February 12, 2021

Prestige Estates Projects Limited: Rating reaffirmed at [ICRA]A+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan	4,149.00	3,898.80	[ICRA]A+ (Stable); reaffirmed
Long-term – Non-fund based	351.00	601.20	[ICRA]A+ (Stable); reaffirmed
Non-convertible debentures	650.00	350.00	[ICRA]A+ (Stable); reaffirmed
Total	**5,150.00**	**4,850.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into consideration Prestige Estates Projects Limited's (PEPL's) long operational track record of more than 34 years in the real-estate industry, its strong project execution capabilities and the high market share in the residential real-estate segment of Bangalore. PEPL has diversified operations across residential, commercial, retail, hospitality and property management segments. The rating considers the improvement in the sales volume in the residential segment post the slow-down in Q1 FY2021 due to the Covid-19 pandemic induced lockdown. The company has made healthy progress in the liquidation of its completed inventory including some high-end projects which had provided healthy collections and helped the company in reducing its residential project and corporate debt to Rs. 2,669 crore as on September 2020 from Rs. 3,721 crore as on September 2019.

The rating reaffirmation also takes into consideration the proposed sale of identified commercial offices, retail and hospitality properties, mall management and identified maintenance business to Blackstone Group for a purchase consideration of Rs. 9,162 crore. The proceeds from the transaction will result in significant reduction in the consolidated debt of the Group, while generating capital for the investments in various upcoming and planned projects. The transaction, once concluded, will also result in corresponding decline in the annuity rental income of the Group; nonetheless, with significant scale of ongoing and upcoming projects in the commercial office segment, it is expected that the completed asset portfolio will be reinstated to a large extent in the medium term.

The rating, however, is constrained by the risks associated with the large-scale ongoing and upcoming projects of the Prestige Group. The Group has a significant project pipeline (56 mn sqft of ongoing projects and 55 mn sqft of upcoming projects), of which 47 mn sqft is planned in the capex projects which would enhance execution and market risks. With the conclusion of the Blackstone transaction, the overall portfolio of the Prestige Group will shift towards under-development assets, entailing higher capex debt in the coming years. PEPL is expanding into newer geographies such as Mumbai and National Capital Region (NCR) through large-scale capex and residential projects which will expose the company to higher project risk. Nonetheless, the business profile of Prestige Group is expected to be more diversified on successful completion of the planned projects. The gross debt at the Group level increased to around Rs. 10,800 crore as on September 2020 from around Rs. 10,300[1] crore as on September 2019. On conclusion of the ongoing transaction, the gross debt is expected to reduce to less than Rs 5,000 crore. With the transfer of large proportion of completed commercial assets of the Group, the debt profile is expected to be skewed towards residential project debt and capex debt. Nevertheless, ICRA notes that the amount of the shorter maturity residential project debt has reduced over the last two years, through drawdown of longer tenure LRD loans as well as healthy sales and collections in the completed residential inventory. The rating also considers the continuing impact of the pandemic on certain operating segments including retail malls and hospitality. The hospitality segment has been further impacted by the restriction in business travel as a result of the pandemic. The recovery of the affected business will be a monitorable going forward. The

[1] *The debt figures include 100% debt in the subsidiaries, associates and joint venture companies*

pandemic has resulted in higher adoption of flexible working arrangements which might impact the commercial office segment. The impact of such trends on the vacancy rates, rent rates and new lease tie-up will be a key rating monitorable, considering the large scale of development plans of the Prestige Group.

ICRA believes the credit profile of PEPL will remain stable due to long track record of Prestige Group in the real-estate industry as well as its diversified business operations. The sale proceeds from the proposed transaction with Blackstone Group is expected to provide growth capital for the upcoming projects of the Prestige Group.

Key rating drivers and their description

Credit strengths

Leading real-estate developer with track record of 34 years; strong market position with diversified portfolio - The Prestige Group has strong project execution capabilities and enjoys a leading position in Bangalore's residential real-estate market. Till September-2020, the Group had completed development of 247 projects, spanning 134 mn sqft of the total developed area. PEPL generates revenue from a wide range of real-estate activities, which include sale of residential projects and commercial projects; facilities, rental and maintenance revenue from hospitality and retail segments; and rent, fit-out hire charges and maintenance income from commercial property. The Group also derives revenue from operational hospitality assets.

Proposed sale of assets to Blackstone Group is expected to provide growth capital for the upcoming development projects - Prestige Group has signed a preliminary agreement for sale of identified assets to Blackstone Group for a purchase consideration of Rs. 9,162 crore. The net proceeds from the transaction after reducing the associated debt for the assets to be sold will be utilised to fund the development of the upcoming projects of Prestige Group as well as to reduce debt to some extent.

Recovery of residential segment after the pandemic-induced lockdown and reduction in residential debt - The sales and collections in the residential segment has improved in Q2 FY2021 post the pandemic-induced lockdown. In term of area sold, the company recorded a 12% y-o-y growth in Q2 FY2021. The company also achieved a healthy progress in the sale of completed inventory which contributed to around 50% of total residential sales in H1 FY2021. This has helped the company to reduce the lower-maturity residential debt.

Credit challenges

Funding and execution risk in large-scale, ongoing and upcoming projects - The Prestige Group has large-scale ongoing expenditure in the office, retail, hospitality and residential segments. The Group has a significant project pipeline (56 mn sqft of ongoing projects and 55 mn sqft of upcoming projects), of which 47 mn sqft is planned in the capex projects which would enhance execution and market risk. With the conclusion of the Blackstone transaction, the overall portfolio of the Prestige Group will shift towards under-development assets entailing higher capex debt in the coming years. ICRA notes that the sales proceeds from the ongoing transaction with Blackstone Group will be utilised to some extent towards the development of the upcoming projects.

PEPL is also expanding into newer geographies such as Mumbai and NCR through large-scale capex and residential projects which will expose the company to higher project risk. Nonetheless, the business profile of Prestige Group is expected to be more diversified on successful completion of the planned projects.

Expected reduction in debt post sale transaction; however, debt mix will skew towards residential project and capex debt - The gross debt at the Group level increased to around Rs. 10,800 crore as on September 2020 from around Rs. 10,300 crore as on September 2019. On conclusion of the ongoing transaction, the gross debt is expected to reduce to less than Rs 5,000 crore. With the transfer of large proportion of completed commercial assets of the Group, the debt profile is expected to be skewed towards residential project debt and capex debt. With large scale expansion plans in the commercial segment, the capex debt is expected to rise in the near to medium term. Nevertheless, ICRA notes that the amount of the shorter maturity residential project debt has reduced over the last two years, through drawdown of longer tenure LRD loans as well as healthy sales and collections in the completed residential inventory.

Adverse impact of the pandemic on operational segments of Prestige Group - The pandemic had impacted the operational segments of Prestige Group, including the hotels and retail malls. The hospitality segment has been further impacted by the restriction in business travel as a result of the pandemic. The recovery of the affected business will be a monitorable going forward. The pandemic has resulted in higher adoption of flexible working arrangements which might impact the commercial office segment. The impact of such trends on the vacancy rates, rent rates and new lease tie-up will be a key rating monitorable, considering the large scale of development plans of the Prestige Group.

Liquidity position: Adequate

PEPL's liquidity profile is supported by cash balances of around Rs. 600 crore as on September 2020 and adequate cash flow from operations. However, the company has significant repayments of close to Rs. 1,800 crore at the Group level in FY2022. The company will be reliant on refinancing to the extent of the construction loans availed for capex projects in the commercial and retail real estate segment. The repayment of the LRD loans and residential project loans are expected to be adequately covered by the associated operational cash flows. The company is also likely to avail construction finance to part-fund the large capex outlay for upcoming projects. Moreover, the proceeds from the proposed sale transaction will help the company to part-fund the upcoming development projects reducing the reliance on fresh construction finance debt.

Rating sensitivities

Positive factors – The rating of PEPL might be upgraded if the company is able to rebuild its commercial asset portfolio post the proposed sale transaction of existing completed portfolio, through timely launch, development and leasing of the upcoming and ongoing projects, while maintaining debt levels within expected limits.

Negative factors – Negative pressure on PEPL's rating could arise if the company makes significant investments in land or new projects funded by debt or if the leveraging of the LRD loans rises above 5.5 times of the annual net operating income or if there is a decline in the cover of receivables from sold area in the residential segment to lower than 40%.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Real Estate Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	While assigning the ratings, ICRA has taken a consolidated view of PEPL along with its operational subsidiaries, joint ventures and associate companies on account of the strong business and financial linkages between these entities.

About the company

PEPL is the flagship company of the Prestige Group. It started operations as Prestige Estates and Properties, a partnership firm, in 1986 and subsequently converted into a private limited company in 1997 and into a public company in 2009. The company is promoted by Mr Irfan Razack and his brothers, who together hold 65.5% of the shares. The remaining shares are held by institutional investors (32.4%) and other public shareholders (2.1%), as on December 2020.

Prestige has over 34 years of experience in real estate development and is one of the leading real estate developers in South India. It has completed 247 real estate projects, with a developable area of close to 134 mn sqft. It has developed a diversified portfolio of real estate projects focusing on the residential, commercial, hospitality and retail segments. Besides, Prestige also offers a variety of services such as property management services, sub-leasing and fit-out services. Prestige has 47 ongoing projects across segments, with a total developable area of around 56 mn sqft. It also has 55 mn sqft of upcoming projects and holds a land bank with a development potential of 27 mn sqft.

Key financial indicators

PEPL consolidated	Audited	Audited	Provisional
	FY2019	FY2020	H1 FY2021
Operating Income (Rs. crore)	5,171.9	8.124.8	3,148.7
PAT (Rs. crore)	411.2	544.2	113.8
OPBDIT/OI (%)	28.1%	29.0%	30.9%
PAT/OI (%)	8.0%	6.7%	3.6%
Total Outside Liabilities/Tangible Net Worth (times)	5.5	4.2	4.3
Total Debt/OPBDIT (times)	5.8	3.9	4.8
Interest Coverage (times)	2.0	2.3	2.0

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	Rating (FY2021)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2020 (Rs. crore)	Current rating	Previous rating	Date & Rating in FY2020	Date & Rating in FY2019			Date & Rating in FY2018
					Feb 12, 2021	Oct 28, 2020 Apr 27, 2020	Nov 29, 2019	Feb 28, 2019	Aug 06, 2018	Jul 06, 2018	Jan 29, 2018
1	Term loan	Long-term	3,898.80	2,507.94	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund based	Long-term	601.20	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-	-
3	NCDs	Long-term	350.00	350.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Commercial Paper	Short-term	0.00	-	-	-	-	[ICRA]A1+ withdrawn	[ICRA]A1+	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2013-FY2021[2]	-	Jan 2035	3,898.80	[ICRA]A+ (Stable)
NA	Non-fund based	-	-	-	601.20	[ICRA]A+ (Stable)
INE811K07067	NCD	Aug 10, 2018	10.50%	Aug 10, 2023	350.00	[ICRA]A+ (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	PEPL Ownership	Consolidation Approach
Avyakth Cold Storages Private Limited	100.00%	Full Consolidation
Cessna Garden Developers Private Limited	85.00%	Full Consolidation
Dashanya Tech Parkz Private Limited	49.00%	Full Consolidation
Dollars Hotel & Resorts Private Limited	65.92%	Full Consolidation
ICBI (India) Private Limited	82.57%	Full Consolidation
K2K Infrastructure (India) Private Limited	75.00%	Full Consolidation
Northland Holding Company Private Limited	100.00%	Full Consolidation
Prestige Amusements Private Limited	51.02%	Full Consolidation
Prestige Bidadi Holdings Private Limited	99.94%	Full Consolidation
Prestige Builders and Developers Private Limited	100.00%	Full Consolidation
Prestige Construction Ventures Private Limited	100.00%	Full Consolidation
Prestige Exora Business Parks Limited	100.00%	Full Consolidation
Prestige Falcon Realty Ventures Private Limited	100.00%	Full Consolidation
Prestige Garden Resorts Private Limited	100.00%	Full Consolidation
Prestige Hospitality Ventures Limited	100.00%	Full Consolidation
Prestige Leisure Resorts Private Limited	57.45%	Full Consolidation
Prestige Retail Ventures Limited	100.00%	Full Consolidation
Prestige Shantiniketan Leisures Private Limited	100.00%	Full Consolidation
Sai Chakra Hotels Private Limited	100.00%	Full Consolidation
Prestige Sterling Infra Projects Private Limited	80.00%	Full Consolidation
Village-De-Nandi Private Limited	100.00%	Full Consolidation
Prestige Mall Management Private Limited	100.00%	Full Consolidation
Prestige Garden Constructions Private Limited	100.00%	Full Consolidation
Prestige Mangalore Retail Ventures Private Limited	100.00%	Full Consolidation
Prestige Mysore Retail Ventures Private Limited	100.00%	Full Consolidation
Flicker Projects Private Limited	100.00%	Full Consolidation
Prestige Hyderabad Retail Ventures Private Limited	100.00%	Full Consolidation
Prestige Garden Estates Private Limited	100.00%	Full Consolidation
Albert Properties	88.00%	Full Consolidation
Eden Investments & Estates	77.50%	Full Consolidation
Prestige AAA Investments	51.00%	Full Consolidation
Prestige Altavista Holdings	60.00%	Full Consolidation
Prestige Habitat Ventures	99.00%	Full Consolidation
Prestige Hi-Tech Projects	92.35%	Full Consolidation
Prestige Interiors	97.00%	Full Consolidation

[2] *Represents loans sanctioned between FY2013 and FY2021*

Company Name	PEPL Ownership	Consolidation Approach
Prestige Kammanahalli Investments	75.00%	Full Consolidation
Prestige Nottinghill Investments	51.00%	Full Consolidation
Prestige Office Ventures	99.99%	Full Consolidation
Prestige Ozone Properties	47.00%	Full Consolidation
Prestige Pallavaram Ventures	99.95%	Full Consolidation
Prestige Property Management & Services	97.00%	Full Consolidation
Prestige Southcity Holdings	51.00%	Full Consolidation
Prestige Sunrise Investments	99.99%	Full Consolidation
Prestige Whitefield Developers	47.00%	Full Consolidation
PSN Property Management and Services	50.00%	Full Consolidation
Silver Oak Projects	99.99%	Full Consolidation
The QS Company	98.00%	Full Consolidation
Morph	40.00%	Full Consolidation
Villaland Developers LLP	80.00%	Full Consolidation
West Palm Developments LLP	61.00%	Full Consolidation
Prestige Valley View Estates LLP	51.05%	Full Consolidation
Prestige Whitefield Investments and Developers LLP	99.99%	Full Consolidation
Prestige OMR Ventures LLP	70.00%	Full Consolidation
Vijaya Productions Private Limited	50.00%	Equity Method
Prestige Projects Private Limited	100.00%	Equity Method
Thomsun Realtors Private Limited	50.00%	Equity Method
Bamboo Hotel and Global Centre (Delhi) Private Limited	50.00%	Equity Method
DB (BKC) Realtors Private Limited	28.99%	Equity Method
Apex Realty Management Private Limited	60.00%	Equity Method
Prestige Realty Ventures	49.90%	Equity Method
Prestige City Properties	51.00%	Equity Method
Silverline Estates	30.33%	Equity Method
Lokhandwala DB Realty LLP	50.00%	Equity Method
Apex Realty Ventures LLP	59.94%	Equity Method

Source: *PEPL annual report FY2020*

Note: *ICRA has taken a consolidated view of the parent (PEPL), its subsidiaries, associates and joint ventures while assigning the ratings.*

ANALYST CONTACTS

Shubham Jain
+91 124 4545306
shubhamj@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Nishant Mishra
+91 80 4332 6408
nishant.mishra@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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ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches