June 08, 2020

Ashiana Housing Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	20.0	20.0	[ICRA]A (Stable); rating reaffirmed
Term Loan	10.0	10.0	[ICRA]A (Stable); rating reaffirmed
Non-Convertible Debentures	100.0	65.2	[ICRA]A (Stable); rating reaffirmed
Unallocated	40.0	40.0	[ICRA]A (Stable); rating reaffirmed
Total	**170.0**	**135.2**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account Ashiana Housing Limited's (AHL) long and established track record in residential mainly the mid-income housing segment, and the healthy sales velocity and collections achieved in 9MFY2020, with sales of over 1.56 mn sqft and collection of Rs. 253 crore; the same stood at 0.79 mn sqft, Rs 219 crore respectively for 9MFY2019. The sales were primarily driven by newly launched projects - Daksh Phase 1 &2, Aditya Phase 1 and Gulmohar Gardens Phase 4. The heathy sales led to strong committed receivables of Rs 437 crore as on December, 2019 which further led to improved cashflow adequacy ratio[1] of 79% in December 2019, against 41% in March 2019. Nonetheless, the impact of Covid-19 on the continuation of these new bookings and the collections thereof remains to be seen. The rating reaffirmation also factors in the comfortable leverage and liquidity position of the company- the, consolidated debt stood at Rs 126.45 crore in 9MFY2020 against Rs 162.87 crore in FY2019. Also, the company has maintained healthy liquidity with cash and equivalents of Rs. 154.99 crore as on December 31, 2019, which provide financial flexibility. The rating also factors in the steady execution across all the projects, enabling stable construction-linked inflows and timely delivery of multiple projects in past.

The rating is, however, constrained by the company's weak profitability as reflected by operational as well as net losses reported in 9MFY2020, and the expected pressure on its cash flows due to the impact of Covid-19 pandemic. The losses for AHL have occurred on account of the moderation in revenues on the back of lower deliveries[2], and increase in overheads- including marketing, employee expenses and maintenance cost of the unsold inventory. Additionally, the low margin and muted realizations of certain projects impacted the profitability- as compared to the net profit of Rs. 25.4 crore in 9MFY2019, the company reported a net loss of Rs. 20.3 crore 9MFY2020.

ICRA expects cash flows of the company in near-term are likely to be impacted on account of the outbreak of Covid-19 pandemic and associated economic uncertainties, which are likely to affect the operations, bookings and cash flows of real estate developers. Demand is expected to witness moderation and committed receivables from already booked sales are also expected to get impacted, given that mile-stone based payments may get deferred and some buyers may delay payments on account of economic/income uncertainties. Further, execution of ongoing projects is expected to get hampered due to reduced labour presence and raw material supply chain disruptions. This may result in moderation in project profitability and return metrics, particularly in case of price reductions, delayed inflows, and/or cost overruns.

[1] Cashflow adequacy ratio = Committed Receivables / (pending construction cost + total debt outstanding)

[2] The company books revenue on project completion method basis Ind AS115 since FY2016

Overall project cash flows are thus expected to get adversely impacted, resulting in a weakening of the credit risk profile of the company.

In addition to the impact of Covid-19, the ongoing slowdown in the residential real estate market, poses challenges in liquidating inventory in completed as well as ongoing projects and the absorption is expected to be gradual; the company remains exposed to market risk with unsold area in the these projects. Further, it continues to witness sluggish sales in its completed projects- Anmol, Navrang, Town and Utsav Lavasa.

While reaffirming the rating, ICRA has noted that the company proposes to launch new project(s) in partnership with International Finance Corporation (IFC). The size of the project(s), the quantum of upfront investments and the funding thereof will be a key monitorable.

Key rating drivers and their description

Credit strengths

Established position and brand name in mid-income housing and senior living segments and demonstrated track record in project delivery - AHL has a track record of more than 40 years in the real estate markets and is currently developing 17 projects which has phases of existing projects and greenfield projects too. Besides, it has 17 completed projects with multiple phases of these projects included in its inventory. The company has strong in-house project execution capability, as demonstrated through the construction of 14,051 units spread across more than 23 mn sqft as on December 31, 2019. Moreover, the company has strong brand presence in regions like Jaipur, Bhiwadi, Jodhpur and Jamshedpur. It has also established its presence in the senior living segment.

Healthy sales velocity in 9MFY20 on the back of strong bookings in the newly launched projects - The company has registered healthy sales velocity and collections in 9MFY2020, with sales of over 1.56 mn sqft area and collection of Rs. 253 crore; the same stood at 0.79 mn sqft, Rs 219 crore for 9MFY2019. The sales were primarily driven by newly launched projects - Daksh Phase 1 &2, Aditya Phase 1 and Gulmohar Gardens Phase 4. The heathy sales led to strong committed receivables of Rs 437 crore as on December, 2019. However, the extent of collections build-up and cancellations in the new bookings owing to Covid remains to be seen.

Healthy cashflow adequacy of 79% - The adequacy of committed receivables on an aggregate basis as on December 2019 stood at 79% improved from 41% from March, 2019 on the back of considerable committed receivables of Rs. 437 crore and decline in the debt levels on account of collections linked payment and no new debt availed in 9MFY2020. Though in the same period the pending cost stood highest at Rs 424 crore. Nonetheless, the impact of Covid-19 on these recent bookings and the collections thereof remains to be seen.

Comfortable leverage and liquidity position– Consolidated debt has reduced from Rs 163 crore from March 2019 to Rs 126 crore in December 2019 owing to prepayments made in previous years on account of collection-linked cash sweeps and no additional debt availed in 9MFY2020. AHL maintains healthy cash and liquid investments of Rs 154.99 crore as on December 31, 2019. Though, the investments, cash and equivalents has gradually gone down since past levels, nonetheless the company remained a net debt free as on 9MFY2020.

Credit challenges

Operating as well as net losses in 9MFY2020 given lower revenue booking and high overheads – AHL has registered operational as well as net losses in 9MFY2020. The losses have occurred on account of the moderation in revenues due to lower deliveries happening in the period concerned and expenses incurred being fixed in nature - including marketing, employee expenses and maintenance cost of the unsold inventory. Additionally, the low profitability and muted growth in realizations of certain projects impacted the profitability - as compared the net profit of Rs. 25.4 crore in 9MFY2019, the company reported a net loss of Rs. 20.3 crore 9MFY2020.

Adverse impact of Covid-19 expected on operational and credit risk profile – The cash flows of the company in near-term are likely to be impacted on account of the outbreak of Covid-19 pandemic and associated economic uncertainties, which are likely to affect the operations, bookings and cash flows of real estate developers. Demand is expected to witness moderation and committed receivables from already booked sales are also expected to get impacted, given that mile-stone based payments may get deferred and some buyers may delay payments on account of economic/income uncertainties. Further, execution of ongoing projects is expected to get hampered due to reduced labour presence and raw material supply chain disruptions. This may result in moderation in project profitability and return metrics, particularly in case of price reductions, delayed inflows, and/or cost overruns. Overall project cash flows are thus expected to get adversely impacted, resulting in a weakening of the credit risk profile of the company.

Market risk for the pending unsold area, sluggish sales in completed projects– In addition to the impact of Covid-19, the ongoing slowdown in the residential real estate market, poses challenges in liquidating inventory in completed as well as ongoing projects and the absorption is expected to be gradual; the company remains exposed to market risk with unsold area in the these projects. Further, it continues to witness sluggish sales in its completed projects- Anmol, Navrang, Town and Utsav Lavasa. The unsold area stands at 1.86 mn sqft as on 9MFY2020 exposing the company to market risks. Though, per the sales velocity in last 12 months the years to sell unsold inventory stands low at 0.9 years, improved from previous year. The exposure to market risk will be further accentuated with planned launches in the medium term.

Exposure to execution and funding risks due to planned launches in coming years – ICRA has noted that the company proposes to launch new project(s) in partnership with International Finance Corporation (IFC). The size of the project(s), the quantum of upfront investments and the funding thereof will be a key monitorable. Apart from this agreement, AHL will continue to launch phases in its existing projects and new development on its existing land bank. The company has plans to launch new project having saleable area of 2.1 mn sqft in medium term, which will expose the company to high execution and funding risk. The expected funding for the planned capex will be a rating sensitivity.

Liquidity position: Strong

Although some moderation is expected in the cash flows of the Group on account of the Covid-19 pandemic over the near-to-medium term; however, comfort is drawn from healthy liquidity with cash and equivalents of Rs. 154.99 crore as on December 31, 2019 and undrawn bank lines of Rs 52.74 crore (including undrawn Overdraft of Rs 17.74 as on March 31, 2020). Further, on the back of healthy sales in last 12 months velocity, the committed receivables are sufficient to cover 79% of the total pending cost obligation and outstanding debt. Nonetheless, the impact of Covid-19 on these recent bookings and the collections thereof remains to be seen

Rating sensitivities

Positive triggers – A meaningful improvement in profitability along with satisfactory ramp-up in scale and collections from new sales while maintaining the current net debt position will be credit positive.

Negative triggers – Negative pressure on the rating could arise in case of further drop in profitability or in case of pressure on bookings and collections resulting in moderation in the Group's financial risk profile. Further land acquisition, if any, that results in material increase in net leverage will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Rating Methodology for Real Estate Entities]
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated; the list of entities considered for consolidation are given in Annexure 2

About the company

AHL was incorporated in 1986 in Kolkata by Mr. Om Prakash Gupta. The company has been involved in real-estate development activities since inception. It is primarily present in the residential housing segment and has constructed more than 22 million sqft of area (primarily residential) till December 31, 2019. At present, the company is developing several projects, primarily residential housing projects and including senior living. The projects are being developed in phases and are in different stages of completion. Some of the projects are being developed in joint ventures with other developers.

Key financial indicators (audited) - Consolidated

	FY2018	FY2019	9MFY2020
Operating Income (Rs. crore)	321.3	337.5	210.6
PAT (Rs. crore)	38.2	13.8	-22.1
OPBDIT/OI (%)	16.9%	10.1%	-7.9%
RoCE (%)	7.0%	4.2%	-2.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2	0.2
Total Debt/OPBDITA (times)	2.5	4.8	-5.7
Interest Coverage (times)	4.6	2.3	-1.6
DSCR	2.5	1.3	-0.4

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 8, 2020	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 June 21,2019	Date & Rating in FY2019 July 24, 2018	Date & Rating in FY2018 February 2, 2018	Date & Rating in FY2018s June 21, 2017	Date & Rating in FY2016 January 29, 2016
1	Non-Convertible Debentures	Long Term	20.0	20.0	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)	-	-	-
2	Term Loans	Long Term	10.0	2.0	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A- (Stable)
3	Non-Convertible Debentures	Long Term	65.2	54.6	[ICRA] A (Stable)	[ICRA] A(SO) (Stable)	[ICRA] A(SO) (Stable)	[ICRA] A(SO) (Stable)	-	-
4	Unallocated	Long Term	40.0	0.0	[ICRA] A (Stable)	[ICRA] A (Stable)	-	-	-	-

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 www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE365D08018	NCD	July 2018	-	-	20.0	**[ICRA] A (Stable)**
-	Term Loan	April 2016	-	April 2020	10.0	**[ICRA] A (Stable)**
INE365D07077	NCD	April 2018	10.1%	March 2024	65.2	**[ICRA] A (Stable)**
-	Unallocated	-	-	-	40.0	**[ICRA] A (Stable)**

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Ashiana Maintenance Services LLP	99.7	Full Consolidation
Latest Developers Advisory Ltd	100%	Full Consolidation
Topwell Projects Consultants Ltd	100%	Full Consolidation
Ashiana Amar Developers	100%	Full Consolidation
Ashiana Manglam Developers	65%	Full Consolidation
Ashiana Greenwood Developers	50%	Full Consolidation
Megha Colonizers	50%	Full Consolidation
Ashiana Manglam Builders	50%	Full Consolidation
Vista Housing	50%	Full Consolidation

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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

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