

November 06, 2023

Raghava Projects: [ICRA]BB (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	225.00	[ICRA]BB (Stable); assigned
Total	225.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to Raghava Projects factors in the favourable location of the Raghava IRIS project in Raidurg, Serilingampally, Hyderabad. It is well-connected to the IT and commercial hubs such as Gachibowli and Madhapur, which enhances the marketability of the project. The rating considers the adequate sales and collections of the ongoing project, which was launched in September 2022. Raghava IRIS, a premium project, has 2.85 million square feet (msf) of saleable area (company share), of which 28.2% is sold as on Sep 30, 2023, with adequate collections/sales at 35%.

The rating is, however, constrained by the exposure to high execution and market risks associated with the project. As on September 30, 2023, it incurred 17.5% of the total construction cost. In addition, the limited track record of promoters in completing large real estate projects exposes the company to high execution risk. Despite recording adequate sales since the launch of the project in September 2022, it is exposed to market risk as the remaining units are yet to be sold with moderate cash flow adequacy¹ of 43% as on September 30, 2023. Timely sales of the remaining units will be critical as the remaining project cost is expected to be partly funded by customer advances. Further, it is exposed to geographical concentration risk as the ongoing project is limited to the Hyderabad market. The rating factors in the vulnerability of its sales to any downturn in real estate demand and stiff competition within the region from various established real estate developers.

The Stable outlook on [ICRA]BB rating reflects ICRA's opinion that the company will benefit from the favourable location and adequate sales velocity for the project.

Key rating drivers and their description

Credit strengths

Favourable location of ongoing major project, IRIS – Raghava Projects is currently undertaking a major project called Raghava IRIS, which includes 492 flats (of 4-BHKs and 6-BHKs) in total, out of which the company's share is 432 flats. The project is situated in Raidurg, Serilingampally, Hyderabad. It is well-connected to IT and commercial hubs such as Gachibowli and Madhapur, which enhances the marketability of the project.

Adequate sales and collections – Raghava IRIS, a premium project, has 2.85 msf saleable area (company's share), of which 28.2% is sold as on September 30, 2023, with adequate collections/sales at 35%.

¹ Cash flow adequacy = Committed receivables/ (pending cost+ outstanding debt)

Credit challenges

Exposed to high execution and market risks – As on September 30, 2023, Raghava Projects incurred 17.5% of the total construction cost. In addition, the limited track record of its promoters in completing large real estate projects exposes the company to high execution risk. Although the sales have been adequate since the launch of the project, it is exposed to market risk as the remaining flats are yet to be sold with moderate cash flow adequacy of 43% as on Sep 30, 2023.

Exposure to geographical concentration risk and cyclicity in the real estate industry – Being a cyclical industry, the real estate business is highly dependent on macroeconomic factors, which renders the company's sales vulnerable to any downturn in demand. The ongoing project is limited to the real estate market in Hyderabad, which exposes it to high geographical concentration risk. Further, the company has only one under-construction project in its portfolio leading to asset concentration.

Liquidity position: Stretched

The liquidity profile remains stretched with high dependence on customer advances for construction of the ongoing project. The pending project cost of Rs. 1,142 crores as on September 30, 2023, is expected to be funded by Rs. 492.8 crore of pending receivables from the sold area, term loan of Rs. 225 crore, incremental equity infusion and balance through incremental sales.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a significant and sustained increase in the sales and collections, along with improvement in the cash flow adequacy and debt protection metrics.

Negative factors – Negative pressure on the rating could emerge in case of delays in project execution, decline in sales and collections or significant unbudgeted debt-funded investment, leading to deterioration in the liquidity and leverage positions.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Real Estate
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Raghava Projects was incorporated on August 13, 2021, and is a partnership firm with equal partnership between Mr. Harsha Reddy Ponguleti and Mr. Lohith Reddy Ponguleti. At present, it is developing a residential project, Raghava IRIS, with a total saleable area of 3.2 msf with the company's share of 2.8 msf.

Key financial indicators

Not applicable, as the only ongoing project of the company was launched in Q3 FY2023.

Status of non-cooperation with previous CRA: Not applicable

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 as on September 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 06, 2023	-	-	-
1 Long-term – Fund based– Term loan	Long term	225.0	0.0*	[ICRA]BB (Stable)	-	-	-

*Yet to be disbursed

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term 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	Term loan	September 26, 2023	NA	FY2028	225.00	[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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