August 27, 2024

Thomsun Realtors Pvt Ltd: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	300.0	300.0	[ICRA]A+(CE) (Stable); reaffirmed
Total	300.0	300.0	

Rating Without Explicit Credit Enhancement	[ICRA]A-; upgraded from [ICRA] BBB+

Instrument details are provided in Annexure-1

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 the Rs. 300-crore non-convertible debentures (NCD) programme of Thomsun Realtors Private Limited (TRPL) is based on the strength of the corporate guarantee provided by its ultimate parent, Prestige Estates Projects Limited (PEPL)[1]/the guarantor, rated at [ICRA]A+ (Stable)/[ICRA]A1). The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, PEPL.

The rating upgrade, without explicit credit enhancement, factors in the commencement of rentals at the retail mall Forum Mall in Kochi, from November 2023. This rental income is expected to support the company refinance the NCDs (due in July 2025) through a lease rental discounting (LRD) loan, thereby mitigating the refinancing risk**.** The Forum Mall achieved 85% occupancy as of June 2024 on a leasable area of 0.65 million square feet (msf). The debt protection metrics are expected to remain comfortable after the refinancing into LRD. Further, the retail mall and TRPL's residential projects are in a favourable location in Maradu, Kochi, with dense residential and commercial development, which enhances marketability.

The rating is constrained by the exposure to execution and market risks associated with the residential projects, with 58% of costs yet to be incurred and 29% of the area yet to be sold as of June 2024. However, cash flow adequacy is strong, with committed receivables/pending costs (with nil debt against these projects) at 146% as of June 2024. Further, the hotel 'The Artiste', with 32 rooms, also commenced operations in August 2023, achieving occupancy of ~60% as of June 2024. The company is exposed to geographical and asset concentration risks. Further, the company's revenues are exposed to adverse macroeconomic and external conditions, which could impact the tenant's business risk profiles. However, the rating derives comfort from the Prestige Group's strong track record in the real estate sector and the favourable location of the retail mall as well as the residential project, which is likely to support the demand.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by PEPL is adequately strong to result in an enhancement in the rating of the said instrument

[1] On March 30, 2024, Prestige Estates Private Limited (PEPL); has transferred its holding of equity shares to its wholly owned subsidiary Prestige Retail Ventures Limited. (PRVL)

to **[ICRA]A+ (CE)** against the rating of [ICRA]A-, without the explicit credit enhancement. In case the rating of the guarantor changes in future, the same would be reflected in the rating of the aforesaid instrument.

Salient covenants of the rated facility

- The company shall, at all times pursuant to the creation of security/mortgage on the project property, ensure that the value of the security remains at least 1.5 times the debentures outstanding at any point of time.
- The company shall ensure that the occupancy certificate for the project is received within 12 months, and a 50% leasing tie-up of the project area is completed within 15 months from the date of allotment of NCDs.

Key rating drivers and their description

Credit strengths

Corporate guarantee from PEPL – The rated debentures are backed by a corporate guarantee from PEPL. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount as well as the tenor of the rated instrument and has a well-defined invocation and payment mechanism.

Commencement of rentals for retail mall to support in refinancing of NCDs – The commencement of rentals of the Forum Mall in Kochi, from November 2023 is expected to support the company to refinance the NCDs (due in July 2025) through a lease rental discounting (LRD) loan, thereby mitigating the refinancing risk. The Forum Mall achieved 85% of occupancy as of June 2024 on a leasable area of 0.65 msf. The debt protection metrics are expected to remain comfortable after refinancing into LRD. Further, the retail mall and TRPL's residential projects are located in a favourable location in Maradu, Kochi, with dense residential and commercial development, which enhances marketability.

Strong promotor group with established track record lends financial flexibility – 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 ~ 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. 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 ~91 msf as on March 31, 2024.

Credit challenges

Exposure to execution and market risks – The company encounters execution and market risks associated with the ongoing residential projects, with 58% of costs yet to be incurred and 29% of the area yet to be sold as of June 2024. However, cash flow adequacy is strong, with committed receivables/pending costs (with nil debt against these projects) at 146% as of June 2024. The Group's established track record in developing real estate projects mitigates the risk to an extent.

Geographical concentration risk and vulnerability to external factors – The company is exposed to geographical and asset concentration risks. Further, the company's revenues are exposed to adverse macroeconomic and external conditions, which could impact the tenant's business risk profiles. However, the rating derives comfort from the Prestige Group's strong track record in the real estate sector and favourable location of the retail mall as well as the residential project, which is likely to support the demand.

Liquidity position: Adequate

Guarantor (PEPL) – Adequate

PEPL's liquidity profile is adequate, supported by cash balances and liquid investments of ~Rs. 3,288.3 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. 2,534.0 crore in FY2025, which can be serviced comfortably from the cash flow from operations.

Issuer (TRPL) – Adequate

On a standalone basis, TRPL's liquidity profile is adequate. As of March 2024, the company has a free cash balance of Rs. 9.8 crore. With the commencement of rentals and healthy occupancy of 85%, the NCD bullet repayment is expected to be refinanced before the due date in July 2025. For residential projects, the pending cost is estimated to be funded entirely by committed receivables as of June 2024.

Rating sensitivities

Positive factors – The rating might be upgraded if there is any 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 - Lease Rental Discounting (LRD) Realty - Commercial/Residential/Retail Hotels
Parent/Group Support	Parent Company: Prestige Estates Projects Limited (PEPL) ICRA expects the ultimate parent PEPL; rated [ICRA] A+(Stable)/ [ICRA] A1, 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 TRPL. Link to the last rating rationale of the guarantor.
Consolidation/Standalone	Standalone

About the company

TRPL, incorporated in 2003, is a joint venture (50-50 each) between the Prestige Group and the Thomsun Group. Based in Kerala, the company has completed the construction of Forum Mall, comprising retail and hospitality sections. The retail development comprises LG+G+5F structure with a total leasable area of 0.65 msf. Further, the property includes a hotel of 32 keys with a total built-up area of 0.05 msf. It is located in the Maradu micro market, along the National Highway 66, towards the southern periphery of Kochi. The company is also developing two residential projects on land adjoining the mall development, named Cityscape and Panorama, with a total saleable area of 0.45 msf.

Key financial indicators (audited)

	FY2022	FY2023	FY2024
Operating income	-	-	18.5
PAT	0.1	0.1	-63.9
OPBDIT/OI	-	-	17.2%
PAT/OI	-	-	-346.1%
Total outside liabilities/Tangible net worth (times)	2.2	3.4	8.6
Total debt/OPBDIT (times)	-10,906.3	- 1,700.6	161.1
Interest coverage (times)	-	-	0.1

Source: Company; 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 (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Aug 27, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Non-Convertible Debentures	Long term	300.0	**[ICRA]A+ (CE) (Stable**	**Aug 31, 2023**	**[ICRA]A+ (CE) (Stable)**	**Aug 22, 2022,**	**[ICRA]A+ (CE) (Stable)**	**-**	**-**
						Jul 04, 2022	**Provisional [ICRA]A+(CE) (Stable)**	**-**	**-**

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debentures	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, is available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE512007014	**Non-convertible debentures**	July 12, 2022	9.75%	July 12, 2025	300.0	[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.

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