December 21, 2023 (Revised)

Prestige Acres Private Limited: Rating reaffirmed for existing commercial paper and provisional rating assigned for proposed commercial paper

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	170.0	170.0	[ICRA]A1(CE); reaffirmed
Proposed commercial paper	-	273.0	Provisional [ICRA]A1(CE); assigned
Total	**170.0**	**443.0**	

Rating Without Explicit Credit Enhancement	**[ICRA]A3+**
Rating in the absence of the pending actions/ documents	**[ICRA]A3+**

**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

The rating of [ICRA]A1(CE) for the Rs. 170 crore of the existing commercial paper (CP) programme and Provisional [ICRA]A1 (CE) for the Rs. 273 crore of proposed CP programme of Prestige Acres Private Limited (PAPL) are based on the strength of the corporate guarantees provided by Prestige Estates Projects Limited (PEPL/the guarantor, rated [ICRA]A1 (Stable)), one of the sponsors of PAPL.

Adequacy of credit enhancement

The ratings of the instruments are based on the credit substitution approach whereby the rating of the guarantor has been translated to the ratings of the said instruments. The corporate guarantee for the issued CP is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has well-defined pre-default invocation and payment mechanism. The draft corporate guarantee for the proposed CP also has the same features. Given these attributes, the guarantees provided by PEPL are adequately strong to result in an enhancement in the rating to [ICRA]A1(CE) for Rs. 170-crore CP programme and Provisional [ICRA]A1(CE) for the Rs. 273-crore proposed CP programme, against the rating of [ICRA]A3+ 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 instruments.

The rating considers the execution risk, given that the company's ongoing projects are in the nascent stage, with land acquisition and/or approvals pending. Even though the company has witnessed healthy sales, with 99% area sold and ~81% collections for the sold value in two completed plotted development projects, it remains exposed to funding and market risk for the projects. Nonetheless, the favourable location of the projects and the Prestige Group's strong record of project execution and sales provides comfort.

Salient covenants of the rated facility of Rs. 170 crore

- The guarantee shall be invoked by the trustee upon the failure by the issuer to redeem the CP on the maturity date.
- It is an unlisted issuance.

Salient covenants of the rated facility of Rs. 273 crore

Details will be included at the time of finalisation of the provisional rating when the company shares the final term and corporate guarantee for the CP programme. Covenants based on draft term sheet are stated below:

- No additional indebtedness against the project.
- No change in shareholding and management control of the Issuer.
- Guarantor level covenants: Minimum adjusted net worth to be not less than Rs. 950 crore and consolidated debt to adjusted net worth not to exceed 2.0 times.
- Issuer leveraged covenants: consolidated debt of maximum Rs. 2,100 crore.
- All shareholders loans, including equity/quasi-equity, unsecured loans, or infusion whatever manner, present and future, shall be subordinated.

Key rating drivers and their description

Credit strengths

Corporate guarantee from PEPL – The ratings for the existing and proposed CP programme of PAPL are based on the strength of the corporate guarantees provided by PEPL. The corporate guarantees provided by PEPL are legally enforceable, irrevocable, unconditional, cover the entire amount and tenor of the rated instruments and have a well-defined pre-default invocation and payment mechanism.

Strong promotor group with established track record lends financial flexibility – The Prestige Group has an established track record of more than 36 years in the Bengaluru real estate market with strong project execution capabilities. It has completed 288 projects covering 172 million square feet (msf) of area as on September 30, 2023. ICRA expects the parent to provide timely financial support to the company, for funding shortfall, if any, given PAPL's strategic importance and PEPL's reputation sensitivity to default.

Attractive project locations – The company has completed two plotted development projects, Prestige Orchards, Hyderabad and Prestige Marigold Phase-1, which have witnessed healthy sales, with 99% area sold and ~81% collections for the sold value. The other proposed projects for development of residential plots, apartments and villas are in Jijamata Nagar, Mumbai, and in the upcoming regions of Bengaluru and Goa. The demand prospects are favourable due to their proximity to various corporate offices in the vicinity and well-developed social infrastructure. Further, PEPL's track record in residential real estate development is expected to support the project viability and return metrics.

Credit challenges

Exposure to market, funding and execution risks – The company has upcoming projects of 18.8 msf, which are in the nascent stage with land acquisition and/or receipt of key regulatory approvals pending. Hence, the projects are exposed to construction risk, as it is in the nascent stages of development, and remain exposed to funding and market risks.

Exposure to cyclicality in real estate sector – The real estate sector is marked by volatile prices and a highly fragmented market structure because of the presence of many regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which exposes the company's sales vulnerable to any downturn in demand.

Liquidity position

For the rated entity (Prestige Acres Private Limited): Stretched

PAPL's liquidity profile is stretched due to the initial stage of development of most of the projects including acquisition of the project land and limited visibility on operational cash flows. It will remain dependent on funding support from external debt and customer advances from the sale of the projects.

For the guarantor (Prestige Estates Private Limited): Adequate

PEPL's liquidity profile is adequate, supported by cash and cash equivalents balances of around Rs. 1,851 crore as on September 30, 2023 and sufficient cash flow from operations. The company has Rs. 2,382 crore and Rs. 3,047 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 – 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Commercial/Residential/Retail Methodology Policy on provisional ratings
Parent/Group support	Parent: Prestige Estates Projects Limited The rating assigned to PAPL factors in the high likelihood of its parent, PEPL (rated [ICRA]A+ (Stable)), extending financial support to it because of close business linkages between them, PAPL's strategic importance for the parent and the parent's reputation sensitivity to default. Moreover, PEPL has provided corporate guarantee to the borrowing programme of PAPL.
Consolidation/Standalone	The rating is based on the consolidated financial statements of PAPL including its wholly-owned subsidiary, Ace Realty Ventures

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 transaction documents which includes letter of offer, resolution passed by board of directors

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

Prestige Acres Private Limited (PAPL), is a private limited company, which was incorporated in 2021. The company is owned by Prestige Estate Private Limited (51% holdings) and Pinnacle Investments (49%). PAPL plans to develop a mixed-use project (mix of residential apartments, villas and plots) over land parcels aggregating to 325 acres across Bengaluru and Goa. Also, it is planning to launch a residential project at Jijamata Nagar, Mumbai. PAPL has 100% holding in Ace Reality Ventures (ARV), which undertakes construction and development of plotted development across Bettenahalli, Bengaluru. ARV has completed the residential plot project 'Prestige Marigold Phase 1' of 1.17 msf and has launched plotted development project Marigold Phase 2 in September 2023. Further, the company plans to launch another plotted project Marigold Phase 3 of 1.52 msf by March 2025.

About the guarantor

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 65.5% of the shares. 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 developed a diversified portfolio of real estate projects focusing on the residential, commercial, hospitality and retail segments.

Key financial indicators

Not applicable as it is project stage 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 Nov 30, 2023 (Rs. crore)	Date & Rating in		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Dec 21, 2023	Apr 5, 2023	Mar 24, 2023	-	-
1	**Commercial paper**	Short-term	170.0	170.0	**[ICRA]A1(CE)**	**[ICRA]A1(CE)**	**Provisional [ICRA]A1(CE)**	-	-
2	**Proposed commercial paper**	Short-term	273.0	-	**Provisional [ICRA]A1(CE)**	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial paper	Very Simple
Proposed 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/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0LWN14017	Commercial paper	March 27, 2023	10%	December 22, 2023	170.0	[ICRA] A1 (CE)
Yet to be Placed	Proposed Commercial Paper	NA	NA	NA	273.0	Provisional [ICRA]A1(CE)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Ace Reality Ventures	100.0%	Full Consolidation

Source: Company

Corrigendum

Document dated December 21, 2023 has been corrected with revisions of name of the methodology from ' Real Estate Methodology' to 'Realty- Commercial/Residential/Realty'.

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 4547 4829
anupama.reddy@icraindia.com

Tushar Bharambe
+91 22 6169 3347
tushar.bharambe@icraindia.com

Pulkit K Varshney
+91 80 432 6427
pulkit.varshney@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches