Kataria Construction Private Limited

March 29, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	0.73	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	1.77 (Reduced from 2.50)	CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable/ A Four)	Reaffirmed
Short Term Bank Facilities	5.00	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	**7.50 (Rs. Seven Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of Kataria Construction Private Limited (KCPL) continues to remain constrained by small scale of operations, residual project execution risk, marketing risk associated with unsold property, cyclicality and seasonality associated with real estate industry and exposure to local demand-supply dynamic, Inherent risk associated with Real Estate sector, and stretched liquidity position of the company. Further, the ratings, continue to derive comfort from experienced management.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability to increase collections/ realizations from its ongoing projects
- Timely realization of customer advances.

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

- Slowdown in collections/ sales momentum
- Any incremental borrowing leading to overall gearing above 1.50x on a sustained basis

Key Rating Weaknesses

Small scale of operations: The scale of operations of the company stood small marked by a total operating income and gross cash accruals of Rs.23.04 crore and Rs.1.27 crore respectively during FY21 (FY refers to the period April 01 to March 31) as against Rs. 18.99 crore and Rs. 1.17 crore during FY20.The improvement in Income from operation is due to sale of high value properties. Further, the net worth base improved marginally though remain moderate at Rs.17.02 crores as on March 31, 2021. During 11MFY21 (refers to the period April 01 to February 28, 2022), the company has achieved the total operating income of ~Rs.9 crores.

Residual project execution risk: Currently, the company is developing residential apartment projects in New Delhi having total saleable area of 0.18 lakh square feet (lsf). The company is in possession of the project land; and necessary permissions/approvals and necessary clearances regarding construction have already been obtained. The total cost of the projects is Rs 31.10 crore. This exposes the company towards residual project execution risk. Furthermore, the completion of the residual project is mainly linked to external funding. This in turn will affect the timely completion of the project.

Marketing risk associated with unsold property: The effective execution of ongoing projects and timely collection of advances of the flats to be developed under the projects will remain critical determinant for the credit profile of the company. Further, real estate sector has been witnessing muted housing demand in the recent past. Therefore, marketing risk associated with sale of outstanding inventory remains as a concern for KCPL in order to fund its residual construction cost.

Cyclicality and seasonality associated with real estate industry and exposure to local demand-supply dynamic: The company is exposed to the cyclicality associated with 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. This exposes these companies to the vagaries of 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.

Inherent risk associated with Real Estate sector: For Real Estate sector, with consumers becoming more discerning, ready-to-move-in homes will be the main demand drivers in the coming period as well. Developers will continue to focus on reducing their present inventory, before launching new projects. The developer's track record, quality of construction and delivery timelines,

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

will be crucial aspects that home buyers will consider, in their purchase decisions. With RERA in place, the investment environment is also expected to improve. The expected capital inflow would help the segment. Additionally, with the government providing benefits for affordable housing, including setting up of a dedicated fund, we can expect more private developers to get into this segment.
Moreover, SEBI has given its approval for the Real Estate Investment Trust (REIT) platform which will help in allowing all kinds of investors to invest in the Indian real estate market. Responding to an increasingly well-informed consumer base and, bearing in mind the aspect of globalisation, Indian real estate developers have shifted gears and accepted fresh challenges. The most marked change has been the shift from family-owned businesses to that of professionally managed ones. The growing flow of FDI into Indian real estate is encouraging increased transparency. Developers, to attract funding, have revamped their accounting and management systems to meet due diligence standards.

Key Rating Strength
Experienced management: Kataria Constructions Private Limited is being promoted by Mr. Sandeep Kataria and Mr. Pradeep Kataria Mr. Pradeep Kataria is a graduate by qualification and has an experience of more than two and half decades in real estate industry through his association with KCPL. Mr. Sandeep Kataria is a graduate by qualification and has an experience of more than two and half decades in real estate industry through his association with KCPL.

Liquidity analysis: Stretched
The liquidity position of the company remains stretched marked by tightly matched accruals vis-à-vis repayment obligations. Further, the average overdraft limit utilization remained 75% during past 12 months ended February 28, 2022. Further, the company has low cash and bank balance of Rs.0.44 crore as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Rating methodology for Real estate sector
Short Term Instruments

About the Company
New Delhi based Kataria construction private Limited (KCPL) incorporated in the year 1983 & is engaged in the construction of residential builder flats in New Delhi. The developer purchases the property and constructs the flats based on the guidelines from Municipal Corporation and as per the client requirements. As per the agreement with the landowner and profitability associated with each floor, the developer takes 1 or 2 units/floors from the total no. of floor constructed for the client.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	11MFY22*(UA)
Total operating income	18.99	23.04	9.00
PBILDT	4.04	3.81	NA
PAT	0.97	1.06	NA
Overall gearing (times)	1.35	1.43	NA
Interest coverage (times)	1.61	1.79	NA

A: Audited; UA: unaudited; NA: Not Available
**Refers to the period from April 1, 2021, to December 31, 2021.*

Status of non-cooperation with previous CRA: CRISIL has retained the rating of Kataria construction private Limited (KCPL) vide Press release dated July 19, 2021

Any other information: Not Applicable

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

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

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

Annexure-1: Details of Instruments / 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 - ST-Bank Overdraft		-	-	-	5.00	CARE A4
Fund-based/Non-fund-based-LT/ST		-	-	-	1.77	CARE BB-; Stable / CARE A4
Fund-based - LT-Term Loan		-	-	July 2024	0.73	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 - ST-Bank Overdraft	ST	5.00	CARE A4	1)CARE A4 (06-Apr-21)	-	1)CARE A4 (15-Jan-20)	1)CARE A4 (07-Jan-19)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	1.77	CARE BB-; Stable / CARE A4	1)CARE BB-; Stable / CARE A4 (06-Apr-21)	-	1)CARE BB-; Stable / CARE A4 (15-Jan-20)	1)CARE BB-; Stable / CARE A4 (07-Jan-19)
3	Fund-based - LT-Term Loan	LT	0.73	CARE BB-; Stable				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Available

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bank Overdraft	Simple
3	Fund-based/Non-fund-based-LT/ST	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 Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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