

PRESS RELEASE

GOOD KARMA GROUP OF COMPANIES PRIVATE LIMITED

August 2022

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	2,000.00	IRN B	Assigned
Short Term Bank Facilities	1,000.00	IRN A4	Assigned
Total	3,000.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal (Infomerics Nepal) has assigned the long term rating of IRN B (Single B) to the long term bank facilities of NPR 2,000.00 Mn and IRN A4 (A Four) to the short term bank facilities of NPR 1,000.00 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Good Karma Group of Companies Private Limited (GKGC) is driven by the strategic location of the project coupled with promoter's qualification and involvement in various sector along with experienced management team. The rating also derives comfort from healthy booking of the project with increasing demand for housing/apartment projects in urban cities. These rating strengths, nonetheless, are constrained by the project implementation and funding risk as the company is yet to achieve a financial closure. Further the ratings also factor in the nascent stage of project development as reflected in the project completion of ~25% as of mid- April 2022. The ratings also note exposure to intense market competition and cyclicity & seasonality associated with the real estate business.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strategic location of the project

The strategic location of the project in Maharajgunj, Kathmandu, which is conducive for residential & apartment complex. The property will be the only luxury apartment on an eight lane ring-road inside the Kathmandu city and the location is right on Diplomat's Row in Kathmandu adjoining the US Peace Corps Office and the US Education Foundation. It is only ~ 300 meters away from the US Embassy, the Australian Embassy, the Thai Embassy and the Saudi Embassy. The project location remains incredible in terms of commercial viability

Promoters' qualification & involvement across various sector coupled with experience management team

GKGC benefits from the promoter's qualification and involvement in various sectors ranging from educational services, treks & expedition especially mountain trekking to social and humanitarian organisation is expected to aid on the healthy cliental base supporting the overall business profile of the company. Further, the management team comprises of experience and qualified individuals in the related fields, which again remains positive to GKGC.

Healthy booking status

The order book of company has reached to ~NPR 47 Mn in ~one month from the start of booking¹ in its first year, thereby ensuring steady cash flow over the period.

¹ Booking started on 18th July 2022

Increasing demand for housing in urban cities

The demand for real estate is very strong especially in the urban cities mainly due to access to basic facilities, availability of needed resources, good community and good infrastructures. Real estate is considered as a passive source of income and a good & safest investment for long term leading to a stable demand.

Key Rating Weaknesses

Risk related to timely project implementation and funding tie-up at GKGC

GKGC is implementing a debt-funded project at a cost of ~NPR 4,799 Mn for setting up an apartment project at Maharajgunj, Kathmandu. The project is expected to be funded in a debt and equity ratio of 60:40 and is roped with A. One Builders for Civil, Machinery, Equipment and Plumbing (MEP) related work. The project faces implementation risk, given its scale and scope, uncertainty regarding technical output and efficiency. Funding risk continues as the company is yet to achieve a full financial closure. Any significant cost or time overrun may affect cash flow and debt protection matrices and therefore remains a key rating sensitivity factor.

Inherent project risks exist; yet to receive requisite approvals

As of mid- April 2022, ~25% of the total project cost had been incurred on account of land purchase and development, funded mainly through promoter's contribution. The project plan envisages commencement of commercial operation from FY25.26, with significant activities on the ground yet to be initiated. While the company has appointed Building& Civil construction and Mechanical, Equipment's and Plumbing (MEP) contractor for the projects, many of the activities are yet to achieve financial closure. Though the company has received a planning permit from Kathmandu Valley Development Authority (KVDA) other requisite approval from Kathmandu Metropolitan, Ministry of Forests and Environment (MoFE) for construction of the building are still pending which poses significant risk in terms of timely commencement of operations. Hence considering, the nascent stage of the project, it is exposed to execution risk which could further impact time and cost estimate.

Exposure to intense market competition constraining scalability

The real estate industry is highly fragmented in nature with the presence of a large number of organized and unorganized players spread across various regions. There are already well-established players in the market coming with projects at affordable prices, thereby giving competition to GKGC which is in the nascent stage of construction. Also, with nil projects in hand, revenue visibility of GKGC for medium term is low. Hence improvement in scale amid higher project flow will remain a key monitorable.

Cyclicality and seasonality associated with real estate industry and exposure to local demand-supply dynamic

The company is exposed to the real estate sector's cyclicality, which is directly linked with the present macroeconomic environment, interest rates and disposable income with individuals. The cyclical nature of the real estate sector may have a substantial impact on the company's operations and profit margins. Given the company's heavy reliance on debt, any volatility in the cash flows due to the cyclicality could pose challenges, especially during periods of weak demand.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Incorporated in September 2020, GKGC is a special propose vehicle that owns and proposes to construct a 128- keys luxury apartment- "Karma Residencies" located at Maharajgunj, Kathmandu. The property shall Tanka Prasad Marg, Baneshwor Height, Kathmandu, Nepal Contact No. +977-1-4483304, 4485906 Email: info@infomericsnepal.com, Website: www.infomericsnepal.com

include three wings A, B and C consisting of both 2.5 BHK and 3.5 BHK apartments. The commercial operation is expected to be in FY25/26.

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan (Proposed)	Long Term	2,000.00	IRN B
Fund Based Bank Facilities- Demand Loan	Short Term	1,000.00	IRN A4
Total Facilities		3,000.00	

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About Infomerics Credit Rating Nepal Limited:

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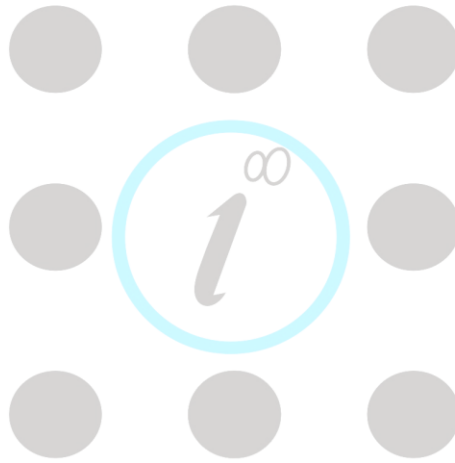
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facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics Nepal is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors



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