

## Skill Promoters Private Limited

March 30, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	50.00	CARE BBB+ (CWN) (Triple B Plus) (Under Credit watch with Negative Implications)	Assigned
Long Term Bank Facilities	200.00 (Reduced from 250.00)	CARE BBB+ (CWN) (Triple B Plus) (Under Credit watch with Negative Implications)	Placed on Credit watch with Negative Implications
<b>Total Bank Facilities</b>	<b>250.00</b> <b>(Rs. Two Hundred Fifty Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to the bank facilities of Skill Promoters Private Limited (SPPL) on Credit watch with negative implications in view of One Time Restructuring (OTR) application submitted by SPPL to banker for restructuring its Lease Rental Discounting (LRD) loan in lieu of Covid-19 relief scheme of resolution package announced by RBI. The restructuring proposal is under implementation with the lender and CARE will monitor the OTR's outcome and its implications on SPPL. Moreover, CARE believes that business risk is likely to increase in the near term as the recovery in footfalls in the mall is expected to be slow and gradual. CARE will be monitoring the impact of the above developments and would take a view on the ratings when the exact implications of the same are clear.

The ratings assigned to the bank facilities of Skill Promoters Private Limited (SPPL) continues to remained underpinned by experienced promoters, prominent location advantage of Sarath City Capital Mall (SCCM) with the property being located at IT and financial hubs, reputed lessees with a mix of established international and national brands, lease terms and lock-in period spread across a long span of time, structured payment mechanism for lease rental discounting with adequate liquidity. The rating strengths are however tempered by industry disruptions caused by short operational track record of the mall as compared to other operational malls in the Hyderabad city, renewal risk of lease agreements, industry risk coupled with increasing competition. The rating also factors moderation in the financial performance and liquidity of the company in the current year due to disruption in its operations on account of COVID-19 outbreak.

### Key Rating Sensitivities

#### Positive Sensitivities- Factors that could lead to positive rating action/upgrade:

- ✓ The ability of the company to renew the leases at present/escalated rentals in a timely manner and increase the occupancy rate to 100% and derive continuous stream of lease rentals.
- ✓ Significant reduction in the LRD debt levels

#### Negative Factors- Factors that could lead to negative rating action/downgrade:

- ✗ Any deterioration in risk profile on account of decline in revenue/rentals beyond 30%.
- ✗ Significant weakening of the cashflow position with non-receipt of lease rentals as envisaged.

### Detail description of Key rating drivers

#### Key Rating Strengths

##### **Experienced promoters and management**

Skill Promoters Private Limited (SPPL) was incorporated in 2015 by Syed Mohammed Aslam (Director), who has an experience of two decades in the field of construction and development of residential & commercial buildings. Further, he is ably supported by, Syed Naveedudin Ahmed Qadri (Director) who also has an experience of two decades in the field of construction and development of residential & commercial buildings.

##### **Prominent location advantage of SCCM with the property being located at IT and financial hubs**

SPPL's both malls i.e. 'City Centre Mall' and 'Sarath City Capital Mall' are located in prime location in Hyderabad such Banjara Hills and Hi-tech city respectively. Hi-tech city is one of the prime locations in the city of Hyderabad and is considered to be the financial district, also surrounded by top global players in the IT/ITES industry. Further, both the malls locations are easily accessed via the Rajiv Gandhi International Airport and the area is well-connected and accessible via roads. As of December 2020, there is 85.86% occupancy rate for SPPL's share in Sarath City Capital Mall.

##### **Reputed lessees with mix of established international and national brands at SCCM**

Sarath City Capital mall comprises of 4 basements + Ground floor + 7 floors and is spread across ~32 lakh sq. ft. of area out of which ~19 lakh sq. ft. is leasable area and remaining area is for parking space. Out of ~19 lakh sq. ft. the leasable area pertaining

to SPPL is around 7.92 lakh sq. ft., 6.80 lakh sq. ft. has been leased to many highly reputed and recognized international and national brands. The lessees occupying the space are established international and national brands like Spar, Lifestyle, H&M, Converse, United colors of Benetton, Pepe Jeans London, Danube home, Archies, Van Heusen, Peter England, among others.

***Lease terms and lock-in period spread across a long span of time with the tenants at SCCM***

The lease tenure for the tenants is ranging from 4-18 years where in lock-in period ranges from 1-5 years. The SCCM's lease agreement also considers the escalation percentage ranging from 10%-15% with majority of the tenants being under 15% escalation clause and the escalation frequency ranges from 1 year to every 3 years with majority of tenants being under escalation for every 3 years. The tenants have also incurred significant cost for fit-out which also protects against the vacancy risk.

***Structured escrow mechanism for LRD albeit proposed restructuring***

The company had availed a Rupee Term loan (under Lease Rental Discounting (LRD) scheme) of Rs. 200.00 crore with a door to door tenor of 10 years by assigning lease rental from 5.49 lakh sq. ft of leasable area out of total SPPL's share of Sarath City Capital Mall which was fully operational by April 06, 2019. The total LRD facility is backed by an escrow mechanism wherein the company will ensure that all the receivables from SCCM are deposited into the escrow account. Further, the company is also required to maintain a Debt Service Reserve Account (DSRA) equivalent of two quarters debt servicing. However, the repayment structure will be revised based on one-time restructuring terms, which is still in process. The successful implementation of the proposed restructuring remains critical from rating perspective.

***Key Rating Weaknesses***

***Impact of COVID-19 pandemic***

The spread of COVID-19 virus led to Central and State Government imposing nationwide lockdown resulting in closure of malls & retail stores across India and the mall was closed in operations from March 22, 2020 to June 09, 2020. Many retailers/Tenants have requested for reduction in fixed rentals, and the tenants insisted to shift to revenue sharing model for a period till business is normalized. As a result, there has been a reduction in collections. Even after re-commencing of operations, the heightened fear about the pandemic has refrained the customers from visiting the malls leading to dip in the footfall. Although the monthly collections are gradually improving and have reached to an average of about Rs.4.00 crore by February 2021, the collections are yet to reach the pre-COVID-19 levels.

***Risk of non-renewal of lease after expiry of lock-in period***

The lease tenure for majority of the tenants is 6 years however the lease tenure ranges from 6-18 years with a lock-in period of ranging from 1-4 years after which tenants have an option to terminate the lease without any charges. Therefore, continuation of lease after expiry of minimum lease period is a key risk as the renewability depends on various factors including alternate choices available to tenants, prevailing rental rates, and maintenance of the mall or any unforeseen situation like COVID.

***Industry risk amidst increasing competition from e-commerce***

Over the past year, Hyderabad has emerged as one of the best performing residential real estate destinations in India, complimented by strong fundamentals including government stability, infrastructure and economic drivers. The city's leading position as home to the top IT/ITeS companies has had a direct impact on the city's immense real estate growth. To keep up with increased migration to Hyderabad, the Telangana government has invested heavily in the city's infrastructure facilities and connectivity, which improve the overall real estate climate and quality of life in the city. However, on account of COVID-19, the commercial malls have been witnessing very limited footfalls and the outlook for this segment thus continues to remain negative especially with growing popularity of e-commerce. Further, with the improvement in macro-economic conditions in the country, the real estate sector is expected to attain a gradual recovery. However, fundamentals for the commercial real estate are showing signs of visible improvement in business sentiments.

***Liquidity analysis- Adequate***

The company has adequate accruals to meet its repayment obligations going forward, the company has free cash and bank balance of Rs.1.70 crore as on March 31, 2020. However, the company has used up its DSRA balance for repayment of certain instalments during the current fiscal, it is in the process of rebuilding the DSRA balance equivalent to one quarter of debt servicing as per the proposed OTR of LRD. The company availed moratorium towards debt servicing and has also applied for OTR under COVID under Covid-19 relief package provided by RBI.

**Analytical approach: Standalone**

*Applicable criteria*

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Debt backed by Lease Rental Discounting](#)

[Rating Methodology for Real Estate Sector](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity analysis of Non-financial sector entities](#)

### About the Company

Skill Promoters Private Limited was incorporated in 2015 by Syed Mohammed Aslam and Syed Naveedudin Ahmed Qadri. Prior to incorporation as company, Skill Promoter was registered as a partnership firm on April 04, 2004. The company is engaged in development and construction of residential & commercial buildings in Hyderabad. SPPL owns two malls by the name 'City Centre Mall' and 'Sarath City Capital Mall'. The City Centre mall is located in Banjara Hills, Hyderabad and Sarath City Capital Mall is located at Kondapur IT-Junction, Hyderabad. Sarath City Capital mall comprises of 4 basements + Ground floor + 7 floors and is spread across ~32 lakh sq. ft. of area out of which ~19 lakh sq. ft. is leasable area and remaining area is for parking space for around 4000 cars. Initially out of the gross leasable area of 19.27 lakh sq. ft. SPPL owns 14.62 lakh sq. ft., Sarath Gopal & family owns around 4.10 lakh sq. ft. and remaining 0.55 lakh sq. ft. is owned by Asian Cinema Group. Till March 2020, SPPL sold ~6.70 lakh sq. ft. leasable area, thus SPPL currently owns 7.92 lakh Sq ft in SCCM.

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

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	78.48	169.40
PBILDT	14.36	37.68
PAT	6.98	14.54
Overall gearing (times)	4.41	3.59
Interest coverage (times)	2.32	1.74

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	-	June 2025	200.00	CARE BBB+ (CWN)
Fund-based - LT-Bank Overdraft	-	-	-	-	20.00	CARE BBB+ (CWN)
Fund-based - LT-Proposed fund-based limits	-	-	-	-	30.00	CARE BBB+ (CWN)

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	200.00	CARE BBB+ (CWN)	1)CARE BBB+; Negative (27-Aug-20)	1)CARE A-(SO); Stable (30-May-19)	-	-
2.	Fund-based - LT-Bank Overdraft	LT	20.00	CARE BBB+ (CWN)	-	-	-	-
3.	Fund-based - LT-Proposed fund-based limits	LT	30.00	CARE BBB+ (CWN)	-	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA****Annexure 4: Complexity level of various instruments rated for this Company**

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

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