

June 21, 2017

Ashiana Housing Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits	50.00	Upgraded to [ICRA]A (Stable) from [ICRA] A-(Stable)
Total	50.00	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]A (Stable) (pronounced ICRA A)¹ from [ICRA]A-(Stable) (pronounced ICRA A minus) on the Rs. 50.00-crore fund-based limits of Ashiana Housing Ltd. (AHL). The outlook on the long-term rating is Stable.

Rationale

The rating upgrade takes into consideration AHL's significant construction progress across all projects, supported by healthy buildup of receivables. The steady execution has enabled the company to garner strong sales growth across most of its ongoing projects. Further, the committed receivables from the company's sold area are adequate to cover most (88%) of the pending project costs and outstanding debt. The rating also draws comfort from the management's conservative policy of minimal reliance on debt, leading to a very low leverage and robust liquidity buffer in the form of cash balances and liquid investments. The rating continues to factor in AHL's long track record of operations in the real-estate industry and its leading position in the residential mid-income housing and senior living segment of tier II cities, especially Jaipur, Bhiwadi etc.

The rating, however, is constrained by market risks, given the company's high unsold area (mainly in projects Town Beta, Utsav-Lavasa and Tarang). The company's sales velocity has remained lower than the historical highs reported in FY2015 due to the weak market scenario, demonetisation and changing regulations with upcoming implementation of Real Estate (Regulation and Development) Act (RERA). Thus, the company's launches have also been lower than expected. Moreover, given the company's modest land bank level at present, the pace of launches will depend on its ability to identify suitable land banks on time to maintain its scale and profit growth.

AHL's ability to maintain its execution pace and collections will continue to be key rating sensitivities. Further, its ability to improve its operating scale and surpluses while establish itself in new markets will be rating factors. Utilisation of available liquidity and additional debt coupled with impact of implementation of RERA on fresh bookings will also be closely monitored.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- Established track record and brand name in the real estate sector for over 30 years having delivered around 18 million sqft of development in residential space in tier II cities
- Healthy execution progress with delivery of key projects like Gulmohar Gardens, Umang, Navrang, Beta Town, Utsav and Surbhi over FY2016 and FY2017
- Strong pace of collections supported by good collection efficiency
- Comfortable leverage and liquidity position leading to high financial flexibility

Credit weaknesses

- Exposure to market risk on account of significant unsold area in the completed as well as ongoing projects.
- Weakening sales velocity in recent quarters, impact of RERA implementation on sales velocity yet to be seen
- Slow pace of launches, ability to grow land bank remains key to enhance operating scale

Description of key rating drivers:

AHL was established in 1986 and was one of the early entrants in the real-estate markets of tier II cities such as Patna, Jamshedpur, Jaipur, Bhiwadi, Neemrana, and Halol. Since then it has emerged as a leading developer in these micro markets, the company has been following a conservative land-acquisition strategy and has invested in tier II cities where the land cost is lower. This, along with the established brand name of Ashiana, has enabled it to generate healthy profitability over the years (OPM² of 29% and 27% respectively in FY2016 and FY2017). Over the last few years, AHL has ventured into new cities such as Halol (Gujarat), Chennai (Tamil Nadu) and Sohna (Gurgaon).

At present, the company is developing 14 residential projects which were launched in phases starting year 2013 and currently have a combined saleable area of 39.21 lac sqft, out of which 3 projects namely – Town Beta, Nirmay and Gulmohar Garden Studios were completed in Q4FY2017. The company has a track record of executing projects in a phased manner and giving timely deliveries. Over the past two years, the company completed different phases of Gulmohar Gardens, Umang, Navrang, Beta Town, Utsav and Surbhi. AHL constructed 40.83 sq ft over the last two years. The same is also reflected in the jump in revenues recognised and profits in the last two fiscal years³. Further, the percentage area constructed in the on-going projects has improved from 38% to 75% over March 31, 2016 to March 31, 2017.

AHL sold 6.96 lac sq ft area for a sales value of Rs 225.09 crore in FY2017 on the back of continued good response for its senior living projects namely Nirmay (Bhiwadi) and Shubham (Chennai). Moreover, given the steady execution progress, in the same period it was able to collect of 297 crore in the same period. However, the sales velocity weakened over the recent quarters due to demonetization and overall sluggish demand. In one of the largest projects Town Beta; the sales remained stagnant despite the project being in the last phase of construction. The unsold area stands at 20.14 lac sq ft (including 10.42 lac sqft of completed projects) exposes the company to market risks. The impact of upcoming implementation of RERA on fresh bookings also remains to be seen

AHL remains a net debt free company. Further, the current level of committed receivables is adequate to fund 88% of the pending project cost (including outstanding debt). ICRA notes that the company has currently raised Rs 70 crore against its projects, which is only 12% of the total construction cost. The

² OPM=Operating Profit Margin

³ AHL recognizes revenues on a project completion basis



company's debt sanction risk is modest and current outstanding debt is ~ Rs 77.92 crore which has to be repaid over the next three to four years.

Contrary to expectations, in the last one year, the company launched only Tarang (Bhiwadi) and one phase of Gulmohar Garden.

ICRA notes that the company has modest obligation against land for future projects that are yet to be launched. Further, it is expected to utilise its balances to expand its land bank which is crucial for maintaining growth.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below

Links to applicable criteria

<http://www.icra.in/Files/Articles/Real%20Estate-%20Mar%202017.pdf>

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 around 180 lsf of area (primarily residential) till March 31, 2017. Currently the company is developing several projects, primarily residential housing projects, 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.

On a standalone basis, AHL reported a net profit of Rs. 72.9 crore on an operating income of Rs. 355.9 crore in FY2016, as compared to a net profit of Rs. 112.93 crore on operating income of Rs. 505.9 crore in the previous year. The tangible net worth (TNW) of the company stands at Rs 723.4 crore as compared to a TNW of Rs 650.5 crore in FY2016.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.No	Instrument	Current Rating FY2018			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crores)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				June, 2017	Jan, 2016	Jan, 2015	Jun, 2013
1	Term Loan	Long Term	50.00	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA] BBB (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

Instrument	Date of issuance/ Sanction	Coupon rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Term Loan	2014	-	2021	50.00	[ICRA] A (Stable)

Source: AHL

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