

August 30, 2023

Rajapushpa Properties Private Limited: Rating reaffirmed; outlook revised to Positive from Stable

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+; reaffirmed and outlook revised to Positive from Stable
Unallocated	199.00	125.00	[ICRA]BBB+; reaffirmed and outlook revised to Positive from Stable
Total	699.00	625.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of Rajapushpa Properties Private Limited (RPPL), Watermarke Estates Private Limited (WEPL) and Rajapushpa Realty LLP (RRLLP) (together referred as the Rajapushpa Group), given the common management and promoters, strong business and financial linkages and cash flow fungibility.

The revision in outlook to Positive factors in the healthy performance of the residential real estate segment in term of sales, collections and cash flow from operations (CFO) in FY2023, which is expected to further improve in FY2024. RPPL witnessed ~15% YoY growth in sales to 2.13 million square feet (msf) and an increase in collections by 14.5% to Rs. 1,274 crore in FY2023. Consequently, with improvement in CFO, the leverage, indicated by total debt/CFO improved to 2.4 times as on March 31, 2023, from 5.0 times as on March 31, 2022, and is estimated to remain in the range of 2.3 to 2.5 times as on March 31, 2024, despite debt-funded land acquisitions. It is likely to maintain the sales growth trajectory in FY2024, backed by healthy sales velocity in its ongoing projects and upcoming launches of 7 msf in FY2024 (of which 4 msf is launched in Q1 FY2024). RPPL's collections are estimated to increase significantly by 70-75% YoY in FY2024.

The rating draws 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 msf of area over the past 15 years. At present, it is developing 14.0 msf (developer share) of residential and 3.6 msf of commercial area in Hyderabad.

The rating is, however, constrained by the execution and market risks for the recently launched residential projects (Pristina and Serendale), proposed launches over the next two years (8-10 msf) and the ongoing commercial project (West Avenue). Further, given that the three out of four 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 (receivables/ (pending construction cost + debt outstanding)) of 34% as of June 2023. Any slowdown in the sales velocity may adversely impact the cash flow position considering the large pending costs to be incurred on such projects. Also, the company plans to launch a plotted development project in H1 FY2025 under WEPL with debt-funded land acquisition of around Rs. 175 crore. West Avenue, a commercial office project with an area of 3.6 msf is in the nascent stages of execution (expected COD: December 2026) and remains exposed to the inherent project implementation and market risks.

The company's net working capital remains negative. The Group availed debt for projects with the existing surplus cash flows and used the proceeds to fund land investments. Consequently, its debt/net working capital¹ remains negative and significant

¹ Debt to Net Working Capital (excluding land assets) indicates the cost incurred on the projects to the extent not financed by customer advances.

improvement in the same would be a key monitorable. The Group is also exposed to the inherent cyclical nature in the residential real estate industry.

ICRA takes note of the recent large land parcels won by the Group (along with other investment partners) in Kokapet, Hyderabad, from the auction conducted by the Telangana Government. The total acquisition cost of land is expected to be around Rs. 1,000 crore of which RPPL's share amounts to around Rs. 420 crore, which is likely to be funded through debt.

Key rating drivers and their description

Credit strengths

Established track record of the Group in Hyderabad real estate market – The rating draws 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 msf of area over the past 15 years. At present, it is developing 14.0 msf (developer share) of residential and 3.6 msf of commercial area in Hyderabad.

Healthy growth in CFO in FY2023, expected to further improve in FY2024 backed by healthy sales and collections – The company reported healthy performance in the residential real estate segment in terms of sales, collections and cash flow from operations in FY2023, which is likely to further improve in FY2024. RPPL witnessed ~15% YoY growth in sales to 2.13 msf and an increase in collections by 14.5% to Rs. 1,274 crore in FY2023. Consequently, with improvement in CFO, the leverage, indicated by total debt/CFO, improved to 2.4 times as on March 31, 2023 from 5.0 times as on March 31, 2022. The same is estimated to remain in the range of 2.3 to 2.5 times as on March 31, 2024, despite debt-funded land acquisitions. It is expected to maintain the sales growth trajectory in FY2024, backed by healthy sales velocity in its ongoing projects and upcoming launches of 7 msf in FY2024 (of which 4 msf is launched in Q1 FY2024). RPPL's collections are estimated to increase significantly by 70-75% YoY in FY2024.

Credit challenges

Market and project execution risks for recently launched projects – The Group remains exposed to market and project execution risks for the recently launched residential projects (Pristina and Serendale), proposed launches over the next two years (8-10 msf) and the ongoing commercial project (West Avenue). Further, given that the three out of four 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 (receivables/ (pending construction cost + debt outstanding)) of 34% as of June 2023. Any slowdown in the sales velocity may adversely impact the cash flow position considering the large pending costs to be incurred on such projects. Also, the company plans to launch a plotted development project in H1 FY2025 under WEPL with debt-funded land acquisition of around Rs. 175 crore. West Avenue, a commercial office project with an area of 3.6 msf is in the nascent stages of execution and remains exposed to the inherent project implementation and market risks.

Negative debt/NWC – The company's net working capital remains negative. The Group availed debt for projects with the existing surplus cash flows and used the proceeds to fund land investments. Consequently, its debt/net working capital remains negative and significant improvement in the same would be a key monitorable. The Group is also exposed to the inherent cyclical nature in the residential real estate industry.

Cyclical nature inherent in real estate sector – 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.

Liquidity position: Adequate

The Group's liquidity is adequate as the estimated cash flow from operations are adequate to meet the repayment obligations. The company is expected to do around Rs. 600-650 crore towards land investments in FY2024, which will be funded by debt of Rs. 600 crore and balance through its surplus cash flows.

Rating sensitivities

Positive factors – ICRA could upgrade the Group’s rating in case of a healthy improvement in sales and collections in the ongoing residential projects, along with healthy performance in the upcoming projects resulting in an improvement in coverage and leverage metrics. Further, a significant improvement in total debt/NWC ratio will 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 weakens the Group’s liquidity position and debt protection metrics. Further, any large 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 Lease rental Discounting
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, 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 RRLP are held by same promoters. ICRA has consolidated the financials of RPPL, WEPL and RRLP.

About the company

Rajapushpa Properties Private Limited (RPPL), Watermarke Estates Private Limited (WEPL) and Rajapushpa Realty LLP (RRLP) belong to the Rajapushpa Group, a Hyderabad-based real estate developer involved in construction of residential and commercial projects. The Group holds a land bank of around 465 acres with market value of over Rs. 5,500 crore.

RPPL has completed more than 15 projects in and around the Hyderabad city, totalling around 8.2 msf, including residential (6.6 msf) and commercial (1.6 msf) buildings. At present, the company is developing four residential real estate projects – Provincia in Narsingi with a total built-up area of 6.6 msf, Imperia in Tellapur with a total built-up area of 6.2 msf, Pristina in Kokapet with a total built-up area of 4.3 msf and Serendale in Tellapur with total built-up area of 0.9 msf. Watermarke Estates Private Limited (WEPL), a wholly-owned subsidiary of RPPL, is planning to develop a plotted project in Rudraram, Hyderabad. The project is proposed to be launched in H1 FY2025.

RRLP is developing a commercial property named West Avenue, spread over an area of 7.5 acres, with an area of 3.6 msf in Kokapet, Hyderabad. The total envisaged project cost of around Rs. 1,388.9 crore is to be funded through a term loan of Rs. 500.0 crore, promoter contribution of Rs. 695.7 crore and customer advances of Rs. 193.2 crore.

Key financial indicators

Consolidated	FY2022	FY2023
	Audited	Provisional
Operating income	328.4	1,086.0
PAT	28.4	123.1
OPBDIT/OI	35.3%	24.7%
PAT/OI	8.7%	11.3%
Total outside liabilities/Tangible net worth (times)	32.2	13.5
Total debt/OPBDIT (times)	8.5	3.5
Interest coverage (times)	1.5	2.5

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

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2024)					Chronology of rating history for the past 3 years			
Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022
				Aug 30, 2023	Aug 18, 2022	Jun 06, 2022	-	Mar 15, 2021
1 Term loans	Long term	500.00	223.0	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
2 Unallocated	Long term	125.00	--	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

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: [Click Here](#).

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+ (Positive)
-	Unallocated	-	-	-	125.00	[ICRA]BBB+ (Positive)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Watermarke Estates Private Limited	100.00%	Full Consolidation
Rajapushpa Realty LLP	-^	Full Consolidation

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

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