February 27, 2024

Northland Holding Company Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	300.00	300.00	[ICRA]A+(CE) (Stable); reaffirmed
Total	**300.00**	**300.00**	

Rating without Explicit Credit Enhancement	[ICRA]BBB+; upgraded from [ICRA]BBB

**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 long-term rating of [ICRA]A+(CE) (Stable) for Rs. 300 crore term loan of Northland Holding Company Private Limited (NHCPL) is based on the strength of the corporate guarantee provided by the ultimate parent, Prestige Estates Projects Limited (PEPL/the guarantor, rated [ICRA]A+ (Stable)/[ICRA]A1). The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, PEPL.

The upgrade in the rating without explicit credit enhancement factors in the improvement in NHCPL's operating performance in FY2024 supported by increase in occupancy driven by pick up in business travel and Meeting, Incentives, Conferences and Exhibitions (MICE). The average occupancy improved to 44% for 9M FY2024 (FY2023- 32%) while Revenue per available room (RevPar) increased to Rs. 9,062/- (FY2023 - Rs. 6,757/-) in 9M FY2024. ICRA expects the operating income to grow by around 8% each in FY2024 and FY2025, with estimated occupancy levels of around 44-47% while maintaining operating profit margins (OPM) at around 30% (FY2023 - ~31%). The company's debt service coverage indicators, DSCR is estimated to remain healthy at around 2 times in FY2024 and FY2025. Nonetheless, despite the increase, the current occupancy levels remain moderate, and the asset has relatively limited track record of operations. The ramp-up in occupancy levels along with a healthy Average Room Rate (ARR) will remain critical from credit perspective. The rating considers the vulnerability of business operations to general economic slowdown and exogenous shocks since the travel and tourism industry is dependent on discretionary spending. However, the rating derives comfort the Prestige Group's strong record in real estate and hospitality sectors and favourable location of the asset which is likely to support the demand. The company's debt coverage indicators remain exposed to any decline in occupancy levels or increase in interest rates.

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. In case the rating of the guarantor or the Unsupported Rating of NHCPL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this instrument may also 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.

Salient covenants of the rated facility

1. The ratio of debt to promoter's contribution for the project until completion not to exceed 0.89 times and after completion, at any time during the tenor of the facility, debt-equity ratio shall not exceed 1.25 times;
2. The parent company, PEPL, to furnish an undertaking to bring in additional funds for any cost overrun beyond the estimated project cost, and to cover any shortfall in the debt servicing requirements during the tenor of the facility;
3. Financial covenants include Debt-to-Tangible Net Worth to remain equal to or below 1.25 times and Debt-to-EBITDA to remain less than or equal to 5.0 times (in FY2027), 4.5 times (in FY2028), 4.0 times (in FY2029), 3.5 times (in FY2030) and 3.0 times (FY2031 onwards).

Key rating drivers and their description

Credit strengths

Corporate guarantee provided by PEPL towards the rated bank facilities of NHCPL – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by PEPL. However, the corporate guarantee does not have a well-defined invocation and payment mechanism.

Established track record of the Prestige Group in real estate and hospitality sectors – The Prestige Group 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, which include residential, commercial, hospitality and retail segments. Under the hospitality segment, the Group has nine operational properties with 1,368 keys in total, four under-construction hotel properties in Delhi and Bengaluru with 1,009 keys and four upcoming projects with 558 keys across Bengaluru and Mumbai. ICRA expects the parent to provide timely financial support to NHCPL, for funding shortfall, if any, given its strategic importance to PEPL and the latter's reputation sensitivity to default.

Improved operating performance in FY2024; healthy debt coverage metrics – NHCPL's operating performance in FY2024 improved on the back of increase in occupancy, driven by pick up in business travel and Meeting, Incentives, Conferences and Exhibitions (MICE), and the performance is expected to sustain in FY2025. The average occupancy improved to 44% for 9M FY2024 (FY2023 - 32%) while RevPar increased to Rs. 9,062/- (FY2023- Rs 6,757/-) in 9MFY2024. ICRA expects the OI to grow by around 8% each in FY2024 and FY2025, with estimated occupancy levels of around 44-47%, while maintaining OPM at around 30% (FY2023- ~31%). The company's DSCR is likely to remain healthy at around 2 times in FY2024 and FY2025.

Credit challenges

Limited track record of operations, moderate occupancy levels – The hotel commenced operations in April 2022 and, hence FY2023 was its first full year of operations. The hotel operated at an average occupancy of 32% and 44% in FY2023 and 9MFY2024 while the ARRs stood at Rs. 21,117/- and Rs 20,689/-, respectively. Given the limited operational track record, the ramp-up in occupancy levels, along with a healthy ARR will remain critical from credit perspective.

Cyclical industry dependent on discretionary spend; vulnerable to general economic slowdown and exogenous shocks – The hotel industry is significantly exposed to macro-economic conditions, inflation level, tourist arrival growth, etc, which lead to an inherent cyclicality. The industry is exposed to several exogenous shocks such as geopolitical crisis, terrorist attacks, disease outbreaks, etc. Given that the travel and tourism industry is dependent on discretionary spending, the industry is highly susceptible to any severe crisis.

Vulnerability of debt coverage indicators to changes in occupancy and interest rates -The company's debt coverage indicators remain exposed to any decline in occupancy levels or increase in interest rates.

Liquidity position

For the rated entity (Northland Holding Company Private Limited): Adequate

The company's liquidity is adequate with Rs. 54 crore cash and liquid investments (including DSRA), as of December 2023. The cash flow from operations are expected to remain comfortable to service the term loan repayments of Rs. 6.8 crore and Rs. 13.4 crore in FY2025 and FY2026 respectively.

For the guarantor (Prestige Estates Private Limited): 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. It 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 – A significant and a sustained improvement in RevPAR along with a material reduction in debt levels resulting in significant improvement in leverage and coverage metrics, could trigger a rating upgrade. The ratings will be sensitive to the credit profile of the guarantor.

Negative factors – A sustained reduction in earnings and/or significant increase in indebtedness impacting the company's liquidity and debt protection metrics could result in a rating downgrade. Deterioration in the credit profile of the guarantor (PEPL) or weakening of business linkages or strategic importance of the company for the parent could also put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Parent company: Prestige Estates Projects Limited (PEPL) ICRA expects the parent, PEPL, to provide timely financial support to the company, for funding any shortfall, given their close financial linkages, the company'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 NHCPL. Link to the last rating rationale of the guarantor.
Consolidation/Standalone	Standalone

About the company

Northland Holding Company Private Limited is a 100% subsidiary of Prestige Hospitality Ventures Limited, which is the holding company for the Prestige Group's hospitality business. The company has completed constructing a five-star resort with 297-key capacity and partnered with the Marriott Hotels Group and launched the project under the brand of JW Marriott. The resort spreads over ~25 acres in Devanahalli, Nandi Hills, Bengaluru, as a part of the mixed-use developmental property Prestige Golfshire, which consists of an 18-hole golf course, luxury residential villas and a clubhouse. The luxury resort also comprises five villas, a large convention centre, four food and beverages outlets and other recreational areas.

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, 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)

	FY2022	FY2023	9M FY2024*
Operating income	41.0	229.9	196.6
PAT	-10.6	-38.4	-11.8
OPBDIT/OI	-3.6%	31.1%	29.6%
PAT/OI	-37.3%	-9.9%	-6.0%
Total outside liabilities/Tangible net worth (times)	7.4	7.5	8.5
Total debt/OPBDIT (times)	-522.7	10.1	9.2
Interest coverage (times)	-2.9	2.3	2.3

*Source: Company, ICRA Research; * Provisional numbers; 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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 27, 2024	Nov 25, 2022	Aug 31, 2021	May 21, 2020
1	Term loans	Long term	300.0	295.81	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – 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 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 loans**	Jun 2019	-	June 2034	300.00	[ICRA]A+(CE) (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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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.

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