September 12, 2023

Prestige Projects Private Limited: Provisional rating assigned for Rs. 500.00-crore proposed NCD, rating reaffirmed for existing NCD and bank facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Proposed non-convertible debenture (NCD) programme	0.00	500.00	Provisional [ICRA]A+(CE) (Stable); Assigned
Long-term – NCD	150.00	150.00	[ICRA]A (Stable); reaffirmed
Long-term – Fund-based – Term loan	1,000.00	1,000.00	[ICRA]A (Stable); reaffirmed
Total	**1,150.00**	**1,650.00**	

**Instrument details are provided in Annexure-I*

Rating in the absence of pending actions/documents	**[ICRA] A**
Rating Without Explicit Credit Enhancement	**[ICRA] A**

**Instrument details are provided in Annexure-I*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

For the [ICRA]A(Stable) rating

The ratings factor in the heathy sales performance of Prestige Projects Private Limited's (PPPL) ongoing integrated township project, named The Prestige City, comprising plotted development, villas, residential apartments and a retail mall with a total saleable area of ~12 million square feet (msf), near Sarjapur Road, in Bangalore. As on June 30, 2023, the company sold 99% of the total saleable area (11.66 msf) of the ongoing projects, resulting in a healthy cash flow adequacy cover with receivables/ (pending construction cost + debt outstanding) of 98%. The ratings factor in PPPL's strong parentage, being a subsidiary of Prestige Estates Private Limited (PEPL, rated [ICRA]A+/Stable), the flagship company of the Bangalore-based Prestige Group. The Prestige Group has an established track record of more than 35 years in the Bengaluru real estate market with strong project execution capabilities. It has completed 285 projects with ~170 msf of area as on June 30, 2023. ICRA expects PEPL to provide timely financial support to PPPL, for funding shortfall, if any, given its strategic importance for the parent entity and PEPL's reputation sensitivity to default.

The ratings are, however, constrained by the exposure to execution and market risks arising from the company's large expansions plans (estimated launch pipeline of around 17.1 msf in FY2024). It is further exposed to the residual execution risk for the ongoing projects, wherein 74% of the total project cost (i.e., Rs. 3,102 crore) is yet to be incurred as on June 30, 2023. Further, PPPL is in process of acquiring land for which the proposed NCD is being raised. It is likely to launch a residential project in Budvel in Hyderabad of 7.39 msf of saleable area in the next 6-9 months. Nonetheless, the Prestige Group's strong track record of project execution and sales provides comfort. PPPL's total debt levels are expected to increase to Rs. 1,925 crore as of March 2024 (PY: Rs. 1,452 crore) due to fund raised for land acquisition and construction and development of residential projects. Consequently, the company's leverage, total debt to cash flow from operations (CFO) is likely to increase to 4.2-4.5 times as of March 2024 (PY:0.89 times). The ratings are constrained by the cyclicality risk inherent in the real estate business, high geographical concentration risk with significant dependence on Bengaluru, which accounts for ~75% of the total saleable area in its ongoing and upcoming projects.

The Stable outlook on the rating reflects ICRA's expectation that PPPL will maintain healthy sales, strong collections in its ongoing and future launches, supported by its brand strength and good market response to its overall social infrastructure offerings in the township.

For the provisional [ICRA]A+(CE)(Stable) rating

The assigned rating of [ICRA]A+ (CE) (Stable) for Rs. 500-crore proposed non-convertible debentures (NCD) programme of Prestige Projects Private Limited (PPPL) is based on the strength of the corporate guarantee provided by the parent, Prestige Estates Projects Limited (PEPL, rated at [ICRA]A+ (Stable). The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, PEPL.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by PEPL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A+(CE) against the rating of [ICRA]A without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- The company shall, at all times pursuant to creation of security/mortgage on the project property, ensure that the value of the security remains at least 1.65 times of the rate debentures outstanding at any point of time.
- No takeout, including repayment of promoter loans permissible from the project until facility is fully repaid, without prior written consent of the lender(s).
- Financial covenant on PEPL: During the term of the debentures, PEPL shall ensure that it complies with the following financial covenants:
    - Until the expiry of 12 months from the Deemed Date of Allotment in, the net debt does not exceed Rs. 10,000 crore or 1.5 times of the tangible net worth of PEPL, whichever is lower; and
    - From the expiry of 12 months from the Deemed Date of Allotment till the final settlement date, the net debt does not exceed Rs. 12,000 crore or 1.5 times of the tangible net worth of PEPL, whichever is lower.

Key rating drivers and their description

Credit strengths

Strong parentage with established track record in real estate business – PPPL is a subsidiary of PEPL (rated [ICRA]A+(Stable)), which is a part the Prestige Group. The Prestige Group has an established track record of more than 35 years in the Bengaluru real estate market with strong project execution capabilities and has completed 285 projects with 170 msf of area as on June 30, 2023. ICRA expects the parent to provide timely financial support to PPPL, for funding shortfall, if any, given PPPL's strategic importance and PEPL's reputation sensitivity to default.

Strong sales in ongoing projects resulting in healthy cash flow adequacy cover – The company owns a land parcel of 171 acres near Sarjapur Road, located in East Bangalore. The entire land area is being developed into an integrated township called The Prestige City, comprising plotted development, villas, residential apartments and a retail mall with a total saleable area of ~12 msf. The company started with the launch of plotted development in September 2021 and subsequently launched the villas and residential apartments. The sales response for the project has been strong. As on June 30, 2023, it sold ~99% of the saleable area of the ongoing projects, i.e., 11.66 msf. PPPL's cash flow adequacy cover remained healthy with receivables/ (pending construction cost + debt outstanding) of 98% as on June 30, 2023.

Credit challenges

Exposure to execution and market risks; expected increase in leverage – PPPL has a significant launch pipeline of 17.1 msf (PPPL's share) for FY2024. Further, it is in the process of acquiring land for which the proposed NCD is being raised and is likely to launch a residential project in Budvel, in Hyderabad, encompassing 7.39 msf of saleable area over the next 6-9 months. This exposes the company to execution and market risks. It is further exposed to the residual execution risk for the ongoing projects, wherein 74% of the total project cost (i.e. Rs. 3,102 crore) is yet to be incurred as on June 30, 2023. Also, PPPL's total debt levels are expected to increase to Rs. 1,925 crore as of March 2024 (PY: Rs. 1,452 crore) due to fund raised for land acquisition and construction and development of residential projects. Consequently, the company's leverage, total debt to cash flow from operations (CFO) is likely to increase to 4.2-4.5 times as of March 2024 (PY: 0.89 times). Nonetheless, the Prestige Group's strong track record of project execution and sales provides comfort.

Cyclicality risk inherent in the real estate sector – The company remains vulnerable to the inherent risks of the real estate sector, such as susceptibility to declining property prices, a slowdown in economy and reduction in housing demand. PPPL's dependence on the Bengaluru real estate market is high, which accounts for ~75% of the total saleable area in its ongoing and upcoming projects.

Liquidity position:

Prestige Projects Private Limited: Adequate

PPPL's liquidity position is adequate. The pending cost of the ongoing projects of Rs. 3,260 crore is likely to be met through a mix of collections and drawdown of the sanctioned debt. It has free cash and liquid investments of Rs. 47.8 crore as of June 2023. The company's debt repayments are expected to be around Rs. 800 crore in FY2024, which are likely be serviced from its cash flow from operations and available cash balances.

Prestige Estate Projects Limited: 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

For the Provisional [ICRA]A+(CE)(Stable)

Positive factors – ICRA could upgrade the rating if there is an improvement in the credit profile of the guarantor, PEPL.

Negative factors – The rating could be downgraded in case of any deterioration in the credit profile of the guarantor, PEPL.

For the [ICRA]A(Stable)

Positive factors – The ratings may be upgraded if significant and sustained growth in sales and collections in PPPL's project portfolio results in a consistent improvement in cash flows, lower reliance on debt funding and improvement in debt coverage metrics. The ratings might be upgraded if there is an improvement in the credit profile of PEPL.

Negative factors – The ratings might be downgraded if weak sales in the upcoming projects or subdued collections in ongoing or the upcoming projects, results in weakening of project cash flows and debt coverage metrics. The ratings might be downgraded in case of weakening of linkages with PEPL, or if there is a deterioration in the credit profile of PEPL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate credit rating methodology Rating methodology on real estate ICRA's policy on assigning provisional rating
Parent/Group support	Parent: PEPL ICRA expects the parent, PEPL, to provide timely financial support to PPPL, for funding any shortfall, given their close financial linkages, PPPL's strategic importance for the parent and the parent's reputation sensitivity to default. Moreover, PEPL has extended an irrevocable, unconditional corporate guarantee with a well-defined payment mechanism to the Rs. 500-crore proposed NCD programme of PPPL. Link to the last rating rationale of the guarantor
Consolidation/Standalone	Standalone

Pending actions/documents required to be completed for conversion of provisional rating into final

The assigned rating is provisional and would be converted into final upon:

1. Execution of corporate guarantee deed
2. Execution of debenture trustee deed
3. Signed term sheet of the NCD

Validity of the provisional rating

In case the debt instrument/borrowing facility for which a provisional rating has been assigned is subsequently issued, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents over the near term. Under no circumstances shall the validity period be extended beyond 180 days from the date of issuance. For further details, refer to ICRA's Policy on Provisional Ratings available at www.icra.in.

If neither the pending actions/documents nor the issuance is completed after one year of the assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon the review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the company

PPPL was incorporated in 2008 and became a subsidiary of Prestige Estates Projects Limited (PEPL) post the exit of the joint venture (JV) partner, HDFC Capital Affordable Real Estate Fund in August 2021. It owns a land parcel admeasuring 170.79 acres, close to Sarjapur Road, in Bangalore, for a mixed-use development of an integrated township called The Prestige City. The project comprises plotted development, residential apartments, villas, and a retail mall within the township. Also, the company is venturing out to other micromarkets in Bengaluru, Mumbai and Hyderabad.

Key financial indicators (audited)

PPPL Standalone	FY2022	FY2023	Q1FY2024*
Operating income	-	-	393.84
PAT	(10.18)	(4.80)	58.73
OPBDIT/OI	-	-	0.32
PAT/OI	-	-	0.15
Total outside liabilities/Tangible net worth (times)	82.23	201.04	65.27
Total debt/OPBDIT (times)	3.64	14.00	3.07
Interest coverage (times)	0.93	0.66	2.49

*Source: Company financials; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; all ratios as per ICRA's calculations *Provisional*

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 June 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Sep 12, 2023	July 25, 2023	July 11, 2022	Jan 14, 2022	Dec 23, 2021	Feb 12, 2021
1	Proposed NCD	Long-term	500.0	Nil	Provisional [ICRA]A+(CE) (Stable)	-	-	-	-	-
2	NCD	Long-term	150.0	150.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Term loan	Long-term	1000.0	762.32	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-
4	NCD	Long-term	0.0	Nil	-	[ICRA]A+(CE) (Stable); withdrawn	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	Provisional [ICRA]A+(CE) (Stable)	-
5	NCD	Long-term	0.0	Nil	-	[ICRA]A+(CE) (Stable); withdrawn	[ICRA]A+(CE) (Stable)	Provisional [ICRA]A+(CE) (Stable)	Provisional [ICRA]A+(CE) (Stable)	-

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term – Proposed NCD	Simple
Long-term – NCD	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
-	Proposed NCD	NA	NA	NA	500.0	Provisional [ICRA]A+(CE) (Stable)
INE757O08013	NCD	Aug 20, 2018	18.00%	Aug 20, 2038	150.0	[ICRA] A (Stable)
NA	Term loan	Dec 22, 2022	NA	Aug 2027	1000.0	[ICRA] A (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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