December 18, 2024

Prestige Falcon Business Parks: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	700.00	[ICRA]A+ (CE) (Stable); assigned
Total	**700.00**	

Rating Without Explicit Credit Enhancement	[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 rating of [ICRA]A+ (CE) for the long-term fund-based limits of Prestige Falcon Business Parks (PFBP) factors in the strength of an unconditional and irrevocable corporate guarantee provided by Prestige Estates Projects Limited (PEPL), rated at [ICRA]A+(Stable)/ [ICRA]A1, the holding company of PFBP. The rating considers the Prestige Group's established operational track record in the real estate industry and its strong project execution capabilities. PFBP is developing a commercial project of Grade-A office space, known as Prestige Tech Forest, in Bengaluru, with a potential gross leasable area of ~2.4 million square feet (msf) (of which company's share is 68%). Further, it has allotted ~0.53 msf for commercial sale, of which 0.25 msf has already been sold. The rating derives comfort from the favourable location of the project at Varthur, Bengaluru, which enhances its marketability and is expected to translate into adequate pre-leasing tie-ups till its completion. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, PEPL.

The rating is, however, constrained by the company's exposure to execution and market risks. As of June 2024, PFBP was yet to incur ~67% of the total project cost (excluding land) for its ongoing commercial project, exposing it to residual execution risk. Further, no leasing tie-ups were in place, exposing it to significant market risk. Nonetheless, the favourable location of the project and the Prestige Group's established track record in project execution and leasing of commercial real estate projects mitigate these risks to an extent. Any significant delays in achieving leasing tie-ups for the ongoing commercial project could adversely impact its ability to refinance the construction finance (CF) loan availed for this project. Nevertheless, it has sufficient time to achieve adequate leasing tie-ups for refinancing the bullet repayment for the CF loan falling due in September 2027.

Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the guarantee issued by PEPL in favour of the said facilities. The corporate guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument, and has the other relevant attributes specified in ICRA's methodology for considering a credit enhancement. The payment mechanism is post-default in nature. 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 ratings of the guarantor or the unsupported ratings of PFBP change in future, the same would have a bearing on the ratings of the aforesaid facilities. The ratings of these facilities may also 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 in the reputation sensitivity of the guarantor to a default by the rated entity or in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- Debt to equity to be a maximum of 1.58:1
- Fixed asset coverage ratio (FACR) should be a minimum of 1.5 times.

Key rating drivers and their description

Credit strengths

Corporate guarantee from PEPL – The rated instrument is backed by a corporate guarantee from PEPL. The guarantee is legally enforceable, irrevocable, unconditional, and covers the entire amount and tenor of the rated instrument, and has the other relevant attributes specified in ICRA's methodology for considering a credit enhancement. The payment mechanism is post-default in nature.

Strong promotor group with established track record – The Prestige Group has over 38 years of experience in the real estate development and is one of the leading real estate developers in South India. It has completed around 300 real estate projects, with a developable area of ~190 msf as of September 2024. It has developed a diversified portfolio of real estate projects focusing on 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 57 ongoing projects across segments, with a total developable area of ~99 msf as of September 2024.

Favourable location of project – The commercial project, Prestige Tech Forest is located in Varthur, Bengaluru. It is an established area for commercial office property and is well connected to other parts of the city. The favourable location of the project is expected to translate into adequate pre-leasing status by the scheduled completion.

Credit challenges

Exposure to execution and market risks – As of June 2024, the company is yet to incur ~68% of the total project cost (excluding land) for its ongoing commercial project covering a total leasable area of ~2.4 msf, exposing it to residual execution risk. Further, no leasing tie-ups are in place, exposing it to significant market risk. Nonetheless, the favourable location of the project, current construction progress and the Prestige Group's established track record in leasing commercial real estate projects mitigate the market risk to an extent.

Exposure to refinancing risk – Any significant delays in achieving leasing tie-ups for the ongoing commercial project could adversely impact the company's cash flow position and its ability to refinance the construction loan availed for this project. Nonetheless, it has sufficient time to achieve adequate leasing tie-ups for refinancing the bullet repayment for the CF loan falling due in September 2027.

Exposure to cyclicality in commercial real estate – The company remains exposed to the inherent cyclicality in the real estate industry and is susceptible to external factors. The rating notes the vulnerability of its debt coverage metrics to changes in interest rates or material reduction in occupancy levels.

Liquidity position: Adequate

For the rated entity (PFBP): Adequate

On a standalone basis, PFBP's liquidity profile is adequate. The remaining project cost of ~Rs. 776 crore as of June 2024, for the ongoing commercial project is expected to be met from ~Rs. 210 crore of undrawn CF loan, partly from promoters' infusion (~Rs. 380 crore) and the remaining from advances from customers from the sales of commercial area.

For the guarantor (PEPL): Adequate

PEPL's liquidity profile is adequate, supported by cash balances and liquid investments of ~Rs. 2,270.0 crore as on June30, 2024. Following the QIP exercise, the company had a healthy liquidity balance of Rs. 6,770 crore as on September 15, 2024, which will be utilized towards reduction of debt levels and funding of capex and land acquisition plans. It has a consolidated principal repayment of Rs. 1,814.9 crore in Q2 FY2025 - Q4 FY2025,which can be serviced comfortably from the cash flow from operations and surplus liquidity.

Rating sensitivities

Positive factors – Timely commencement of rentals and healthy collections from the sale of commercial project resulting in healthy debt protection metrics, along with an improvement in the credit profile of the guarantor, PEPL, could result in a rating upgrade.

Negative factors – Any significant delay in project completion resulting in delayed commencement of rentals or delay in collections for the commercial segment for sale or increase in indebtedness impacting the company's debt protection metrics could result in a rating downgrade. Additionally, deterioration in the credit profile of the guarantor, PEPL or the weakening of business linkages or strategic importance of the company towards the guarantor could also put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD) Realty – Commercial/Residential/Retail
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 PFBP.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Prestige Falcon Business Parks (PFBP) is a partnership firm incorporated on July 14, 2021, to carry out commercial real estate business in India. PFBP was reconstituted on March 28, 2024, with the retirement of Prestige Office Ventures as the partner and the admission of Prestige Exora Business Parks Limited (PEBPL) as the new partner. As on date, ~99% profit-sharing ratio is with Prestige Estates Projects Limited (PEPL), while the remaining 1% is with PEBPL. The company is developing a commercial project, known as 'Prestige Tech Forest', in Varthur, Bengaluru, with a leasable area of 2.4 msf of Grade-A office space (company's share 68%) with DCCO of September 2027. Further, PFBP has allotted ~0.53 msf for commercial sale, of which 0.25 msf has already been sold.

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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Dec 18, 2024	Date	Rating	Date	Rating	Date	Rating
Term loan	Long term	700.00	[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 loan**	April 2023	NA	September 2027	700.00	[ICRA]A+ (CE) (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

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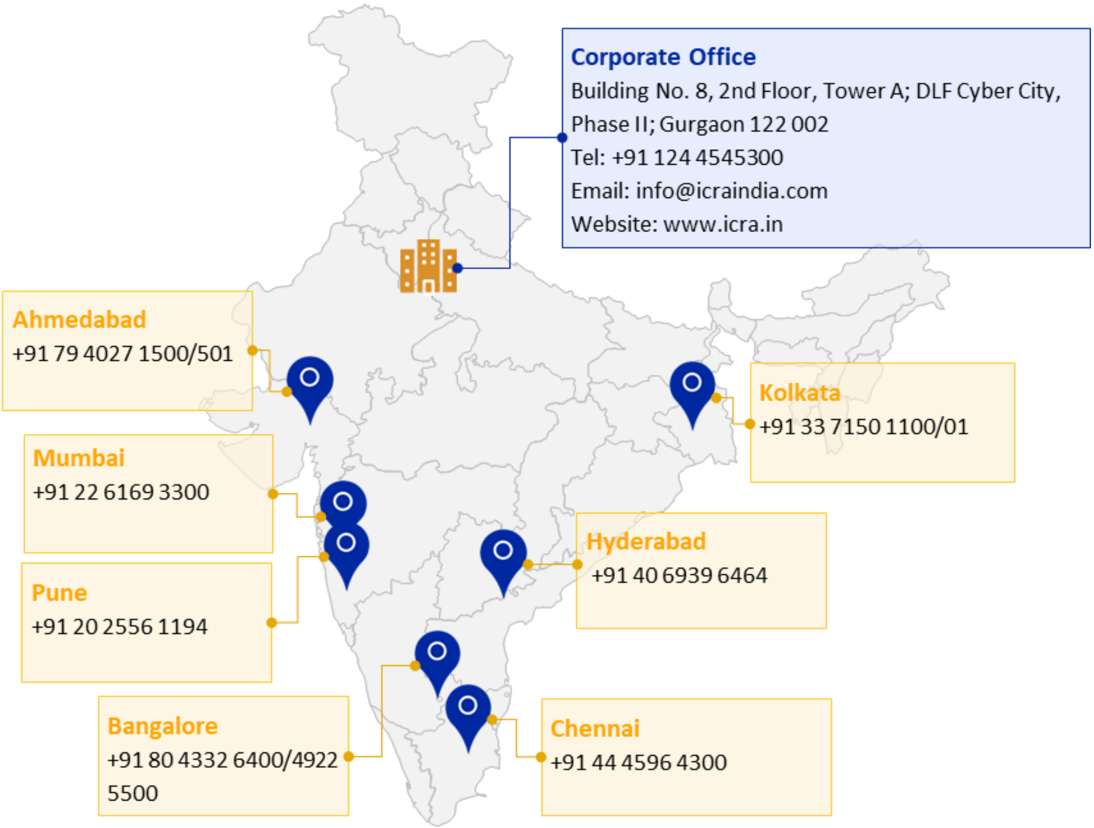

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