July 23, 2024

Prestige Estates Projects Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1,069.91	1,451.4	[ICRA]A+(Stable); reaffirmed/assigned for enhanced amount
Long-term - Non-fund based	549.20	496.20	[ICRA]A+(Stable); reaffirmed
Non-convertible debenture	500.00	500.00	[ICRA]A+(Stable); reaffirmed
Long-term - Fund-based	50.00	20.00	[ICRA]A+(Stable); reaffirmed
Unallocated – Long term	0.0	151.51	[ICRA]A+(Stable); rating assigned
Commercial paper	230.00	530.00	[ICRA]A1; reaffirmed/assigned for enhanced amount
Total	**2,399.11**	**3149.11**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmed ratings for Prestige Estates Projects Limited (PEPL) factor in the healthy operating performance of its residential segment in FY2024, wherein, on a consolidated basis, the company sold an area of 20.25 million square feet (msf) (higher by 34% YoY) and reported pre-sales and collections of Rs. 21,040 crore (63% YoY growth) and Rs. 11,069 crore (27% YoY growth), respectively. Its pre-sales and collections are expected to improve to Rs. 22,000-22,500 crore and Rs. 14,000-14,500 crore, respectively, in FY2025, primarily driven by adequate committed sales and construction progress for the ongoing projects and a healthy launch pipeline for the upcoming projects. The cash flow adequacy ratio remained healthy at 75% of the balance construction cost of Rs. 20,797 crore and total debt outstanding of Rs. 6,216 crore as on March 31, 2024 (72% as of December 2023) in the residential segment. Consequently, the cash flow from operations (CFO) is estimated to improve. The ratings note the comfortable leverage levels with gross debt/CFO at 2.18 times as on March 31, 2024, similar to previous year levels of 2.19 times, supported by the healthy CFO. While the debt is expected to increase to fund the growth plans, the leverage measured by gross debt/CFO is projected 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 remained healthy in FY2024 and is expected to be sustained in FY2025. The revenue from the commercial office leasing increased by 36% YoY in FY2024, while that from the retail segment grew by 248% in FY2024, although on a lower base. The hospitality division reported a 20% YoY revenue growth in FY2024, supported by a higher average room rent (ARR) and occupancy. Further, the ratings 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 has significant plans to expand its ongoing residential portfolio to maintain the growth momentum and strengthen its market presence in the existing as well as new micromarkets. As of March 2024, PEPL had a future project pipeline of ~75 msf, to be launched in FY2025. 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 faces 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 increased to Rs. 11,462.3 crore as of March 2024 (PY: Rs. 8120 crore) and further, the capex debt is expected to rise in the near to medium term with large-scale expansion plans in the commercial and retail real estate segment. However, the gross debt/CFO are estimated to remain below 3 times in the medium term. ICRA notes that the overall borrowing cost 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 300 real estate projects, with a developable area of close to 190 msf as on March 31, 2024. It 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 48 ongoing projects across segments, with a total developable area of around 91 msf as on March 31, 2024. 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 36% YoY in FY2024, while that from the retail segment grew by 248% in FY2024, although on a lower base. The hospitality division reported a 20% YoY revenue growth in FY2024, 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 FY2024 for its residential segment, supported by healthy demand and good saleability in the ongoing and newly launched projects. In FY2024, PEPL, on a consolidated basis, sold an area of 20.25 msf (34% YoY growth) and reported pre-sales and collections of Rs. 21,040 crore (63% YoY growth) and Rs. 11,069 crore (27% YoY growth), respectively. The cash flow adequacy ratio remained healthy at 75% of the balance construction cost of Rs. 20,797 crore and total debt outstanding of Rs. 6,216 crore as on March 31, 2024 (72% as of December 2023) in the residential segment. The company's pre-sales and collections are expected to improve to Rs. 22,000-22,500 crore and Rs. 14,000-14,500 crore, respectively, in FY2025, primarily 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 the recent years. The company's leverage measured by gross debt/CFO stood comfortable at 2.18 times as on March 31, 2024, similar to previous year levels of 2.19 times, supported by the healthy CFO. While the debt is expected to rise to fund the growth plans, the leverage measured by gross debt/CFO are estimated to remain below 3 times in the medium term.

Credit challenges

Risks associated with 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 has significant plans to expand its ongoing residential portfolio and maintain the growth momentum as well as strengthen its market presence in the existing as well as new micromarkets. As of March 2024, PEPL has a future project pipeline of ~75 msf, to be launched in FY2025. 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 it to execution and market risks, as well as risks of any non-performance by JV partners of their obligations.

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

Liquidity position: Adequate

PEPL's liquidity profile is adequate, supported by cash balances and liquid investments of around ~Rs. 3,288.30 crore as on March 31, 2024. The company is likely to maintain cash balances of Rs. 1,000-1,500 crore, going forward. It has a consolidated principal repayment of Rs. 2,354.0 crore in FY2025, which can 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 March 31, 2024.

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 300 real estate projects, with a developable area of close to 190 msf as of March 2024. 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 48 ongoing projects across segments, with a total developable area of around 91 msf as on March 31, 2024.

Key financial indicators (audited)

PEPL consolidated	FY2022	FY2023	FY2024
Operating income	6,389.5	8,315.0	7877.1
PAT	1,213.7	1,050.0	1618.0
OPBDIT/OI	24.0%	25.1%	31.7%
PAT/OI	19.0%	12.6%	20.5%
Total outside liabilities/Tangible net worth (times)	2.1	2.5	3.1
Total debt/OPBDIT (times)	4.8	4.5	5.4
Interest coverage (times)	2.8	2.6	2.0

Source: Company, ICRA Research;; 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 (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				July 23, 2024	May 08, 2024	Feb 6, 2024	Jul 28, 2023	Nov 16, 2022	Nov 16, 2021
1	Term loans	Long term	1,451.4	[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	496.2	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	NCD	Long term	500.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	NCD	Long term	-	-	[ICRA]A+ (Stable); Withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Proposed NCD	Long term	-	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Instrument		Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				July 23, 2024	May 08, 2024	Feb 6, 2024	Jul 28, 2023	Nov 16, 2022	Nov 16, 2021
6	**Fund-based facility**	Long term	20.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
7	**Commercial Paper**	Short term	530.00	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-
8	**Unallocated**	Long term	151.51	[ICRA]A+ (Stable)	-	-	-	-	-

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
Unallocated – Long term	Not Applicable

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	1,451.4	[ICRA]A+(Stable)
NA	Non-fund based	-	-	-	496.20	[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	-	-	-	20.00	[ICRA]A+(Stable)
INE811K14022	Commercial Paper	Aug, 2023	-	Aug, 2024	230.00	[ICRA]A1
NA	Commercial Paper*	-	-	-	300.00	[ICRA]A1
NA	Unallocated	-	-	-	151.51	[ICRA]A+(Stable)

*Source: Company ; *Yet to be placed*

Please click here to view details of lender-wise facilities rated by ICRA

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	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	60.00%	Full Consolidation

Company Name	PEPL Ownership	Consolidation Approach
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
Prestige Falcon Malls Private Limited	100.00%	Full Consolidation
Prestige Falcon Mumbai Realty Private Limited	51.00%	Full Consolidation
Prestige Lonavala Estates Private Limited (w.e.f Dec 15, 2023)	100.00%	Full Consolidation
Prestige (BKC) Realtors Private Limited (w.e.f September 15, 2023)	100.00%	Full Consolidation
Prestige Estates Projects Corp.	100.00%	Full Consolidation
Ace Realty Ventures	51.00%	Full Consolidation
Albert Properties	72.66%	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 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
Prestige Realty Ventures (w.e.f March 29, 2024)	99.90%	Full Consolidation
Evergreen Industrial Estate (w.e.f Aug 29, 2023)	99.99%	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)	60.00%	Full Consolidation

Company Name	PEPL Ownership	Consolidation Approach
Turf Estate Joint Venture LLP (w.e.f Aug 29, 2023)	100.00%	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)	50.00%	Equity Method
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
Techzone Technologies Private Limited	48.07%	Equity Method
Prestige Vaishnaoi Projects (w.e.f May 03, 2023)	30.00%	Equity Method
Prestige Vaishnaoi Realty Ventures (w.e.f April 03, 2023)	50.00%	Equity Method
Prestige MRG ECO Ventures	50.00%	Equity Method
Worli Urban Development Project LLP	25.50%	Equity Method

*Source: Company, ICRA research; * Subsidiary based on the terms of the partnership deed*

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