November 16, 2022

Prestige Estates Projects 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	3,898.80	1,118.74	[ICRA]A+ (Stable); reaffirmed
Long-term Non-fund based	601.20	591.20	
Non-convertible debenture	350.00	750.00	
Long-term Fund-based	0.00	50.00	[ICRA]A+ (Stable); reaffirmed
Proposed Non-convertible debenture	500.00	0.00	-
Total	**5,350.00**	**2,509.94**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in the strong growth in Prestige Estates Projects Limited's (PEPL) in sales volume in the residential segment during FY2022 and H1 FY2023, aided by healthy response to new launches in Bangalore and entry into Hyderabad and Mumbai markets. The company has made healthy progress in the liquidation of its completed inventory including some premium/luxury projects in this segment. During FY2022, the company reported growth in sales volume by 109% to 13.4 million square feet (msf) with value of Rs. 8,859 crore (YoY growth of 107%). Further, in H1 FY2023, the company recorded a 115% YoY growth in area sold and 184% YoY growth in sales value. The company's receivables of Rs 10,522 crore from the sold area cover around 86% of the balance construction cost of Rs 9,195 crore and debt outstanding of Rs 3,185 crore as on September 30, 2022, in the segment. The rating also favourably notes PEPL's diversified operations across residential, commercial, retail, hospitality, and property management segments. It maintained comfortable leverage with net debt[1] by cash flow from operations of less than 2 times as on March 31, 2022, and ICRA expects the ratio to remain under 2.5 times in the medium term. The rating also factors in the established operational track record of more than 35 years in the real estate industry, its strong project execution capabilities, and the sizeable market share in the residential real estate segment of Bangalore.

The rating, however, is constrained by the risks associated with the Prestige Group's large-scale ongoing and upcoming projects, with significant investments to be made in the commercial real estate segment, in relatively new geographies for PEPL viz. Mumbai and New Delhi. With the sale of majority of its completed commercial real estate portfolio, the Group's overall commercial real estate portfolio has shifted towards under-development assets, entailing higher capex debt in the coming years. The gross debt at the Group level increased to Rs. 7,797 crore as on June 30, 2022, from Rs. 5,313 crore as on June 30, 2021. With large-scale expansion plans in the commercial and retail real estate segment, the capex debt is expected to rise in the near to medium term. PEPL is expanding into newer geographies such as Mumbai, which will expose PEPL to execution and market risks, as well as risks of any non-performance by joint venture (JV) partners of their obligations. The company's Debt /Net Working Capital (excluding land assets) is high on account of the corporate debt availed for growth and investment in new projects. The company's hospitality segment is also vulnerable to external factors such as the Covid-19 pandemic. However, a healthy recovery was seen in H1 FY2023. Notwithstanding the healthy sales velocity, the company remains exposed to the inherent cyclicality in the real estate industry and vulnerability to external factors.

[1] Net Debt includes debt across all segments including Residential, Corporate Debt, Commercial, Retail, Hospitality and LRD less cash balance available

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from the diversified business operations, healthy committed cash flow cover, comfortable leverage and strong brand image with long track record in the South Indian real estate market.

Key rating drivers and their description

Credit strengths

Strong sales in residential segment – The sales volume in the residential segment witnessed strong growth in FY2022 and H1 FY2023, aided by favourable response to new launches in Bangalore and entry in Hyderabad and Mumbai markets. The company has made healthy progress in liquidation of its completed inventory including some premium/luxury projects in this segment. In FY2022, PEPL reported growth in sales volume by 109% to 13.4 msf with a value of Rs. 8,859 crore (YoY higher by 107%). Further, in H1 FY2023, it recorded a 115% YoY growth in the area sold and 184% YoY growth in sales value. The company's receivables of Rs. 10,522 crore from the sold area cover around 86% of the balance construction cost of Rs. 9,195 crore and debt outstanding of Rs. 3,185 crore as on September 30, 2022, in the segment.

Leading real estate developer with track record of over 35 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 2022, the Group had developed 272 projects, covering 154 msf of area. PEPL generates revenue from a wide range of real estate activities, which include sale of residential and commercial projects, facilities, rental and maintenance revenue from hospitality and retail segments, and rent, fit-out hire charges and maintenance income from the commercial property.

Comfortable leverage and healthy cash cover – PEPL has a comfortable leverage ratio even though there has been a considerable increase in its scale of operations against the last year. The net debt by cash flow from operations was less than 2 times as on March 31, 2022, and ICRA expects the ratio to remain under 2.5 times in the medium term. The overall gearing stood at 0.41 times as on March 31, 2022. The Group's gearing stood at 0.61 times as on March 31, 2022. Further, the debt coverage metrics as indicated by interest coverage and DSCR improved to 2.8 times (PY:2.0 times) and 1.4 times (PY: 1.1 times), respectively, as on March 31, 2022.

Credit challenges

Funding and execution risk in large-scale, ongoing and upcoming projects – The company is exposed to risks associated with the large-scale ongoing and upcoming projects of the Prestige Group, with significant investments to be made in the commercial real estate segment, including large-sized projects in Mumbai and New Delhi. With the sale of large share of its completed commercial real estate portfolio, the Group's overall portfolio has shifted towards under-development assets, entailing higher capex debt in the coming years. PEPL is expanding into newer geographies such as Mumbai, where around 28% of the upcoming residential projects and 44% of the upcoming commercial projects are planned, which will expose PEPL to execution and market risks, as well as risks of any non-performance by its JV partners of their obligations. The company's Debt /Net Working Capital (excluding land assets) is high on account of the corporate debt availed for growth and investment in new projects.

Exposed to inherent cyclicality in real estate sector – The company remains exposed to the inherent cyclicality in the real estate industry and vulnerability to external factors. However, the sales have been consistently improving over the years, driven by the favourable demand scenario.

Environmental and social risks

The real estate segment is exposed to risks of increasing environmental norms impacting operating costs, including higher costs of raw materials such as building materials and cost of compliance with pollution control regulations. Environmental clearances are required for commencement of projects and lack of timely approvals can impact its business operations. Impact of changing environmental regulations on licenses taken for property development could also create credit risks.

In terms of social risks, the trend post-pandemic has been favourable to real estate developers as demand for quality home with good social infrastructure has increased. Further, rapid urbanisation and a high proportion of workforce population (aged 25-44 years) will support demand for real estate in India and, in turn, benefit PEPL. The same is supported by healthy sales trend reported over the recent quarters.

Liquidity position: Adequate

PEPL's liquidity profile is adequate, supported by cash balances of around Rs. 1,312.5 crore as on September 30, 2022 and adequate cash flow from operations. The company has Rs. 645.0 crore and Rs. 959.0 crore of scheduled debt repayment at the Group level in FY2023 and FY2024, respectively. The repayment of the lease rental discounting (LRD) loans and residential project loans are expected to be adequately covered by the associated operational cash flows.

Rating sensitivities

Positive factors – PEPL's rating might be upgraded if the company is able to achieve timely execution and leasing of the upcoming and ongoing real estate projects, while maintaining its strong performance in the residential segment, resulting in comfortable leverage metrics.

Negative factors – Negative pressure on PEPL's rating could arise if the company's cash flows or leverage position is impacted by any sustained weakness in sales in the residential segment or large debt-funded investments in land or new projects. Specific metrics which could put pressure on the rating include net debt by cash flow from operations remaining more than 3 times, on a consistent basis, or if there is a decline in the cover of receivables from the sold area over the pending costs and debt in the residential segment (including corporate debt) to lower than 50%.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Real Estate Methodology Rating Approach - Consolidation Rating Methodology for hotels
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has taken a consolidated view of PEPL along with its operational subsidiaries, JVs, and associate companies on account of the strong business and financial linkages between these entities. The list of companies that are consolidated to arrive at the rating is given in Annexure II.

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. It was 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 (33.4%) and other public shareholders (1.1%), as on September 30, 2022.

Prestige has over 35 years of experience in real estate development and is one of the leading real estate developers in South India. It has completed 272 real estate projects, with a developable area of close to 154 msf. It has developed a diversified portfolio of real estate projects focusing on the residential, commercial, hospitality and retail segments. Besides, Prestige offers a variety of services such as property management services, sub-leasing and fit-out services. It has 52 ongoing projects across segments, with a total developable area of around 78 msf.

Key financial indicators

PEPL consolidated	FY2021	FY2022	H1 FY2023
	Audited	Audited	Provisional
Operating income	7,241.9	6,389.5	3,366.2
PAT	2,873.0	1,213.7	399.7
OPBDIT/OI	27.0%	24.0%	24.7%
PAT/OI	39.7%	19.0%	11.9%
Total outside liabilities/Tangible net worth (times)	1.9	2.1	NA
Total debt/OPBDIT (times)	2.0	4.2	NA
Interest coverage (times)	2.0	2.8	2.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note – Company reported figures does not include debt of associates and JV companies

Source: PEPL

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 Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021			Date & Rating in FY2020
					November 16, 2022	November 16, 2021	Feb 12, 2021	Oct 28, 2020	Apr 27, 2020	Nov 29, 2019
1	Term loans	Long term	1,118.74	1,118.74		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund based facility	Long term	591.20	591.20	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	NCD	Long term	750.00	750.00		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Proposed NCD	Long term	-	-	-	[ICRA]A+ (Stable)	-	-	-	-
5	Fund-based facility	Long term	50.00	50.00	[ICRA]A+ (Stable)	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Non-fund based	Simple
Non-convertible debenture	Very Simple
Long-term Fund-based	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/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2013-FY2021	NA	Jan 2035	1,118.74	[ICRA]A+(Stable)
NA	Non-fund based	-	-	-	591.20	[ICRA]A+(Stable)
INE811K07067	NCD	Aug 10, 2018	10.5%	Aug 10, 2023	250.00	[ICRA]A+(Stable)
INE811K07075	NCD	Nov 29, 2021	8.9%	Nov 29, 2024	240.00	[ICRA]A+(Stable)
INE811K07083	NCD	Nov 29, 2021	8.9%	Nov 29, 2026	260.00	[ICRA]A+(Stable)
NA	Fund-based	-	-	-	50.00	[ICRA]A+(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	PEPL Ownership	Consolidation Approach
Avyakth Cold Storages Private Limited	100.00%	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 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
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 Estates Private Limited	73.00%	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	99.00%	Full Consolidation
Prestige Habitat Ventures	99.00%	Full Consolidation
Prestige Hi-Tech Projects	92.35%	Full Consolidation
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
Prestige Century Landmark (w.e.f April 7, 2021)	55.00%	Full Consolidation
Prestige Century Megacity* (w.e.f April 7, 2021)	45.00%	Full Consolidation
Prestige Falcon Business Parks (w.e.f July 14, 2021)	99.00%	Full Consolidation
Villaland Developers LLP	99.00%	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
Prestige Devenahalli Developers LLP* (w.e.f January 8, 2021)	45.00%	Full Consolidation
Thomsun Realtors Private Limited	50.00%	Full Consolidation

Company Name	PEPL Ownership	Consolidation Approach
Bamboo Hotel and Global Centre (Delhi) Private Limited	50.00%	Full Consolidation
Pandora Projects Private Limited (w.e.f January 7, 2021)	50.00%	Full Consolidation
Kochi Cyber Greens Private Limited	100.00%	Full Consolidation
Prestige Projects Private Limited (w.e.f September 2, 2021)	59.99%	Full Consolidation
Prestige Acres Private Limited (w.e.f October 25, 2021)	51%	Full Consolidation
Apex Realty Management Private Limited (w.e.f. June 24, 2022, was jointly controlled entity till June 23, 2022)	100.00%	Full Consolidation
Apex Realty Ventures LLP (w.e.f. June 24, 2022, was jointly controlled entity till June 23, 2022)	100.00%	Full Consolidation
Prestige Mulund Realty Private Limited (w.e.f. June 29, 2021) (Formerly known as Ariisto Developers Private Limited)	100.00%	Full Consolidation
Prestige Beta Projects Private Limited (w.e.f. March 24, 2022)	40.00%	Equity Method
Prestige (BKC) Realtors Private Limited* (Formerly known as DB (BKC) Realtors Private Limited)	59.20%	Equity Method
Apex Realty Management Private Limited	60.00%	Equity Method
Prestige Realty Ventures	49.90%	Equity Method
Lokhandwala DB Realty LLP	50.00%	Equity Method
Apex Realty Ventures LLP	59.94%	Equity Method
Turf Estate Joint Venture LLP** (w.e.f March 24, 2021)	50.00%	Equity Method

Source: Company

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