June 22, 2023

Prahitha Constructions Private Limited: Rating upgraded to [ICRA]A- (Stable); rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	1000.00	1065.00	[ICRA]A- (Stable); Rating upgraded from [ICRA]BBB+ (Stable)
Total	**1000.00**	**1065.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Prahitha Constructions Private Limited (PCPL) considers the increase in pre-leasing to 49% as of May 2023 against 23% as of February 2023 resulting in healthy occupancy of Tower 10[1] [1.05 million square feet (msf) pre-leased out of 1.14 msf area], which is expected to receive occupancy certificate (OC) in Q2 FY2024. The company is likely to convert the construction finance (CF) loan (with respect to Tower 10) into LRD loan, along with a top-up. The same is anticipated to be utilised towards the pending construction cost. The rating factors in the improvement in the execution progress of 76% as of March 2023 from 51% as of June 2022 resulting in reduced execution risk.

The rating favourably 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. It is one of the leading players in the commercial real estate segment in Bangalore and has developed over 20 msf of area across several cities. The rating notes the low funding risk for the project with the CF loan in place and infusion of the entire equity requirement by the promoter groups. 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, however, is constrained by the moderate execution risk of the project, wherein the company is yet to incur around 24% of the total construction cost (primarily towards Tower 20) as of March 2023. It is also exposed to market risk for the leasable area in Tower 20. With healthy leasing pipeline and track record of RMZ Group in leasing, PCPL is expected to achieve adequate leasing levels before the completion of Tower 20. Further, the company is exposed to refinancing risk for the outstanding construction loan. However, comfortable moratorium till March 2025 against the targeted completion date of Q4FY2024 mitigates the risk to an extent.

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

Key rating drivers and their description

Credit strengths

Established track record of promoter groups 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 msf of commercial real estate

[1] Under SPV share in the company, there are majorly two towers – 10 and 20. Tower 10 (1.14 msf) is likely to received OC in Q2 FY2024 and Tower 20 (0.89 sf) are expected to be completed in Q4 FY2023.

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 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 already infused – The project has a comfortable funding mix with debt-to-equity ratio of 1.04:1 and low funding risk with the CF loan in place. The entire equity has already been infused by the promoter groups.

Credit challenges

Exposure to moderate execution risk – The RMZ Nexity involves development of four towers with (Tower 10, 20, 30 and 40) with a total leasable office space of 3.2 msf (of which PCPL's share is 2.1 msf across Tower 10, 20 and 40), in Hitec City, Hyderabad. While PCPL has received the occupancy certificate for Tower 40, the construction of Tower 10 has also been completed and OC is expected to be received in Q2 FY2024. The construction of the remaining block is likely to be completed by Q4FY2024 and ahead of the scheduled DCCO. Further, the project has witnessed improvement in the execution progress of 76% as of March 2023 from 51% as of June 2022 resulting in reduced execution risk.

Exposure to market risk – The project witnessed an increase in pre-leasing to 49% as of May 2023 against 23% as of February 2023 resulting in healthy occupancy of Tower 10 (1.05 msf preleased out of 1.14 msf area), which is expected to receive OC in Q2 FY2024. 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 – The company is expected to convert the CF loan (w.r.t. Tower 10) into LRD loan, along with a top-up, which is likely to be utilised towards the pending construction cost. Any delay in the construction or lower-than-expected leasing levels could adversely impact its cash flow position and its ability to refinance the outstanding term 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

The company's liquidity is adequate, supported by the presence of sufficient undrawn CF of around Rs. 292.9 crore, along with cash and cash equivalent of Rs. 36.6 crore as of March 2023. Further, the security deposit inflows on lease tie-ups are likely to support the project's overall funding requirements. It also intends to refinance part of its CF loan into LRD loan with a top up in H1 FY2024, which will support the pending cost of Rs. 587.5 crore for project construction as of March 2023.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant increase in occupancy and mitigation of refinance risk associated with the CF loans resulting in an improvement in debt coverage metrics on a consistent basis. Specific credit metrics that could lead to a rating upgrade include a five-year average DSCR greater than 1.3 times on a sustained basis.

Negative factors – The rating may be downgraded in case of any delay in timely completion or inability to achieve the adequate leasing tie-ups and rent commencement, which increase the refinance risk, or if there is a significant rise in indebtedness resulting in moderation of coverage and leverage on a sustained basis.

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 was started in April 2019 and is expected to be completed by FY2024 in phases. As on March 31, 2023, 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.

Key financial indicators

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					June 22, 2023	Feb 07, 2023	Dec 17, 2021	Oct 09, 2020
1	Term loans	Long term	1065.0	772.1	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable) assigned; [ICRA]BBB- (CE)& withdrawn	[ICRA]BBB- (CE)&

&= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
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**	FY2023	-	FY2025	1065.0	[ICRA]A- (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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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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