

## Skyline Infra Limited<sup>1</sup>: Ratings downgraded to [ICRANP] LD/D

December 28, 2023

### Summary of rating action

Instrument* (Amounts in NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term loan limits (A)	1,278.9	1,278.9	[ICRANP] LD; downgraded from [ICRANP] LB+
Non-fund-based limits (within A)	(320.1)	(320.1)	[ICRANP] D; downgraded from [ICRANP] A4
<b>Total</b>	<b>1,278.9</b>	<b>1,278.9</b>	

\*Instrument details are provided in [Annexure-1](#).

### Rating action

ICRA Nepal has downgraded the long-term loan rating of Skyline Infra Limited (Skyline or the company) to **[ICRANP] LD** (pronounced ICRA NP L D) from [ICRANP] LB+ (pronounced ICRA NP L B plus) and also downgraded the company's short-term loan rating to **[ICRANP] D** (pronounced ICRA NP D) from [ICRANP] A4 (pronounced ICRA NP A four).

### Rationale

The ratings downgrade is mainly on account of the delay in servicing of the debt obligations by Skyline. As reported, there is currently a running delay of over 30 days in servicing the debt obligations (which were due on mid-October 2023) by the company. Accordingly, the rating action has been taken based on ICRA Nepal's [Default Recognition Policy](#). The delay stems from the cost overrun in the companies under construction commercial complex and the debt funding gap for the overrun portion. Going forward, a track record of timely debt servicing will be the key rating sensitivity.

### Key rating drivers

#### Credit strengths

**Proposed presence in diverse operational segments** – The company's under construction commercial complex project is planned to have diverse operational segments including retail spaces, casino and multiplex theatre which will be rented, while the proposed four star hotel with 60-keys (earlier plan of 50-keys) under the brand name of Sarovar Portico, along with banquet hall and food court/gaming zone operations will be managed by the company itself. These segments are expected to aid in maintaining revenue diversity. The multiplex operations have already started under brand of QFX Cinemas from Nov, 2023 while the retail spaces are expected to start operations shortly. These segments, along with the recently added casino plans in the complex, are likely to increase footfalls and boost the restaurant/gaming zone revenues. Furthermore, the company also proposes to start operations of the four-star hotel from Feb, 2024, under the trademark of Sarovar Portico.

#### Credit challenges

**High leverage; debt service/coverage indicators to remain stretched in initial years** – Skyline proposes to finance the project with ~76% debt funding. Given the high leverage, any major moderations in the projected revenues, especially during the project's stabilisation phase, are likely to exert pressure on the company's liquidity and debt servicing capacity. The promoter's ability to provide timely and adequate funding support during the initial years to serve its financial obligations, will remain crucial.

<sup>1</sup> Erstwhile Skyline Infra Private Limited, when last rated

**Delay in project completion leading to cost overrun, funding gaps and delays in debt servicing** – The completion of the project has been delayed by more than a year compared to the initial estimates, thus resulting in a cost overrun by ~10% to NPR 1,775 million. Though the repayment of term loan has also been postponed to factor in these delays (now starting from mid-April 2024 onwards, however interest is still to be paid quarterly during construction phases), any further unexpected delays in project completion and thus commencement of term loan repayment prior to the commencement of revenue generation, would be adding to the cash flow mismatch and liquidity risks. The company also faces funding gap to cover the required debt portion of the cost overrun, which has been requested to bankers. The resultant liquidity pressures have resulted in delays (>30 days) in serving the bank obligations by Skyline. Hence, its ability to timely manage the funding gaps and complete the project, while attaining expected revenue/margins will remain key rating monitorable.

**Stabilization risks during the initial years of operation** – Despite being a unique property in the region, the complex will be facing stabilisation risks during the initial years of operations, mainly with regards to the hotel and banquet operations, among others. The hotel/banquet segment will be facing tough competition from the established hotels in the region with lower debt burden.

**Analytical approach:** For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

**Link to the applicable criteria:**

[Corporate Credit Rating Methodology](#)

**Link to the previous rating rationale:**

[Rationale\\_Skyline Infra\\_Fresh BLR\\_June 2022](#)

## Company profile

Incorporated in November 2016 as a private limited company and converted to public limited status on July, 2023, Skyline Infra Limited (Skyline) is constructing a commercial complex in Birgunj, Parsa. The complex will be housing retail spaces, food court, casino, banquet hall, multiplex theatre under brand name of QFX Cinemas (already operational from Nov, 2023) and a four-star hotel with 60 keys under brand name of Sarovar Portico, among other amenities. The complex is spread over a plot size of ~1,538 square metres. The company is promoted by several individuals involved in different business ventures.

## Annexure-1: Instrument details

Instrument (Amount in NPR million)	Last Rated Amount	Current Rated Amount	Rating Action
<b>Long-term loan limits (A)</b>	<b>1,278.9</b>	<b>1,278.9</b>	[ICRANP] LD; downgraded from [ICRANP] LB+
Fund-based Limits; Term Loan	375.0	375.0	
Fund-based Limits; Long-term funded limits (BGL)	903.9	903.9	
Fund-based Limits; Proposed Long-term funded limits	-	-	
<b>Short-term loan limits (B) (within A)</b>	<b>(302.1)</b>	<b>(302.1)</b>	[ICRANP] D; downgraded from [ICRANP] A4
Non-fund Based Limits; Bank Guarantee	(10.0)	(10.0)	
Non-fund Based Limits; Letter of Credit	(292.1)	(292.1)	
<b>Total</b>	<b>1,278.9</b>	<b>1,278.9</b>	

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## About ICRA Nepal Limited

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