September 16, 2024

Prahitha Constructions Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based/Term loan	1065.00	1409.00	[ICRA]A- (Stable); reaffirmed/assigned for the enhanced amount
Total	**1065.00**	**1409.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Prahitha Constructions Private Limited (PCPL) favourably factors in the healthy progress in leasing and receipt of occupancy certificate (OC) for all the towers, leading to healthy cash flow visibility. The occupancy levels improved to 64% in August 2024 compared to 49% in May 2023 and with a strong leasing pipeline, the occupancy is expected to reach around 85% by March 2025. Further, with 100% leasing of tower 10 and 70% leasing for tower 40, the company has refinanced part of construction finance (CF) loan into lease rental discounting (LRD) loan with a top-up debt in Q3 FY2024. With expected leasing ramp-up in tower 20, the balance CF loan is expected to be refinanced in the next six months thereby mitigating the refinancing risk. Though the leverage is expected to remain high as the company has available top-up debt with estimated debt/annualised net operating income (NOI) of around 9 times as of March 2025, the debt coverage metrics are expected to remain adequate with five-year average DSCR of 1.25-1.30 times (FY2025–FY2029). The rating favourably considers the asset's favourable location in Hitec City, Hyderabad, which enhances the marketability of the project. The rating further 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 Bengaluru. It has developed over 20 million square feet (msf) of commercial real estate space across several cities.

The rating is, however, exposed to moderate market risk for the leasable area in tower 20. Nonetheless, the RMZ Group's healthy track record in commercial real estate and strong leasing pipeline are likely to help PCPL achieve adequate leasing levels before the bullet repayment (March 2025) of the pending CF loan. The rating is also constrained by the moderate tenant concentration risk in the asset, with top five tenants occupying nearly 50% of the total leasable area. Nonetheless, the reputed tenant profile, along with long lease tenures and lock-in period of five-six years mitigate the risk to an extent. The rating also factors in the single-asset nature of the company and the dependence on revenues from a single property, exposing it to asset concentration risk. The rating notes the vulnerability of its debt coverage metrics to factors such as changes in interest rates or material reduction in occupancy levels.

The Stable outlook reflects ICRA's opinion that the company would benefit from attractive location of the asset, expected ramp-up in occupancy levels leading to improvement in debt protection metrics.

Key rating drivers and their description

Credit strengths

Healthy leasing levels and adequate debt coverage metrics – The company's occupancy levels improved to 64% as of August 2024 compared to 49% as of May 2023 and with a strong leasing pipeline, the occupancy is expected to reach around 85% by March 2025. Further, with 100% leasing of tower 10 and 70% leasing for tower 40, the company has refinanced part of construction finance (CF) loan into lease rental discounting (LRD) loan with a top-up debt in Q3 FY2024. With expected leasing ramp-up in tower 20, the balance CF loan is expected to be refinanced in next six months thereby mitigating refinancing risk. Though the leverage is expected to remain high as the company has available top-up debt with estimated debt/annualised net operating income (NOI) of around 9 times in March 2025, the debt coverage metrics are expected to remain adequate with five-year average DSCR of 1.25-1.30 times (FY2025–FY2029).

Favourable location of the project – The RMZ Nexity Project is in Hitec City, Hyderabad, which has seen a substantial growth in demand and absorption of leased office spaces. The area is characterised by a good infrastructure and has been a preferred micromarket for multinational companies taking up spaces in and around Hyderabad. The favourable location of the project enhances its marketability.

Established track record of promoter groups in commercial real estate – PCPL is a 50:50 special purpose vehicle (SPV) of the RMZ Group and the CPPIB Group, 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 Bengaluru. It has developed over 20 msf of commercial real-estate space across several cities.

Credit challenges

Exposure to market risk for tower 20 of the project – The company is exposed to market risks for the leasable area in tower 20. Nonetheless, the RMZ Group's healthy track record in commercial real estate and strong leasing pipeline are likely to help PCPL achieve adequate leasing levels before the bullet repayment (March 2025) of the pending CF loan.

Moderate tenant and high asset concentration risk – PCPL is exposed to moderate tenant concentration risk in the asset, with top five tenants occupying nearly 50% of the total leasable area. Nonetheless, the reputed tenant profile, along with long lease tenures and lock-in period of five-six years mitigate the risk to an extent. The single-asset nature of the company and dependence on revenues from a single property, expose the company to asset concentration risk.

Vulnerability of debt coverage metrics to external factors – The debt coverage metrics are vulnerable to factors such as changes in interest rates or material reduction in occupancy levels.

Liquidity position: Adequate

PCPL's liquidity profile is adequate, given the expected stable generation of rental income from the leased area. Post refinancing of the outstanding CF loan with LRD loan, the cash flow from operations is expected to remain adequate to meet debt repayment obligations. Further, PCPL had free cash and liquid investments of ~Rs. 53 crore as on June 30, 2024.

Rating sensitivities

Positive factors – The rating could be upgraded, if there is a healthy increase in occupancy at adequate rent rates leading to an improvement in debt protection metrics, on a sustained basis. A specific credit metric that could lead to a rating upgrade is if five-year average DSCR is greater than 1.3 times, on a sustained basis.

Negative factors – The rating may be downgraded, in case of material decline in occupancy or significant delay in leasing tie-up for tower 20, or if there is a significant rise in indebtedness resulting in moderation of coverage and leverage metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
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 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 developed under a joint development agreement (JDA), wherein PCPL's share of the ownership in leasable area is 2.1 msf (65%). The construction of the project has been completed and the company has received OC for all the towers. As on March 31, 2024, 50% of PCPL's share was 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 (audited)

	FY2024
Operating income	56.5
PAT	-57.4
OPBDIT/OI	10.5%
PAT/OI	-101.5%
Total outside liabilities/Tangible net worth (times)	4.4
Total debt/OPBDIT (times)	246.9
Interest coverage (times)	0.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	September 16, 2024	Date	Rating	Date	Rating	Date	Rating
Term loan	Long term	1409.0	**[ICRA]A- (Stable)**	June 22, 2023	[ICRA]A- (Stable)	Feb 07, 2023	[ICRA]BBB+ (Stable)	Dec 17, 2021	[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 detail

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term loan I**	FY2023	-	FY2025	444.0	[ICRA]A- (Stable)
-	**Term loan II**	FY2024	-	FY2034	965.0	[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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 6939 6427
anupama.reddy@icraindia.com

Abhishek Lahoti
+91 40 6939 6433
abhishek.lahoti@icraindia.com

Preeti Rana
+91 124 4545 887
preeti.rana@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches