

Skill Promoters Private Limited

February 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	295.00 (Reduced from 310.20)	CARE BBB+; Stable	Revised from CARE BBB; Stable
Long-term bank facilities [^]	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

[^]CARE Ratings Limited has withdrawn the ₹24.80 crore proposed long-term facility at the withdrawal request received from the company.

Rationale and key rating drivers

The rating of the bank facilities of Skill Promoters Private Limited (SPPL) has been revised on the back of an increase in turnover in FY23 (FY refers to April 01 to March 31) and H1FY24. The increase in turnover is due to higher revenue share from the revenue sharing model and an increase in leasable area considering the buyback of the mall space. The rating also derives comfort from the promoter's experience, the prominent mall location, reputed lessees, and adequate liquidity with the presence of a debt service reserve account (DSRA).

However, the rating is constrained by the leveraged capital structure, occupancy risk, and inherent interest fluctuations risk.

CARE Ratings Limited (CARE Ratings) has withdrawn the ₹24.80 crore proposed long-term facility at the company's withdrawal request.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- SPPL's ability to renew the current leases or escalate rentals on time, increasing the occupancy rate to 100% on a sustained basis and deriving a continuous stream of lease rentals.
- Improving the lease rental discounting debt (LRD debt)/earnings before interest, taxes, depreciation, and amortisation (EBIDTA) to 3.5x and debt service coverage ratio (DSCR) >1.40x.

Negative factors

- LRD debt/EBITDA deteriorating to more than 5.50x or DSCR to less than 1.20x due to additional LRD loans taken against existing lease rentals or occupancy levels declining.
- Delays or cancellations of lease agreements impacting the company's cash inflow.
- Rate of interest significantly increasing the company's liquidity.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects that the entity is expected to sustain its high occupancy levels with timely renewal of lease agreements.

Detailed description of the key rating drivers

Key strengths

Experienced promoters with established operational track record

SPPL was incorporated in 2015 by Syed Mohammed Aslam, Director, who has an experience of two decades in constructing and developing residential and commercial buildings. He is ably supported by Syed Naveedudin Ahmed Qadri, Director, who also has an experience of two decades in the same field.

Prominent location advantage

SPPL's malls – City Centre Mall and Sarath City Capital Mall – are located at Banjara Hills and Hi-tech City, respectively, both prime locations in Hyderabad. Hi-tech City is considered the financial district of the city and is surrounded by top global players in the Information Technology (IT) and IT-enabled services (ITeS) industry. Both malls are easily accessed via the Rajiv Gandhi

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

International Airport (Hyderabad Airport) and the area is well-connected and accessible via roads. The occupancy rate of both the malls put together is at about 97% for both malls as on December 2023.

Reputed lessees – a mix of established international and national brands

Sarath City Capital Mall comprises four basements+G+6 and is spread across about 32 lakh sq ft, of which about 19.27 lakh sq ft is leasable area, with the balance as parking space. Of about 19.27 lakh sq ft, the leasable area of SPPL is about 9.18 lakh sq ft, of which 8.93 lakh sq ft has been leased to several reputed and recognised international and national brands such as Spar, Lifestyle, H&M, Converse, United Colors of Benetton, Pepe Jeans London, Danube Home, Archies, Van Heusen and Peter England, among others. Majority of the stake in the City Centre Mall is sold out and about 0.22 lakh sq ft is available for lease, of which 0.16 lakh sq ft is leased out.

Growing financial performance in FY23 and H1FY24

In FY23, SPPL's total operating income (TOI) improved by about 30% to ₹206.22 crore from ₹158.67 crore in FY22. The revenue increase was at the back of a higher revenue share from the revenue sharing model with an increase in leasable area due to buyback of the mall space. In FY23, the operating profit and profit-after-tax (PAT) improved to ₹56.25 crore (FY22: ₹36.19 crore) and ₹33.14 crore (FY22: ₹17.31 crore), respectively, on the back of improving scale of operations. Similarly, in FY23, the operating margin and PAT margin improved by 447 bps to 27.28% (FY22: 22.81%) and 516 bps to 16.07% (FY22: 10.91%), respectively. In H1FY24, SPPL achieved a turnover of ₹119.90 crore. CARE expects the same momentum in turnover for the full year.

Key weaknesses

Leveraged capital structure albeit improved

The capital structure, marked by overall gearing, improved yet remained high at 2.61x as on March 31, 2023, as against 3.18x as on March 31, 2022. The overall gearing improved with the scheduled repayment of LRD debt with accrediting profits to net worth. The total debt (TD)/profit before interest, lease rentals, depreciation, and taxation (PBILDT) also improved and stood satisfactory at 4.61x in FY23 as against 5.80x in FY22 due to an increase in rental income. The TD/gross asset value (GAV) stood at 0.67x as on March 31, 2023.

SPPL availed ₹125 crore (payable in 12 years from January 2023) from Axis Finance against 3.05 lakh sq ft (super built-up area of the share of SPPL), the proceeds (₹113 crore as on December 31, 2023) of which are utilised for investments and general corporate purposes.

Occupancy risk due to higher lease expiry in FY25 and FY26

The lease tenure for most tenants is six years. However, it ranges from 6-18 years, with the weighted average lease expiry at 2.80 years as on December 31, 2023. With the lock-in period of most clients expired, the company currently has a lock-in for less than 5% of the leased area up to FY25. About 0.71 lakh sq ft and 1.23 lakh sq ft leased area are expiring in FY25 and FY26, respectively.

That said, tenants have incurred significant costs for fitouts, protecting SPPL against vacancy risk to an extent. This apart, the total turnover of the mall is about ₹1,346 crore from April 2023 to December 2023. Hence, the rent plus CAM charges to the turnover ratio is about 10%, further providing comfort for the stickiness of the tenant.

Interest rate fluctuation risk

Finance cost is among the major outflows for the company. A significant increase in bank interest rate may impact the coverage ratio and liquidity buffer. Hence, fluctuations in interest rates is a key monitorable from the credit perspective.

Liquidity: Adequate

The liquidity profile of the company is adequate with a gross monthly fixed income of about ₹6 crore as against debt obligations (interest plus loan repayment) of about ₹4 crore. This apart, the company has maintained a DSRA of about ₹5.41 crore, which covers two months of interest and debt repayments of the SBI LRD loan. For the AXIS LRD loan, the lender has kept about ₹3 crore as a DSRA amount of the ₹125-crore sanctioned loan. SPPL has a free cash and bank balance of ₹16.69 crore (including ₹16.33 crore dropline overdraft [OD] debit balance) as on March 31, 2023.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial Sector Entities](#)

[Rating Outlook and Credit Watch](#)

[Rating methodology for Debt backed by lease rentals](#)

[Rating methodology for the Real estate sector](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Realty	Realty	Residential, commercial projects

SPPL was incorporated in 2015 by Syed Mohammed Aslam and Syed Naveedudin Ahmed Qadri, prior to which, Skill Promoter was registered as a partnership firm on April 04, 2004. The company develops and constructs residential and commercial buildings in Hyderabad, Telangana.

SPPL owns two malls – City Centre Mall and Sarath City Capital Mall. City Centre Mall is located at Banjara Hills and Sarath City Capital Mall is located at Kondapur IT-Junction, both in Hyderabad. Sarath City Capital Mall comprises four basements+G+7 and is spread across about 32 lakh sq ft, of which about 19.27 lakh sq ft is leasable area and the balance is for parking space. Majority of the stake in the City Centre mall is sold out and about 0.22 lakh sq ft is available for lease.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	158.67	206.22	119.90
PBILDT	36.19	56.25	NA
PAT	17.31	33.14	NA
Overall gearing (times)	3.18	2.61	NA
Interest coverage (times)	1.96	2.97	NA

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank overdraft		-	-	-	14.00	CARE BBB+; Stable
Fund-based - LT-Lease rental discounting/Rent receivables financial		-	-	31-10-2034	281.00	CARE BBB+; Stable
Fund-based - LT-Proposed fund-based limits		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Lease rental discounting/Rent receivables financial	LT*	281.00	CARE BBB+; Stable	1)CARE BBB; Stable (07-Apr-23)	-	1)CARE BBB; Stable (14-Mar-22)	1)CARE BBB+ (CW with Negative Implications) (30-Mar-21) 2)CARE BBB+; Negative (27-Aug-20)
2	Fund-based - LT-Bank overdraft	LT	14.00	CARE BBB+; Stable	1)CARE BBB; Stable (07-Apr-23)	-	1)CARE BBB; Stable (14-Mar-22)	1)CARE BBB+ (CW with Negative Implications) (30-Mar-21)
3	Fund-based - LT-Proposed fund-based limits	LT	-	-	1)CARE BBB; Stable (07-Apr-23)	-	1)CARE BBB; Stable (14-Mar-22)	1)CARE BBB+ (CW with Negative Implications) (30-Mar-21)

*Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Bank overdraft	Simple
2	Fund-based - LT-Lease rental discounting/Rent receivables financial	Simple
3	Fund-based - LT-Proposed fund-based limits	Simple

Annexure-5: Lender details

To view the 3lender-wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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