

September 20, 2024

Watermarke Estates Private Limited: Rating reaffirmed with change in outlook to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture (NCD)	0.00	325.00	[ICRA]BBB+ reaffirmed; outlook revised to Stable from Positive
Proposed NCD	340.00	15.00	
Total	340.00	340.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook to Stable from Positive factors in the slow progress towards the land acquisition and the consequent delay in launch of proposed plotted development project under Watermarke Estates Private Limited's (WEPL) in Rudraram, Patancheru mandal, Hyderabad. The total project is planned for ~177 acres (100 acres through JDA and 77 acres will be acquired by company). The project cost is estimated to be around Rs. 325 crore which is expected to be funded through NCDs, raised in December 2023. This project is expected to be done in two phases with phase 1 comprising of ~90 acres, with land acquisition likely to be completed by Q4 FY2025 and project is proposed to be launched in Q1 FY2026.

The rating considers support from the parent, Rajapushpa Properties Private Limited (RPPL, rated at [ICRA]A-(Stable)) which holds 99.9% in WEPL. Given the strong operational and financial linkages, and common treasury, RPPL is expected to provide financial support to WEPL to protect its reputation from the consequence of a subsidiary's distress. The Rajapushpa group has established track record and demonstrated execution capabilities of developing more than ~14 million square feet (msf) of area till date in Hyderabad with good reputation for quality and timely completion. Currently the group is developing 25.0 msf (developer share – 19.6 msf) of residential and 3.6 msf (developer share – 3.14 msf) of commercial spaces in Hyderabad.

The rating, however, is constrained by WEPL's exposure to high execution and market risk of the proposed plotting project. Timely launch of the project and ability to have healthy sales velocity remains key monitorable. However, comfort can be drawn from the Rajapushpa group's track record in residential real estate in Hyderabad which mitigates the risk to an extent. Being a cyclical industry, the real estate business is highly dependent on macro-economic factors, which exposes the project sales to any downturn in real estate demand. In addition, WEPL is mainly concentrated in the Hyderabad real estate market, which exposes it to geographical concentration risk.

The Stable outlook on WEPL's rating reflects ICRA's opinion that the company will benefit from the Rajapushpa's healthy brand presence in Hyderabad real estate market which enhances the marketability of the project.

Key rating drivers and their description

Credit strengths

Established track record of the Rajapushpa group in Hyderabad real estate market – Rajapushpa group has established track record and demonstrated execution capabilities of developing more than ~14 msf of area till date in Hyderabad with good reputation for quality and timely completion. Currently the group is developing 25.0 msf (developer share – 19.6 msf) of residential and 3.6 msf (developer share – 3.14 msf) of commercial space in Hyderabad.

Funding tied-up for proposed project under WEPL and strong financial flexibility being part of Rajapushpa Group – Rajapushpa Properties Private Limited (RPPL, rated at [ICRA]A-(Stable)) holds 99.9% in WEPL. Given the strong operational and

financial linkages, and common treasury, RPPL is expected to provide financial support to WEPL to protect its reputation from the consequence of a subsidiary's distress. Further, RPPL has provided corporate guarantee to the NCDs availed by WEPL. In addition, WEPL has issued NCD of Rs. 325 crore of which it has drawn Rs. 160 crore.

Credit challenges

Delay in launch of proposed plotted project; exposure to execution and market risk – At present, WEPL is developing a project of plotted development project in Rudram, Patancheru mandal, Hyderabad. The total project is planned for ~177 acres (100 acres through JDA and 77 acres will be acquired by company). The project cost is estimated to be around Rs. 325 crore which is expected to be funded through NCDs, raised in December 2023. This project is expected to be done in two phases with phase 1 comprising of ~90 acres, with land acquisition likely to be completed by Q4 FY2025 and project is proposed to be launched in Q1 FY2026. This exposes WEPL to high execution and market risk of the project. Timely launch of the project and ability to have healthy sales velocity remains key monitorable. However, comfort can be drawn from the Rajapushpa group's track record in residential real estate in Hyderabad which mitigates the risk to an extent.

Cyclicality inherent in real estate sector and geographical concentration risk – Being a cyclical industry, the real estate business is highly dependent on macro-economic factors, which exposes its sales to any downturn in real estate demand. In addition, WEPL is mainly concentrated in the Hyderabad real estate market, which exposes it to geographical concentration risk.

Liquidity position: Adequate

WEPL's liquidity is adequate with unencumbered cash and bank balances of Rs. 157.4 crore as on March 31, 2024. The same will be utilised towards land acquisition. While the company does not have any principal repayment obligations in FY2025 and FY2026, the interest obligations will be supported by parent, RPPL in a timely manner till the project is launched.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a significant increase in sales and collections, resulting in an improvement in cash flows and debt protection metrics on a sustained basis.

Negative factors – The rating may be downgraded in case of subdued sales and collections adversely impacting the liquidity and debt protection metrics. Also, rating might be downgraded in case of weakening of linkages with RPPL, or if there is a deterioration in the credit profile of RPPL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Commercial/Residential/Retail
Parent/Group support	Support Provider: Rajapushpa Properties Private Limited (RPPL) (rated at [ICRA]A-(Stable)) The rating considers support from the parent, RPPL which holds 99.9% in WEPL. Given the strong operational and financial linkages, and common treasury, RPPL is expected to provide financial support to WEPL to protect its reputation from the consequence of a subsidiary's distress. Further, RPPL has provided corporate guarantee to the NCDs availed by WEPL.
Consolidation/Standalone	Standalone

About the company

WEPL is a part of Hyderabad based Rajapushpa Group. The company is 99.9% held by Rajapushpa Properties Private Limited (rated at [ICRA]A-(Stable)). Under WEPL, the group is planning to develop a plotted layout in Rudraram, Patancheru mandal, Hyderabad, Telangana. The total project is planned for ~177 acres (100 acres through JDA and 77 acres will be acquired by company). The acquisition of 77 acres will be funded by NCDs and the company is in process of acquiring land parcels. This project will be done in 2 phases with phase 1 comprising of 90 acres and is expected to be launched in Q1 FY2026.

Key financial indicators

Not meaningful as the project is yet to be launched

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Sep 20, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Non-Convertible Debenture	Long Term	325.00	[ICRA]BBB+ (Stable)	21 Sep, 2023	[ICRA]BBB+ (Positive)	-	-	-	-
Proposed NCD	Long Term	15.00	[ICRA]BBB+ (Stable)	21 Sep, 2023	[ICRA]BBB+ (Positive)	-	-	-	-
				30 Aug 2023	[ICRA]BBB+ (Positive)	18 Aug, 2022	[ICRA]BBB+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed NCD	Simple
Non-Convertible Debenture	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
INE07J407014	Non-Convertible Debenture	December 12, 2023	17.5%	September 30, 2028	325.00	[ICRA]BBB+(Stable)
-	Proposed NCD*	NA	NA	NA	15.00	[ICRA]BBB+(Stable)

Source: Company; *yet to be placed

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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