

February 22, 2024

Purva Sapphire Land 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 favourably factors in the strong parentage of Purva Sapphire Land Private Limited (PSLPL) and Varishtha Property Developers Private Limited (VPDPL), which are wholly owned subsidiaries of Provident Housing Limited (rated [ICRA]A- with Stable outlook) and 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 46 million square feet (mn sqft) of saleable area as of September 2023. The proposed project is a plotted residential development project, named Woodfield-II, to be developed by PSLPL and VPDPL in adjoining land parcels totalling to 32.85-acre in South Bangalore and has a total saleable area of 0.7 mn sq ft (in line with the initial plan in January 2023). The initial plan underwent a revision in September 2023 following which a residential apartment project with a total saleable area of 0.58 msf was proposed to be developed over a 4.3-acre land parcel in East Bangalore. The company has decided to go back to its initial plan of plotted development project Woodfield-II. The land for this project will be acquired in PSLPL and VPDPL in the approximate ratio of 50:50. The project will be launched under the Group's Purva Land vertical, which focuses on plotted residential land development projects. The rating also considers the favourable location of the Woodfield-II project in Hosahalli, Bangalore with good connectivity to Hosur road (2-3 km distance) and proximity to Bommasandra and Jigani industrial areas, which provides healthy demand prospects for plotted projects. The rating notes the expected support from the parent company, in case of any funding requirement, given the strategic important of PSLPL and VPDPL for the parent and the parent's reputation sensitivity to default.

The rating is, however, constrained by the significant project execution risk and market risk, as the receipt of approvals is pending. Moreover, the construction cost of the project is to be met entirely by customer advances, which are highly dependent on sales, thereby exposing the company to market risk. The land cost (Rs. 104 crore) will be funded by debt in the form of NCDs. As on date, Rs 77 crore of NCDs have been issued (Rs 52 crore in PSLPL and Rs 25 crore in VPDPL) and the remaining are yet to be issued. 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 rating is also constrained by the cyclicity risk inherent in the real estate business, high geographical concentration risk with dependence on a single micro market in Bangalore for the project. Nonetheless, the Puravankara Group's strong track record of project execution and sales provides comfort.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company 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 43 mn sqft, 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 and healthy demand prospects – The Group has witnessed healthy demand for the plotted development projects launched under the Purva Land vertical. The project is expected to be launched in Q4FY2025, after the land acquisition is completed in Q1 FY2025, and the necessary approvals are received. There is healthy demand for plotted projects in the locality (Hosahalli) in which the proposed plotted project is being developed. The Woodfield-II project is located in Hosahalli, Bangalore with a good connectivity to Hosur road (2-3 km) and proximity to Bommasandra and Jigani industrial areas.

Credit challenges

Exposure to market and execution risks – The project is in nascent stage as the land acquisition has been recently completed and receipt of key approvals is still pending, exposing the company to significant execution risk. Moreover, the entire construction cost of the project is to be funded customer advances, which are highly dependent on sales, thereby exposing the company to market risk.

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

Liquidity position: Adequate

The liquidity position is expected to be adequate. The healthy demand prospects and relatively faster collections for the plotted development projects are likely to result in adequate cash flow generation for repaying the principal and redemption premium at the end of the NCD tenure of seven years. 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. As of February 14, 2024, PSLPL and VPDPL had cash and cash equivalents of Rs. 52.1 crore and Rs. 25.0 crore, respectively.

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 Realty- Commercial/Residential/Retail
Parent/Group support	Puravankara Limited ICRA expects the parent, Puravankara Limited (PL), to provide timely financial support to PSLPL and VPDPL, 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

Purva Sapphire Land Private Limited (PSLPL) and Varishtha Property Developers Private Limited (VPDPL) are undertaking a residential plotted development project, Provident Woodfield –Phase II, at Hosahalli, Bangalore. Both the companies propose to acquire adjoining land parcels with a combined land area of 32.85 acres in approximately 50:50 proportion. The land parcel will be developed as a single project and with a total saleable area of 0.7 mn sqft.

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	Amount rated (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years			
			Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 22, 2024	Sep 19, 2023	Feb 02, 2023	-	-
1 NCD	Long term	55.00^	52.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-

[^]current rated amount includes Rs 52 crore listed NCDs with ISIN of INE0POA08014 and Rs 3 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
INE0POA08014	NCD	May 2023	Zero	Nov 2028	52.00	[ICRA]BBB(Stable)
NA	Proposed NCD	Yet to be issued	-	-	3.00	[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% by Puravankara Limited	Full consolidation
Varishtha Property Developers Private Limited	100.00% by Puravankara Limited	Full consolidation

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