August 18, 2022

Rajapushpa Properties Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term loans	500.00	500.00	[ICRA]BBB+(Stable) reaffirmed
Unallocated	199.00	199.00	[ICRA]BBB+(Stable) reaffirmed
Total	**699.00**	**699.00**	

**Instrument details are provided in Annexure-I*

Rationale

While reaffirming the rating, ICRA has taken a consolidated view of Rajapushpa Properties Private Limited (RPPL), Watermarke Estates Private Limited (WEPL) and Rajapushpa Realty LLP (RRLLP), given the common management, strong business and financial linkages, collectively referred as the Group.

The rating reaffirmation for RPPL factors in healthy sales and collections from the ongoing residential projects – Provincia and Imperia. In Provincia, it has received bookings for 79% of the area in Phase-I since its launch in January 2021 and 9% in Phase-II since its launch in March 2022. In Imperia Phase-I, around 33% of the area has been sold since its launch in December 2021. Overall, the Group has sold 1.85 million square feet (mnsf) of area in FY2022. In Q1 FY2023, the Group has sold around 0.32 mnsf of area and reported collections worth around Rs. 170.4 crore. Despite some slowdown in the booking velocity in these projects in Q1 FY2023, the bookings are expected to pick up supported by launch of new towers in Provincia and focus on RPPL's share of units going forward. The Group's scale of operations is likely to witness sustained growth, driven by the sales momentum in the ongoing projects as well as planned launches in FY2023 (around 4.2 mnsf). Further, the rating considers the Group's 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 the Group's established track record, demonstrated execution capabilities and favourable demand outlook for the Hyderabad residential real estate market. The Group has delivered more than 8.2 mnsf of area over the past 15 years. At present, it is developing 12.8 mnsf of area across residential projects and 3.6 mnsf of commercial area in Hyderabad.

The rating is, however, constrained by the high execution and market risks arising out of the newly launched large residential projects (Provincia and Imperia) and the commercial project (West Avenue). While the sales response to the new launches have been comfortable, any decline in demand may adversely impact the cash flow position considering the large pending costs to be incurred on such projects. Further, given that the ongoing residential projects are at an early stage of execution, there is high dependence on future sales to meet the pending project cost as reflected by cash flow adequacy ratio[1] of 25% as of June 2022. West Avenue, a commercial office project with a built-up area of 3.6 mnsf (leasable area of 2.5 mnsf), is in the nascent stages of execution (expected COD: October 2025) and remains exposed to the inherent project implementation and market risks.

The Group plans to launch three new projects in FY2023 at an estimated cost of around Rs. 2,500 crore. RPPL has to invest towards the equity contribution to the West Avenue project, which in turn is expected to be funded through the surplus cash

[1] *Receivables / (pending cost + total debt outstanding)*

flows from its residential projects. In addition, the plans to prepay higher cost debt instruments remain contingent on its ability to launch the new projects, sell high levels of inventory and realise cash flows. Additionally, Paradigm, a commercial office project of 0.65 mnsf area under RPPL, is yet to be leased out and remains exposed to significant market risk. The Group is also exposed to the inherent cyclicality in the residential real estate industry; however, the sales have been consistently improving over the years, driven by the favourable market scenario in Hyderabad.

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

Key rating drivers and their description

Credit strengths

Established track record of the Group in Hyderabad real estate market – The Rajapushpa Group has a well-established brand name, particularly in the western Hyderabad region. Further, it has a strong in-house project execution capability, as demonstrated through completion of more than 8.2 mnsf of real estate projects in the past. Further, The Group is currently developing 12.8 mnsf of area across residential projects and 3.6 mnsf of commercial area in Hyderabad. The Group's scale of operations is expected to witness sustained growth on the back of sales momentum in the ongoing projects as well as planned launches in FY2023 (around 4.2 mnsf).

Healthy booking velocity in newly launched projects – RPPL witnessed healthy bookings in Provincia and Imperia projects. In Provincia, it has received bookings for 79% of the area in Phase-I since its launch in January 2021 and 9% in Phase-II since its launch in March 2022. In Imperia Phase-I, around 33% of the area has been sold since its launch in December 2021. Overall, the Group has sold 1.85 mnsf of area in FY2022. In Q1 FY2023, the Group has sold around 0.32 mnsf area and reported collections worth around Rs.170.4 crore. While there has been some slowdown in the booking velocity in Provincia (due to decline in inventory of Phase-I) and Imperia (due to sale of land owner's share of units) in Q1 FY2023, the bookings are expected to pick up supported by launch of new towers in Provincia and focus on RPPL's share of units going forward.

Prepayment of debt through accelerated escrow mechanism – The Group has a track record of prepaying debt through accelerated escrow mechanism, wherein a part of the sale receipt is directed towards debt servicing (which is much higher than the scheduled repayments) and resulting in prepayment of debt.

Credit challenges

High market and project execution risks for recently launched projects – The Group has launched large-sized projects in the recent years, thus exposing it to high market risk given the significant inventory that will be released. While the sales response has been encouraging, any decline in demand may adversely impact its cash flow position considering the large pending costs to be incurred on such projects. Provincia and Imperia have a pending unsold area of around 6.6 mnsf. The balance completion cost of these projects is estimated to be around Rs. 4,435 crore as of June 2022. It completed the construction works for Paradigm, a commercial office project of 0.65 mnsf area, in May 2022. However, it is yet to be leased, resulting in market risk. West Avenue, a commercial office project with a built-up area of 3.6 mnsf (leasable area of 2.5 mnsf) is in the nascent stages of execution (expected COD: October 2025) and is exposed to the inherent project implementation and market risks. Further, the Group is planning to launch three new projects over next 10 months at an estimated cost of around Rs. 2,500 crore.

Low cash flow adequacy ratio – Given that all the ongoing projects are in the early stages of execution, the receivables are relatively lower compared to the high pending cost, which has resulted in low cash flow adequacy ratio of 25% as of June 2022, making the Group reliant on fresh bookings to meet the pending costs. Nonetheless, the sanctioned and undrawn construction finance limits for the two ongoing projects mitigate the funding risks to some extent. Also, RPPL is required to invest towards the equity contribution to the West Avenue project, which in turn is expected to be funded through the surplus cash flows from the residential projects. In addition, the plans to prepay higher cost debt instruments remain contingent on its ability to launch the new projects, sell high levels of inventory, and realise cash flows.

Exposed to inherent cyclicality in real estate sector – The Group remains exposed to the inherent cyclicality in the real estate industry. However, the sales have been consistently improving over the years, driven by the favourable demand scenario in Hyderabad.

Liquidity position: Adequate

The Group's liquidity is adequate as the collections are expected to witness healthy growth in the near to medium term, given the ramp-up in execution in the ongoing projects and sustained sales momentum. Notwithstanding the investment commitments to the West Avenue project, the collections and undrawn bank lines are likely to be adequate to meet the estimated outflows in FY2023.

Rating sensitivities

Positive factors – ICRA could upgrade the Group's rating in case of an improvement in sales and collections in the ongoing residential projects along with healthy performance in the upcoming projects and refinancing of the construction finance debt with LRD for Paradigm. Specific credit metric of cash flow adequacy ratio of above 40% could lead to a rating upgrade.

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 or any delay in leasing of Paradigm weakens the Group's liquidity position. Further, more debt-funded land investments weakening the Group's leverage position will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of Rajapushpa Properties Private Limited (RPPL), Watermarke Estates Private Limited (RPPL's subsidiary) and Rajapushpa Realty LLP (RPPL's Group entity), given the common management, strong business and financial linkages, collectively referred as the Group. WEPL is a 100% WOS of RPPL; and RPPL and RRLLP are held by same promoters. ICRA has consolidated the financials of RPPL, WEPL and RRLLP.

About the company

Rajapushpa Properties Private Limited (RPPL), Watermarke Estates Private Limited (WEPL) and Rajapushpa Realty LLP (RRLLP) belong to the Rajapushpa Group, a Hyderabad-based real estate developer involved in constructing residential and commercial projects. The Group holds a land bank of more than 300 acres, of which around 240 acres are situated in prime areas of Hyderabad.

RPPL has completed more than 15 projects in and around the Hyderabad city, totalling around 8.2 mnsf, including residential (6.6 mnsf) and commercial (1.6 mnsf) buildings. At present, the company is developing two residential real estate projects – Provincia in Narsingi with a total built-up area of 6.6 mnsf and Imperia in Tellapur with a total built-up area of 6.2 mnsf. Watermarke Estates Private Limited (WEPL), a wholly-owned subsidiary of RPPL, is planning to develop residential villa project, spread over an area of around 20 acres with saleable area of 5.82 mn sft located in Tellapur, Hyderabad. The project is proposed to be launched in October 2022.

RRLLP is developing a commercial property named West Avenue, spread over an area of 7.5 acres, with a built-up area of 3.6 msf in Kokapet, Hyderabad. The total envisaged project cost of around Rs. 1,394.2 crore is to be funded through a term loan of Rs. 500.0 crore, promoter contribution of Rs. 701.0 crore and customer advances of Rs. 193.2 crore.

Key financial indicators (audited)

RPPL	FY2020	FY2021
Operating income	401.0	314.0
PAT	24.0	21.3
OPBDIT/OI	15.6%	22.3%
PAT/OI	19.1%	19.0%
Total outside liabilities/Tangible net worth (times)	6.2	9.2
Total debt/OPBDIT (times)	3.2	4.3
Interest coverage (times)	2.2	1.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 18, 2022	Jun 06, 2022	-	Mar 15, 2021	Dec 17, 2019
1	**Term loan**	Long term	500.00	79.35	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**
2	**Unallocated**	Long term	199.00	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	**[ICRA]BBB+ (Stable)**	-

Instrument	Complexity Indicator
Long-term fund-based term loan	Simple
Long-term unallocated limits	Not applicable

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term loan**	Sep 2021	NA	Mar 2027	500.00	[ICRA]BBB+(Stable)
-	**Unallocated**	-	-	-	199.00	[ICRA]BBB+(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	RPPL Ownership	Consolidation Approach
Watermarke Estates Private Limited	100%	Full Consolidation
Rajapushpa Realty LLP	-^	Full Consolidation

Source: RPPL, ^Promoters of RPPL have 100% shareholding in RRLLP

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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