Prestige Estates Projects Limited

August 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	400.0	400.0	[ICRA]A1+; outstanding
Bank lines	3,500.0	3,500.0	[ICRA]A+ (Stable); outstanding
Non-Convertible Debentures	800.0	800.0	[ICRA]A+ (Stable); outstanding
Non-Convertible Debentures	200.0	-	[ICRA]A+ (Stable) withdrawn
Non-Convertible Debentures	-	400.0	[ICRA]A+ (Stable); assigned
Total	**4,900.0**	**5,100.0**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has assigned a long-term rating of [ICRA]A+ (pronounced as ICRA A plus) to the Rs. 400.0-crore Non-Convertible Debenture (NCD) programme of Prestige Estates Projects Limited (PEPL). The long-term rating carries a Stable outlook. ICRA has withdrawn the long-term rating of [ICRA]A+ (Stable) (pronounced as ICRA A plus with Stable outlook) assigned to the Rs. 200.0-crore NCD programme of the company as there is no amount outstanding against the rated instrument.

PEPL has outstanding long-term rating of [ICRA]A+ (pronounced as ICRA A plus) assigned to the Rs. 800.0-crore NCD programme and Rs. 3,500.0-crore bank lines and short-term rating of [ICRA]A1+ (pronounced as ICRA A one plus) assigned to the Rs. 400.0-crore Commercial Paper (CP) programme of the company. The long-term rating carries a Stable outlook.

Rationale

The rating assigned takes into consideration 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 1.77 times as on June 2018, with around 31% 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. 658 crore as on June 30, 2018). Also, PEPL is expected to close certain stake dilution transactions; if the same materialise, the company plans to use the cash inflows towards debt reduction.

The rating, however, is constrained by the moderation in its sales volumes in the residential segment over the last three years (barring Q4FY2018 and Q1FY2019) on account of limited launches and subdued market conditions. Nonetheless, launch of six residential projects in the last two quarters (PEPL's share of saleable area of 3.6 million square feet (msf)) and high level of bookings achieved in ongoing projects in the past provide adequate visibility on the cash flows over the short-to-medium term. The rating also factors in the significant project pipeline [63.17 msf of ongoing projects and 35.03 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.

Going forward, the ability of the company to continue its trend of new launches and sales volume as witnessed in the last two quarters, 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 218 projects spanning 92.75 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: PEPL has a strong portfolio of developed commercial assets totalling 12.14 msf of leasable area (PEPL's share 10.08 msf, which includes 7.56 msf of office space and 2.52 msf of retail space). The completed and leased out portfolio has an annual rental potential of Rs. 715 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 June 2018, PEPL had total saleable area of 55.65 msf, of which PEPL's share is 41.98 msf. Of PEPL's share of the saleable area, it has already achieved sales of 74% as on June 2018, 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 balance of close to Rs. 658 crore as on June 30, 2018. 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 June 2018) at the consolidated level.

Credit challenges

Slowdown in sales and launches in the last three years barring last two quarters: Barring the last two quarters when the company launched six new projects (PEPL share of saleable area of 3.6 million square feet (msf)) and achieved sales volume of 1.55 msf and 1.11 msf during Q4FY2018 and Q1FY2019 respectively in the residential and commercial for sale segments, the number of launches and sales volume had declined significantly in the last three years. Hence, the ability of the company to continue its trend of new launches and sales volume as witnessed in the last two quarters will be a key rating monitorable.

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 Debt Backed by Lease Rentals
Rating Methodology for Real Estate Entities
ICRA's Approach For Rating Commercial Papers

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 June 2018.

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 218 real estate projects with developable area of 93 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 57 ongoing projects across segments, with total developable area of around 63 msf. It also has 35 msf of upcoming projects and holds a land bank of 550 acre.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	4774.5	5498.6
PAT (Rs. crore)	367.3	411.0
OPBDIT/ OI (%)	19.3%	19.9%
RoCE (%)	9.6%	11.1%
Total Debt/ TNW (times)	1.2	1.4
Total Debt/ OPBDIT (times)	6.2	6.3
Interest Coverage (times)	2.7	2.6

***Source**: company, ICRA; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; 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: None

Rating history for last three years:

S. No	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
					August 2018	July 2018	January 2018	February 2017	January 2016	July 2015
1	Term loans	Long Term	3,500.0	3,127.1 #	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	NCD	Long Term	800.0	800.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	NCD	Long Term	200.0	Nil	[ICRA]A+ (Stable) withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	NCD	Long Term	400.0	Nil ^	[ICRA]A+ (Stable)	-	-	-	-	-
5	CP	Short term	400.0	380.4	[ICRA]A1+	[ICRA]A1+	-	Rating withdrawn	[ICRA]A1+	-

 # As on June 30, 2018; ^ Yet to be placed

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
-	Term loans	FY2013-FY2019 @	-	FY2031 &	3,500.0	[ICRA]A+ (Stable)
INE811K07018	NCD – 1 #	July 25, 2015	11.35%	Redeemed	150.0	[ICRA]A+ (Stable) withdrawn
INE811K07026	NCD–2	July 25, 2015	11.40%	July 24, 2020	300.0	[ICRA]A+ (Stable)
INE811K07034	NCD–3 #	July 25, 2015	11.35%	Redeemed	50.0	[ICRA]A+ (Stable) withdrawn
INE811K07042	NCD -4	December 08, 2017	10.00%	June 08, 2022	500.0	[ICRA]A+ (Stable)
-	NCD- 5 ^	-	-	-	400.0	[ICRA]A+ (Stable)
INE811K14014	CP	July 17, 2018	10.45%	January 13, 2019	400.0	[ICRA]A1+

@ Represents loans sanctioned between FY2013 and FY2019
& Represents the farthest maturity date among the various maturity dates for different term loans
 # NCD 1 and 3 have been redeemed
^ NCD – 5 is yet to be placed

Source: Prestige Estates Projects Limited

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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