB+ assigned

January 17, 2024

### Summary of rating action

Instrument (Amounts in NPR million)	Current Rated Amount	Rating Action
Long-term loan limits (proposed*)	850	[ICRANP] LB+; assigned
<b>Total</b>	<b>850</b>	

*\*Current short-term loan limits are proposed to be substituted by the long-term loan limits for housing project construction*

### Rating action

ICRA Nepal has assigned a long-term loan rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to the proposed long-term loan limits of Wonderful Real Estate Private Limited (WREPL or the company).

### Rationale

The rating assigned to WREPL (a special purpose vehicle (SPV) formed to develop a residential housing project named Aavash Colony, in collaboration with a sister concern) mainly remain constrained by the demand risk associated with the project. These concerns are exacerbated by the volatility in real estate prices and the ongoing slowdown in the industry, which is inherently cyclical in nature. Amid the backdrop of WREPL yet to commence the booking for its housing units, the premium nature of the project and its accordingly proposed pricing levels, accentuate the concerns. The management's ability to generate adequate bookings and sales in a timely manner and at the proposed price levels, remains a major monitorable, considering the competition from increasing number of housing projects in the city. Furthermore, the early stage of project development also leads to project execution risks, including the risk of time and cost overrun. These risks could be accentuated in case of any unexpected delays in closing the funding gaps (proposed to be managed through increase in debt levels and booking advances). The repayment structuring of the proposed debt levels would also remain crucial, given the lumpiness in cash flows of such projects, especially for the premium priced units under WREPL.

Nonetheless, the rating derive comfort from the project's favourable location and high population density in the city, which could augur well from demand perspective. ICRA Nepal also factors in the reputation and established track record of the company's promoter group in real estate projects. Going forward, the company's ability to complete the project within expected cost/timeline and report adequate bookings at proposed prices, will remain a key rating sensitivity.

### Key rating drivers

#### Credit strengths

**Good location of the project and healthy demand for housing in Kathmandu** – The project under the company i.e. 'Aavash colony' is being constructed in Panchetar, Tokha (in Kathmandu), which is among the rapidly growing residential area in the Kathmandu valley. Additionally, the project's demand prospects could also remain supported by the Kathmandu city being the political and economic capital of the country.

**Experienced promoters** – Major stake in the company is directly and indirectly controlled by Mr. Deepak Kunwar, who has a long track record (over two decades) in the real estate development projects. Mr. Kunwar is also the founding shareholder and current CEO in CD Developers Private Limited (CDPL), which is among the leading real estate developers in Nepal. Individually and in collaboration with CDPL, Mr. Kunwar has a demonstrated track record of developing multiple such projects in Kathmandu valley, which provides comfort.

## Credit Challenges

**Market risk related to real estate prices and industry cyclicality** – There is an inherent risk in the real estate market associated with the prices and the cyclical nature of the industry. The notable increase in real estate prices over the years also raises concerns regarding affordability of premium housing projects. Any unanticipated fluctuation in property prices amid zero bookings so far (yet to open the bookings) could impact the profitability and cash flows against the estimated 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 risks** – The active development works on the project was started from August 2023, after receipt of regulatory approval and hence the financial progress of ~37% as of mid-July 2023 was largely on account of land acquisition and development costs. As of mid-December 2023, the construction work on the structures is yet to be commenced. The project's pace of development would remain contingent upon timely approval/disbursement of the proposed loan amount and subsequent booking advances from the customers, as ~72% of the project's funding requirements is dependent on the same. Any unexpected cost escalations and lower sales realization could accentuate the risks of further funding gaps.

**Regulatory and liquidity risks** – Real estate and housing sector is also exposed to regulatory risks given the stringent norms for real estate lending and generally higher interest rates. Furthermore, any unfavourable changes in the regulatory cap on loan to value norms (which already remains on a lower side compared to other economies) and risk weightage requirements could lead to higher interest rates and hence impact the customer sentiments. The industry is also susceptible to liquidity risks given the reliance on customer advances (albeit modest at ~13% of project cost for WREPL) and uneven cash flow pattern, which might impact the repayment capacity of structured debt.

**Increasing competition among property developers** – In line with the strong demand for residential properties in Kathmandu, the city has witnessed multiple additions to residential projects in the past few years. Since the number of organized real-estate players in the region is increasing, this has accordingly increased the competitive intensity in the housing market.

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

**Link to the applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company

Wonderful Real Estate Private Limited (WREPL) was set up in July 2021, as a SPV for developing a housing project under the name of 'Aavash Colony' jointly with its sister concern Panaroma Real Estate Private Limited (with same set of promoters). The project will have 83 housing units, out of which WREPL will be developing 42 units while the remaining units will be developed under Panaroma Real Estate Private Limited. The major promoter i.e. Mr. Deepak Kunwar has a long-standing experience in the real estate sector of over two decades and multiple completed/ongoing housing and real estate development projects in Kathmandu city such as Kunwar Colony in Dhapasi, Baniyatar Land Development Project, Ishan Colony, Lotse Mall in Gongabu, Aakriti Colony in Hepali Height, among others.

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