January 29, 2018

Prestige Estates Projects Limited Revised

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank Lines	3,500.00	3,500.00	[ICRA]A+ (Stable) reaffirmed
Non Convertible Debentures	500.00	500.00	[ICRA]A+ (Stable) reaffirmed
Non Convertible Debentures	-	500.00	[ICRA]A+ (Stable) assigned
Total	**4000.00**	**4,500.00**	

*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). ICRA has assigned a long-term rating of [ICRA]A+ to the Rs. 500.0-crore NCD programme of the company. The long-term rating carries a Stable outlook.

Rationale

The rating reaffirmation continues to draw strength from PEPL's established track record of more than 31 years in the real-estate industry with strong project execution capabilities and high market share in the residential real-estate segment of 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 1.19 times as on September 2017, with around 35% of the debt portfolio comprising rental securitisation loans. The rating also draws comfort from the management's stated policy of maintaining adequate liquidity buffer in the form of cash balances (Rs. 445 crore as on September 30, 2017).

The rating, however, is constrained by the moderation in its sales volumes in the residential segment over the last three years on account of limited launches and subdued market conditions. Notwithstanding the moderation in sales volumes in recent quarters, the high level of bookings achieved in ongoing projects in the past provides adequate visibility on the cash flows over the short-to-medium term. The rating also factors in the significant project pipeline [53.99 million square feet (msf) of ongoing projects and 47.79 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 due in the near-to-medium term owing 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 slow sales, resulting in high level of unsold stock in these projects. The rating also takes into account significant expansion plans in hospitality segment, which has high funding requirements and longer gestation periods.

Going forward, the ability of the company to come up with 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. Further, the extent of capital expenditure on commercial/retail and hospitality projects and its consequent impact on PEPL's debt-coverage indicators will be other key rating monitorables.

Outlook: Stable

ICRA believes that the Group's strong track record and healthy annuity income portfolio will support its operational and financial risk profile in the near-to-medium term. The outlook may be revised to Positive in case of better-than-expected sales performance in the residential segment and operational performance in the hospitality segment, resulting in improved cash flows. The outlook may be revised to Negative in case of sustained weakness in the residential segment, or higher-than-expected debt levels owing to higher capital expenditure or land investments than estimated.

Key rating drivers

Credit Strengths

- **Leading real-estate developer with a track record of 31 years and strong market position:** PEPL has strong project execution capabilities and enjoys a leading position in Bangalore's residential real-estate market. Till date, the Group has completed development of 210 projects spanning 79.70 msf of total developed area.
- **Diversified asset portfolio and revenue streams:** PEPL generates revenue from a wide range of real-estate activities, which include sale of residential projects and commercial projects; contractual 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.
- **Stable revenues and cash flows from existing office and retail portfolio with 99% occupancy:** PEPL has a strong portfolio of developed commercial assets totaling 11.43 msf of leasable area (PEPL's share 8.85 msf), which includes 7.63 msf of office space and 1.22 msf of retail space. The completed and leased out portfolio generates an annual rental of Rs. 612 crore (PEPL share), which provides recurring income streams and adds stability to revenues and cash flows.
- **Adequate sales booking level in ongoing projects provides good visibility on future collections:** As on September 2017, PEPL had total saleable area of 48.94 msf, of which PEPL's share is 36.93 msf. Of PEPL's share of the saleable area, it has already achieved sales of 76% as on September 2017, which provides good visibility on future collections and also limits market risks.
- **Financial flexibility due to moderately-leveraged operational commercial properties; comfortable liquidity:** PEPL's liquidity profile is supported by cash balances of over Rs. 300 crore maintained on each of the last three balance sheet dates. As on March 2017, PEPL reported unencumbered cash balances of Rs. 327 crore and liquid investments of Rs. 10 crore. Also, the commercial lease income portfolio provides financial flexibility to PEPL due to the low level of leveraging against its cash flows (debt-to-annualised rental income of 3.4 times as on September 2017 at the Group level).

Credit Challenges

- **Slowdown in sales and launches in the last three years:** After launching 11 projects aggregating to 3.4 msf (PEPL's developable area share) in Q4 FY2015, the number of launches has come down significantly. In fact, the company has not made any launches in the last five quarters. Combined with the subdued market conditions, the pre-sales of PEPL have 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.
- **High level of unsold inventory in certain high-end projects:** The sales velocity has been low in the recent quarters for some of the premium projects with high ticket sizes. The high value of unsold stock in these projects, which have been seeing relatively slow sales, could be a concern as these result in the company's capital getting blocked.

- **Large debt-repayment obligation in medium term due to relatively short tenor of funding used for residential projects:** The repayments over the next three years will remain elevated at more than Rs. 1,000 crore at the Group level. The maximum repayments are due in the parent company, which has most of the shorter tenure project debt relating to residential and commercial (for sale) projects.
- **Funding and execution risk in large-scale, ongoing capex projects:** PEPL has large scale of ongoing capital expenditure in the leasing and hospitality segments. Also, there could be deficits in the initial months of operation of the newly-completed hospitality projects, which would have to be supported by cash flows from other operations.

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 Rating Methodology
Rating Methodology for Real Estate Entities
Rating Methodology for Debt Backed by Lease Rentals

About the company

PEPL is the flagship company of the 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 2017.

Prestige has over 31 years of experience in real-estate development and is one of the leading real-estate developers in South India. It has completed 210 real-estate projects with developable area of 79.70 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 etc. The Group has 53 ongoing projects across segments with total developable area of more than 53.99 msf. It also has 47.79 msf of upcoming projects and holds a land bank of 424 acres.

Key financial indicators (audited) - consolidated

	FY2016	**FY2017**
Operating income (Rs. crore)	5,531.0	4,774.5
PAT (Rs. crore)	646.6	367.3
OPBDITA/OI (%)	19.3%	19.3%
RoCE (%)	14.9%	9.6%
Total Debt/TNW (times)	1.2	1.2
Total Debt/OPBDIT (times)	5.0	6.2
Interest Coverage (times)	3.5	2.7
NWC/OI (%)	86.8%	92.9%

***Source**: company, ICRA; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortization; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

Sl. No.	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date and rating	Date & rating in FY2017	Date & rating in FY2016		Date & rating in FY2015
					January 2018	February 2017	January 2016	July 2015	February 2015
1	Term loans	Long Term	3,500.00	2,833.27	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)
2	NCD	Long Term	500.00	500.00	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	-
3	NCD	Long Term	500.00	500.00	[ICRA] A+ (Stable)	-	-	-	-
4	Commercial Paper	Short Term	-	-	-	[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

Name of the instrument	ISIN	Date of Issuance / Sanction	Coupon rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term loans	-	FY2013-FY2018 #	-	FY2031 ^	3,500.00	[ICRA]A+ (Stable)
NCD - 1	INE811K07018	July 25, 2015	11.35%	July 24, 2018	150.00	[ICRA]A+ (Stable)
NCD–2	INE811K07026	July 25, 2015	11.40%	July 24, 2020	300.00	[ICRA]A+ (Stable)
NCD–3	INE811K07034	July 25, 2015	11.35%	April 23, 2018	50.00	[ICRA]A+ (Stable)
NCD -4	INE811K07042	December 08, 2017	10.00%	June 08, 2022	500.00	[ICRA]A+ (Stable)
Total					**4,500.00**	

Source: PEPL; # Represents loans sanctioned between FY2013 and FY2018; ^ Represents the farthest maturity date among the various maturity dates for different term loans

Corrigendum

Document dated January 29, 2018 has been corrected with revisions as detailed below:

- Revision on page number 4, under Rating history for last three years: The dates for the previous rating actions in FY2016 and FY2015 were mentioned as December 2015 and January 2015 respectively. However, the same have been revised to January 2016 and February 2015 respectively. Also, the rating history for the Commercial Paper programme of the company (the rating for which was withdrawn in February 2017) has been added.

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