

March 15, 2021

Rajapushpa Properties Private Limited: Rating upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	199.00	185.00	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Unallocated	-	514.00	
Total	199.00	699.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the improved bookings, along with healthy collections in Greendale, Regalia and Eterna projects in 9M FY2021. Further, Rajapushpa Properties Private Limited (RPPL) received bookings for 712 units (23% of the total available units of 3,032) in the recently launched Provincia project as of March 06, 2021. The Provincia project comprises developing 6.6-million square feet (msft) area at an estimated cost of Rs. 3,013.0 crore, to be completed by December 2025. The company's ability to sustain the sales momentum, along with improvement in collections would be a key rating monitorable. Further, RPPL has a track record of prepaying its project debt through an accelerated escrow sweep mechanism as a part of the sanction terms. The rating continues to draw comfort from its established track record, demonstrated execution capabilities and favourable outlook for the Hyderabad market. RPPL has delivered more than 6.32 msft of area over the past 14 years in the Hyderabad market with reputation for quality and timely completion.

The rating is, however, constrained by the high execution risk arising out of the Provincia project, one of the biggest project undertaken by the company till date and three times larger than its largest completed project, Atria. The risk is mitigated to an extent with RPPL completing all projects ahead of its actual schedule. The rating is further constrained by the low committed receivables and high dependence on future sales to complete the pending project cost as reflected by cash flow adequacy ratio (committed receivables/pending construction cost + outstanding debt) of 5% as of December 31, 2020. However, the same is expected to increase to more than 15% by March 2021 on the back of healthy sales achieved in March 2021, mainly in Provincia project. The rating also considers the stiff competition owing to presence of many completed and ongoing projects in the close vicinity of RPPL project locations.

The Stable outlook reflects ICRA's opinion that RPPL will continue to maintain healthy sales velocity in its projects, backed by its established position in the Hyderabad real estate market.

Key rating drivers and their description

Credit strengths

Established track record of RPPL in Hyderabad real estate market – The company has an established brand name, particularly in the western Hyderabad region, with a track record of more than 14 years in the Hyderabad real estate market. RPPL has strong in-house project execution capability, as demonstrated through completion of more than ~6.32 msft. It is, at present, developing three projects – two residential projects and one commercial project entirely in West Hyderabad with a cumulative area of 8.46 msft.

Healthy bookings in Greendale, Regalia and Eterna projects – The company received 112 bookings in 9M FY2021 despite the pandemic owing to receipt of occupancy certificate (OC) for Greendale and Regalia projects and healthy construction progress in Eterna. The bookings improved to 94% (336 units) in Regalia, 53% (82 units) in Greendale and 65% (119 units) in Eterna as on December 31, 2020 from 78% (279 units) in Regalia, 34% (52 units) in Greendale and 54% (99 units) in Eterna as on March 31, 2020. Although it received bookings for 712 units (out of RPPL's share of 3,032 units) in the recently launched Provincia

project as of March 06, 2021, the market risk remains high as 77% of the project units are yet to be sold. The company expects the sales velocity to continue in the near term, given the favourable location of these projects, strong brand presence and improved demand in Hyderabad market.

Prepayment of debt through accelerated escrow mechanism – The company has a track record of prepaying its project debt through an accelerated escrow sweep mechanism, beyond the mandatory stipulated sweep-in, as a part of its sanctioned terms. RPPL has repayment obligations of Rs. 92.8 crore for Q4 FY2021 and FY2022 and it has pre-paid Rs. 39.7 crore through escrow mechanism as on December 31, 2020. Further, it has repayments of only Rs. 6.4 crore against Rs. 12.8 crore in Q4 FY2021 and Rs. 54.7 crore against Rs. 80.0-crore repayments due in FY2022.

Credit challenges

Project execution risk in the recently launched project, Provincia – The company has three ongoing projects (Eterna, Paradigm, and Provincia) with a total project cost of Rs. 3,526.1 crore. As on December 31, 2020, in Eterna, it has achieved TPC of 75%, which is in the advanced stage of execution and the company incurred a TPC of 37% for Paradigm which is ahead of the execution. However, the execution risk is high for the Provincia project with excavation works underway currently. Although the Provincia project is three times larger than its largest completed project, Atria, RPPL's strong in-house project execution capabilities demonstrated through completion of all projects ahead of its actual schedule mitigate the risk to an extent.

Low cash flow adequacy ratio – The low committed receivables, along with high pending cost, resulted in low cash flow adequacy ratio (committed receivables/pending construction cost and outstanding debt) of 5%, and 25% (excluding the new residential project Provincia) as of December 2020 making the company reliant on fresh bookings to complete the ongoing projects. However, the ratio is expected to improve to more than 15% given the healthy sales achieved by the company in March 2021 mainly in Provincia project. As on December 31, 2020, RPPL has pending project cost of Rs. 2,809.9 crore (over next 5 years), which can be met through committed receivables of Rs. 151.4 crore, undrawn and proposed project debt of Rs. 598 crore, surplus cash flows from Greendale, Regalia and Eterna projects. The balance cost is expected to be funded by future sale proceeds from Paradigm and Provincia projects.

Exposed to inherent cyclicity in real estate sector – The company remains exposed to the inherent cyclicity in the residential real estate industry, but the sales have been consistently improving over the years owing to a favourable market scenario in Hyderabad.

Liquidity position: Adequate

The company's liquidity is **adequate** with RPPL having free cash of around Rs. 40 crore as on December 31, 2020. Given the healthy collections, which are expected to continue in the near term, it would repay the debt before the actual scheduled repayment date, owing to escrow mechanism. The pending project cost for Q4 FY2021 and FY2022, can be comfortably met through committed receivables, undrawn and proposed project debt and surplus cash flows from completed projects, where OC has been received.

Rating sensitivities

Positive factors – ICRA could upgrade the company's rating in case of improvement in sales and collections in the ongoing residential projects. Specific credit metrics that can lead to rating upgrade cash flow adequacy ratio above 35%.

Negative factors – Pressure on the rating may arise in case of subdued sales or collections or if any significant delay in completion of the ongoing projects weakens the company's liquidity position. Specific credit metrics that can lead to pressure on the rating include cash flow adequacy ratio below 20% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

RPPL was established as a partnership firm in 2006 and then converted into a private limited company in 2009. It is involved in development of residential and commercial projects in Hyderabad. It had completed residential real estate projects with a total built-up area of 6.32 msft till December 31, 2020. The company is, at present, developing a residential real estate projects namely Eterna in Gachibowli with total built up area of 0.81 msft and a commercial project Paradigm in Nanakramguda with 1.05 million sft, on a JDA basis. The total project cost of all these ongoing projects is Rs. 513.1 crore. Additionally, it has launched a residential project namely Provincia in Narsingi with a total developed area of 6.60 msft, on a JDA basis, with a project cost of Rs. 3,013.0 crore, which is planned to be completed by December 2025.

Key financial indicators (audited)

RPPL	FY2019	FY2020
Operating Income (Rs. crore)	382.8	403.6
PAT (Rs. crore)	20.9	24.0
OPBDIT/OI (%)	15.1%	16.2%
RoCE (%)	19.7%	19.5%
Total Outside Liabilities/Tangible Net Worth (times)	5.8	6.2
Total Debt/OPBDIT (times)	4.2	3.1
Interest Coverage (times)	2.3	2.3
DSCR (times)	1.8	1.8

Source: Company, ICRA Research; All ratios as per ICRA calculations

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years							
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019					Date & Rating in FY2018	
				March 15, 2021	December 17, 2019	March 12, 2019	January 24, 2019	November 16, 2018	September 17, 2018	May 18, 2018	-	
1	Term Loans	Long-term	185.0	123.3	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive) Removed from ISSUER NOT COOPERATING Category	[ICRA]BB+ (Positive) Moved to ISSUER NOT COOPERATING Category	[ICRA]BB+ (Positive)	-
2	Unallocated	Long Term	514.0	-	[ICRA]BBB+ (Stable)	-	-	-	-	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	Sep,2017	-	Sep,2022	100.00	[ICRA]BBB+(Stable)
NA	Term Loan-2	Sep,2017	-	Sep,2022	85.00	[ICRA]BBB+(Stable)
NA	Unallocated	-	-	-	514.00	[ICRA]BBB+(Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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