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ICRA assigns IPO Grade 3 to the proposed Initial Public Offering of Prestige Estates Projects Limited

ICRA has assigned an IPO Grade 3, indicating average fundamentals, to the proposed Initial Public Offer (IPO) of Prestige Estates Projects Limited (PEPL). ICRA assigns IPO gradings on a five-point scale of IPO Grade 5 through to IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

Prestige Estates Projects Limited (PEPL) is proposing to come out with an Initial Public Offer to raise fresh equity of Rs. 1200 crores, through the book building route. PEPL is also considering a pre-IPO placement of equity shares aggregating up to Rs. 200 crores. Post the IPO, the shares will be listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The IPO proceeds are proposed to be used primarily for financing ongoing & under development projects, investment in subsidiaries, acquisition of land, and repayment of loans.

The IPO grade assigned by ICRA takes into account PEPL's proven track record in executing projects in Bangalore with reputation for quality delivery of the projects; the good market response for PEPL's ongoing residential projects, reflected by a high level of bookings and customer advances that is expected to result in healthy growth in revenues and profitability going forward; and relatively low commitment in terms of land payments due to its business model of entering into Joint Development Agreements (JDA) with the land owners for most of the projects, which would result in comparatively lower capital intensity for the business. The grading also considers the strong portfolio of rental yielding assets in commercial as well as retail segments that would provide a steady cash flow to the company and the benefits expected from the partnership with CapitaLand Retail India Investments Private Limited for mall developments. ICRA also notes that the revival in sentiments in real estate market esp. in residential segment as indicated by lowering of inventory and steady transactions augurs well for the company.

The grading is, however, constrained by PEPL's increased exposure to commercial projects in medium term which would result in high funding requirements despite the JDA model and the single market concentration risk as currently group's operations are largely concentrated in Bangalore. ICRA notes that PEPL is diversifying into newer geographies like Mangalore, Kochin and Hyderabad, however its ability to compete and execute projects in these areas, as well as ensure market acceptance for the same, are yet to be demonstrated. ICRA also notes that despite improving sentiments, the sluggish demand in commercial and retail segment can be a potential challenge for the company given that the company has a fairly large portfolio of on-going projects under execution in these segments. Also the company's profitability ratios and return parameters have historically been low primarily due to some large projects which had comparatively low margins. While ICRA expects profitability to improve going forward due to several premium ongoing projects, the company's revenue and profitability in the near term would be guided by a few very large scale projects like "Golfshire", "Shantiniketan" and "White Meadows". Any delay in executing these projects, or less than anticipated sales and collections could impact the financial performance significantly.

Company Profile

Prestige Estates Projects Limited (PEPL) is the flagship company of Prestige Group - a leading real estate developer of South India, engaged in development of integrated townships, hotels, resorts, spa, industrial parks, golf course, retail malls, high-end residential & commercial complexes, etc. The Prestige group was founded in 1986 by Mr. Razack Sattar. The company commenced operations as a partnership and later was registered as a private limited company with the name Prestige Estates

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Projects Private Limited. Finally the company was converted into a public limited company on November 10, 2009 with the name Prestige Estates Projects Limited.

Prestige Group has over 24 years of experience in real estate development, and is one of the leading real estate development companies in south India. Prestige Group has completed 142 real estate projects of approximately 27.09 million sq. ft. It has developed a diversified portfolio of real estate development projects focusing on projects in the residential (including apartments, villas, plotted developments and integrated townships), commercial (including corporate office blocks, built-to-suit facilities, technology parks and campuses and SEZs), hospitality (including hotels, resorts and serviced accommodation) and retail

(including shopping malls) segments of the real estate industry. The Group currently owns or holds development rights for ~53 million sq. ft. of developable area, which includes 24.49 million sq. ft. of saleable area and 9.64 million sq. ft. of leasable area. Promoters have been associated with the real estate business since 1981.

PEPL, on consolidated basis, recorded operating income of Rs 1086.00 crores with profit after tax of Rs 129.44 crores in FY2010. The corresponding figures in FY2009 were 916.15 crores and 70.73 crores respectively.

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For further details please contact:

Analyst Contacts:

Mr. Vikas Aggarwal (Tel No. +91-124-4545300)
vikas@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee, (Tel. No. +91-80-43326401/ 098 450 22459)
jayantac@icraindia.com

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