

June 23, 2023

Provence Developers 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 – Term loan	50.00	50.00	[ICRA] BBB- (Stable); reaffirmed
Total	50.00	50.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Provence Developers Private Limited (PDPL) reflects the established track record of PDPL's promoter group in the residential real estate sector. The company is a part of Delhi-NCR based SKA Group, which has developed around 4 million square feet (msf) of residential projects in Delhi-NCR. The company has demonstrated healthy sales velocity with around 60% of the total saleable area of 0.8 million square feet sold till May 2023 leading to cash flow visibility from the project. The rating further derives comfort from healthy leverage position with nil external debt outstanding as of May 2023 which is expected to continue in FY2024. The cash flow adequacy ratio is comfortable at 85% (ratio of receivables from the sold area to the pending cost and debt outstanding) as on May 2023. Moreover, the company was able to undertake multiple price revisions resulting in improvement in the project's profitability.

The rating is, however, constrained by the company's exposure to high geographical and project concentration risks due to dependance on a single residential project in Noida, Uttar Pradesh. Given the highly competitive intensity in the Noida market, the company remains exposed to market risk for the unsold area. Further, the company is yet to incur ~42% of the project cost leading to moderate execution risk. The rating remains constrained by the cyclical nature of the industry which in turn renders the company's sales vulnerable to any downturn in demand and competition within the region from various established developers.

The stable outlook on the rating of PDPL reflects ICRA's opinion that the company will be able to complete the project without any material time and cost overruns and is expected to generate healthy surplus of the project.

Key rating drivers and their description

Credit strengths

Extensive promoter experience with long and successful track record in the real estate market - The long and established track record of the promoters in the real estate business in the NCR region has supported PDPL's market position. The SKA Group has successfully developed around 4 million square feet (mnsft) of residential projects in Delhi-NCR.

Expected healthy surplus from the project – The company is expected to generate healthy surplus from the project as it has demonstrated healthy sales velocity with around 60% of the total saleable area of 0.8 million square feet (msf) sold till May 2023 leading to cash flow visibility from the project. Further, the company was able to undertake multiple price revisions resulting in improvement in the project's profitability.

Healthy leverage and coverage indicators – The leverage position of the company remains healthy with nil external debt outstanding as of May 2023 which is expected to continue in FY2024. Further, on account of healthy sales velocity from the project, cash flow adequacy ratio remains comfortable at 85% (ratio of receivables from the sold area to the pending cost and debt outstanding) as on May 2023.

Credit challenges

Intermediate stage of project and exposure to execution– The company remains exposed to moderate execution risk as ~42% of cost is yet to be incurred. PDPL will be largely relying on customer advances for funding the construction costs.

Intense competition in Noida market and exposure to market risk- Given the highly competitive intensity in the Noida market, the company remains exposed to market risk for the unsold area.

Geographical and asset concentration risk - SKA Orion is a single project undertaken by PDPL; thus, the company is exposed to high geographical and project concentration risks due to dependence on a single residential project in Noida, Uttar Pradesh.

Exposure to risk and cyclical in India's real estate sector – The real estate sector is cyclical in nature marked by volatile prices and a highly fragmented market structure because of large number of regional players. Being a cyclical industry, the real estate business is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand and competition within the region from various established developers.

Liquidity position: Adequate

The company's liquidity profile is adequate, as marked by the availability of undrawn bank limits amounting to Rs 40 crore would enable the company to fund any temporary cash flow mismatches owing to construction cost outflows. The cash and cash equivalents (including FDR) stood at ~Rs. 23 crore as of May 31, 2023. Further, the company has committed receivables amounting to Rs 135.6 crore as of May 2023 which provides additional comfort.

Rating sensitivities

Positive factors – ICRA could upgrade PDPL's rating if there is an increase in scale of operations along with healthy sales and collections, while maintaining a comfortable leverage and liquidity position.

Negative factors – Pressure on the rating could emerge in case of slower-than-expected sales and collections, or any significant unbudgeted debt-funded investment, which leads to deterioration in PDPL's liquidity and leverage position.

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

Provence Developers Private Limited (PDPL) was incorporated in 2015, it is a part of Delhi-NCR based SKA Group. The company is developing a residential project – SKA Orion – in Sector 143B in Noida, Uttar Pradesh. The project has a saleable area of over ~8.75 lakh sqft.

Key financial indicators (audited)

PDPL Standalone	FY2021	FY2022
Operating income	-	-
PAT	-2.5	-6.9
OPBDIT/OI	NM	NM
PAT/OI	NM	NM
Total outside liabilities/Tangible net worth (times)	- 32.0	- 12.1
Total debt/OPBDIT (times)	36.6	- 13.2
Interest coverage (times)	0.4	- 3.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBDIT.

Source: Company annual reports, ICRA Research; NM: Not meaningful

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)* as on March 31, 2023	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					June 23, 2023	April 26, 2022	-	-	
1	Fund-based – Term loan	Long term	50.00	0.00*	[ICRA] BBB-(Stable)	[ICRA] BBB-(Stable)	-	-	

*Nil Outstanding

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based – Term loan	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 – Term loan	July 2021	-	FY2026	50.00	[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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 4547 4829
Anupama.reddy@icraindia.com

Neha Mittal
+91 124-4545 365
neha.mittal@icraindia.com

Yash Garg
+91 124-4545 337
yash.garg@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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.