February 07, 2023

Prahitha Constructions Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1000.00	1000.00	[ICRA]BBB+ (Stable); reaffirmed
Total	**1000.00**	**1000.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Prahitha Constructions Private Limited (PCPL) factors in the presence of strong promoters, where 50% stake is held each by the RMZ Group and Canada Pension Plan Investment Board (CPPIB), which lends strong financial flexibility. The RMZ Group has a strong execution track record in the real estate space and is one of the leading players in the commercial real estate segment in Bangalore and has developed over 20 million square feet (msf) of area across several cities. The rating considers the asset's favourable location in Hitec City, Hyderabad, which is expected to translate into adequate pre-leasing by the completion of the project. The rating favourably notes the low funding risk for the project with the sanction of construction finance (CF) loan of Rs. 1,065 crore in place and infusion of the entire equity requirement by the promoter groups.

The rating, however, is constrained by the moderate execution risk of the project, where around 51% of the entire budgeted cost has been incurred as of June 2022. Further, there has been an increase in the overall budgeted cost by 6% to Rs. 2,085 crore against the previous estimates due to an increase in interest during construction (IDC) cost, which will be funded by equity contribution and security deposits from tenants. The project is also exposed to significant market risk, as the company has only pre-leased around 23% of the area available to RMZ Group. Also, PCPL has commitment to do leasing for 80% of landowners' share, of which around 51% is completed as of December 2022. Further, the company is exposed to refinancing risk of the outstanding construction loan. However, comfortable moratorium till March 2025 against the targeted completion date of December 2023 mitigates the risk to an extent.

The Stable outlook reflects ICRA's opinion that the company would benefit from the location advantage of the project and operational track record of the promoter group.

Key rating drivers and their description

Credit strengths

Established track record of the promoter group in commercial real estate – PCPL is a 50%:50% special purpose vehicle (SPV) of the RMZ Group and CPPIB Group. The RMZ Group has a strong execution track record in the real estate space and is one of the leading players in the commercial real estate segment in Bangalore. It has developed over 20 million sft of commercial real estate space across Bangalore, Chennai, Hyderabad, Pune, Kolkata and Gurgaon. The Group has a demonstrated track record of timely completion of large-sized projects with high occupancy levels across its properties. The strong promoter groups such as RMZ and CPPIB with a demonstrated track record in commercial real estate development lends healthy financial flexibility to PCPL.

Favourable location of the project – The RMZ Nexity Project is located in Hitec City, Hyderabad, which witnessed substantial growth in demand and absorption of leased office space and is well connected to the other micromarkets of Hyderabad. The favourable location is expected to translate into adequate pre-leasing by the scheduled completion of the project.

Low funding risks with equity infusion commitments in place – The under-construction phase of the project is exposed to low funding risk with the sanction of CF loan of Rs. 1,065 crore in place and infusion of the entire equity requirement by the promoter groups. Further, CPPIB has recently bought in the entire equity commitment bringing the shareholding to 50%:50% in the company.

Credit challenges

Exposure to execution risk – The RMZ Nexity project involves development of 3.2 million sft of leasable office space (PCPL's share of 2.1 million sft) in Hitec City, Hyderabad. While PCPL has received the occupancy certificate (OC) for Tower 40, the construction of the remaining blocks is expected to be completed in phases by December 2023 and ahead of the scheduled DCCO. There has been an increase in the overall budgeted cost by 6% to Rs. 2,085 crore from the previous estimates due to an increase in IDC cost, which will be funded by equity contribution and security deposits from tenants. The company has incurred around 51% of the total budgeted cost as of June 2022 resulting in moderate execution risk.

Exposure to market risk – The company has pre-leased around 23% of PCPL's share, resulting in a significant market risk. It has committed to lease 80% of the landowners' share, of which around 51% is completed as of December 2022. Notwithstanding the healthy pipeline of prospective tenants, and the Group's track record, PCPL is susceptible to market risk and any decline in the market due to adverse macroeconomic and external threats, which could impact the tenant's business risk profiles.

Exposure to refinancing risk – Any delay in the construction or lower-than-expected leasing levels could adversely impact the company's cash flow position and its ability to refinance the outstanding construction loan. With comfortable moratorium till March 2025 against the targeted completion date of December 2023, the risk is mitigated to an extent.

Liquidity position: Adequate

PCPL's liquidity is adequate, supported by the presence of undrawn construction debt of around Rs. 636 crore as of June 2022 and free cash balance of Rs. 236.4 crore as of March 2022. Further, the security deposit inflows on lease tie-ups are likely to support the project's overall funding requirements. The company also intends to refinance part of its CF loan into LRD loan with a top up of Rs. 150 crore in H1 FY2024, which will support Rs. 1,032 crore of pending construction of the project as of June 2022.

Rating sensitivities

Positive factors – Substantial improvement in leasing and construction progress, thereby providing higher visibility on timely refinancing of construction debt could lead to an upgrade in rating. Specific metric that could lead to rating upgrade include committed occupancy of more than 85% on a sustained basis.

Negative factors – Downward pressure on the rating could emerge if any delay in timely completion or adequate leasing of the office space impacts the company's ability to timely refinance the outstanding CF loan.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt backed by Lease Rentals
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Prahitha Constructions Private Limited (PCPL) is an 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 FY2024 in phases.

As on March 31, 2022, 50% of PCPL's share is held 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 PCPL are held by CPPIB, which is a Canadian Crown corporation established by way of the 1997 Canada Pension Plan Investment Board Act to oversee and invest the funds contributed to and held by the Canada Pension Plan.

Key financial indicators (audited)

Not applicable being a project stage company.

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 June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 07, 2023	Dec 17, 2021	Oct 09, 2020	Dec 03, 2019
1	Term loans	Long term	1000.0	429.0	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable) assigned; [ICRA]BBB- (CE)& withdrawn	[ICRA]BBB- (CE)&	[ICRA]BBB- (CE) (Stable)

&=Under watch with developing implications

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
-	**Term Loan-I**	Dec-2018	NA	Mar-2025	1000.0	[ICRA]BBB+ (Stable)

Source: Company

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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