ICRA

May 31, 2024

Keystone Realtors Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term fund-based – Term loans	1,000.00	1,000.00	[ICRA]A (Positive); Upgraded from [ICRA]A- (Positive)
Issuer rating	-	-	[ICRA]A (Positive); Upgraded from [ICRA]A- (Positive)
Total	**1,000.00**	**1,000.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade and Positive outlook for Keystone Realtors Limited (KRL) factor in the recent equity raise via a qualified institutional placement (QIP), which is expected to bolster the launch pipeline and scale of operations, along with the healthy operating performance in FY2024, which is expected to sustain in FY2025. It has recently raised ~Rs. 800 crore via QIP, of which ~Rs. 110 crore is to be used for debt reduction and the remaining is to be deployed for funding the future growth plans. KRL, on a consolidated basis, has reported pre-sales of Rs. 2,266 crore and collections of Rs. 2,203 crore (including DM[1] project and Urbania, which is a 51% JV entity) in FY2024, marking an increase of 41% and 18%, respectively on a YoY basis. ICRA expects pre-sales to increase by around 27-31% in FY2025 and is likely to report strong growth in FY2026 as well supported by continued end-user demand, healthy sales and execution progress for the ongoing projects and a strong launch pipeline. ICRA expects the collections to increase by 20-22% in FY2025. The company's total consolidated debt[2] stood at Rs. 1,186 crore as of March 2024 (PY: Rs. 1,155 crore). KRL's leverage as measured by total debt/cash flows from operations (CFO) improved to 1.5 times as of March 2024 (PY: 4.1 times), supported by higher cash flow from operations. Given the large launch pipeline and future growth plans, its debt levels are projected to increase from the current levels over the medium term. Nonetheless, ICRA expects the total debt/CFO to remain adequate at around 2.3-2.5 times during FY2025 - FY2026. ICRA is given to understand that part of the funding can also be raised through an AIF, which has been formed exclusively to fund projects developed by KRL. The rating continues to favourably factor in the strong operational track record and brand strength of the Rustomjee Group in the Mumbai Metropolitan Region (MMR) residential real estate market, underpinned by over 23 million square feet (msf) of deliveries till date and the strong saleability of the projects. The Group follows an asset light model by entering into joint development or re-development agreements to reduce its capital investments in land.

The rating, however, is constrained by the execution and market risks arising from the large expansion plans for maintaining the growth momentum and strengthening its market presence in the existing as well as new micromarkets in MMR. As of March 2024, the Group had a future project pipeline of 27+ msf, to be launched in the medium term. Timely launch of these projects, along with healthy sales and construction progress, would be critical to support the cash flows. The funding risk for the company remains moderate as receivables from the sold area cover 47% of the balance costs and debt outstanding for the ongoing projects as on March 31, 2024.The rating also factors in the elevated levels of Debt/NWC[3] of 0.99 as of March 2024. The rating is constrained by the geographically concentrated portfolio with the Group's completed, ongoing as well as future projects being located in MMR. However, the large size of the MMR residential real estate market and the Group's healthy share in MMR, given its presence across product segments and price points, partly mitigates the risk. The company remains exposed to the cyclicality in the residential real estate segment.

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[1] *DM Project represents projects where KRL is acting as a development manager.*
[2] *Including the unsecured loans of Rs. 330 crore and construction finance loan in 51% JV entity i.e., Kapstone Construction Private Limited.*
[3] *Debt to Net working capital (excluding land assets) indicates the cost incurred on the projects to the extent not financed by customer advances.*

Key rating drivers and their description

Credit strengths

Recent equity raise to support increase in scale; expected sustained strong operating performance in FY2025 – KRL has recently raised ~Rs. 800 crore via QIP, of which ~Rs. 110 crore is to be used for debt reduction and the remaining is to be deployed for funding the future growth plans. KRL, on a consolidated basis, has reported pre-sales of Rs. 2,266 crore and collections of Rs. 2,203 crore in FY2024, marking an increase of 41% and 18%, respectively, on a YoY basis. ICRA expects pre-sales to increase by around 27-31% in FY2025 and is likely to report strong growth in FY2026 as well supported by continued end-user demand, healthy sales and execution progress for the ongoing projects and a strong launch pipeline. ICRA expects the collections to increase by 20-22% in FY2025. Across the ongoing projects, the company reported healthy sales and the portfolio level years-to-sell is around 1.5 years.

Adequate leverage position – The company's total consolidated debt stood at Rs. 1,186 crore as of March 2024 (PY: Rs. 1,155 crore). KRL's leverage as measured by total debt/cash flows from operations (CFO) improved to 1.5 times as of March 2024 (PY: 4.1 times), supported by higher cash flow from operations. ICRA expects the leverage to be around 2.3-2.5 times during FY2025-FY2026 period. ICRA is given to understand that part of the funding can also be raised through an AIF, which has been formed exclusively to fund projects developed by KRL.

Strong operational track record and brand strength in MMR – The Rustomjee Group has a strong execution track record, which includes development of luxury residential real estate, affordable housing, townships, shopping mall, schools and commercial spaces. Its execution track record is supported by the completed construction of over 23 msf area, under-construction projects comprising a saleable area of ~4.3 msf and forthcoming developments of 27+ msf in pipeline as on March 31, 2024. The Group follows an asset light model by entering into joint development or re-development agreements to reduce its capital investments in land.

Credit challenges

Exposure to execution and market risks due to large expansion plans – The company has significant plans of expanding its ongoing portfolio to maintain the growth momentum and strengthen its market presence in the existing as well as new micromarkets in MMR. As of March 2024, the pipeline for future project launches stood at 27+ msf, of which multiple projects are planned to be launched in FY2025 against the ongoing portfolio of ~4.3 msf. The sizeable new launches exposes KRL to execution and market risks. Timely launch, along with healthy sales and construction progress, would be critical to support the cash flows. The funding risk for the company remains moderate as receivables from the sold area cover 47% of the balance cost and debt outstanding for the ongoing projects as on March 31, 2024.

Geographically concentrated portfolio – The Group's completed, ongoing as well as future projects are located in MMR. However, the risk is partly mitigated by the large size of the MMR residential real 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 cyclicality in the real estate sector – Being a cyclical industry, the real estate business is highly dependent on macro-economic factors, which renders the company's sales vulnerable to any downturn in demand.

Liquidity position: Adequate

The company's liquidity is supported by free cash and liquid balances of Rs. 390 crore as on March 31, 2024. ICRA expects KRL's liquidity position to remain adequate, driven by healthy cash flow from operations against the estimated consolidated repayments of around Rs. 405 crore in FY2025. It has raised funds of Rs. 800 crore via QIP in May 2024, which would be largely utilised for future growth purposes.

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 a sustained healthy growth in operating cash flows, while improving leverage levels.

Negative factors – The rating may be downgraded in case of subdued sales and collections adversely impacting the operating cash flows, significant delays in project execution and and/or significant increase in indebtedness resulting in Total debt/CFO of more than 3.0 times on a sustained basis.

Environmental and social risks

The real estate segment is exposed to risks of increasing environmental norms impacting operating costs, including higher cost of compliance with pollution control regulations. Environmental clearances are required for commencement of projects and lack of timely approvals can affect its business operations. The impact of the changing environmental regulations on licences taken for property development could create credit risks. In terms of social risks, the trend post-pandemic has been favourable to residential real estate developers as demand for quality home with good social infrastructure has increased. Further, rapid urbanisation and a high proportion of workforce population (aged 25-44 years) will support long-term demand for the real estate sector in India.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty- Commercial/Residential/Retail
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of KRL, along with its operational subsidiaries, JVs 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. It 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, townships, affordable housing, shopping mall, schools and commercial spaces. Its execution track record is supported by the completed construction of over 23 msf area, under-construction projects comprising a saleable area of ~4.3 msf and forthcoming developments of 27+ msf in pipeline as of March 2024.

Key financial indicators (audited)

KRL Consolidated	FY2023	FY2024
Operating income (Rs. crore)	687	2,223
PAT (Rs. crore)	74	88
OPBDIT/OI (%)	16%	5%
PAT/OI (%)	11%	4%
Total outside liabilities/Tangible net worth (times)	1.7	2.3
Total debt/OPBDIT (times)	9.5	9.1
Interest coverage (times)	3.0	3.0

Source: Company, ICRA Research, PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2024 (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					May 31, 2024	Feb 27, 2024	Feb 06, 2023	-
1	**Term loans**	Long-term	1,000.00	622.8	**[ICRA]A (Positive)**	**[ICRA]A- (Positive)**	**[ICRA]A- (Stable)**	-
2	**Issuer rating**	Long-term	-	--	**[ICRA]A (Positive)**	**[ICRA]A- (Positive)**	**[ICRA]A- (Stable)**	-

Complexity level of the rated instrument

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 analyzing 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	FY2025	4.10	[ICRA]A (Positive)
NA	Term loan-II	FY2021	NA	FY2026	31.15	[ICRA]A (Positive)
NA	Term loan-III*	FY2024	NA	FY2028	249.00	[ICRA]A (Positive)
NA	Term loan-IV	FY2024	NA	FY2028	172.00	[ICRA]A (Positive)
NA	Term loan-V	FY2024	NA	FY2028	84.00	[ICRA]A (Positive)
NA	Term loan-VI	FY2024	NA	FY2028	112.28	[ICRA]A (Positive)
NA	Term loan-VII	FY2024	NA	FY2028	56.14	[ICRA]A (Positive)
NA	Term loan-VIII	FY2024	NA	FY2028	32.08	[ICRA]A (Positive)
NA	Proposed term loan	-	NA	-	259.25	[ICRA]A (Positive)
NA	Issuer rating	-	NA	-	-	[ICRA]A (Positive)

*Source: Company *Includes sublimit of Rs. 100 crore of OD/BG*

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
Rustomjee Realty Private Limited	100%	Full Consolidation
Real Gem Buildtech Private Limited	100%	Full Consolidation
Keystone Infrastructure Private Limited	100%	Full Consolidation
Luceat Realtors Private Limited	58%	Full Consolidation
Credence Property Development Private Limited	100%	Full Consolidation
Imperial Infradevelopers Private Limited	100%	Full Consolidation
Crest Property Solutions Private Limited	51%	Full Consolidation
Dynasty Infrabuilders Private Limited	100%	Full Consolidation
Key Interiors Realtors Private Limited	100%	Full Consolidation
Amaze Builders Private Limited	100%	Full Consolidation
Firestone Developers Private Limited	73%	Full Consolidation
Flagranti Realtors Private Limited	100%	Full Consolidation
Intact Builders Private Limited	100%	Full Consolidation
Key Galaxy Realtors Private Limited	100%	Full Consolidation
Keyblue Realtors Private Limited	100%	Full Consolidation
Keysky Realtors Private Limited	100%	Full Consolidation
Keyspace Realtors Private Limited	90%	Full Consolidation
Navabhyudaya Nagar Development Private Limited	100%	Full Consolidation
Nouveau Developers Private Limited	73%	Full Consolidation
Riverstone Educational Academy Private Limited	100%	Full Consolidation
Mt K Kapital Private Limited	84%	Full Consolidation
Xcellent Realty Private Limited	100%	Full Consolidation
Key Green Realtors Private Limited	100%	Full Consolidation
Keysteps Realtors Private Limited	100%	Full Consolidation

Company Name	KRL Ownership	Consolidation Approach
Enticer Realtors Private Limited	100%	Full Consolidation
Ferrum Realtors Private Limited	100%	Full Consolidation
Mirabile Realtors Private Limited	100%	Full Consolidation
Premium Build Tech LLP	75%	Full Consolidation
Kapstar Realty LLP	99%	Full Consolidation
Kingmaker Developers Private Limited	100%	Full Consolidation
Keybloom Realtors Private Limited	100%	Full Consolidation
Keyheights Realtors Private Limited	100%	Full Consolidation
Keymarvel Realtors Private Limited	100%	Full Consolidation
Keymeadows Realtors Private Limited	100%	Full Consolidation
Keymont Realtors Private Limited	51%	Full Consolidation
Keyorbit Realtors Private Limited	90%	Full Consolidation
Keyvihar Realtors Private Limited	100%	Full Consolidation
Oceanhomes Realtors Private Limited	100%	Full Consolidation
Rebus Realtors LLP	99.99%	Full Consolidation
Keymajestic Realtors Private Limited	100%	Full Consolidation
Keyace Realtors Private Limited	100%	Full Consolidation
Rustomjee Seaview Realtors Private Limited	100%	Full Consolidation
Kapstone Constructions Private Limited	51%	Full Consolidation
Key Fortune Realtors Private Limited	100%	Full Consolidation

Source: Company; FY2024 Financials; ICRA Research

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 6939 6427
anupama.reddy@icraindia.com

Tushar Bharambe
+91 22 6169 3347
tushar.bharambe@icraindia.com

Abhilash Sirsikar
+91 22 6169 3379
abhilash.sirsikar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches