November 25, 2022

Northland Holding Company Private 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	300.00	300.00	[ICRA]A+(CE) (Stable); reaffirmed
Total	**300.00**	**300.00**	

Rating without Explicit Credit Enhancement	[ICRA]BBB

**Instrument details are provided in Annexure-I*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The above rating is based on the strength of the corporate guarantee provided by Prestige Estates Projects Limited (PEPL/the guarantor, rated [ICRA]A+ (Stable)), the ultimate parent of Northland Holding Company Private Limited (NHCPL), for the rated term loan programme. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, PEPL.

Adequacy of credit enhancement

ICRA's rating on NHCPL notes the corporate guarantee provided by PEPL for its borrowing programme. The guarantee is legally enforceable, irrevocable, unconditional and covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by PEPL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A+(CE) against the rating of [ICRA]BBB without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

1. The ratio of debt to promoter's contribution for the project until completion not to exceed 0.89 times and after completion, at any time during the tenor of the facility, debt-equity ratio shall not exceed 1.25 times;
2. The parent company, PEPL, to furnish an undertaking to bring in additional funds for any cost overrun beyond the estimated project cost, and to cover any shortfall in the debt servicing requirements during the tenor of the facility;
3. Financial covenants include Debt-to-Tangible Net Worth to remain equal to or below 1.25 times and Debt-to-EBITDA to remain less than or equal to 5.0 times (in FY2027), 4.5 times (in FY2028), 4.0 times (in FY2029), 3.5 times (in FY2030) and 3.0 times (FY2031 onwards).

Key rating drivers and their description

Credit strengths

Corporate guarantee provided by PEPL towards the rated bank facilities of NHCPL – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by PEPL. The rated instrument does not involve a structured payment mechanism.

Established track record of the Prestige Group in real estate and hospitality sectors – The Prestige Group has over 35 years of experience in real estate development and is one of the leading real estate developers in South India. It has developed a diversified portfolio of real estate projects, which include residential, commercial, hospitality and retail segments. Under the hospitality segment, the Group has nine operational properties with 1,368 keys in total, four under-construction hotel properties in Delhi and Bengaluru with 1,009 keys and four upcoming projects with 558 keys across Bengaluru and Mumbai.

Timely project completion and moderate occupancy since inception – The project was completed in March 2022 ahead of the scheduled date in October 2022. Since the start of its operations, the hotel witnessed decent occupancy with people coming for leisure, food and beverage. The property is close to Nandi Hills and is an ideal place for a weekend getaway. In H1 FY2023, an average occupancy rate of over 25% was observed, with an average room rate (ARR) of Rs. 18,816 per night, and a GOP margin of over 25%.

Credit challenges

Cyclical industry dependent on discretionary spend; vulnerable to general economic slowdown and exogenous shocks – The hotel industry is significantly exposed to macro-economic conditions, inflation level, tourist arrival growth, etc, which lead to an inherent cyclicality. The industry is exposed to several exogenous shocks such as geopolitical crises, terrorist attacks, disease outbreaks, etc. Given that the travel and tourism industry is dependent on discretionary spending, the industry is highly susceptible to any severe crisis.

Exposure to project stabilisation risks – Given the nascent stage of initial operations, the ramp-up in occupancy levels, along with the healthy ARR and the ability to meet the targeted food and beverage revenue will be the key monitorable.

Liquidity position: Adequate

At the guarantor level, PEPL's liquidity profile is adequate, supported by cash balances of around Rs. 1,312.5 crore as on September 30, 2022 and sufficient 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.

At a standalone level, NHCPL's liquidity is adequate. The cash flow from operations is expected to remain comfortable to service the debt obligations. Moreover, PEPL has provided corporate guarantee to the borrowing programme of NHCPL.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is an improvement in the credit profile of the guarantor.

Negative factors – The rating could be downgraded if the credit profile of the guarantor deteriorates or the linkage with the parent company PEPL weakens, or if there is any delay in the ramp-up of the operations of NHCPL on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Hotels Approach for rating debt instruments backed by third-party explicit support
Parent/Group support	The rating assigned to NHCPL factors in the high likelihood of its parent, PEPL (rated [ICRA]A+(Stable), extending financial support to it because of close business linkages between them. Moreover, PEPL has provided corporate guarantee to the borrowing programme of NHCPL. Click here for guarantor's rating
Consolidation/Standalone	Standalone

About the company

Northland Holding Company Private Limited is a 100% subsidiary of Prestige Hospitality Ventures Limited, which in turn is the holding company for the Prestige Group's hospitality business. The company has completed constructing a five-star resort with 297-key capacity and partnered with the Marriott Hotels Group and launched the project under the brand of JW Marriott. The resort spreads over ~25 acres in Devanahalli, Nandi Hills, Bengaluru, as a part of the mixed-use developmental property Prestige Golfshire, which consists of an 18-hole golf course, luxury residential villas and a clubhouse. The luxury resort also comprises five villas, a large convention centre, four food and beverages outlets and other recreational areas.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	27.3	41.3
PAT	2.0	-15.3
OPBDIT/OI	-7.7%	-3.4%
PAT/OI	7.4%	-37.1%
Total outside liabilities/Tangible net worth (times)	2.7	7.4
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 25, 2022	Aug 31, 2021	May 21, 2020	-
1	Term loans	Long Term	300.0	298.2	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (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 details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	Jun 2019	9.80%*	June 2034	300.0	[ICRA]A+(CE)(Stable)

*Source: Company; * As of Nov 2022*

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.

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