

June 13, 2023

Skyline Foundations and Structures Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Overdraft	15.00	15.00	[ICRA]BBB+ (Stable); reaffirmed
Total	15.00	15.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Skyline Foundations and Structures Private Limited (SFSPL) considers the established position of the company in the Trivandrum and Cochin residential real estate markets with a track record of more than three decades. The rating derives comfort from the company's negligible reliance on external debt as it has a strong net worth base and has consistently achieved healthy customer advances for most of its projects. As a result, the financial metrics including its leverage and debt coverage indicators remain healthy. The rating continues to factor in healthy sales and collections in the ongoing and recently launched projects in FY2023, which is expected to continue in FY2024, supported by the recent and upcoming launches. The cash flow adequacy¹ of the company remains adequate at around 80% as on March 31, 2023. Further, SFSPL's liquidity remains robust on a sustained basis with customer advances adequately meeting construction spend and available free cash and bank balances standing at ~Rs. 157.0 crore as on May 30, 2023.

The rating is, however, constrained by the company's modest scale of operations at present, with eight ongoing projects at a total saleable area of 0.94 million square feet (msf). Further, the company is exposed to geographical concentration risk as the ongoing development is largely limited to the Kerala market. The rating considers the company's exposure to moderate execution risk. Of its eight ongoing projects, SFS Rhythm and SFS Bellagio are in their initial stages of construction as reflected by their financial progress of 7% and 14%, respectively, as on March 31, 2023, resulting in moderate execution risk. While the sales response to the new launches has been encouraging, any decline in demand trends may adversely impact the cash flow position considering the high pending costs to be incurred on such projects.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the company will continue to benefit from its established brand image, healthy execution track record and strong liquidity position.

Key rating drivers and their description

Credit strengths

Established position with long track record – SFSPL is one of the largest real estate developers in the Trivandrum and Cochin markets with a track record of more than three decades. The company is present in other cities/towns of Kerala such as Guruvayoor and Kottayam. It has developed and sold around 72 projects, encompassing 6.4 msf of built-up area.

Healthy sales and collections in ongoing projects – The company sustained healthy sales and collections in its ongoing and recently launched projects in FY2023, same as in FY2022. The sales and collections are expected to be healthy in FY2024, supported by the recent launches (SFS Bellagio and SFS Rhythm), and upcoming launches (SFS Rock Mount, Kuravankonam project and Whispering Hills). The cash flow adequacy of the company remains adequate at around 80% as on March 31, 2023.

¹ Cash flow adequacy = Receivables/ (pending cost + debt outstanding)

Strong leverage and coverage metrics due to low debt levels – The total debt of the company stood low at around Rs. 2.7 crore as on December 31, 2022, as most of the projects were funded by customer advances. SFSPL is a zero net debt company, with a high net worth and healthy free cash and fixed deposits, resulting in strong leverage and debt coverage metrics. As on May 30, 2023, it had free cash and bank balances of Rs. 157 crore, apart from unutilised overdraft limits of Rs. 21.0 crore.

Credit challenges

Moderate operating scale – The company's current operating scale is limited to eight ongoing projects in the Trivandrum and Cochin markets with a combined saleable area of 0.9 msf, resulting in a moderate scale of operations. The company's operating income has been in the range of Rs. 140-170 crore over the last few years.

Moderate execution risk for recently launched projects – The company is currently executing multiple residential projects, of which SFS Bellagio and SFS Rhythm were recently launched in December 2022 and April 2023, respectively, and are in their initial stages of construction, as reflected by financial progress of 7% and 14%, respectively, indicating moderate execution risk. While the sales response to the new launches has been encouraging, any decline in demand trends may adversely impact the cash flow position considering the high pending costs to be incurred on such projects.

Exposed to geographical concentration risk – The company is exposed to geographical concentration risk as the ongoing development is largely limited to Kerala. Cyclicalities in the real estate industry can expose the company to any sharp changes in the underlying demand trend in the markets where it operates.

Liquidity position: Strong

The company's liquidity is strong with cash and fixed deposits of Rs. 157.2 crore as on May 30, 2023. It also has an unutilised overdraft account of around Rs. 21.0 crore. SFSPL's liquidity is also backed by healthy collections. Further, it has not taken any project-specific debt in the past. With most of its projects receiving healthy customer advances, the company does not have any repayments in the near to medium term.

Rating sensitivities

Positive factors – The rating may be upgraded if there is significant increase in scale of operations, healthy sales and collections resulting in healthy net operating cash flows while maintaining strong liquidity, leverage, and coverage metrics on a sustained basis.

Negative Factors – Downward pressure on the rating could emerge in case of subdued sales and/or collections, or if any significant delay in completion of the ongoing projects resulting in weakening of the company's liquidity position or material increase in leverage on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for real estate entities
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Skyline Foundations and Structures Private Limited was incorporated in 2004 by the brothers, Mr. K. Lava and Mr. K. Srikant. SFSPL is one of the largest residential real estate developers in the Kerala market. It has developed and sold 72 real estate projects with an overall development of 6.4 msq. In addition, the company has eight ongoing real estate projects comprising 0.9 msf of area.

Key financial indicators

	FY2021	FY2022	9MFY2023
	Audited	Audited	Provisional
Operating income	167.8	146.2	148.5
PAT	46.9	42.4	31.6
OPBDIT/OI	33.8%	34.9%	23.6%
PAT/OI	28.0%	29.0%	21.3%
Total outside liabilities/Tangible net worth (times)	0.8	0.7	0.5
Total debt/OPBDIT (times)	0.1	0.0	0.1
Interest coverage (times)	155.6	146.1	224.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore.

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				June 13, 2023	Apr 28, 2022	-	Jan 29, 2021
1 Fund-based-Overdraft	Long term	15.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Overdraft	Simple

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	Fund-based-Overdraft	-	-	-	15.0	[ICRA]BBB+ (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 – Not Applicable

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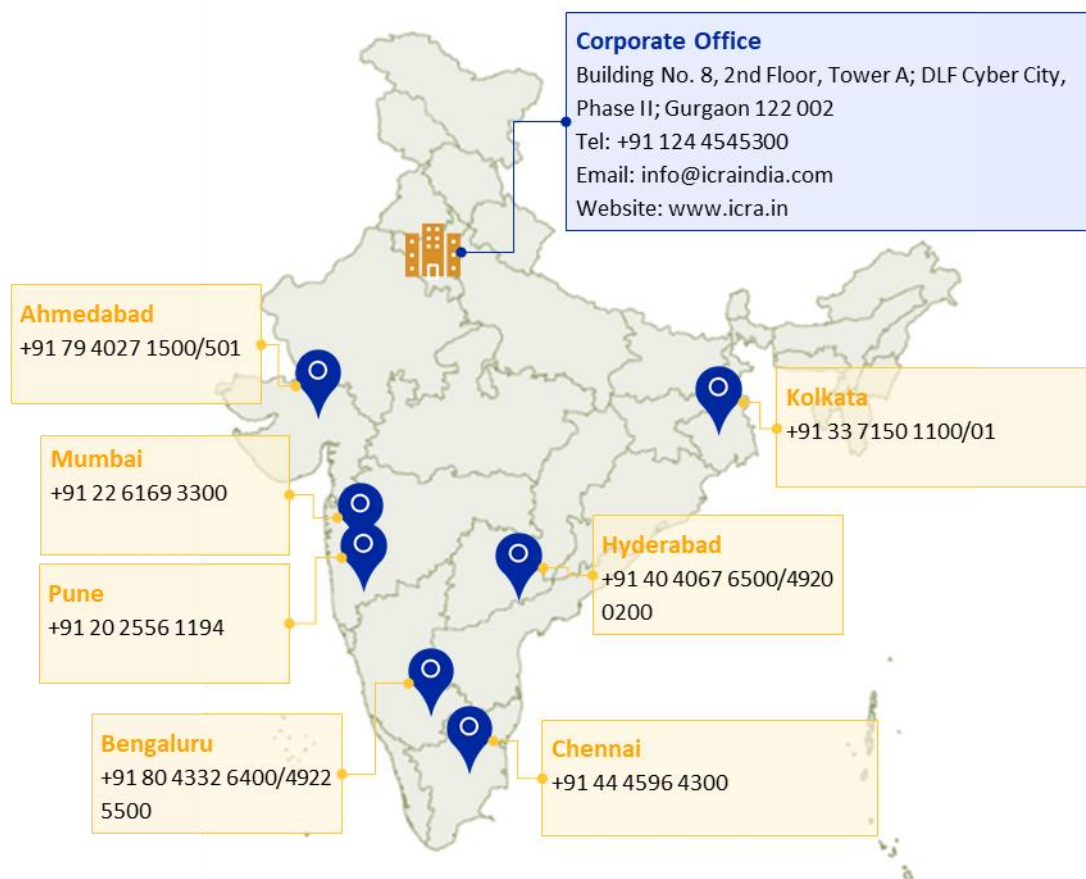


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