July 28, 2023

Prestige Estates Projects Limited: Rating reaffirmed; CP Rating Assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1,118.74	1,112.71	[ICRA]A+ (Stable); reaffirmed
Long-term Non-fund based	591.20	549.20	[ICRA]A+ (Stable); reaffirmed
Non-convertible debenture	750.00	750.00	[ICRA]A+ (Stable); reaffirmed
Long-term Fund-based	50.00	50.00	[ICRA]A+ (Stable); reaffirmed
Commercial paper	0.00	230.00	[ICRA]A1; assigned
Total	**2,509.94**	**2,691.91**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings factor in Prestige Estates Projects Limited's (PEPL) healthy operating performance in the residential segment in FY2023, aided by healthy response to new launches in Bengaluru as well as entry into Hyderabad and Mumbai markets, which is expected to sustain in FY2024, supported by continued end-user demand. The company has made healthy progress in the liquidation of its completed inventory including some premium/luxury projects in this segment. In FY2023, it reported an increase in the area sold by 13% YoY to 15 msf and sales by 25% to Rs. 12,931 crore. Consequently, the collections remained higher by 51% in FY2023, driven by higher sales realisation and healthy construction progress. The cash flow adequacy cover stood healthy with receivables/ (pending construction cost + debt outstanding) of 69% as on March 31, 2023 in the residential real estate segment. The ratings note the comfortable leverage levels with net debt[1] by cash flow from operations (CFO) of less than 2 times as on March 31, 2023. The company proposes to raise commercial paper of Rs. 230 crore in the current year, which will be utilised towards land acquisition and any other incidental and transaction expense. While it may avail additional debt to fund its growth plans, ICRA expects the net debt/CFO to remain below 2.5 times in the medium term.

The ratings favourably note PEPL's diversified operations across residential, commercial, retail, hospitality, and property management (services) segments. The performance of all the key segments in FY2023 has remained healthy. The revenue from commercial office leasing increased by 32% YoY in FY2023, while that from the retail segment grew by 58%, although on a lower base. The hospitality division also rebounded with 32% increase in revenues supported by higher ARR and occupancy in FY2023.The ratings also draw comfort from the Group's established operational track record of more than 35 years in the real estate industry, its strong project execution capabilities, and the sizeable market share in the residential real estate segment of Bangalore.

The ratings, however, are constrained by the risks associated with the Prestige Group's large-scale ongoing and upcoming projects, with significant investments to be made in the commercial real estate segment, in relatively new geographies for PEPL viz. Mumbai, New Delhi and Hyderabad. With the sale of majority of its completed commercial real estate portfolio, the Group's overall commercial real estate portfolio has shifted towards under-development assets, entailing higher capex debt in the coming years. The net debt at the Group level increased to Rs. 5,566 crore as on March 31, 2023, from Rs. 5045 crore as on March 31, 2022. With large-scale expansion plans in the commercial and retail real estate segment, the capex debt is expected to rise in the near to medium term. However, ICRA takes comfort from PEPL's track record of project execution and

[1] Net Debt includes debt across all segments including Residential, Corporate Debt, Commercial, Retail, Hospitality and LRD less cash balance available

sales in both residential real estate and commercial real estate. Further, PEPL is expanding into newer geographies such as Mumbai and Hyderabad, which will expose PEPL to execution and market risks, as well as risks of any non-performance by joint venture (JV) partners of their obligations. Notwithstanding the healthy sales, the company remains exposed to the inherent cyclicality in the real estate and hospitality industries and vulnerability to external factors.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from the diversified business operations, healthy committed cash flow cover, comfortable leverage and strong brand image with long track record in the South Indian real estate market.

Key rating drivers and their description

Credit strengths

Strong sales in residential segment – The sales volume in the residential segment witnessed strong growth in FY2023, aided by favourable response to new launches in Bengaluru as well as entry in Hyderabad and Mumbai markets. The company has made healthy progress in liquidation of its completed inventory including some premium/luxury projects in this segment. In FY2023, it has registered sales value of Rs. 12,930.9 crore (25% YoY increase) and sold an area of 15.09 msf (12.8% YoY increase). The company has registered collections of Rs. 8,725.2 crore in FY2023 against Rs. 5,729 crore in FY2022 (up by 51% YoY). The cash flow adequacy cover stood healthy with receivables/ (pending construction cost + debt outstanding) of 69% as on March 31, 2023 in residential real estate segment.

Leading real estate developer with track record of over 35 years; strong market position with diversified portfolio – Prestige has over 35 years of experience in real estate development and is one of the leading real estate developers in South India. It has completed 281 real estate projects, with a developable area of close to 166 msf. It has developed a diversified portfolio of real estate projects focusing on the residential, commercial, hospitality and retail segments. Besides, it offers a variety of services such as property management services, sub-leasing, and fit-out services. It has 57 ongoing projects across segments, with a total developable area of around 77 msf. The performance of all the key segments in FY2023 has remained healthy. The revenue from commercial office leasing increased by 32% YoY in FY2023, while that from the retail segment grew by 58%, although on a lower base. The hospitality division also rebounded with 32% increase in revenues, supported by higher ARR and occupancy in FY2023.

Comfortable leverage and healthy debt coverage metrics - PEPL has a comfortable leverage ratio even though there has been a considerable increase in its scale of operations and debt levels against the last year. The ratio of net debt to CFO was less than 2 times as on March 31, 2023, and ICRA expects the ratio to remain under 2.5 times in the medium term. Further, the debt coverage metrics as indicated by interest coverage and DSCR stood comfortable at 2.6 times (PY:2.8 times) and 1.9 times (PY: 1.4 times), respectively, as on March 31, 2023.

Credit challenges

Funding and execution risk in large-scale, ongoing, and upcoming projects - To maintain the growth momentum and strengthen its market presence, the company is exposed to risks associated with the large-scale ongoing and upcoming projects, with significant investments to be made in the commercial real estate segment, including large-sized projects in Mumbai and New Delhi. However, ICRA takes comfort from PEPL's track record of project execution and sales in both residential real estate and commercial real estate. Also, with the sale of large share of its completed commercial real estate portfolio, the Group's overall portfolio has shifted towards under-development assets, entailing higher capex debt in the coming years. Further, PEPL is expanding into newer geographies including Mumbai and Hyderabad, where around 35% of the upcoming residential projects and 37% of the upcoming commercial projects are planned, which will expose PEPL to execution and market risks, as well as risks of any non-performance by its JV partners of their obligations.

Exposed to inherent cyclicality in real estate sector - The company remains exposed to the inherent cyclicality in the real estate and hospitality industries and vulnerability to external factors. However, the sales have been consistently improving over the years, driven by the favourable demand scenario.

Environmental and social risks

The real estate segment is exposed to risks of increasing environmental norms impacting operating costs, including higher costs of raw materials such as building materials and cost of compliance with pollution control regulations. Environmental clearances are required for commencement of projects and lack of timely approvals can affect its business operations. Impact of changing environmental regulations on licenses taken for property development could also create credit risks.

In terms of social risks, the trend post-pandemic has been favourable to real estate developers as demand for quality home with good social infrastructure has increased. Further, rapid urbanisation and a high proportion of workforce population (aged 25-44 years) will support demand for real estate in India and, in turn, benefit PEPL. The same is supported by healthy sales trend reported over the recent quarters.

Liquidity position: Adequate

PEPL's liquidity profile is adequate, supported by unencumbered cash balances of around Rs. 1,616.8 crore as on March 31, 2023 and sufficient cash flow from operations. The company has Rs. 2,282.0 crore and Rs. 2,893.0 crore of debt repayment at the Group level in FY2024 and FY2025, respectively. The repayment of the lease rental discounting (LRD) loans and residential project loans are expected to be adequately covered by the associated operational cash flows.

Rating sensitivities

Positive factors - PEPL's ratings might be upgraded if the company is able to achieve timely execution and leasing of the upcoming and ongoing commercial real estate projects, while maintaining its strong performance in the residential segment, resulting in comfortable leverage metrics.

Negative factors - Negative pressure on PEPL's ratings could arise if the company's cash flows or leverage position is impacted by any sustained weakness in sales in the residential segment or large debt-funded investments in land or new projects. Specific metrics which could put pressure on the ratings include net debt by CFO remaining more than 3 times, on a consistent basis, or if there is a decline in the cover of receivables from the sold area over the pending costs and debt in the residential segment (including corporate debt) to lower than 50%.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Real Estate Methodology Rating Methodology for hotels
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of PEPL along with its operational subsidiaries, JVs, and associate companies on account of the strong business and financial linkages between these entities. The list of companies that are consolidated to arrive at the rating is given in Annexure II.

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. It was 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 65.48% of the shares. The remaining shares are held by institutional investors and other public shareholders, as on March 31, 2023.

Prestige has over 35 years of experience in real estate development and is one of the leading real estate developers in South India. It has completed 281 real estate projects, with a developable area of close to 166 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. It has 57 ongoing projects across segments, with a total developable area of around 77 msf.

Key financial indicators (audited)

PEPL consolidated	FY2022	FY2023
Operating income	6,389.5	8,315.0
PAT	1,213.7	1,050.0
OPBDIT/OI	24.0%	25.1%
PAT/OI	19.0%	12.6%
Total outside liabilities/Tangible net worth (times)	2.1	2.5
Total debt/OPBDIT (times)	4.2	3.9
Interest coverage (times)	2.8	2.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021			
					Jul 28, 2023	Nov 16, 2022	Nov 16, 2021	Feb 12, 2021	Oct 28, 2020	Apr 27, 2020	
1	Term loans	Long term	1,112.71	1149.59	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2	Non-fund based facility	Long term	549.20	549.20	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
3	NCD	Long term	750.00	750.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
4	Proposed NCD	Long term	-	-		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-	
5	Fund-based facility	Long term	50.00	50.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-	-	

6	**CP**	Short term	230.00	-	**[ICRA]A1**	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Non-fund based	Simple
Non-convertible debenture	Simple
Long-term Fund-based	Simple
Commercial paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2013-FY2021	NA	Jan 2036	1,112.71	[ICRA]A+(Stable)
NA	Non-fund based	-	-	-	549.20	[ICRA]A+(Stable)
INE811K07067	NCD	Aug 10, 2018	10.5%	Aug 10, 2023	250.00	[ICRA]A+(Stable)
INE811K07075	NCD	Nov 29, 2021	8.9%	Nov 29, 2024	240.00	[ICRA]A+(Stable)
INE811K07083	NCD	Nov 29, 2021	8.9%	Nov 29, 2026	260.00	[ICRA]A+(Stable)
NA	Fund-based	-	-	-	50.00	[ICRA]A+(Stable)
NA*	CP	NA	NA	NA	230.00	[ICRA]A1

*Source: Company; *Unplaced*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	PEPL Ownership	Consolidation Approach
Ace Realty Ventures	51.00%	Full Consolidation
Avyakth Cold Storages Private Limited	100.00%	Full Consolidation
Dollars Hotel & Resorts Private Limited	65.92%	Full Consolidation
ICBI (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 Bidadi Holdings Private Limited	99.94%	Full Consolidation
Prestige Builders and Developers Private Limited	100.00%	Full Consolidation
Prestige Construction Ventures Private Limited	100.00%	Full Consolidation
Prestige Exora Business Parks Limited	100.00%	Full Consolidation
Prestige Falcon Realty Ventures Private Limited	100.00%	Full Consolidation
Prestige Falcon Malls Private Limited	100.00%	Full Consolidation
Prestige Falcon Mumbai Realty Private Limited	51.00%	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 Retail Ventures Limited	100.00%	Full Consolidation
Sai Chakra Hotels Private Limited	100.00%	Full Consolidation
Prestige Sterling Infra Projects Private Limited	80.00%	Full Consolidation
Village-De-Nandi Private Limited	100.00%	Full Consolidation
Prestige Mall Management Private Limited	100.00%	Full Consolidation
Prestige Garden Estates Private Limited	73.00%	Full Consolidation
Albert Properties	88.00%	Full Consolidation
Eden Investments & Estates	77.50%	Full Consolidation
Prestige AAA Investments	51.00%	Full Consolidation

Company Name	PEPL Ownership	Consolidation Approach
Prestige Altavista Holdings	99.00%	Full Consolidation
Prestige Habitat Ventures	99.00%	Full Consolidation
Prestige Warehousing And Cold Storage Services Private Limited (formerly known as Prestige Hi-tech Projects)	92.35%	Full Consolidation
Prestige Kammanahalli Investments	75.00%	Full Consolidation
Prestige Nottinghill Investments	51.00%	Full Consolidation
Prestige Office Ventures	99.99%	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	99.99%	Full Consolidation
Prestige Whitefield Developers	47.00%	Full Consolidation
PSN Property Management and Services	50.00%	Full Consolidation
Silver Oak Projects	99.99%	Full Consolidation
The QS Company	98.00%	Full Consolidation
Morph	40.00%	Full Consolidation
Prestige Century Landmark (w.e.f April 7, 2021)	55.00%	Full Consolidation
Prestige Century Megacity* (w.e.f April 7, 2021)	45.00%	Full Consolidation
Prestige Falcon Business Parks (w.e.f July 14, 2021)	99.00%	Full Consolidation
Villaland Developers LLP	99.00%	Full Consolidation
West Palm Developments LLP	61.00%	Full Consolidation
Prestige Valley View Estates LLP	51.05%	Full Consolidation
Prestige Whitefield Investments and Developers LLP	99.99%	Full Consolidation
Prestige OMR Ventures LLP	70.00%	Full Consolidation
Prestige Devenahalli Developers LLP* (w.e.f January 8, 2021)	45.00%	Full Consolidation
Thomsun Realtors Private Limited	50.00%	Full Consolidation
Shipco Infrastructure Private Limited (w.e.f. August 23, 2021)	70.00%	Full Consolidation
Southeast Realty Ventures	99.99%	Full Consolidation
Prestige Estates Projects Corp	100.00%	Full Consolidation
Prestige MRG Eco Ventures	50.00%	Equity Method
Turf Estate Realty Private Limited (till May 9, 2022)	50.00%	Equity Method
Dashanya Tech Parkz Private Limited (w.e.f. April 18, 2023)	50.00%	Equity Method
Bamboo Hotel and Global Centre (Delhi) Private Limited	50.00%	Full Consolidation
Pandora Projects Private Limited (w.e.f January 7, 2021)	50.00%	Full Consolidation
Kochi Cyber Greens Private Limited	100.00%	Full Consolidation
Prestige Projects Private Limited (w.e.f September 2, 2021)	59.99%	Full Consolidation
Prestige Acres Private Limited (w.e.f October 25, 2021)	51%	Full Consolidation
Apex Realty Management Private Limited (w.e.f. June 24, 2022, was jointly controlled entity till June 23, 2022)	100.00%	Full Consolidation
Apex Realty Ventures LLP (w.e.f. June 24, 2022, was jointly controlled entity till June 23, 2022)	100.00%	Full Consolidation
Prestige Mulund Realty Private Limited (w.e.f. June 29, 2021) (Formerly known as Ariisto Developers Private Limited)	100.00%	Full Consolidation
Prestige Beta Projects Private Limited (w.e.f. March 24, 2022)	40.00%	Equity Method

Company Name	PEPL Ownership	Consolidation Approach
Prestige (BKC) Realtors Private Limited* (Formerly known as DB (BKC) Realtors Private Limited)	59.20%	Equity Method
Prestige Realty Ventures	49.90%	Equity Method
Lokhandwala DB Realty LLP	50.00%	Equity Method
Turf Estate Joint Venture LLP** (w.e.f March 24, 2021)	50.00%	Equity Method
Techzone Technologies Private Limited	48.07%	Equity Method
Prestige Vaishnaoi Projects	50.00%	Equity Method
Prestige Vaishnaoi Realty Ventures	50.00%	Equity Method
Evergreen Industrial Estate	50.00%	Equity Method

Source: Company

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About ICRA Limited:

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