February 23, 2017

Prestige Estates Projects Limited

Instruments*	Amount	Rating Action
	In Rs crore	
Bank Lines	3,500.0	[ICRA]A+ (Stable) reaffirmed
Non Convertible Debentures	500.0	[ICRA]A+ (Stable) reaffirmed
Commercial Paper	250.0	[ICRA]A1+ withdrawn

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]A+ assigned to the Rs 500.0 crore NCD programme and Rs 3,500.0 crore bank lines of Prestige Estates Projects Limited (PEPL). The long term rating carries a stable outlook. ICRA has withdrawn the short term rating of [ICRA]A1+ assigned to the Rs 250.0 crore commercial paper programme of PEPL. The withdrawal of the rating is at the request of the company and there is no amount outstanding against the commercial paper programme.

Rationale

The rating reaffirmation continues to draw strength from PEPL's established track record of more than 30 years in the real estate industry with strong project execution capabilities and leading position in the residential real estate market in Bangalore. PEPL has diversified operations across residential, commercial, retail and hospitality segments. Its large portfolio of leased assets provides a stable stream of lease revenues and extends significant financial flexibility. The rating is also supported by PEPL's moderately leveraged capital structure as reflected by consolidated net gearing of 1.13 times as on September 2016, with around 39% of the debt portfolio comprising of rental securitization loans. The rating also draws comfort from the management's stated policy of maintaining adequate liquidity buffer in the form of cash balances (Rs 390 crore as on September 30, 2016).

The rating is, however, constrained by the moderation in its sales volumes in the residential segment over the last six quarters (barring Q4FY2017) on account of limited launches and subdued market conditions. In particular, the recent demonetization of the high denomination currency notes is expected to have an adverse impact on the near term sales volumes of real estate developers, including PEPL. Recovery in sales volumes through improvement in consumer sentiment and increased launches would be a key monitorable as any sustained slowdown in launches and pre-sales can hamper the company's future growth. Notwithstanding the moderation in sales volumes, PEPL has been able to maintain the proportion of unsold stock in the ongoing residential projects at less than 30%. The high level of bookings achieved in ongoing projects provides adequate visibility on the cash flows over the short to medium term.

The rating also factors in the significant project pipeline (62 msf of ongoing projects and 47 msf of upcoming projects) which exposes PEPL to execution risk and funding risk as a large number of the projects are in intermediate stages of construction. Besides, the rating is constrained by the high repayment obligations falling due in the near to medium term due to the large quantum of debt availed for ongoing projects with relatively short tenure for such project debt. In addition, certain high end projects continue to witness moderate sales resulting in high level of unsold stock in these projects. The slower realization of free cash flows from such projects, along with the high receivables reported in the residential segment, would increase PEPL's debt funding requirements. The rating also factors in company's significant expansion plans in hospitality segment, which has high funding requirements and longer gestation periods. In addition, the rating is constrained by the high concentration of PEPL's operations in the Bangalore market which exposes it to any fluctuations in a single market's performance.

Going forward, the demand scenario in the residential real estate market and the ability of the company to bring new launches and achieve sales volumes in line with the earlier trends, timely execution of the ongoing projects, as well as its ability to tie up lease rentals for ongoing commercial and retail projects will be the key rating sensitivities.

Key Rating Drivers
Credit Strengths

- Leading real estate developer with a track record of 30 years in the real estate sector
- Diversified asset portfolio and revenue streams
- Existing office and retail portfolio with 99% occupancy generates annual rental of Rs 546 crore (PEPL's share) and provides stability to revenues and cash flows
- Strong net worth base after multiple rounds of equity infusion - Rs 1148 crore IPO in FY11, Rs 354 crore IPP in FY13 and Rs 612 crore QIP in August 2014
- Adequate booking level in ongoing projects results in healthy committed cash flows, which can cover 65% of the project cost to be incurred and debt outstanding against those projects
- Financial flexibility drawn from cash and bank balances (Rs 390 crore as on September 30, 2016) and moderately leveraged operational commercial properties

Credit Concerns

- Slowdown in sales and new launches witnessed during the last six quarters barring Q4FY2016; recent demonetization move is also expected to have negative bearing on sales volumes in near term
- High level of unsold inventory in certain high end projects which are close to completion and have relatively slow sales velocity
- Significant project pipeline (62.2 msf of ongoing and 47.2 msf of upcoming projects) leading to high execution, market and funding risk
- Large debt repayment obligation in the medium term due to the relatively short tenor of funding used for residential projects, which may result in refinancing requirements
- Prestige's concentration towards Bangalore residential market exposes it to the performance of IT/ITES sector and the competitive intensity of the real estate industry in the region
- Exposure to three large scale ongoing hospitality projects (aggregating to around 950 keys), which would require funding support during project stage as well as during initial years of operation

Description of Key Rating Drivers Highlighted Above
PEPL has 63 ongoing projects with a total developable area of 62 million square feet (msf), including share of joint venture partners. In comparison, the group has till date completed development of 199 projects spanning 77 msf of total developed area. Furthermore, PEPL has a pipeline of 36 projects spanning 47 msf (including share of JV partners) which will provide further impetus to the growth prospects. Though PEPL's revenue mix is adequately diversified amongst the various segments it operates in, the company is highly concentrated in the Bangalore real estate market, which represents around 84% of the ongoing development (by area), thus exposing the company to adverse changes in the prospects of the Bangalore real estate market.

After launching 11 new projects aggregating to 3.4 msf (PEPL's developable area share) during Q4FY2015, the number of launches has come down significantly in the last six quarters on a y-o-y basis. During H1FY2017, the company has achieved only 20% of the guidance in terms of new launches slated for full year FY2017. Combined with the subdued market conditions, the pre-sales of PEPL have also been moderate as compared to the high levels reported in FY2015. Any sustained slowdown in launches and pre-sales can hamper the company's future growth. The sales velocity has been very low in the last one year for some of the premium projects with high ticket sizes. The high value of unsold stock in these projects which are seeing relatively slow sales could be a concern as they result in the company's capital getting blocked.

Prestige has a strong portfolio of developed commercial assets totaling 11.0 msf of leasable area (Prestige's share 8.7 msf), which includes 7.5 msf of office space and 1.2 msf of retail space. The completed and leased out portfolio generates an annual rental of Rs 546 crore (PEPL share), which provides recurring income streams and adds stability to its revenues and cash flows. Moreover, the portfolio provides financial flexibility to PEPL due to the low level of leveraging against its cash flows (debt to annualized rental income of 3.8 times as on September 2016 at the group level).

PEPL is currently constructing three hotels, all of which are coming up in Bangalore. The total construction cost pending on these projects is Rs 652 crore against which the company has undrawn bank lines of around Rs 84 crore. Hence PEPL will require additional construction loans or internal accruals to fund the construction of these projects. Moreover, there could be deficits in the initial months of operation, which would also have to be supported by cash flows from other operations. Thus, the hospitality segment can add pressure on the overall cash flows of PEPL – both from the perspective of financing the construction, as well as debt servicing in the initial years.

Analytical approach

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.

Links to applicable Criteria

Corporate Credit Ratings: A Note on Methodology
ICRA Rating Methodology: Real Estate Entities
Rating Methodology for Debt Backed by Lease Rentals

About the Company

PEPL is the flagship company of Prestige Group (Prestige). 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 70% of the shares. The remaining shares are held by institutional investors (29%) and other public shareholders (1%), as on September 2016.

Prestige has over 30 years of experience in real estate development, and is one of the leading real estate developers in South India. It has completed 199 real estate projects with developable area of 77 msf. 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, etc. Prestige has 63 ongoing projects across segments, with total developable area of more than 62 msf. It also has 47 msf of upcoming projects and holds a land bank of 424 acres.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

Sl. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month - year & rating	Month - year & Rating in FY2016		Month - year & Rating in FY2015	Month - year & Rating in FY2014
				February 2017	Dec 2015	July 2015	Jan 2015	Jan 2014
1	Bank lines	Long term	3,500	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A- (Stable)
2	NCD	Long term	500	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
3	CP	Short term	250	[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

Details of Instruments

Name of the instrument	ISIN	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term loan	-	-	-	June 2025 ^	-	[ICRA]A+ (Stable)
Non-Convertible debenture - 1	INE811K07018	25/7/2015	11.35%	24/7/2018	150.00	[ICRA]A+ (Stable)
Non-Convertible debenture - 2	INE811K07026	25/7/2015	11.40%	24/7/2020	300.00	[ICRA]A+ (Stable)
Non-Convertible debenture - 3	INE811K07034	25/7/2015	11.35%	23/4/2018	50.00	[ICRA]A+ (Stable)
Commercial Paper	-	-	-	-	250.00	[ICRA]A1+ withdrawn

Source: PEPL

^Represents the farthest maturity date among the various maturity dates for different term loans

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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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