

New Front Housing

October 25, 2021

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities(i)	2.96 (Reduced from 9.03)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Long Term Bank Facilities (ii)	-	-	Withdrawn
Total Bank Facilities	2.96 (Rs. Two Crore and Ninety-Six Lakhs Only)		

Details of facilities in Annexure I

Detailed Rationale & Key Rating Drivers

The revision in rating of long term bank facility (i) of New Front Housing (NFH) takes in to account successful completion of Phase I and progress in sales in FY21 and YTD FY21 (April 01 to August 31, 2021) resulting in to pre-payment of term loan availed and substantial reduction in OD limit availed by the firm.

The ratings remain tempered by project execution risk associated with Phase II of the project which is at planning stage and competitive and cyclical real estate industry.

However, the above weaknesses are partially underpinned by extensive experience of the promoters with long track record of the firm and strategic location of the project.

CARE has withdrawn the rating assigned to the Bank facility (ii) of New Front Housing (NFH) with immediate effect, as the firm has repaid the term loan in full and there is no amount outstanding under the loan as on date.

Key Rating Sensitivities**Positive Factors - Factors that could lead to positive rating action/upgrade:**

- Successful completion of Phase II the project with in the envisaged cost and time parameters
- Better than envisaged pick-up in demand leading to higher sales realisations and timely receipt of customer advances

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Cost overrun by more than 20% of the envisaged cost along with significant delay in project completion
- Slower booking of units along with lower than envisaged sales realizations and delayed receipts of customer
- Any incremental borrowings, deteriorating its overall gearing ratio over 3.00x on a sustained basis
- An un-envisaged increase in scope of project that may lead to cost escalation and change in funding pattern for the project under execution

Detailed description of the key rating drivers:**Key Rating Weaknesses****Project risk associated with execution of Phase II of the project**

There has been change in the project cost of Phase I from Rs. 41.49 crore to Rs.59.93 crore. The cost overruns were majorly funded through promoter's infusion and partly through customer advances. The increased costs were incurred for FSI purchase for the project and overhead expenses. Also, there has been delay in execution of phase I of the project, initially the project was estimated to be completed by March 2020, however, the same was completed and has received the occupation certificate issued by Pune Mahanagarपालिका on November 20, 2020.

Furthermore, NFH is currently in the process of implementing Phase II of the project, which is in initial stage of planning and the funding pattern has also not been finalized. Further, in case of any delay in receipt of approvals might result in escalation in the overall project cost leading to change in funding pattern for the project.

Presence in competitive and cyclical real estate industry: The firm is exposed to the cyclicity associated with the real estate sector which has direct linkage with the general macroeconomic scenario, interest rates and level of disposable income available with individuals. In case of real estate companies, the profitability is highly dependent on property markets. A high interest rate scenario could discourage the consumers from borrowing to finance the real estate purchases and may depress the real estate market. The real estate industry in India is highly fragmented with most of the real estate developers having region-specific presence. NFH also faces competition from other real-estate projects in the area.

Key Rating Strengths

Successful Completion of Phase I of the project

The firm has successfully completed the project and has obtained Occupancy Certificate dated November 20, 2020 from Pune Mahanagarपालिका. Furthermore, as on August 31, 2021, the firm has sold the un-booked 12 units of the project (out of the 14 units un-booked considered at the time of last review) and the balance 2 units are pending on account of receipt of consideration from the banker. In addition to above, the entity is yet to allocate balance 7 units to MHADA (Maharashtra Housing and Area Development Authority) (out of the 21 un allocated at the time of our last review). The timely allocation of the flats to MHADA may further result in inflow of the receivables there from.

Long track record and experience of the promoters: NFH is a part of New Front Group (NFG) which is one of the established real estate groups in Pune. The group has been engaged in real estate business since past one and a half decade and has completed projects around 5.92 lsf. Also, the group has three ongoing projects with a total saleable area of around 4.33 lsf. The key partners in the group Mr. Mukund Deshpande and Mr. Pravin Ghadge have an average experience of over one decade in the real estate business.

Strategic location of the projects: NFH is currently developing a project namely 48 East Park at Kalepada, Hadapsar Pune which is very well connected to Pune Solapur Highway. The project is residential project with modern amenities targeting customers from the middle class and lower middle class. In addition, the project is situated in area with easy access to basic civic amenities such as schools, hospitals, colleges, malls, situated and has close proximity to Magarpatta city and Pune Solapur Highway.

Liquidity: Adequate

The liquidity position is of NFH is adequate marked by higher cushion in the form of pending consideration of sale from MHADA and other customers and repayment obligations (interest) and modest cash balance of Rs.0.81 crore as on March 31, 2021. Further, the average utilization of OD limit remained moderate at 59.51% with maximum utilization at 65.08% for the past twelve months ended July 31, 2021.

Analytical Approach: Standalone

Applicable criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[Criteria on real estate sector](#)

[Policy on Withdrawal of ratings](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Established in the year 2009, New Front Housing (NFH) is the SPV of New Front Group. The group has executed 14 projects of around 0.59 lsf till 2020. NFH was established with a view to execute the real estate project namely "48 East Park" situated in Hadapsar, Pune. The project comprises of two buildings namely East Park Phase I and East Park Phase II. Phase 1 comprise of 1 and 2 BHK flats totalling to 220 flats of 14 floors.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (P)
Total operating income	7.76	43.58
PBILDT	3.87	3.55
PAT	1.02	1.61
Overall gearing (times)	5.32	3.82
Interest coverage (times)	1.40	1.90

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Fund-based - LT-Bank Overdraft		-	-	Dec-2021	2.96	CARE BB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE B+; Stable (04-Sep-20)	1)CARE B; Stable; ISSUER NOT COOPERATING* (05-Mar-20)	1)CARE B+; Stable (02-Jan-19)
2	Fund-based - LT-Bank Overdraft	LT	2.96	CARE BB-; Stable	-	1)CARE B+; Stable (04-Sep-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities – Not applicable

Annexure 4: Complexity level of various facilities rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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