

September 29, 2023

Prestige Office Ventures: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan	500.00	500.00	[ICRA]A+ (CE) (Stable); Reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure I

Rating Without Explicit Credit Enhancement

[ICRA]BBB+

Rationale

The reaffirmation of rating of [ICRA]A+ (CE) (Stable) for the Rs. 500-crore term loan of Prestige Office Ventures (POV) is based on the strength of the corporate guarantee provided by the parent, Prestige Estates Projects Limited (PEPL/the guarantor, rated [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 corporate guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument, though it does not have a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by PEPL results in an enhancement in the rating of the said instrument to [ICRA]A+(CE) against the rating of [ICRA]BBB+ without explicit credit enhancement. If the rating of the guarantor or the Unsupported Rating of POV were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility. The rating of this instrument may undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

While the projects being developed by the company are in favourable locations, the rating considers the execution risk for both the ongoing commercial and residential projects. The residential project, Prestige Lavender Fields, reported healthy sales of 85% as of June 2023 with cash flow adequacy of 224%. The ongoing commercial projects are exposed to market risk with no pre-leasing tie-ups. Significant delays in leasing will adversely affect its cash flow position and increase the refinance risk for the loan availed for the commercial project, Prestige Sky Tech. Nonetheless, the Prestige Group's strong track record of project execution and sales/leasing provides comfort. Further, the company has sufficient time to achieve adequate leasing tie-ups for refinancing the bullet repayment for the construction finance (CF) loan falling due in October 2025, as the project is expected to be ready by December 2023.

Salient covenants of the rated facility

- » Security cover of 1.5 times of the outstanding amount, in the form of project/property during the entire loan tenure.
- » Unconditional and irrevocable corporate guarantee from PEPL for the entire loan amount, along with a non-disposal undertaking.

Key rating drivers and their description

Credit strengths

Corporate guarantee provided by PEPL towards the rated bank facility – The rating derives comfort from the legally enforceable, irrevocable and unconditional corporate guarantee extended by PEPL. The rated instrument does not involve a structured payment mechanism.

Strong parentage with established track record in real estate business – 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 million square feet (msf) of area as on June 30, 2023. ICRA expects the parent to provide timely financial support to the company, for funding shortfall, if any, given POV's strategic importance and PEPL's reputation sensitivity to default.

Favourable location of the projects – The company's ongoing commercial project, Prestige Skytech is located in Puppalaguda, in the financial district of Hyderabad and is in proximity to other key office markets like Gachibowli and Hitech City. POV has another commercial project, Prestige Waterfront, close to Outer Ring Road, at Nagavara, which is the IT hub of Bengaluru. It is developing two projects (Prestige Lavender Fields – residential and Prestige Tech Habitat – commercial) next to each other in Varthur, Bengaluru, which has good connectivity to IT offices near Sarjapur Road and HSR Layout, and has proximity to schools, hospitals and leisure hubs. The residential project (Prestige Lavender Fields) has witnessed healthy sales responses with 85% of the area sold as on June 30, 2023 resulting in cash flow adequacy of 224%.

Credit challenges

No pre-leasing tie-ups for ongoing commercial projects – As of June 2023, the company incurred 80% of construction cost for its ongoing commercial project in Hyderabad – Prestige Skytech – with a total leasable area of 2.3 msf. However, no leasing tie-ups were in place, exposing it to significant market risk. Nonetheless, the advanced construction progress of the project, its favourable location, and the Group's established track record in leasing commercial real estate projects mitigate the market risk to an extent. The company's other two ongoing commercial projects in Bangalore – Prestige Waterfront (leasable area of 0.25 msf) and Prestige Tech Habitat (leasable area of 0.47 msf) – face market risk as they are in initial stages of construction and do not have any lease tie-ups in place.

Exposure to execution risk – The company faces execution risk for its ongoing residential project in Bangalore – Prestige Lavender Fields, wherein only 4% out of the total construction cost of Rs. 838 crore was incurred as of June 2023. It also faces execution risk for its ongoing commercial projects in Bangalore, Prestige Waterfront and Prestige Tech Habitat, wherein only 14% and 7% of the construction cost was incurred as of June 2023. Nonetheless, the Prestige Group's established track record of executing residential as well as commercial projects mitigate the execution risk to an extent.

Exposure to refinancing risk – Any significant delays in achieving leasing tie-ups for Prestige Skytech, its commercial project, could adversely impact the company's cash flow position and its ability to refinance the construction loan availed for this project. Nonetheless, it has sufficient time to achieve adequate leasing tie-ups for refinancing the bullet repayment for the CF loan falling due in October 2025, as the project is expected to be ready by December 2023.

Liquidity position

For the rated entity (POV): Adequate

On a standalone basis, POV's liquidity profile is adequate. The remaining project cost of Rs. 299 crore for Prestige Skytech, a commercial project in Hyderabad, is expected to be met from Rs. 296 crore of promoter funds and Rs. 3 crore of undrawn CF loan. The CF loan availed for this project has a bullet repayment in October 2025, whereas the project is likely to be ready by

December 2023. This should provide adequate time for achieving lease tie-ups and subsequent refinancing of this CF loan by a lease rental discounting (LRD) facility. The pending cost of the residential project is expected to be entirely met from committed receivables, as 85% of project has already been sold. The pending cost of the other two ongoing commercial projects is likely to be funded by promoter funds and surplus from the residential project.

For the guarantor (PEPL): 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 adequate 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 LRD loans and residential project loans are expected to be adequately covered by its associated operational cash flows.

Rating sensitivities

Positive factors – Significant lease tie-ups at adequate rental rates resulting in healthy debt coverage indicators, and an improvement in the credit profile of the guarantor, PEPL, could result in rating upgrade.

Negative factors – Inability to tie-up leases at adequate rental rates in a timely manner impacting the company's refinancing ability for conversion of construction finance loan into LRD loan or increase in indebtedness impacting its debt protection metrics could result in a rating downgrade. Additionally, deterioration in the credit profile of the guarantor, PEPL, or the weakening of business linkages or strategic importance of POV towards the guarantor could also put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Real Estate Entities Rating Methodology for Debt Backed by Lease Rentals
Parent/Group support	Parent: Prestige Estates Projects Limited (PEPL) ICRA expects the parent, PEPL, to provide timely financial support to POV, for funding any shortfall, given their close financial linkages, POV's strategic importance for the parent and the parent's reputation sensitivity to default. Moreover, PEPL has provided an irrevocable, unconditional corporate guarantee to the rated bank facility of POV. Link to the last rating rationale of the guarantor
Consolidation/Standalone	ICRA has considered the standalone financial and operational profile of POV.

About the company

Prestige Office Ventures (POV) is 100% subsidiary of PEPL (Prestige Estates Projects Limited; flagship company of Prestige Group). It was incorporated in February 2017 to develop commercial real estate projects. The completed properties owned by the entity include certain space in Prestige Shantiniketan, in Bengaluru, and Prestige Phoenix, in Hyderabad. The company is developing a commercial project in Poppulguda, Hyderabad, named Prestige Skytech with a leasable area of 2.3 msf. The project has a scheduled completion date of June 2025. However, it is expected to be ready by December 2023. It launched two more commercial projects in FY2023 – Prestige Waterfront (leaseable area of 0.25 msf) and Prestige Tech Habitat (leaseable area of 0.47 msf) – in Nagavara and Varthur, respectively, in Bangalore. POV also has an ongoing residential project, Prestige Lavender Fields, with a total saleable area of 2.3 msf located in Varthur, Bengaluru. The project was launched in April 2023 and has a RERA completion date of May 2027.

Key financial indicators (audited)

POV	FY2022	FY2023
Operating income (Rs. crore)	19.1	28.5
PAT (Rs. crore)	-24.6	0.2
OPBDIT/OI (%)	8.8%	70.3%
PAT/OI (%)	-129.1%	0.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.8
Total debt/OPBDIT (times)	141.6	27.4
Interest coverage (times)	0.1	2.0

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	Type	Current Rating (FY2024)		Chronology of Rating History			
		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 29, 2023	Jun 28, 2022	-	-
1 Term loans	Long-term	500.00	497.00	[ICRA]A+ (CE) (Stable)	[ICRA]A+ (CE) (Stable)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Term loan	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, is available on ICRA's website: [Click Here](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan – I	June 17, 2021	NA	October- 2025	500.00	[ICRA]A+(CE) (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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