November 26, 2024

Northern Sky Properties Private Limited: [ICRA]BB(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	399.50	[ICRA]BB (Stable); assigned
Long Term - Unallocated limits	0.50	[ICRA]BB (Stable); assigned
Total	**400.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned for Northern Sky properties Private Limited (NSPPL) considers the established track record of its promoters spanning more than two decades in the Mangalore real estate market and the favourable location of the ongoing projects namely, Blend (63% residential and 37% commercial), Excelsa and Attalea, which enhances the marketability. The rating factors in the expected improvement in its collections by 50-60% in FY2025 (PY: Rs. 43 crore), majorly supported by good sales velocity in its recently completed projects, and adequate sales and construction progress in its ongoing projects. The company has received occupancy certificate for one of its projects – Northern Sky City -C in September 2024.

The rating is, however, constrained by the company's modest scale of operations with expected collections of Rs. 60-70 crore in FY2025. It is currently executing three ongoing projects with a total residential saleable area of 0.77 million square feet (msf) and commercial leasable area of 0.34 msf, with 66% of the total cost yet to be incurred on all the projects, while only 5% of the area is sold in the residential projects as of September 2024. This exposes it to moderate market and execution risks for the ongoing as well as the upcoming project. The cash flow adequacy ratio[1] remains low at ~18% as on September 30, 2024. NSPPL's total external debt is estimated to increase to around Rs. 170 crore as of March 2025 (PY: ~Rs. 98 crore) majorly for funding the construction progress on its recently launched projects. The subdued cash flow from operations are likely to result in weak leverage in FY2025. Further, the company faces geographical concentration risk due to dependence of projects in the Mangalore region. Moreover, being a cyclical industry, the residential real estate sector is highly dependent on macro-economic factors, which exposes its sales to any downturn in demand and competition within the region from various established developers.

The Stable outlook on the rating reflects ICRA's opinion that the company will benefit from the favourable location of projects and expected increase in collections from its ongoing and upcoming projects.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in real estate development – The company's management holds vast experience in the real estate sector spanning more than 20 years and has completed six residential projects, two plotting projects and one residential cum commercial (for sale) project, with a total saleable area of ~1.1-1.5 msf in Mangalore.

Favourable location of projects – The company is currently executing one commercial project and three residential projects (one of which is recently launched in October 2024) with ~20% of the total saleable area sold in these two residential projects

[1] Adequacy of committed cash flows = (Receivables from sold area)/ (Pending Cost +Debt Outstanding)

as of September 2024. All these projects are located at significant locations in Mangalore, offering good connectivity to national highways, major commercial centres and Mangalore Central railway station.

Expected increase in collections in FY2025 – The company's collections are expected to increase by 50-60% (PY: Rs. 43 crore), supported by good sales velocity in its ongoing and recently completed projects, adequate construction progress, along with the future launch pipeline. It has received the occupancy certificate for one of its projects – Northern Sky City -C in September 2024 and project Attalea is nearing completion, hence improvement in sales and collections is expected from the projects.

Credit challenges

Moderate scale of operations and weak leverage – NSPPL's scale of operations is modest with expected collections of Rs. 60-70 crore in FY2025 and three residential ongoing projects with total saleable area of 0.77 msf, along with a commercial project with leasable area of 0.34 msf. Its total external debt is estimated to increase to around Rs. 170 crore as of March 2025 (PY: ~Rs. 98 crore) majorly for funding the construction progress on its recently launched projects. This along with modest cash flow from operations are likely to result in weak leverage in FY2025.

Exposure to market and execution risks – The company is exposed to moderate market and execution risks for the ongoing as well as upcoming projects. Of its three ongoing residential projects and one commercial project, Attalea is at near completion stage (90% construction cost incurred) and Excelsa and Blend (part residential and part commercial) are in their mid and initial stages of construction, respectively, as reflected by their construction cost incurred of 44% and 9%, as on September 30, 2024. The company is yet to incur 66% of the total cost on all the ongoing projects (residential and commercial) as on September 30, 2024, while only 5% of the area is sold in the ongoing residential projects as of September 2024. The cash flow adequacy ratio remains low at ~18% as on September 30, 2024.

Geographical and asset concentration risks and susceptibility to cyclicality in real estate sector – The company faces geographical concentration risk due to dependence of projects in the Mangalore region. Moreover, being a cyclical industry, the residential real estate sector is highly dependent on macro-economic factors, which exposes its sales to any downturn in demand and competition within the region from various established developers.

Liquidity position: Stretched

NSPPL's liquidity position is stretched. The company has Rs. 232 crore of undrawn limits and is dependent on incremental sales to meet its pending cost of Rs. 397 crore towards ongoing projects and ~Rs. 15 crore of scheduled principal repayments for H2 FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a significant increase in sales and collections resulting in an improvement in the cash flow from operations and leverage, on a sustained basis.

Negative factors – Negative pressure on the rating could arise in case of significant delays in project execution or subdued residential sales and collections, or if there are material debt-funded land investments leading to deterioration in debt protection metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Commercial/Residential/Retail Realty- Lease Rental Discounting (LRD)
Parent/Group support	Not applicable

Consolidation/Standalone	Standalone

About the company

Northern Sky Properties Private Limited (NSPPL) was incorporated on April 8, 2011. The company is into construction, development and sale of housing projects as well as commercial premises in Mangalore. Mr. Dheeraj Amin and his family holds 100% equity in NSPPL.

The Group has completed 6 residential projects, two plotting projects and one residential cum commercial (for sale) project, with a total saleable area of ~1.1-1.5 msf in Mangalore. At present, Northern Sky Properties Private Limited is developing three projects, of which two are purely residential and one is mixed use.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	38.7	45.9
PAT	3.4	3.5
OPBDIT/OI	30.9%	43.2%
PAT/OI	8.8%	7.7%
Total outside liabilities/Tangible net worth (times)	6.7	6.6
Total debt/OPBDIT (times)	14.8	9.9
Interest coverage (times)	1.7	1.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs. crore)**	**Nov 26, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long-term-term loan-fund-based	Long Term	399.50	[ICRA]BB (Stable)	-	-	-	-	-	-
Long-term-unallocated	Long Term	0.50	[ICRA]BB (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term - Unallocated limits	Not applicable

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	**Long-term – Fund-based – Term loan**	FY2020-FY2024	NA	FY2033	399.50	[ICRA]BB (Stable)
NA	**Long-term - Unallocated limits**	NA	NA	NA	0.50	[ICRA]BB (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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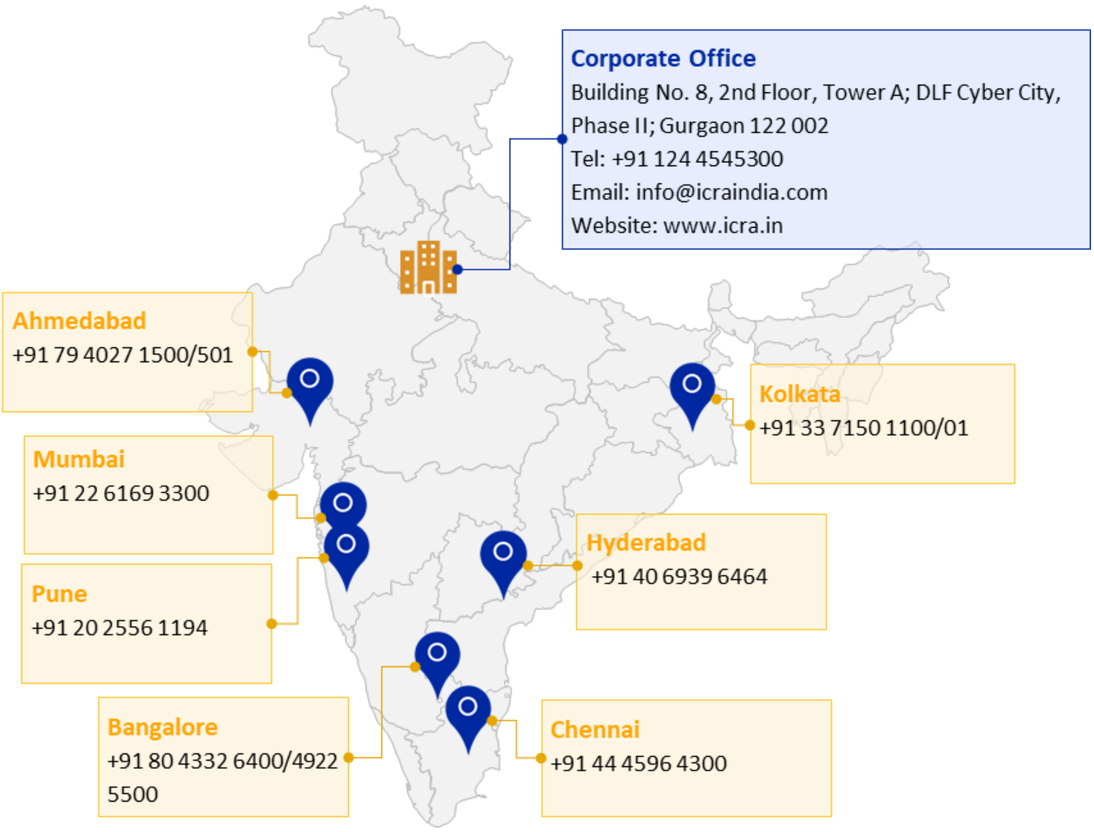

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