November 29, 2019

Prestige Estates Projects Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank lines	4,500.00	4,500.00	[ICRA]A+ (Stable); reaffirmed
Non-convertible debentures	1,200.00	650.00	[ICRA]A+ (Stable); reaffirmed
Total	**5,700.00**	**5,150.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the company's long-term rating takes into consideration PEPL's established track record of more than 32 years in the real-estate industry, its strong project execution capabilities, and the 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, the moderate leverage level (debt to annual rental income of 4.4 times) in these assets provides financial flexibility to the company. The rating also considers the improvement in the sales volume in the residential segment over the last 12 months; the company sold 5.7 million square feet (mn sqft) of area (PEPL share of area) during the 12 months ended September 2019, as compared to 4.8 mn sqft sold during the previous 12-month period. The healthy sales velocity of the ongoing residential projects has improved the cash flow coverage ratios. The rating also draws comfort from the management's policy of maintaining adequate liquidity buffer—the company had bank balances and liquid investments of close to Rs. 800 crore at the consolidated level as on September-2019.

The rating, however, is constrained by the funding and execution risk in the large-scale ongoing and upcoming projects of the Prestige Group. The Group has a significant project pipeline (49 mn sqft of ongoing projects and 66 mn sqft of upcoming projects), which exposes PEPL to execution risk and funding risk. PEPL is also expanding into newer geographies through large-scale capex and residential projects; PEPL's ability to manage the market risks in new locations will be a key rating monitorable. 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 (Hilton Conrad and Grand Sheraton) have reported healthy operational metrics; nonetheless, the return metrics from this segment are expected to remain modest in the near to medium term. The rating also considers the increase in debt levels over the recent quarters due to large investment outflows towards land aggregation and stake consolidation in group companies. Moreover, with increase in the scale of capex projects, the debt levels are expected to move up over the medium term. The gross debt at the Group level increased to Rs. 10,306 crore as on September-2019 from Rs. 9,185[1] crore as on September-2018. Moreover, the relatively short maturity profile of the residential project finance and the corporate debt have resulted in high repayment obligations in the near to medium term, thus exposing the company to refinancing risks. Nevertheless, ICRA notes that the proportion of the shorter maturity project debt as a part of the overall debt has reduced between September 2018 and September 2019, through drawdown of longer tenure LRD loans.

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

Key rating drivers and their description

Credit strengths

Leading real-estate developer with track record of 32 years; strong market position with diversified portfolio - The Prestige Group 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 241 projects, spanning 125 mn sqft of the total developed area. 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.

Steady revenue inflow from moderately-leveraged leasing segment–The Prestige Group has an ongoing leasing portfolio of 9.0 mn sqft of commercial office space and 3.4 mn sqft of retail space (Prestige Share of total area) which provides steady revenue stream. The company has an overall occupancy of above 95% across all the leased assets, which provides an annualised rental income of close to Rs 940 crore. The leasing segment is moderately leveraged with debt-to-annual rental income of 4.4 times currently, which provides financial flexibility to the Prestige Group.

Sales improvement in residential segment provides good visibility on future collections - During the 12 months ended September 2019, PEPL achieved sales of 5.7 mn sqft in the residential and commercial 'for sale' segments as compared to sales of 4.8 mn sqft achieved during the previous 12-month period. The Prestige Group already achieved sales of 76% of the total available area as on June 2019, which provides good visibility on future collections and also limits the market risks. The healthy sales progress improved the adequacy of committed cashflows (adequacy of balance collections on sold area to cover balance development cost and debt outstanding) to 47% as on June-2019 from 40% as on December-2018.

Credit challenges

Funding and execution risk in large-scale, ongoing and upcoming projects—The Prestige Group has large-scale ongoing expenditure in the office, retail hospitality and residential segments, enhancing 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, return indicators from the hospitality segment are expected to remain modest in the near to medium term. The Prestige Group is also expanding into newer geographies through large-scale capex and residential projects. The Group plans to launch two large-size hospitality-led mixed-use projects with DB Realty Group in Delhi and Mumbai.

Large debt-repayment obligation in medium term enhances refinancing risk - The gross debt at the Group level has increased to Rs. 10,306 crore as on September-2019 from Rs. 9,185[2] crore as on September-2018. The gross debt is expected to increase further due to launch of large-scale capex projects. Moreover, the relatively short maturity profile of the residential project finance and the corporate debt results in high repayment obligations in the near to medium term, which expose the company to refinancing risks. The repayments over the next two and a half years is expected to

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

remain elevated at close to Rs. 2,000 crore per annum at the Group level. The maximum repayments are due in PEPL, which has most of the short-tenure project debt related to residential projects and corporate debt raised to fund the recent investments. Nonetheless, the Group has recently replaced some of the corporate debt with longer maturity LRD loans, which has reduced the refinancing risks to some extent.

High level of unsold inventory in some high-end projects - The sales velocity has remained low in some of the premium projects with high ticket sizes. The high value of the project's unsold stock, which are experiencing relatively slow sales, is impeding the company's capital.

Liquidity position: Adequate

PEPL's liquidity profile is supported by cash balances of close to Rs. 800 crore as on September-2019. However, the company has significant repayments over the next two and a half years—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. The LRD loans and project loans are expected to be adequately covered by the associated operational cash flows. The company is also likely to avail construction finance to part-fund the large capex outlay for upcoming projects. Nevertheless, the annuity income portfolio provides financial flexibility to PEPL, due to the moderate level of leveraging against its cash flows (debt-to-annualised rental income of 4.4 times) at the Group level, thereby mitigating the refinancing risk to some extent.

Rating sensitivities

Positive triggers – The rating of PEPL may be upgraded if there is substantial reduction in project debt supported by sale of unsold inventory in the residential segment; nonetheless, such a scenario may not materialise in the immediate term.

Negative triggers – Negative pressure on PEPL's rating could arise if the company increases its leveraging of the LRD loans above 5.5 times of the annual net operating income or if there is a decline in the adequacy of committed cashflows in the residential segment to lower than 40%.

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/Group Support	Not applicable
Consolidation/Standalone	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 the Prestige Group. 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 were held by institutional investors (29%) and other public shareholders (1%), as on September 2019.

Prestige has over 32 years of experience in real estate development and is one of the leading real estate developers in South India. It has completed 241 real estate projects, with a developable area of close to 125 mn sqft. 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. Prestige has 45 ongoing projects across segments, with a total developable area of around 49 mn sqft. It also has 66 mn sqft of upcoming projects and holds a land bank with a development potential of 29 mn sqft.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	5,498.6	5,171.9
PAT (Rs. crore)	411.0	411.2
OPBDIT/OI (%)	23.2%	28.1%
RoCE (%)	13.2%	13.2%
Total Outside Liabilities/Tangible Net Worth (times)	2.8	5.5
Total Debt/OPBDIT (times)	5.8	5.8
Interest Coverage (times)	2.1	1.8
DSCR (excluding short term debt and prepayments)	1.5	1.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019			FY2018	FY2017
					29-Nov-2019	28-Feb-2019	06-Aug-2018	06-Jul-2018	29-Jan-2018	23-Feb-2017
1	Bank lines[3]	Long Term	4,500.0	3,365.3	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	NCDs	Long Term	650.0	650.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Commercial paper	Short Term	400.0	Nil[4]	-	[ICRA]A1+ withdrawn	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+ withdrawn

Amount in Rs. crore

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

[3] *Amount outstanding for the bank lines represents the debt at standalone level as on September 30, 2019*

[4] *Commercial paper was closed in January-2019*

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date[5]	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loans	FY2013-FY2020[6]	-	May 2034	4,149.0	[ICRA]A+ (Stable)
-	Non-fund based facilities	-	-	-	351.00	[ICRA]A+ (Stable)
INE811K07026	NCD- 1	July 24, 2015	11.40%	July 24, 2020	300.0	[ICRA]A+ (Stable)
INE811K07067	NCD- 2	August 10, 2018	10.50%	August 10, 2023	350.0	[ICRA]A+ (Stable)

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

[5] *Represents the farthest maturity date among the various maturity dates for different term loans*

[6] *Represents loans sanctioned between FY2013 and FY2020*

Company Name	Ownership	Consolidation Approach
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
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	100.00%	Full Consolidation
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
Prestige Whitefield Developers	47.00%	Full Consolidation

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About ICRA Limited:

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