Prestige Estates Projects Limited

February 28, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank lines	3,500.0	4,500.0	[ICRA]A+ (Stable) reaffirmed
Non-Convertible Debentures	800.0	800.0	[ICRA]A+ (Stable) reaffirmed
Commercial Paper	400.0	400.0	[ICRA]A1+ withdrawn
Non-Convertible Debentures	400.0	400.0	[ICRA]A+ (Stable) outstanding
Total	**5,100.0**	**6,100.0**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of company's long-term rating takes into consideration the improvement in the sales volume in the residential segment over the last 12 months aided by pick-up in new project launches from Q4FY2018 onwards. The company sold 5.20 million square feet (msf) of area (PEPL share of area) during the period Q4FY2018 till Q3FY2019 as compared to 3.00 msf sold during the previous 12-month period. The rating continues to factor in 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. Moreover, moderate leverage levels (debt to annual rental income of 3.1 times) in these assets provides significant financial flexibility for the company. The rating also draws comfort from the management's stated policy of maintaining adequate liquidity buffer - the company had bank balances and liquid investments of Rs. 959 crore at the consolidated level as on December 31, 2018.

The rating, however, is constrained by the increasing debt levels over the recent quarters due to large investing outflows towards land aggregation and consolidation of stake in group companies. The gross debt at the group level has increased from Rs. 7,230 crore as on September 30, 2017 to Rs. 9,506[1] crore as on December 31, 2018. The increase in debt has resulted in decline in cash flow coverage ratios as the company is yet to launch the projects planned on the land which has been acquired during this period. Moreover, the relatively short maturity profile of the incremental corporate debt availed for such investments will result in high repayment obligations in the near to medium term thus exposing the company to refinancing risks. Nevertheless, ICRA expects that majority of these projects would be launched during FY2020, which will support improvement in the cash flow coverage ratios. In addition, ICRA draws comfort from the management's stated intention of replacing some of the corporate debt with longer maturity lease rental discounting (LRD) loans, which will help in improving the debt profile considerably.

The rating also factors in the significant project pipeline [46.05 msf of ongoing projects and 55.58 msf of upcoming projects], which includes 29.86 msf of capital expenditure projects, that exposes PEPL to execution risk and funding risk. In addition, certain high-end projects continue to witness slow sales, resulting in high level of unsold stock in these projects. The newly commissioned hotels of PEPL have reported healthy operational metrics in the initial year; nonetheless, the return metrics from this segment are expected to remain modest in the near to medium term.

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[1] *The debt figures include 100% debt in the subsidiaries, associates and joint venture companies*

Going forward, the ability of the company to improve its sales volume in certain high-end completed residential projects and launch the projects linked to the recent investments, both of which can be used to reduce the debt, will be key rating sensitivities. Further, the movement in debt level due to capital expenditure and land investments, as well as the replacement of corporate loans with LRD debt will be key 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 and reduction in leverage. The outlook may be revised to Negative in case of any weakness in sales in the residential segment, or any delay in realising returns from the recent investments, 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 231 projects spanning 112.34 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; 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.

Improvement in sales in the residential segment provides good visibility on future collections: During the period Q4FY2018 till Q3FY2019, PEPL achieved sales of 5.20 msf in the residential and commercial for sale segments as compared to sales of 3.00 msf achieved during the previous 12-month period. Of PEPL's share of the saleable area, it has already achieved sales of 78% as on December 2018, which provides good visibility on future collections and also limits market risks.

Stable revenues and cash flows from existing office and retail portfolio: PEPL has a strong portfolio of developed commercial assets totalling 12.82 msf of leasable area (PEPL's share 10.69 msf, which includes 8.14 msf of office space and 2.55 msf of retail space). The completed and leased out portfolio has an annual rental potential of Rs. 767 crore (PEPL share), which provides recurring income streams and adds stability to revenues and cash flows.

Financial flexibility due to moderately-leveraged operational commercial properties; comfortable liquidity: PEPL's liquidity profile is supported by cash balance of close to Rs. 959 crore as on December 31, 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 3.1 times) at the group level.

Credit challenges

Increase in debt in the recent quarters: The company's gross debt at the group level has increased from Rs. 7,230 crore as on September 30, 2017 to Rs. 9,506 crore as on December 31, 2018. The increase in debt is mainly due to increase in debt raised at the corporate level to fund land investments and equity stake purchases in the group companies, with the new projects planned for the recent land investments yet to be launched. Consequently, the ratio of receivables from sold area over the balance project cost and debt outstanding in the residential segment (including corporate debt) has declined over this period. Hence, the company's ability to derive healthy cashflows from these investments that can be used to reduce the debt against the residential segment will be a key rating monitorable going forward.

Large debt-repayment obligation in medium term enhances refinancing risk: The repayments over the next three years will remain elevated at close to Rs. 2,000 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 and corporate debt raised to fund the recent investments. The group will replace some of the corporate debt with longer maturity lease rental securitization loans, which can reduce the refinancing risk to a large extent.

High level of unsold inventory in certain high-end projects: The sales velocity has remained low in 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, results in the company's capital getting blocked.

Funding and execution risk in large-scale, ongoing capex projects: PEPL has large scale of ongoing capital expenditure in the office and retail leasing segments which enhances the funding and execution risk to an extent. Moreover, while the two newly commissioned hotels (Hilton Conrad and Grand Sheraton) have recorded healthy operational metrics in the first year of their operation, return indicators from the segment are expected to remain modest in the near to medium term.

Liquidity Position:

PEPL's liquidity profile is supported by cash balance of close to Rs. 959 crore as on December 31, 2018. However, the company has significant repayments over the next three years at close to Rs. 2,000 crore per annum at the Group level. The company will be reliant on refinancing to the extent of the corporate debt and construction loans availed for capex projects in the commercial real estate segment. Nevertheless, the annuity income portfolio provides financial flexibility to PEPL due to the low level of leveraging against its cash flows (debt-to-annualised rental income of 3.1 times) at the group level that mitigates the refinancing risk to an extent.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Real Estate Entities
Parent Support	Not applicable
Consolidated	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.

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 December 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 231 real estate projects with developable area of 112.34 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 47 ongoing projects across segments, with total developable area of around 46.05 msf. It also has 55.58 msf of upcoming projects and holds a land bank with development potential of 33.00 msf.

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	
					February 2019	August 2018	July 2018	January 2018	February 2017	January 2016	July 2015
1	Term loans	Long Term	4,500.0	2,800 #	[ICRA]A+ (Stable)	[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)	[ICRA]A+ (Stable)
3	NCD	Long Term	400.0	350.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-	-	-
4	CP	Short term	400.0	Nil ^	[ICRA]A1+ withdrawn	[ICRA]A1+	[ICRA]A1+	-	Rating withdrawn	[ICRA]A1+	-

 # The figure indicates the debt at standalone level as on December 31, 2018; ^ Commercial Paper was closed in January 2019

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 &	4,500.0	[ICRA]A+ (Stable)
INE811K07026	NCD–1	July 25, 2015	11.40%	July 24, 2020	300.0	[ICRA]A+ (Stable)
INE811K07042	NCD -2	December 08, 2017	10.00%	June 08, 2022	500.0	[ICRA]A+ (Stable)
INE811K07067	NCD- 3	August 10, 2018	10.50%	August 10, 2023	400.0	[ICRA]A+ (Stable)
INE811K14014	CP #	July 17, 2018	10.45%	January 13, 2019	400.0	[ICRA]A1+ withdrawn

@ Represents loans sanctioned between FY2013 and FY2019
& Represents the farthest maturity date among the various maturity dates for different term loans
 # CP was closed in January 2019

Source: Prestige Estates Projects Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Avyakth Cold Storages Private Limited	100.00%	Full Consolidation
Cessna Garden Developers Private Limited	85.00%	Full Consolidation
Dashanya Tech Parkz Private Limited	49.00%	Full Consolidation
Dollars Hotel & Resorts Private Limited	65.92%	Full Consolidation
I C B I (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 Amusements Private Limited	51.02%	Full Consolidation
Prestige Bidadi Holdings Private Limited	99.94%	Full Consolidation
Prestige Builders and Developers Private Limited	99.99%	Full Consolidation
Prestige Construction Ventures Private Limited	100.00%	Full Consolidation
Prestige Exora Business Parks Limited	100.00%	Full Consolidation
Prestige Falcon Retail 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 Projects Private Limited	99.99%	Full Consolidation
Prestige Retail Ventures Limited	100.00%	Full Consolidation
Prestige Shantiniketan Leisures Private Limited	100.00%	Full Consolidation
Sai Chakra Hotels Private Limited	100.00%	Full Consolidation
Sterling Urban Infra Projects Private Limited	80.00%	Full Consolidation
Village-De-Nandi Private Limited	100.00%	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	60.00%	Full Consolidation
Prestige Habitat Ventures	99.00%	Full Consolidation
Prestige Hi-Tech Projects	92.35%	Full Consolidation

Prestige Interiors	97.00%	Full Consolidation
Prestige Kammanahalli Investments	51.00%	Full Consolidation
Prestige Nottinghill Investments	51.00%	Full Consolidation
Prestige Office Ventures	99.99%	Full Consolidation
Prestige OMR Ventures	70.00%	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	99.00%	Full Consolidation
Prestige Whitefield Developers	47.00%	Full Consolidation
PSN Property Management and Services	50.00%	Full Consolidation
Silver Oak Projects	100.00%	Full Consolidation
The QS Company	98.00%	Full Consolidation
Prestige Valley View Estates LLP	51.05%	Full Consolidation
Prestige Whitefield Investment and Developers LLP	99.99%	Full Consolidation
Villaland Developers LLP	80.00%	Full Consolidation
West Palm Developments LLP	61.00%	Full Consolidation
Babji Realtors Private Limited	49.00%	Equity Method
CapitaLand Retail Prestige Mall Management Private Limited	100.00%	Full Consolidation
Prestige Garden Constructions Private Limited	100.00%	Full Consolidation
Prestige Mangalore Retail Ventures Private Limited	100.00%	Full Consolidation
Prestige Mysore Retail Ventures Private Limited	100.00%	Full Consolidation
Vijaya Productions Private Limited	50.00%	Equity Method
Thomsun Realtors Private Limited	50.00%	Full Consolidation
Prestige Realty Ventures	49.90%	Equity Method
Prestige City Properties	51.00%	Equity Method
Silverline Estates	30.33%	Equity Method
City Properties Maintenance Company Bangalore Limited	45.00%	Equity Method

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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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For more information, visit www.icra.in

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