

October 09, 2020

Prahitha Constructions Private Limited (PCPL): Rating placed on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	1,000.0	1,000.0	[ICRA]BBB-(CE) &; rating placed on watch with developing implications
Total	1,000.0	1,000.0	

*Instrument details are provided in Annexure-1
&- rating watch with developing implications

Rating Without Explicit Credit Enhancement

[ICRA]BB+

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The above rating is based on the strength of the corporate guarantee provided by Millennia Realtors Private Limited (MRPL), the ultimate holding company of Prahitha Constructions Private Limited (PCPL), for the rated term loans. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, MRPL.

Adequacy of credit enhancement

The rating of the instrument is based on the strength of the corporate guarantee provided by MRPL for the rated term loans. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount of the rated instrument. Given these attributes, the guarantee provided by MRPL is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]BBB-(CE)** against the rating of [ICRA]BB+ without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- During the tenure of the loan, no change of the parent ownership in the borrower without approval from lender.
- During the tenure of the loan, the promoter holding in MRPL shall not fall below 51%
- Minimum security cover of 1.5x; any shortfall in the security will be supported by additional collateral by the promoters
- The project to be funded in a debt:equity ratio of 70:30 to be maintained throughout the facility. Any cost overrun to be funded through additional equity from promoters
- Building to be ready for fitouts within 4 years and rent to commence within 4.5 years of date of first disbursement
- No external debt / contingent liabilities would be raised/issued by the borrower (excluding loans from sponsors) against the security offered to bank, without written approval from the bank.

Key rating drivers and their description

Credit strengths

Corporate guarantee from ultimate holding company – The rated term loan is backed by corporate guarantee from Millennia Realtors Private Limited (MRPL, rated [ICRA]BBB- with stable outlook), which is the ultimate holding company of PCPL.

Track record of the Group in commercial real estate – PCPL is part of the RMZ Group, which has completed nearly 20 mn sqft of commercial real estate development across cities such as Bangalore, Chennai, Hyderabad, Pune, Kolkata and Gurgaon. The group has demonstrated track record of timely completion of large-sized projects with high occupancy levels maintained across its properties.

Favourable location of the project – The RMZ Nexity project is located in Hitec City, Hyderabad, which has seen a significant growth in demand and absorption of leased office space. The Group has recently completed The Skyview, a 3.9 mn sqft office building in the vicinity of Nexity, where occupancy levels are currently higher than 90%. The favourable location of the project is expected to translate into adequate pre-leasing status by the scheduled completion.

Comfortable moratorium period – The rated term loan has a moratorium till March 2024 as compared to the targeted completion date of September 2022 for the entire project. The extended moratorium is expected to partly mitigate risks arising due to any delays in development or leasing of the project.

Credit challenges

High execution risk – The RMZ Nexity project involves development of 3.2 million square feet (mn sqft) of leasable office space (PCPL share of 2.1 mn sq ft) in Hitec City, Hyderabad. The project was launched in April 2019; construction of the project is expected to be concluded over the next three years. Given the nascent stage of the project as on date, the project is exposed to significant execution risks.

No pre-leasing as on date – The absence of pre-leasing tie-ups as on date enhances the market risks for the project. Notwithstanding the group's track record and low vacancy levels in the project's micro-market currently, the company is exposed to risks arising due to any decline in demand trends in the context of increased supply of under-construction office space in the Hyderabad market.

Pending equity contribution – The total project cost of Rs 1,680 crore is being funded through term loan of Rs 1,065 crore with the remaining portion to be funded through equity and security deposits. There is funding risk associated with the pending equity contribution of around Rs 400 crore for the project; timely sponsor contribution in line with the construction stage will be critical for commensurate release of bank funding.

Liquidity position: Adequate

PCPL's liquidity is **adequate** with pending costs on the project to be met through a mix of drawdown of the sanctioned term loan and incremental promoter contribution. The rated term loan has a debt service reserve account (DSRA) covering six months of interest payments due, which is being maintained as on date. In addition, there is a corporate guarantee from MPRL towards the rated term loans. The liquidity profile of the guarantor is also adequate, with scheduled debt repayment obligations matched by projected cash flow from operation and financial flexibility resulting from the large investment portfolio of MRPL to support its investment commitments.

Rating sensitivities

The above rating assigned to the term loans would remain sensitive to any movement in the rating or outlook of the guarantor, Millennia Realtors Private Limited.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Approach for rating debt instruments backed by third-party explicit support
Parent / Group Support	Parent Company: Millennia Realtors Private Limited The rating is based on explicit support from ultimate holding company, Millennia Realtors Private Limited, in the form of a corporate guarantee towards the rated term loans.
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

About the company

Prahitha Constructions Private Limited (PCPL) is a special purpose vehicle (SPV) incorporated by the RMZ Group for the execution of the RMZ Nexity project located in Hyderabad. The project involves development and leasing of 3.2 msf of office space in Knowledge City, Hyderabad on a 10.12 acre land parcel. The project is being developed under a joint development agreement (JDA) wherein PCPL's share of the ownership in leasable area will be 2.1 msf (64.5%). The construction of the project has started in April 2019 and is expected to be completed by FY2023 in phases. PCPL is wholly owned by RMZ Corp Holding Private Limited, which in turn is a 51% subsidiary of Millennia Realtors Private Limited (MRPL), the ultimate holding company of the group. The remaining shares of RMZ Corp Holding Private Limited are held by Capital M Pte Ltd, another holding company of the RMZ Group. The rated term loan is backed by corporate guarantee from MRPL.

Key financial indicators

	FY2019 (audited)	FY2020 (provisional)
Operating Income (Rs. crore)	-	-
PAT (Rs. crore)	-0.1	-1.1
OPBDIT/OI (%)	-	-
PAT/OI (%)	-	-
Total Outside Liabilities/Tangible Net Worth (times)	n.m.	6.6
Total Debt/OPBDIT (times)	n.m.	n.m.
Interest Coverage (times)	n.m.	n.m.

Note: The project being developed by the company is still in construction stage and no revenues have been reported till date.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2020)				Rating History for Past 3 Years		
	Type	Amount Rated	Amount Outstanding	Rating 09-Oct-20	FY2020 03-Dec-19	FY2019	FY2018
1 Term loan	Long Term	1,000.0	351.05	[ICRA]BBB-(CE) &	[ICRA]BBB-(CE) (Stable)	-	-

Amount in Rs. crore; &- rating watch with developing implications

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan	Dec 2018	-	Dec 2023	1,000.0	[ICRA]BBB-(CE)&

Source: Prahitha Constructions Private Limited
&: rating watch with developing implications

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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