

Rajapushpa Properties Private Limited

January 24, 2019

Summary of rating action

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Term Loans	60.00	60.00	Upgraded to [ICRA]BBB-(Stable) from [ICRA]BB+ (Positive)
Unallocated	25.00	25.00	Upgraded to [ICRA]BBB-(Stable) from [ICRA]BB+ (Positive)
Total	85.00	85.00	

Rationale

The rating revision factors in the improved sales velocity and collections in all projects; satisfactory construction progress in line with the project schedules and successful handover of Atria project in June 2018 which is the largest project undertaken by RPPL with 2.35 msft of developed area. The rating also factors in satisfactory bookings achieved by the company across all the ongoing projects (32% in Regalia (115 units), 18% in Eterna (32 units) as on November 30, 2018); established brand of Rajapushpa with a track record of more than one decade in the Hyderabad real-estate market demonstrated through completion of 3.64 million square feet (msft) of development; and favourable location of all the projects due to proximity to IT hub in Hyderabad city. Further, ICRA also takes note of the company's track record of prepaying its project debt through accelerated escrow mechanism as against scheduled repayments.

The rating is however constrained by the moderate committed cash flow cover of the company $[(\text{pending receivables}) / (\text{pending construction cost} + \text{debt outstanding})]$ at 20% as on November 30, 2018; high geographic concentration risk with presence limited to Hyderabad market; and low committed receivables for Greendale project given that only 25% of bookings are achieved as of November 30, 2018. Further ICRA also takes note of the high leasing risk for the summit project which has a leasable area of 0.28 msft and expected to be operational in H1FY2020. The company remains exposed to inherent cyclical risk in the residential real estate industry and regulatory risks.

Going forward, the ability of the company to improve sales velocity for Greendale and lease the commercial project (Summit) will remain key rating sensitivities. Also, the extent of land bank investments and movement in overall borrowing levels will be a key monitorable.

Outlook: Stable

The stable outlook reflects ICRA belief that RPPL will continue to benefit from the established brand presence of Rajapushpa in Hyderabad real estate market. The outlook may be revised to 'Positive' if the construction progress is ahead of schedule with higher than expected sales velocity and improved collection efficiency thereby resulting in lower dependence on external debt. The outlook may be revised to 'Negative' if construction is slower than expected, lower than anticipated offtake or collection levels are lower than expected.

Key rating drivers

Credit strengths

Established track record and strong brand presence of Rajapushpa in Hyderabad real-estate market: Founded in 2006, RPPL had demonstrated execution capabilities through completion of 3.64 million sqft in the past 12 years with reputation for quality and timely completion. Further, the company has delivered its largest project, Atria (2.35 msft) in June 2018 within the scheduled timelines and is currently developing 3.50 million sft in Hyderabad market.

Improvement in sales velocity in Atria project due ready to occupy status: Atria is the biggest project undertaken by the company till date and was completed in June 2018 within the scheduled timelines. Given the ready to occupy status and nil GST, the sales improved to 90% as on November 30, 2018 from 77% as on March 31, 2018. Moreover, the company has been able to maintain steady collection levels with average collection of Rs.62.27 crore per quarter in the last 5 quarters.

Healthy collections supporting construction progress: The collections improved significantly to Rs. 241.92 crore in 8mFY2019 as compared to Rs. 157.52 crore in FY2018 primarily on account of healthy bookings and improved collection efficiency for Atria and Regalia projects. At an aggregate level, the collection to sale value stood at 87% as against construction progress of 65%.

Pre-payment of debt with presence of escrow mechanism reduces fungibility risks: The company has demonstrated track record of prepaying its debt through accelerated escrow mechanism with sweep-in from project collections. The company maintains a separate escrow account for each project and services its debt obligations from project cash flows.

Credit weaknesses

Moderate execution risk given 57% of the project cost pending to be incurred: The company had incurred about Rs. 338.97 crore out of the total project cost of Rs. 795.66 crore (includes Greendale, Summit, Regalia & Eterna projects) as on November 30, 2018 translating 43% of the financial progress. Of the pending project cost of Rs.456.69 crore, the company has pending receivables of Rs.127.83 crore and undrawn debt of Rs. 208.96 crore. Given this, the pending project cost is contingent upon company achieving sufficient sales going forward.

Dependence on cash flows of Atria to fund other on-going projects: The company has committed receivables of Rs.33.22 crore and 0.25msft unsold inventory (98 units) in Atria project. The company has debt outstanding of Rs.70 crore for Atria project and the surplus available after debt servicing from Atria cash flows would support the pending construction cost in other projects in case of delays in sales or collections. Given that the company is able to sell 20+ units per month in the last 15 months, the risk of sales in Atria is mitigated to an extent.

High geographical concentration: The company remains exposed to geographic concentration risk as the project portfolio of the company is limited to Hyderabad; however, good reputation for quality and brand recognition limits the risk to an extent.

Regulatory risks and inherent cyclicity in the sector: The real estate sector is vulnerable to regulatory changes as observed in the past two years with introduction of Goods and Services Tax (GST) and Real Estate Regulatory Authority (RERA) Act which have affected the sales velocity and collections of many incumbents to an extent. Further, the compliance costs for the company due to GST and RERA are expected to increase. The company remains exposed to inherent cyclicity in the residential real estate industry.

Liquidity Position:

The company has undrawn debt of Rs.208.96 crore from the project loans which would support the construction of the ongoing projects. The company in total has an unsold inventory of about Rs.934.78 crore based on the current market price prevailing in the respective locations of the projects. Moreover the surplus available after debt servicing from Atria cash flows would support the pending construction cost in other projects in case of delays in sales or collections

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	Standalone

About the company:

Rajapushpa Properties Private Limited (RPPL) was established as a partnership firm in the year 2006 and then converted into a Private Limited Company during 2009. The company is involved in development of residential and commercial projects in Hyderabad. It has completed residential real estate projects with a total build-up area of 3.64 million sft and has completed Atria project with a total built-up area of 2.35 million sft in H1FY2019. The company is currently developing residential real estate projects namely Greendale in Tellapur with total build up area of 1.20 million sft, Regalia in Kokapet with total build up area of 0.99 million sft, Eterna in Gachibowli with total built-up area of 0.81 msft and a commercial project Summit in Nanakramguda with total build-up area of 0.49 million sft.

In FY2018, the company reported a net profit of Rs. 12.5 crore on an operating income of Rs. 278.8 crore, as compared to a net profit of Rs. 7.2 crore on an operating income of Rs. 129 crore in FY2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	129.0	278.8
PAT (Rs. crore)	7.2	12.5
OPBDIT/ OI (%)	18.8%	13.9%
RoCE (%)	18.5%	18.8%
Total Debt/ TNW (times)	2.2	3.1
Total Debt/ OPBDIT (times)	4.2	4.6
Interest Coverage (times)	2.2	2.3

Source: Rajapushpa Properties Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
				Date & Rating in FY2019				Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				Jan 2019	Nov 2018	Sep 2018	May 2018	NA	Jan 2017	Sep 2015
1 Term Loan	Long Term	60.00	50.00	[ICRA]BB B- (Stable)	[ICRA]BB+ (Positive); Removed from ISSUER NOT COOPERATING Category	[ICRA]BB+ (Positive); Moved to ISSUER NOT COOPERATING Category	[ICRA]BB+ (Positive)	NA	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
2 Unallocated Limits	Long Term	25.00	0.00	[ICRA]BB B- (Stable)	[ICRA]BB+ (Positive); Removed from ISSUER NOT COOPERATING Category	[ICRA]BB+ (Positive); Moved to ISSUER NOT COOPERATING Category	[ICRA]BB+ (Positive)	NA	-	-
3 Cash Credit	Long Term	0.00	0.00	-				NA	[ICRA]BB+ (Stable)	[ICRA]BB (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	March-2017	-	Nov-2020	60.00	[ICRA]BBB-(Stable)
NA	Unallocated	-	-	-	25.00	[ICRA]BBB-(Stable)

Source: Rajapushpa Properties Private Limited

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