

December 19, 2022

Rustomjee Realty Private Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	135.00	135.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Total	135.00	135.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade considers the synergies derived by Rustomjee Realty Private Limited ('RRPL') being a part of the Rustomjee Group, and the implicit support from the parent, Keystone Realtors Limited (KRL), which is the flagship company of the Rustomjee Group. ICRA has revised its analytical approach for RRPL from standalone to rating approach based on the parent group support, considering the likelihood of the parent (KRL) extending financial support to RRPL, given the business linkages, strategic importance and the parent's reputation sensitivity to default. The Rustomjee Group has a long track record of close to three decades and an established position in the Mumbai Metropolitan Region (MMR) residential real-estate market, underpinned by 20 million square feet (mn sq ft) of deliveries till June 2022. Additionally, it has an under-construction project portfolio comprising a saleable area of 9.6 mn sq ft and forthcoming developments of ~ 26 mn sq ft over the medium term.

The rating factors in the premium location of the Rustomjee Elements project being developed by RRPL, in Upper Juhu. The project has demonstrated healthy sales progress post receiving the occupancy certificate (OC) for the last tower in September 2021, by selling 26 out of 29 pending units till December 14, 2022.

The rating is, however, constrained by the project's exposure to residual market risks, given the high-ticket size of pending unsold units. As on December 14, 2022, 97% of the area under Project Elements has been sold with only three units yet to be sold pertaining to Tower C, which have a combined inventory value of around Rs. 155 crore including one mansion with expected sales value of Rs. 120 crore. As on December 14, 2022, the committed receivables for the project stood at Rs. 42 crore with pending cost was Rs. 34 crore and debt outstanding was Rs. 68 crore. Thus, committed receivable/(adjusted pending cost¹+ debt outstanding) is 52%. While RRPL has sold three units in Q3 FY2023, the large ticket size of the pending mansion sale poses market risk. The rating further remains constrained by the geographic and asset concentration risk as well as susceptibility to cyclicity in the real estate sector.

The Stable outlook on the rating reflects ICRA's opinion that the company will continue to benefit from the location of Rustomjee Elements project along with the operational and financial linkages with Rustomjee group.

Key rating drivers and their description

Credit strengths

RRPL derives synergies as a part of the Rustomjee Group, which has a strong operational track record and brand strength in real estate sector - The Rustomjee Group has a strong execution track record, which includes development of luxury residential

¹ Adjusted pending cost is calculated after deducting the retention monies not due in near term from the pending project cost

real estate, affordable housing, shopping mall, schools and commercial spaces. Its execution track record is supported by the completed construction of over 20 mn sq ft area, under-construction project comprising a saleable area of 9.6 mn sq ft and forthcoming developments of ~ 26 mn sq ft in pipeline. Across the ongoing projects, the company reported healthy sales and the portfolio level years-to-sell is around one year. The Group has a well-recognized brand in the MMR and enjoys market leadership position in the catered micro-markets. ICRA expects KRL, RRPL's parent and group's flagship company, to extend extraordinary support to RRPL given the business linkages, strategic importance and the parent's reputation sensitivity to default.

Healthy project sales and collections– With the timely completion of both the phases of the project Rustomjee Elements, the company has mitigated execution risk for the project. The OC for the last tower (Tower-C) was received in September 2021, post which, till December 14, 2022, the company reported healthy sales progress with bookings of 26 out of 29 pending units. RRPL recorded healthy collections of around Rs. 200 crore in FY2022 and around Rs. 100 crore in 7M FY2023, using which it has pre-paid the debt obligations for FY2023.

Favourable location of the project – The project Rustomjee Elements is located in the premium neighbourhood of upper Juhu, Andheri West, Mumbai. The key location of the project provides easy access to the evolved social infrastructure of the western Mumbai. Strategic location along with established brand presence has supported adequate realisation and sales velocity of the residential units.

Credit challenges

Market risk for high ticket size mansion - As on December 14, 2022, 97% of the area under Project Elements has been sold with only three units yet to be sold pertaining to Tower C, which have a combined inventory value of around Rs. 155 crore including one mansion with expected sales value of Rs. 120 crore. As on December 14, 2022, the committed receivables for the project stood at Rs. 42 crore with pending cost was Rs. 34 crore and debt outstanding was Rs. 68 crore. Thus, committed receivable/(adjusted pending cost + debt outstanding) is 52%. While RRPL has sold three units in Q3 FY2023, the large ticket size of the pending mansion sale poses market risk. The proceeds of sale from these two smaller units and committed receivables would be sufficient to comfortably meet the immediate cost and debt obligations.

Geographical and asset concentration risks – The company has a single project in Mumbai, exposing it to the geographical concentration risk. Moreover, the Group's presence is limited to the Mumbai city, which constrains it to the geo-political issues in the city.

Susceptibility to cyclical and regulatory risks in real estate sector – The real estate sector is cyclical and has a highly fragmented market structure because of the presence of many regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which exposes the company's sales to any downturn in demand.

Liquidity position: Adequate

RRPL has prepaid its debt obligations for FY2023 and the current outstanding debt of Rs. 68 crore is to be paid by June 2024 in quarterly instalments as per the repayment schedule. As on December 14, 2022, RRPL had an unencumbered cash of Rs. 4 crore and undrawn overdraft lines of Rs 26 crore. The debt repayments can be comfortably serviced from its cashflow from operations.

Rating sensitivities

Positive factors – The rating may be upgraded if the company is able to demonstrate significant increase in scale while maintaining strong collections, low leverage and healthy liquidity position on a sustained basis. Additionally, improvement in the credit profile of the parent, KRL, could also favourably impact the rating.

Negative factors – The rating may be downgraded in case of any significant delay in collection of committed receivables or liquidation of the pending units adversely impacting the debt servicing metrics. Further, a material deterioration in the credit profile of the parent, KRL or any weakening in the operational and financial linkages with the parent could lead to a revision in the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating approach- Implicit Parent or Group Support
Parent/Group support	Keystone Realtors Limited (KRL) ICRA expects KRL to extend extraordinary support to RRPL given the business linkages, strategic importance and the parent's reputation sensitivity to default.
Consolidation/Standalone	The assigned ratings are based on the issuer's standalone financial statements

About the company

Incorporated in 2003, Rustomjee Realty Private Limited is a part of the Rustomjee Group, a Mumbai-based real estate developer. The company has developed a premium residential project – Rustomjee Elements – in Upper Juhu, Andheri West, Mumbai. The project includes saleable component - seven residential towers as well as non-saleable components - eight rehabilitation towers. The saleable component of seven residential towers has a saleable area of 6.8 lakhs sq. ft. The OC for the last tower was received in September 2021.

Key financial indicators (audited)

Standalone- RRPL	FY2021	FY2022
Operating income	140	302
PAT	-10	41
OPBDIT/OI	8%	23%
PAT/OI	-7%	14%
Total outside liabilities/Tangible net worth (times)	2.1	1.4
Total debt/OPBDIT (times)	12.5	1.9
Interest coverage (times)	0.5	10.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; all ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 14, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Dec 19, 2022	Sept 30, 2021	Apr 01, 2020	-	
1	Term Loans	Long-term	135.0	67.5	[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

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 No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Term Loan-I	Mar-2021	NA	Jun-2024	135.0	[ICRA]BBB+ (Stable)

Source: Company

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

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