

PRESS RELEASE

GOOD KARMA GROUP OF COMPANIES PRIVATE LIMITED

January 2024

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	1,500.00 (reduced from 3,000)	IRN B+	Revised
Total	1,500.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has upgraded the long term rating to IRN B+ (Single B Plus) from IRN B/A4 (Single B/ A Four) to the long term bank facilities of NPR 1,500 Mn.

Detailed Rationale

The rating upgradation reflects the reduced funding risk, given that the project has already secured financing with a debt equity ratio of ~60:40. Additionally, expected support from customer advances further bolsters the project financial stability. As of mid- July 2023, Good Karma Group of Companies (GKGC) has successfully booked around NPR 323 Mn. Further, the rating continues to remain supported by the project's strategic location, the qualifications of the promoters, and their involvement in diverse sectors. Moreover, the healthy project bookings (~53 units booked). This, coupled with the expected improvement in the demand for housing/apartment projects in urban cities over long run, remains a positive to GKGC. However, these rating strengths remain constrained by the inherent risks of project implementation and project concentration, given the nascent stage of project development, reflected in the project completion of ~37% as of December 2023. Further, GKGC currently has a single project in hand, which further aggravates the risk. The ratings also note exposure to intense market competition and the cyclical & 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

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The order book of company has reached to ~NPR 323 Mn as of mid- July 2023, from the start of booking¹ in its first year, thereby ensuring steady cash flow over the period. Further, ~53 units have been successfully booked as of now.

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

GKGC is implementing a debt-funded project with a total cost of ~NPR 5,658 Mn, reflecting ~18% increment from the initial budget of NPR 4,799 Mn (as of last rating). This increase in the budgeted cost is primarily attributed to land purchase and development, along with an escalation in construction costs due to inflation. The project is expected to be funded in a debt and equity ratio of 40:60², and has roped with A. One Builders for Civil, Machinery, Equipment and Plumbing (MEP) related work. By December 2023, ~37% of the total project cost had been incurred, predominantly in land development and building and civil construction. The project plan envisages the commercial operations by the end of September 2025. However, the project faces implementation risk due to its scale and scope, as well as uncertainties regarding technical output and efficiency. Any significant cost or time overrun may impact cash flow and debt protection matrices, and therefore remains a key rating sensitivity factor.

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](#)

Past rating rationale:

Fresh bank loan rating assigned on August 2022

About the Company:

¹ Booking started on 18th July 2022

² Currently the project is being funded in a debt equity of 60:40, and this proportion is expected to dilute to ~40:60 with improvement in customer advance

Incorporated in September 2020, GKGC is a special propose vehicle that owns and proposes to construct a 162- keys luxury apartment- “Karma Residencies” located at Maharajgunj, Kathmandu. The property shall include three wings A, B and C consisting of both 2.5 BHK and 3.5 BHK apartments. The commercial operations are expected to commence by the end of September 2025.

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	1,500.00	IRN B+
Total Facilities		1,500.00	

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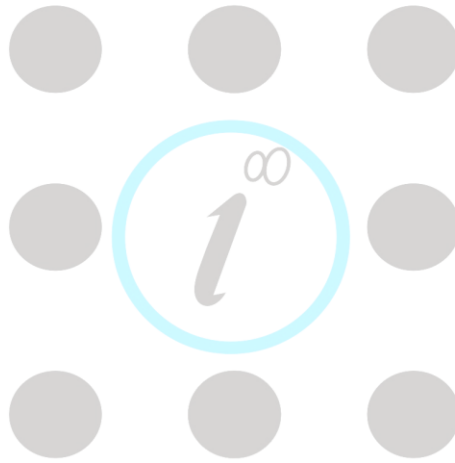
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