

September 19, 2023

Varishtha Property Developers Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD	55.00	55.00	[ICRA]BBB (Stable); reaffirmed
Total	55.00	55.00	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation factors in the strong parentage of Varishtha Property Developers Private Limited (VPDPL) and Purva Sapphire Land Private Limited (PSLPL), which are wholly-owned subsidiaries of Puravankara Limited (PL, rated [ICRA]A- with Stable outlook) and a part of the Puravankara Group. The Group has an established track record of over three decades in the residential real estate market, especially in the southern part of India and has developed over 45 million square feet (msf) of saleable area as of March 2023. The proposed project, to be developed by PSLPL and VPDPL together, is a residential apartment project over a 4.7-acre land parcel in East Bangalore, with a total saleable area of 0.58 msf. The project has undergone a change from the earlier plan, which was a residential plotted development project over 32.85-acres land parcel in South Bangalore. The land for the proposed project will be acquired in PSLPL and VPDPL in the ratio of 44:56. It will be launched under the Group's Provident vertical, which focuses on affordable to mid income segment residential group housing projects. The project is favourably located in Panathur, Bangalore, which enhances its marketability. ICRA expects the parent (PL) to provide timely financial support to VPDPL and PSLPL, for funding shortfall, if any, given their strategic importance for the parent and PL's reputation sensitivity to default.

The rating is, however, constrained by the exposure to significant execution and market risks as land acquisition and receipt of key approvals are still pending. Moreover, 73% of the project cost is proposed to be funded by customer advances, which are highly dependent on incremental sales and ~4% of the project cost is to be funded by term loan, which is yet to be tied, thereby exposing it to high market and funding risks. Nevertheless, the established track record of the promoter group in the residential real estate development offers comfort. The rating is constrained by the cyclical risk inherent in the real estate business. ICRA notes that the returns from the non-convertible debentures (NCDs) to the investors are variable depending on the cash flows realised from the proposed project, though there is a minimum IRR of 12% guaranteed by the project sponsor, PL, to the NCD investors.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that VPDPL will benefit from the favourable project location, which should support healthy saleability and the strong parent, which lends operational and financial synergies.

Key rating drivers and their description

Credit strengths

Part of Puravankara Group – The Puravankara Group has a track record of over three decades in the real estate market. It has presence in both premium and affordable housing segments under the brands – Puravankara and Provident, respectively. The Group has demonstrated project execution capabilities with completion of saleable area of over 45 msf as of March 2023, supported by engagement of reputed civil contractors. The Group has strong presence in Bangalore and has been able to successfully diversify into new geographies such as Pune, Hyderabad and Mumbai, by gaining market share.

Favourable location of the project – Adjacent to the IT hubs of Whitefield, Varthur and Sarjapur Road on the Outer Ring Road (ORR), Panathur, has evolved into an attractive housing hub for IT professionals. The site has direct access through Panathur Balagere Road as well as Varthur Main Road and has good connectivity to multiple tech parks such as Bagmane Tech Park, RMZ Eco World, RMZ Eco Space, Embassy Tech Village and Prestige Tech Park.

Credit challenges

Exposure to market and execution risks – The project is in a nascent stage with land acquisition and receipt of key regulatory approvals still pending, which exposes it to execution as well as market risks. Around 73% of the project cost is proposed to be funded by customer advances, which is highly dependent on incremental sales. Moreover, ~4% of the project cost is to be funded by term loan, which is yet to be tied, thereby exposing the project to high market and funding risks.

Exposure to cyclical in real estate sector – Being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand.

Liquidity position: Adequate

The company's liquidity position is likely to be adequate. The expected healthy saleability and collections from the project are likely to result in adequate cash flow generation for repaying the principal and redemption premium at the end of five years and six months. The terms of NCD also allow the company to partially/early redeem the debentures, out of the revenue share from the project, at any time prior to the end of five years and six months. Given the zero coupon nature of NCD, there would not be any ongoing interest payments. The parent/group is expected to provide funding support, in case a need arises.

Rating sensitivities

Positive factors – The rating may be upgraded if the company is able to launch the project in a timely manner with healthy sales response resulting in strong cash flow visibility for debt repayment. The rating will be sensitive to the credit profile of its parent company.

Negative factors – The rating may be downgraded if delays in project launch or weak sales results in inadequate visibility on the future cash flows. The rating will also be sensitive to the credit profile of its parent company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group support	Puravankara Limited ICRA expects the parent, Puravankara Limited (PL), to provide timely financial support to VPDPL and PSLPL, for funding shortfall, if any, given their strategic importance for the parent and PL's reputation sensitivity to default.
Consolidation/Standalone	The rating is based on the company's combined business and financial profiles of PSLPL and VPDPL. The two companies propose to acquire adjoining land parcels in Bangalore, which will be developed as a single project. Moreover, the NCDs to be issued for acquiring the land parcels will have a common investor.

About the company

Incorporated in April 2007, Varistha Property Developers Private Limited (VPDPL) is a wholly-owned subsidiary of Puravankara Limited. VPDPL and PSLPL are undertaking a residential housing project having saleable area admeasuring 0.58 msf on a ~4.7-

acre land parcel in Panathur, East Bangalore. The project land will be acquired in PSLPL and VPDPL in the ratio of ~44:56. Both companies will develop one tower each and the towers will be marketed under the same project name and a common brand 'Provident Housing'.

Key financial indicators: Not applicable being a project company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Sep 19, 2023	Feb 02, 2023	-	-
1 NCD	Long term	55.00^	Nil	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-

^includes Rs. 11 crore of listed NCD amount with ISIN of INE0PO508018 and Rs. 44 crore of unissued NCD amount

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	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
INE0PO508018	NCD	May 2023	Zero	Nov 2028	11.00	[ICRA]BBB (Stable)
NA	Proposed NCD	Yet to be issued	-	-	44.00	[ICRA]BBB (Stable)

Source: Company data

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Purva Sapphire Land Private Limited	100.00%	Full consolidation

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