

September 23, 2024

Rajapushpa Realty LLP: 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
Long-term – Fund based – Term loan	500.00	500.00	[ICRA]BBB+(Stable) reaffirmed; outlook revised to Stable from Positive
Total	500.00	500.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook for the long-term rating of Rajapushpa Realty LLP (RRLLP) factors in the slow construction progress of its office asset, West Avenue at Kokapet, Hyderabad, with leasable area of 3.6 million square feet (msf, developer share – 3.14 msf). The project construction commenced in April 2021 and is exposed to execution risk given that only 31% of the project cost was incurred as of May 31, 2024 (20% as of June 2023). The scheduled Date of Commencement of Operation (DCCO) is September 2025.

The rating factors in the favourable location of the project which is well-connected to other premium residential, IT and commercial hubs like Hitech City, Gachibowli and Financial District, which enhances its marketability. The company plans to develop 1.8 msf on lease model and balance area on sale model. As of May 31, 2024, RRLLP had incurred 31% of total project cost (~Rs. 1,400 crore) funded by customer advance, promotor contribution and debt of Rs. 40 crore. ICRA expects Rajapushpa Properties Private Limited (RPPL, rated at [ICRA]A-(Stable)) to provide timely financial support to RRLLP, for any funding shortfall, given the strong operational and financial linkages, and common treasury, to protect RPPL/Rajapushpa Group's reputation from the consequences of a Group company's distress. The rating draws comfort from the Rajapushpa Group's established track record and demonstrated execution capabilities. The Group has delivered more than ~14 million square feet (msf) of area in last 15 years. At present, 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 is, however, constrained by RRLLP's exposure to high market risk as there is no pre-leasing for 1.8 msf planned on lease model and residual area of 0.63 msf on sale model. The company has construction finance (CF) loan with bullet repayment in H1 FY2028. Timely construction and leasing at adequate rental rates remain key monitorables. Further, it is exposed to geographical concentration risk as the ongoing project is limited to the Hyderabad market.

The Stable outlook on RRLLP's rating reflects ICRA's opinion that the company will benefit from the favourable location, which is expected to support in adequate leasing for the project.

Key rating drivers and their description

Credit strengths

Established track record of the Rajapushpa Group in Hyderabad real estate market – The Rajapushpa Group has an established record and demonstrated execution capabilities of developing more than ~14 msf of area in last 15 years in Hyderabad with good reputation for quality and timely completion. At present, 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.

Favourable location of the project and strong financial flexibility being part of Rajapushpa Group – RRLLP is currently constructing an office asset – West Avenue at Kokapet, Hyderabad, with leasable area of 3.6 msf (developer share – 3.14 msf). The project is well-connected to other premium residential, IT and commercial hubs like Hitech City, Gachibowli, Financial district, etc., which enhances its marketability. The company plans to develop 1.8 msf on lease model and the balance area on sale model. Rajapushpa Properties Private Limited (RPPL, rated at [ICRA]A-(Stable)) is expected to provide timely financial support to RRLLP, for any funding shortfall, given the strong operational and financial linkages, and common treasury, and protect its reputation from the consequences of a Group company's distress. Further, RPPL has provided corporate guarantee to the loan availed by RRLLP.

Credit challenges

Exposure to high execution and market risks for ongoing commercial project – The project construction commenced in April 2021 and is exposed to execution risk, given that only 31% of the project cost was incurred as of May 31, 2024 (20% as of June 2023). The scheduled Date of Commencement of Operation (DCCO) is September 2025. Further, the project is exposed to high market risk as there is no pre-leasing for 1.8 msf planned on lease model and no sales pipeline for the residual area of 0.63 msf on sale model. The company has construction finance (CF) loan with bullet repayment in H1 FY2028. Timely construction and leasing at adequate rental rates remain key monitorables.

Exposure to asset concentration risk – As RRLLP is a single-project SPV, it is exposed to geographical and asset concentration risks, which are inherent in companies with single projects. The single asset nature of the development increases the market risk in case of any vacancy or non-renewal of leases. Further, the debt coverage ratios remain sensitive to any additional indebtedness, changes in interest rates and reduction in occupancy levels.

Liquidity position: Adequate

RRLLP's liquidity is adequate. The pending project cost of Rs. 956 crore is expected to be funded by sanctioned undrawn debt of Rs. 460 crore, committed receivables of Rs. 136 crore and balance by equity contribution from promoters. While the company does not have any principal repayment obligations in FY2025 and FY2026, the interest obligations are expected to be supported by RPPL.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant leasing at adequate rental rates and mitigation of refinance risk associated with the CF loan resulting in an improvement in debt protection metrics on a sustained basis.

Negative factors – The rating may be downgraded in case of material time or cost overruns for the project or inability to achieve the adequate leasing tie-ups, or if there is a significant rise in indebtedness resulting in moderation of coverage and leverage on a sustained basis. The 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 Realty – Lease Rental Discounting (LRD)
Parent/Group support	Support provider: Rajapushpa Properties Private Limited (rated at [ICRA]A- (Stable)). Given the strong operational and financial linkages, and common treasury, RPPL is expected to provide financial support to RRLLP to protect its reputation from the consequences of a Group company's distress. Further, RPPL has provided corporate guarantee to the loan availed by RRLLP.
Consolidation/Standalone	Standalone

About the company

Rajapushpa Realty LLP is developing a commercial property, West Avenue, spread over 7.5 acres with built-up area of 3.6 million sft (RRLLP share: 3.1 msf) located in Kokapet, Hyderabad. Total envisaged project cost is around Rs. 1,400 crore to be funded through term loan of Rs. 500 crore, promoter contribution and customer advances. The scheduled DCCO is September 2025.

Key financial indicators

Not meaningful as the project is under construction

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 23, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long Term	500.00	[ICRA]BBB+ (Stable)	30 Aug 2023	[ICRA]BBB+ (Positive)		-	-	-
Proposed – Fund-based – Term loans	Long Term	-	-	-	-	06 Jun 2022	[ICRA]BBB+ (Stable)	-	-

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 Loans	Aug 2022	-	Sep 2027	500.00	[ICRA]BBB+(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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