

October 31, 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 a 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 48 million square feet (msf) of saleable area as of June 2024. PSLPL and VPDPL are jointly undertaking a residential project at Hennur, Bengaluru, which has been revised from the earlier plan of plotted residential development project at Hosahalli, Bangalore. There were multiple revisions in the project to be undertaken in these entities and the current revised plan is to develop a residential project with a total saleable area of 3.65 msf by jointly acquiring the land parcels with a combined land area of 3.03 acres. The rating considers the favourable location of the proposed project in Hennur, Bangalore, with good connectivity to Outer Ring Road (5-6 km distance) and proximity to Hebbal, MG Road, Indira Nagar and Cantonment area, which provides healthy demand prospects for residential projects. The rating notes the expected support from the parent company, in case of any funding requirement, given the strategic importance of PSLPL and VPDPL for the parent and the parent's reputation sensitivity to default.

The rating is, however, constrained by the significant execution risk and market risk. The project is in the nascent stage as the land acquisition is expected to be completed by the end of FY2025 and receipt of key approvals is still pending, exposing the company to execution risk. Moreover, the construction cost of the project primarily will be met by customer advances, which are highly dependent on sales, thereby exposing the company to market risk. The land cost (~Rs. 100 crore) will be funded by debt in the form of non-convertible debentures (NCDs). As of August 2024, ~Rs.77 crore of NCDs have been issued (Rs. 52 crore in PSLPL and Rs. 25 crore in VPDPL). The returns from the 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 constrained by the cyclicity risk inherent in the real estate business, high geographical concentration risk with dependence on a single micromarket 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 support, 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 48 msf as of June 2024, 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 proposed project and healthy demand prospects – PSLPL and VPDPL are jointly undertaking a residential project with a total saleable area of 3.65 msf, by jointly acquiring the land parcels with a combined land area of 3.03 acres. By the end of FY2025, the land for the proposed project is expected to be acquired and the project is likely to be launched in Q2 FY2026, post completion of the land acquisition. It is yet to receive the necessary approvals. The project is to be developed in Hennur, Bangalore, with a good connectivity to Outer Ring Road (5-6 km distance) and proximity to Hebbal, MG Road, Indira Nagar and Cantonment area, which provides healthy demand prospects for residential projects. Also, Hennur Main Road is in close reach of ~5 km to important office hubs such as Manyata Tech Park and others.

Credit challenges

Exposure to significant execution and market risks – The project is in the nascent stage as the land acquisition is expected to be completed by the end of FY2025 and receipt of key approvals is still pending, exposing the company to significant execution risk. Moreover, the construction cost of the project primarily will be met by customer advances, which are highly dependent on sales, thereby exposing the company to market risk. Nonetheless, the Puravankara Group’s strong track record of project execution and sales provides comfort.

Geographical and asset concentration risks along with vulnerability to external factors – The company is exposed to high geographical and asset concentration risks inherent in single asset special purpose vehicles (SPVs). Also, being a cyclical industry, the real estate sector is highly dependent on macroeconomic factors, which exposes the sales to any downturn in demand.

Liquidity position: Adequate

The liquidity position is adequate. As of September 2024, PSLPL and VPDPL had cash and cash equivalents of ~Rs. 52 crore and ~Rs. 22 crore, respectively. The healthy demand prospects 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 the NCD, there would not be any ongoing interest payments. The parent/group is expected to provide funding support, in case a need arises.

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.

Negative factors – The rating may be downgraded if delays in project launch or weak sales results in inadequate visibility on the future cash flows. Additionally, deterioration in the credit profile of its parent company, Puravankara Limited, could put pressure on the rating.

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 will jointly acquire the land parcels in Bengaluru, which will be developed as a single project. Moreover, the NCDs to be issued for acquiring the land parcels have a common investor.

About the company

Purva Sapphire Land Private Limited (PSLPL) and Varishtha Property Developers Private Limited (VPDPL) are involved in the business of real estate development and other related activities. Both PSLPL and VPDPL together are undertaking a residential project at Hennur, Bangalore. Both the companies will jointly acquire the land parcels with a combined land area of 3.03 acres. The land parcel will be developed as a single project, having a total saleable area of ~3.65 lakh sft.

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	Current (FY2025)		Chronology of rating history for the past 3 years						
		Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
NCD	Long Term	55.00^	31-Oct-24	[ICRA]BBB (Stable)	22-Feb-24	[ICRA]BBB (Stable)	02-Feb-23	[ICRA]BBB (Stable)	-	-
			-	-	19-Sep-23	[ICRA]BBB (Stable)	-	-	-	-

^Current rated amount includes Rs. 52 crore listed NCDs with ISIN of INE0POA08014 and Rs. 3 crore of proposed NCD

Complexity level of the rated instrument

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0POA08014	NCD	Sept 2023	Zero	Mar 2029	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 Provident Housing Limited	Full consolidation
Varishtha Property Developers Private Limited	100.00% by Provident Housing Limited	Full consolidation

Source: Company data

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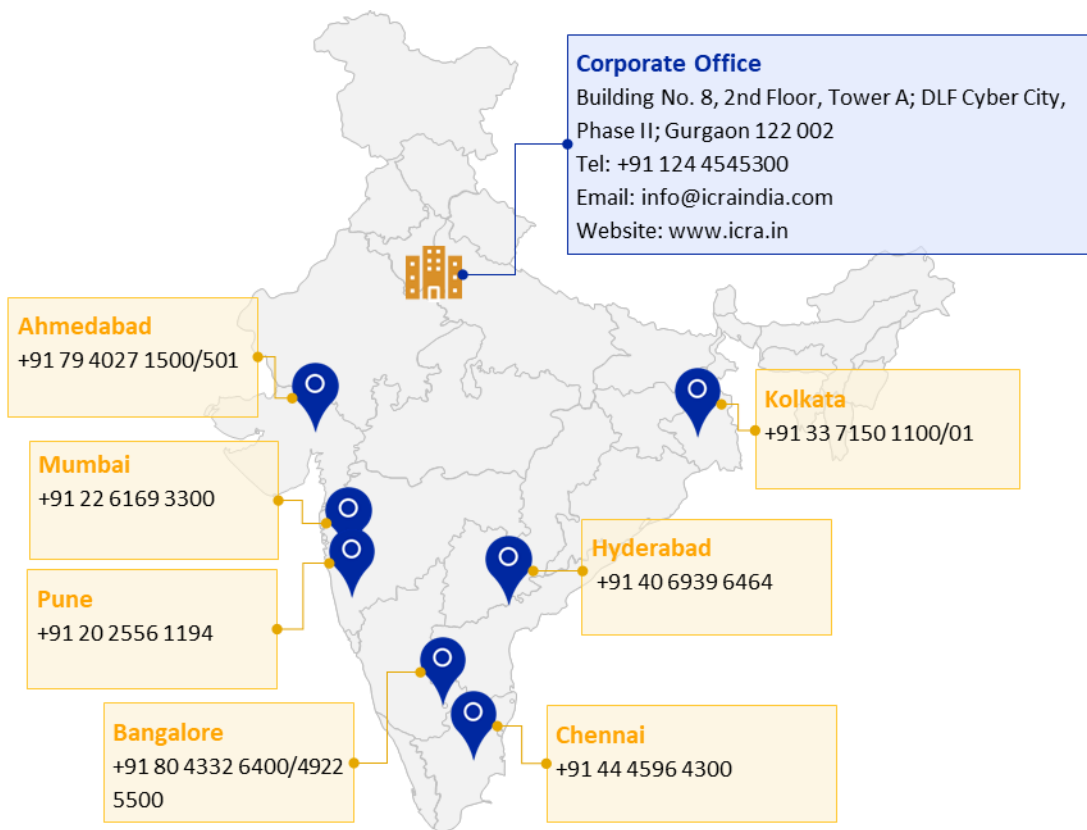
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