February 06, 2024

Prestige Estates Projects Limited: Ratings reaffirmed; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1,112.71	1,069.91	[ICRA]A+(Stable); reaffirmed
Long-term - Non-fund based	549.20	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	230.00	230.00	[ICRA]A1; reaffirmed
Total	**2,691.91**	**2,649.11**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmed ratings for Prestige Estates Projects Limited (PEPL) factor in the estimated healthy operating performance of its residential segment in FY2024. This performance is expected to be sustained in FY2025, supported by continued end-user demand, a strong launch pipeline and good affordability. In 9M FY2024, PEPL, on a consolidated basis, sold an area of 16.13 million square feet (msf, 45% YoY growth) and reported pre-sales and collections of Rs. 16,333 crore (81% YoY growth) and Rs. 8,479 crore (20% YoY growth), respectively. The healthy cash flow adequacy ratio stood at 81% of the balance construction cost of Rs. 15,812 crore and total debt outstanding of Rs. 5,020 crore as of September 2023 in the residential segment. ICRA expects the pre-sales to grow by 40-42% to around Rs. 18,500 crore in FY2024 (PY: Rs. 12,931 crore) and by another 20% in FY2025. Additionally, the collections are likely to remain robust and estimated to increase by 20-22% to Rs. 10,500-10,700 crore in FY2024 and grow further by ~30% in FY2025. This growth is driven by adequate committed sales and construction progress for the ongoing projects and a healthy launch pipeline of upcoming projects. Consequently, the cash flow from operations is estimated to improve. While the debt is expected to increase to fund the growth plans, the leverage and gross debt/CFO are estimated to remain below 3 times in the medium term.

The ratings also favourably note the group's diversified operation across various segments, including residential, commercial, retail, hospitality and property management (services). The performance of all the key segments has remained healthy in FY2024 and is expected to be sustained in FY2025. The revenue from the commercial office leasing increased by 54% YoY in H1 FY2024 while that from the retail segment grew by 348% in H1 FY2024, although on a lower base. The hospitality division reported a 13% YoY increase in revenues in H1 FY2024 YoY, supported by a higher average room rent (ARR) and occupancy. Further, the ratings also draw comfort from the Group's established operational track record of more than 37 years in the real estate industry, its strong project execution capabilities and the sizeable market share in Bangalore's residential real estate segment.

The ratings, however, are constrained by the exposure to funding and execution risks given the significant investments in the commercial real estate segment, including large-sized projects in Mumbai and New Delhi. The company also has significant plans to expand its ongoing residential portfolio to maintain the growth momentum and strengthen its market presence in existing as well as new micro-markets. As of September 2023, PEPL had a future project pipeline of ~26.08 msf (PEPL's share), to be launched over the next six months. Further, the company's expansion to newer geographies exposes it 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 of the real estate and hospitality industries, and vulnerability to external factors. Nonetheless, ICRA draws comfort from PEPL's track record of project execution and sales in both residential real estate and commercial real estate. PEPL's consolidated gross debt stood at Rs. 8,923 crore as of September

2023 as against Rs. 5,795 crore in September 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. ICRA notes that the overall borrowing cost for the company remains on the higher side, given the sizeable proportion of high-cost general corporate debt in the overall consolidated debt profile.

The Stable outlook on the long-term rating reflects ICRA's opinion that PEPL will continue to maintain healthy sales and collection in the residential real estate segment backed by a strong launch pipeline, resulting in healthy growth in cash flows from operations, liquidity and comfortable leverage metrics. The company is also expected to benefit from its diversified operation across various segments.

Key rating drivers and their description

Credit strengths

Leading real estate developer with long track record, strong market position and diversified portfolio - PEPL has over 37 years of experience in real estate development and is one of the leading real estate developers in South India. It has completed 288 real estate projects, with a developable area of close to 172 msf as of September 2023. PEPL 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 56 ongoing projects across segments, with a total developable area of around 85 msf. The performance of all the key segments has remained healthy in FY2024 and is expected to be sustained in FY2025. The revenue from commercial office leasing increased by 54% YoY in H1 FY2024 while that from the retail segment grew by 348% in H1 FY2024, although on a lower base. The hospitality division reported a 13% YoY revenue increase in H1 FY2024 YoY, supported by a higher average room rent (ARR) and occupancy.

Healthy operating performance in residential segment - The company witnessed strong pre-sales and collections in 9M FY2024 for its residential segment, supported by healthy demand and good saleability in the ongoing and newly launched projects. In 9M FY2024, PEPL, on a consolidated basis, sold an area of 16.13 msf (45% YoY growth) and reported pre-sales and collections of Rs. 16,333 crore (81% YoY growth) and Rs. 8,479 crore (20% YoY growth), respectively. The healthy cash flow adequacy ratio stood at 81% of the balance construction cost of Rs. 15,812 crore and total debt outstanding of Rs. 5,020 crore as of September 2023 (69% as of March 2023) in the residential segment. ICRA expects the pre-sales to grow by 40-42% to around Rs. 18,500 crore in FY2024 (PY: Rs. 12,931 crore) and by another 20% in FY2025. The collections are likely to remain healthy and are estimated to increase by 20-22% to Rs. 10,500-10,700 in FY2024 and grow further by ~30% in FY2025. This growth is driven by adequate committed sales and construction progress for the ongoing projects and a healthy launch pipeline of upcoming projects. Consequently, the cash flow from operations is estimated to improve.

Comfortable leverage - PEPL has a comfortable leverage ratio even though there has been a considerable increase in its scale of operations and debt levels in recent years. The company's leverage measured by gross debt/CFO stood comfortable at 2.19 times as on March 31, 2023, supported by the healthy CFO. While the debt is expected to increase to fund the growth plans, the leverage and gross debt/CFO are estimated to remain below 3 times in the medium term.

Credit challenges

Funding and execution risk in large-scale, ongoing, and upcoming projects - The company remains exposed to funding and execution risks given the significant investments in the commercial real estate segment, including large-sized projects in Mumbai and New Delhi. The company also has significant plans to expand its ongoing residential portfolio and maintain the growth momentum as well as strengthen its market presence in existing as well as new micro-markets. As of September 2023, PEPL has a future project pipeline of ~26.08 msf (PEPL's share), to be launched over the next six months. 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. Further, the group's expansion to newer geographies exposes the group 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 of the real estate and hospitality industries and vulnerability to external factors.

Nonetheless, ICRA draws comfort from PEPL's track record of project execution and sales in both residential real estate and commercial real estate.

Exposed to inherent cyclicality in real estate sector - The company remains exposed to the inherent cyclicality of the real estate and hospitality industries and vulnerability to external factors.

Liquidity position: Adequate

PEPL's liquidity profile is adequate, supported by cash balances of around ~Rs. 1,980 crore as on September 30, 2023 (with encumbered cash balance of Rs. 129.4 crore). The company is likely to maintain cash balances of Rs. 1,000-1,500 crore, going forward. The company has a consolidated debt repayment of Rs. 4,393 crore in FY2025, of which around Rs. 2,400-2,500 crore is likely to be refinanced while the remaining is expected to be serviced comfortably from the cash flow from operations.

Rating sensitivities

Positive factors - PEPL's ratings might be upgraded in case of sustained growth in sales and collection in the residential real estate segment and healthy leasing in the commercial segment, resulting in robust growth in cash flows from operations, liquidity and comfortable leverage metrics. In addition, the improvement in the debt profile through a reduced share of high-cost debt will be a key rating monitorable.

Negative factors - 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 commercial real estate projects. Specific metrics which could put pressure on the ratings include gross debt/CFO exceeding 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%.

Environmental and social risks

The real estate segment is exposed to risks from increasing environmental norms, which impact operating costs, including higher costs of raw materials such as building materials and compliance expenses related to pollution control regulations. Environmental clearances are required for project commencements and lack of timely approvals can affect its business operations. The impact of changing environmental regulations on licences obtained for property development could also create credit risks.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD) Realty - Commercial/Residential/Retail 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, together holding 65.48% of the shares. The remaining shares are held by institutional investors and other public shareholders, as on December 31, 2023.

The Prestige group has over 37 years of experience in real estate development and is one of the leading real estate developers in South India. It has completed 288 real estate projects, with a developable area of close to 172 msf as of September 2023. 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 56 ongoing projects across segments, with a total developable area of around 86 msf as of September 2023.

Key financial indicators (audited)

PEPL consolidated	FY2022	FY2023	H1 FY2024*
Operating income	6,389.5	8,315.0	3,917.3
PAT	1,213.7	1,050.0	-
OPBDIT/OI	24.0%	25.1%	28.6%
PAT/OI	19.0%	12.6%	31.6%
Total outside liabilities/Tangible net worth (times)	2.1	2.5	3.6
Total debt/OPBDIT (times)	4.2	3.9	2.6
Interest coverage (times)	2.8	2.6	31.9%

*Source: Company, ICRA Research; * Provisional financials; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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 September 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		
					Feb 6, 2024	Jul 28, 2023	Nov 16, 2022	Nov 16, 2021	Feb 12, 2021	Oct 28, 2020	Apr 27, 2020
1	Term loans	Long term	1,069.91	1,069.91	[ICRA]A+ (Stable)	[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)	[ICRA]A+ (Stable)
3	NCD	Long term	750.00	500.00	[ICRA]A+ (Stable)	[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)	[ICRA]A+ (Stable)	-	-	-	-

Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Amount outstanding as on September 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		
				Feb 6, 2024	Jul 28, 2023	Nov 16, 2022	Nov 16, 2021	Feb 12, 2021	Oct 28, 2020	Apr 27, 2020
6 **Commercial Paper**	Short term	230.00	230.00	**[ICRA]A1**	**[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-FY2022	NA	Jan 2036	1,069.91	[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)
INE811K14022	Commercial Paper	Aug, 2023	-	Aug, 2024	230.00	[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	PEPL Ownership	Consolidation Approach
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 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
Shipco Infrastructure Private Limited (w.e.f August 23, 2021)	70.00%	Full Consolidation
Prestige Sterling Infra Projects Private Limited	90.00%	Full Consolidation
Prestige Mall Management Private Limited	100.00%	Full Consolidation
Prestige Garden Estates Private Limited	73.00%	Full Consolidation
Village-De-Nandi Private Limited	100.00%	Full Consolidation
Kochi Cyber Greens Private Limited	100.00%	Full Consolidation
Prestige Projects Private Limited (w.e.f September 02, 2021)	59.99%	Full Consolidation
Prestige Mulund Realty Private Limited (formerly known as Ariisto Developers Private Limited) (w.e.f June 29, 2021)	100.00%	Full Consolidation
Prestige Acres Private Limited (w.e.f October 25, 2021)	51.00%	Full Consolidation
Prestige Warehousing & Cold Storage Services Private Limited	92.36%	Full Consolidation
Apex Realty Management Private Limited (w.e.f June 24, 2022)	60.00%	Full Consolidation

Company Name	PEPL Ownership	Consolidation Approach
Prestige Falcon Malls Private Limited	100.00%	Full Consolidation
Prestige Falcon Mumbai Realty Private Limited	51.00%	Full Consolidation
Prestige Estates Projects Corp.	100.00%	Full Consolidation
Ace Realty Ventures	51.00%	Full Consolidation
Albert Properties	88.00%	Full Consolidation
Eden Investments & Estates	77.50%	Full Consolidation
Morph*	40.00%	Equity Method
Prestige AAA Investments	51.00%	Full Consolidation
Prestige AltaVista Holdings	99.00%	Full Consolidation
Prestige Habitat Ventures	99.00%	Full Consolidation
Prestige Hi-Tech Projects	-	-
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%	Equity Method
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%	Equity Method
PSN Property Management and Services*	50.00%	Equity Method
Silver Oak Projects	99.99%	Full Consolidation
The QS Company	98.00%	Full Consolidation
Prestige Century Landmark (w.e.f April 07, 2021)	55.00%	Full Consolidation
Prestige Century Megacity* (w.e.f April 07, 2021)	45.00%	Equity Method
Southeast Realty Ventures (w.e.f. March 20, 2023)	99.99%	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 Investment and Developers LLP	99.99%	Full Consolidation
Prestige OMR Ventures LLP	100.00%	Full Consolidation
Apex Realty Ventures LLP (w.e.f. June, 24 2022)	59.94%	Full Consolidation
Prestige Devenahalli Developers LLP*	45.00%	Equity Method
Prestige Beta Projects Private Limited (w.e.f. March 24, 2022)	40.00%	Equity Method
Dashanya Tech Parkz Private Limited* (w.e.f. February 09, 2022)	-	-
Thomsun Realtors Private Limited	50.00%	Equity Method
Bamboo Hotel and Global Centre (Delhi) Private Limited	50.00%	Equity Method
Pandora Projects Private Limited	50.00%	Equity Method
Prestige (BKC) Realtors Private Limited*	59.20%	Full Consolidation
Apex Realty Management Private Limited* (Upto June 23, 2022)	-	-

Company Name	PEPL Ownership	Consolidation Approach
Prestige Realty Ventures	49.90%	Equity Method
Prestige City Properties* (upto February 02, 2022)	-	-
Prestige MRG Eco Ventures (w.e.f. March 29, 2023)	50.00%	Equity Method
Apex Realty Ventures LLP * (Upto June 23, 2022)	-	-
Lokhandwala DB Realty LLP	50.00%	Equity Method
Turf Estate Joint Venture LLP**	50.00%	Equity Method

Source: Company, ICRA research

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About ICRA Limited:

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