

February 06, 2023

Keystone Realtors Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loans	500.00	[ICRA]A- (Stable); assigned
Issuer Rating	0.00	[ICRA]A- (Stable); assigned
Total	500.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating of Keystone Realtors Limited (KRL) favorably factors in the strong operational track record and brand strength of the Rustomjee Group ('Group') in Mumbai Metropolitan Region (MMR) residential real estate market, underpinned by over 20 million square feet (mn sq ft) of deliveries till date and the strong saleability of the projects. The group follows an asset light model by entering into joint development or redevelopment agreements to reduce its capital investments in land. On a consolidated basis, excluding the DM projects¹, in H1 FY2023, the company reported bookings of Rs. 618 crore and collections of Rs. 625 crore in H1 FY2023, an increase of 62% and 40%, respectively on a YoY basis. ICRA expects collections to remain healthy at over Rs. 1,500 crore supported by healthy past sales for the ongoing projects and execution progress. The future sales visibility is supported by a strong pipeline of upcoming projects. As on October 31, 2022, the pipeline for future project launches stood at ~27 mn sq ft of which ~6 mn sq ft is planned to be launched in FY2023 and FY2024 compared to ongoing portfolio of 6 mn sq ft. The rating also factors in favourable debt reduction over the recent quarters led by equity issuances (Rs. 170 crore in Q1 FY2023 and Rs. 560 crore through IPO in Q3 FY2023). ICRA notes that the company utilised Rs. 352 crore of the net IPO² proceeds for bank debt reduction and as on March 2023, the Total external debt for the Group's portfolio is expected to be around Rs. 600 crore. ICRA expects the total debt/CFO to remain around 3 times as on March 2024, supported by strong sales and collections resulting in healthy increase in cash flow from operations.

The rating, however, is constrained by the execution and market risks resulting from the large expansion plans for maintaining the growth momentum and strengthening its market presence in existing as well as new micro-markets in MMR. As on October 31, 2022, the group had a future project pipeline of ~27 mn sq ft, to be launched over the medium term. Timely launch of these projects, along with healthy sales and construction progress would be critical to support the collections. The funding risk for the company remains moderate as receivables from the sold area cover 52% of the balance construction cost of the ongoing projects and debt outstanding as of October 31, 2022. The rating is also constrained by geographically concentrated portfolio with the group's completed, ongoing as well as future projects being located in MMR. However, the sizeable contribution of MMR in Indian residential estate market and the Group's healthy share in the market given its presence across product segments and price points, partly mitigate the risk. The company remains exposed to the cyclicity in the residential real estate segment.

The Stable outlook on the rating reflects ICRA's belief that the company will continue to benefit from its established brand as well as track record of operations and maintain healthy sales and collections, while reducing the leverage.

¹ DM Projects represent projects where KRL is acting as a development manager

² KRL raised Rs. 560 crore from IPO of which Rs. 21 crore was utilised for IPO expenses. Out of the net IPO proceeds of Rs. 539 crore, Rs. 352 crore has been utilised for pre-payment of debt.

Key rating drivers and their description

Credit strengths

Strong operational track record and brand strength in real estate sector of the Rustomjee Group in MMR region – The Rustomjee Group has a strong execution track record, which includes development of luxury residential real estate, affordable housing, shopping mall, schools and commercial spaces. Its execution track record is supported by the completed construction of over 20 mn sq. ft. area, under-construction projects comprising a saleable area of 6 mn. Sq. ft. and forthcoming developments of 27 mn sq ft in pipeline. The group follows an asset light model by entering into joint development or redevelopment agreements to reduce its capital investments in land.

Healthy sales track record – The Group has a well-recognized brand in MMR and enjoys market leadership position in the catered micro-markets. On a consolidated basis, excluding the DM projects, the company reported sales bookings and collections of Rs. 1,666 crore and Rs 1,104 crore in FY2022, an increase of 14% and -3%, respectively on a YoY basis. The momentum has continued in H1 FY2023, with sales bookings of Rs. 618 crore and collections of Rs. 625 crore in H1 FY2023, an increase of 62% and 40%, respectively on a YoY basis. Across the ongoing projects, the company reported healthy sales and the portfolio level years-to-sell is around 1 year. ICRA expects collections to remain healthy at over Rs. 1,500 crore supported by healthy past sales for the ongoing projects and execution progress. The future sales visibility is supported by a strong pipeline of upcoming projects.

Reduction in debt led by recent equity issuances –KRL raised Rs. 170 crore through equity issuance in Q1 FY2023 followed by Rs. 560 crore raised through IPO in November 2022. As on October 31, 2022, the consolidated external debt stood at Rs. 971 crore (including bank debt and NCDs). The company utilised Rs. 352 crore of the net IPO³ proceeds for bank debt reduction and as on March 2023, the Total external debt for the Group's portfolio is expected to be around Rs. 600 crore. The remaining proceeds from IPO will be used for funding the future growth plans of the group. Besides the external debt, the company had unsecured loans/ inter corporate deposits amounting to Rs. 552 crore as on June 30, 2022 which are subordinated to bank debt and mainly infused by either project specific partners or promoters to fund the respective project acquisition. ICRA notes that with the proposed merger (scheme of arrangement for merger is already filled) of one of the JV companies Toccata Realtors Private Limited with KRL, the unsecured intercorporate debt is expected to reduce by Rs. 310 crore. After factoring in the expected debt reduction and healthy increase in cash flow from operations, ICRA expects the total debt/CFO to remain below 3 times in FY2024.

Credit challenges

Exposure to execution and market risks given the large expansion plans of the Group– The group has significant plans of expanding its ongoing portfolio in order to maintain the growth momentum and strengthen its market presence in existing as well as new micro-markets in MMR. As on June 30, 2022, the pipeline for future project launches stood at ~27 mn sq ft of which ~6 mn sq ft is planned to be launched in FY2023 and FY2024 compared ongoing portfolio of 6 mn sq ft. The sizeable new launches expose the company to execution and market risks. Timely launch along with healthy sales and construction progress would be critical to support the collection and hence, the generation of operational cash flows. The funding risk for the company remains moderate as receivables from the sold area cover 52% of the balance construction cost of the ongoing projects and debt outstanding outstanding as of October 31, 2022.

Geographically concentrated portfolio– The group's completed, ongoing as well as future projects are located in MMR. However, the risk is partly mitigated by sizeable contribution of MMR in Indian residential estate market and the Group's market share. Further, the Group's presence across product segments and price points further mitigates the risk.

Susceptibility to cyclicity and regulatory risks in the real estate sector – The real estate sector is cyclical and has a highly fragmented market structure because of the presence of a large number of regional players. In addition, being a cyclical

³ KRL raised Rs. 560 crore from IPO of which Rs. 21 crore was utilised for IPO expenses. Out of the net IPO proceeds of Rs. 539 crore, Rs. 352 crore has been utilised for pre-payment of debt.

industry, the real estate sector is highly dependent on macro-economic factors, which in turn exposes the company's sales to any downturn in demand.

Liquidity position: Adequate

As on December 31, 2022, KRL reported unencumbered cash and liquid investments of over Rs 400 crore as on, supported by net proceeds of Rs. 539 crore through recently concluded IPO in November 2022. It utilised Rs 352 crore of IPO proceeds towards prepayment of debt, while remaining will be utilized for ongoing/future projects. The company's consolidated scheduled debt repayment in H2 FY2023 and FY2024 are Rs. 11 crore and Rs. 115 crore respectively, which are expected to be comfortably met through cash flow from operations.

Rating Sensitivities

Positive factors – The rating may be upgraded if the company is able to demonstrate a significant increase in sales and collections resulting in sustained healthy growth in operating cash flows, while improving leverage levels.

Negative factors – The rating may be downgraded if there are significant delays in project execution and in case of subdued sales and collections adversely impacting the operating cash flows, and/or significant increase in indebtedness resulting in Total debt/CFO of more than 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate entities Rating approach for consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated KRL along with its operational subsidiaries, JVs (including Kapstone Constructions Private Limited) and associate entities on account of the strong business and financial linkages between these entities which are all enlisted in Annexure-II.

About the Company

Established in 1996, Keystone Realtors Limited is a flagship entity of the Rustomjee Group. KRL was listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) on November 24, 2022. KRL and its subsidiaries undertake residential and mixed-use projects in Mumbai Metropolitan Region (MMR) under the Rustomjee brand. The Rustomjee Group has a strong execution track record, which includes development of luxury residential real estate, affordable housing, shopping mall, schools and commercial spaces. Its execution track record is supported by the completed construction of over 20 mn sq. ft. area, under-construction projects comprising a saleable area of 6 mn. sq. ft. and forthcoming developments of 27 mn sq ft in pipeline.

Key financial indicators (audited)

KRL- Consolidated	FY2021	FY2022
Operating income (Rs. crore)	851.5	1,270.2
PAT (Rs. crore)	-37.5	137.9
OPBDIT/OI	16.8%	14.2%
PAT/OI	-4.4%	10.9%
Total outside liabilities/Tangible net worth (times)	3.4	3.0
Total debt/OPBDIT (times)	8.5	8.6
Interest coverage (times)	1.0	7.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
nm= not meaningful as the rentals have commenced in FY2023; all ratios as per ICRA's calculations

Source: Company's audited financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of Rating History for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Feb 06, 2023	-	-	-
1	Term loan-I	Long-term	4.10	4.10	[ICRA]A-(Stable)	-	-
2	Term loan-II	Long-term	0.63	0.63	[ICRA]A-(Stable)	-	-
3	Term loan-III	Long-term	97.00	97.00	[ICRA]A-(Stable)	-	-
4	Term loan-IV	Long-term	23.68	23.68	[ICRA]A-(Stable)	-	-
5	Term loan-V	Long-term	40.47	40.47	[ICRA]A-(Stable)	-	-
6	Proposed Term Loan	Long-Term	165.88	165.88	[ICRA]A-(Stable)	-	-
7	Issuer Rating	Long-term	-	-	[ICRA]A-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Issuer Rating	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan-I	FY2022	NA	FY2024	4.10	[ICRA]A- (Stable)
NA	Term loan-II	FY2020	NA	FY2024	0.63	[ICRA]A- (Stable)
NA	Term loan-III	FY2023	NA	FY2025	97.00	[ICRA]A- (Stable)
NA	Term loan-IV	FY2019	NA	FY2024	23.68	[ICRA]A- (Stable)
NA	Term loan-V	FY2021	NA	FY2025	40.47	[ICRA]A- (Stable)
NA	Proposed Term Loan	-	-	-	165.88	[ICRA]A- (Stable)
NA	Issuer Rating	-	-	-	-	[ICRA]A- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	KRL Ownership	Consolidation Approach
Keystone Realtors Limited	-	Full Consolidation
Rustomjee Realty Private Limited	90%	Full Consolidation
Keystone Infrastructure Private Limited	100%	Full Consolidation
Amaze Builders Private Limited	100%	Full Consolidation
Keybloom Realty Private Limited	100%	Full Consolidation
Credence Property Developers Private Limited	100%	Full Consolidation
Crest Property Solutions Private Limited	51%	Full Consolidation
Dynasty Infrabuilders Private Limited	100%	Full Consolidation
Enticier Realtors Private Limited	100%	Full Consolidation
Firestone Developers Private Limited	73%	Full Consolidation
Flagranti Realtors Private Limited	100%	Full Consolidation
Imperial Infradevelopers Private Limited	100%	Full Consolidation
Intact Builders Private Limited	100%	Full Consolidation
Kingmaker Developers Private Limited	100%	Full Consolidation
Luceat Realtors Private Limited	58%	Full Consolidation
Navabhyudaya Nagar Development Private Limited	100%	Full Consolidation
Xcellent Realty Private Limited	100%	Full Consolidation
Keysky Realtors Private Limited	100%	Full Consolidation
Ferrum Realtors Private Limited	100%	Full Consolidation
Keyblue Realtors Private Limited	100%	Full Consolidation
Keyheights Realtors Private Limited	100%	Full Consolidation
Riverstone Educational Academy Private Limited	100%	Full Consolidation
Keyspace Realtors Private Limited	100%	Full Consolidation
Key Galaxy Realtors Private Limited	100%	Full Consolidation
Key Interiors Realtors Private Limited	100%	Full Consolidation
Premium Build Tech LLP	75%	Full Consolidation
Rebus Realtors LLP	100%	Full Consolidation
Kapstar Realty LLP	99%	Full Consolidation

Company Name	KRL Ownership	Consolidation Approach
Kapstone Constructions Private Limited	51%	Full Consolidation

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