December 31, 2024

Prestige Office Ventures: 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	500.00	500.00	[ICRA]A+ (CE) (Stable); reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-I*

Rating Without Explicit Credit Enhancement	[ICRA]BBB+

Rationale

The reaffirmation of rating of [ICRA]A+ (CE) (Stable) for the Rs. 500-crore term loan of Prestige Office Ventures (POV) is based on the strength of the corporate guarantee provided by the 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 rating factors in the leasing progress of POV's key commercial asset, Prestige Skytech (company's share of leasable area ~1.5 million square feet (msf)) with occupancy of around 40% as of September 2024 (against nil as of September 2023) and receipt of occupancy certificate (OC) in December 2023 (ahead of the scheduled DCCO in June 2025), leading to cash flow visibility. POV has an adequate leasing pipeline, and the occupancy is expected to improve to around 50% by March 2025. The rating considers the favourable location of its completed commercial project, Prestige Skytech, in the financial district of Hyderabad, in proximity to other key office markets like Gachibowli and Hitech City, thereby enhancing its marketability. Further, its ongoing commercial and residential projects are favourably located in Nagawara (Prestige Waterfront) and Varthur (Prestige Tech Habitat and Prestige Lavender Fields), in Bengaluru. The residential project, Prestige Lavender Fields, witnessed healthy sales velocity with 100% of the area sold as of September 2024 and robust cash flow adequacy ratio[1] of 154%.

The rating, however, is constrained by the company's exposure to high market risks in its completed commercial project (Prestige Skytech of ~1.5 msf) and its ongoing commercial project (Prestige Waterfront of ~0.2 msf), with 60% and 100% of area, respectively, yet to be leased. Further, in the commercial project for sale (Prestige Tech Habitat of ~0.6 msf), around 53% of the company's share of saleable area remains unsold, as of September 2024, exposing it to market risk. In addition, it is exposed to execution risk in its ongoing residential project (Prestige Lavender Fields) and commercial projects (Prestige Waterfront and Prestige Tech Habitat). Nonetheless, the projects' favourable location and the Group's established track record in executing residential as well as commercial projects, along with its track record of leasing commercial real estate projects mitigates execution and market risks, respectively. The company's bullet repayment for the construction finance (CF) loan towards Prestige Skytech is falling due in October 2025, exposing it to refinancing risk. While POV has already leased around 40% of its share of leasable area in the project, incremental leasing at adequate rentals remain critical for timely refinancing of CF loan.

[1] Committed receivables / (Pending cost + outstanding debt)

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. If the rating of the guarantor or the Unsupported Rating of POV were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility. The rating of this instrument may 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

- Security cover of 1.5 times the outstanding amount, in the form of project/property during the entire loan tenure.
- Unconditional and irrevocable corporate guarantee from Prestige Estate Projects Limited for the entire loan amount along with a non-disposal undertaking.

Key rating drivers and their description

Credit strengths

Leasing progress with 40% occupancy and receipt of OC for Prestige Skytech project; favourable location of all completed and ongoing projects – The company's key commercial project, Prestige Skytech with a total leasable area of 2.3 msf (company's share – ~1.5 msf) has an occupancy of around 40% as of September 2024 (against nil as of September 2023) and received the occupancy certificate in December 2023 (ahead of the scheduled DCCO in June 2025), leading to cash flow visibility. POV has an adequate leasing pipeline, and the occupancy is expected to improve to around 50% by March 2025. The rating considers the favourable location of its completed commercial project, Prestige Skytech, located in the financial district of Hyderabad, in proximity to other key office markets like Gachibowli and Hitech City, thereby enhancing its marketability. Further, its ongoing commercial and residential projects are favourably located in Nagawara (Prestige Waterfront) and Varthur (Prestige Tech Habitat and Prestige Lavender Fields), in Bengaluru. The residential project, Prestige Lavender Fields, witnessed healthy sales velocity with 100% of the area sold as of September 2024 and robust cash flow adequacy ratio[2] of 154%.

Corporate guarantee provided by PEPL towards the rated bank facility – The rating derives comfort from the legally enforceable, irrevocable and unconditional corporate guarantee extended by PEPL. The rated instrument does not involve a well-defined invocation and payment mechanism.

Strong parentage with established track record in real estate business – The Prestige Group has an established track record of more than 35 years in the Bengaluru real estate market and is one of the leading real estate developers in South India. As on September 30, 2024, the Prestige Group has completed and delivered a total area of 190 msf of space, comprising over 300+ residential, commercial and hospitality projects. It has demonstrated strong execution capabilities and leasing track record in the commercial real estate sector. ICRA expects the parent to provide timely financial support to the company, for funding shortfall, if any, given POV's strategic importance and PEPL's reputation sensitivity to default.

Credit challenges

Exposure to market risk – The company's completed commercial project (Prestige Skytech of ~1.5 msf) and its ongoing commercial project (Prestige Waterfront of ~0.2 msf) is exposed to high market risks, with 60% and 100% of area, respectively, yet to be leased. Further, for Prestige Tech Habitat (of ~0.6 msf), around 53% of the company's share of saleable area remains unsold, as of September 2024, exposing it to market risk. Nonetheless, the projects' favourable location and the Group's

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[2] *Committed receivables / (Pending cost + outstanding debt)*

established track record in leasing commercial real estate projects mitigate the market risk to an extent.

Exposure to execution risk – The company is exposed to execution risk in its ongoing residential project (Prestige Lavender Fields with 75% of construction cost yet to be incurred) and commercial projects (Prestige Waterfront and Prestige Tech Habitat, with construction cost yet to be incurred of 65% and 76% respectively) as on September 2024. Nonetheless, the Prestige Group's established track record of executing residential as well as commercial projects mitigate the execution risk to an extent.

Exposure to refinancing risk – The company's bullet repayment for the CF loan towards Prestige Skytech is falling due in October 2025, exposing it to refinancing risk. While the company has already leased around 40% of its share of the leasable area in the project, incremental leasing at adequate rentals remain critical for timely refinancing of CF loan.

Liquidity position

For the rated entity (POV): Adequate

On a standalone basis, POV's liquidity profile is adequate with free cash and cash equivalents of Rs. 105.6 crore as on March 31, 2024. The pending cost of the residential project is expected to be entirely met from its committed receivables, as 100% of the project has already been sold, while the pending cost of other ongoing commercial projects are likely to be funded by promoter funds and surplus from the residential project. The CF loan availed for the project, Prestige Skytech, has a bullet repayment due in October 2025, while the project is already completed in December 2023. The company has achieved 40% leasing as of September 2024 and has adequate time for incremental lease tie-ups for the subsequent refinancing of CF loan by a lease rental discounting (LRD) facility.

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 June 30, 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 utilised towards debt reduction, capex funding and land acquisition plans. It has a consolidated principal repayment of Rs. 1,814.9 crore in Q2-Q4 FY2025, which can be serviced comfortably from the cash flow from operations and surplus liquidity.

Rating sensitivities

Positive factors – Significant lease tie-ups at adequate rental rates resulting in healthy debt coverage indicators and an improvement in the credit profile of the guarantor, PEPL, could result in rating upgrade.

Negative factors – Inability to tie-up leases at adequate rental rates in a timely manner impacting the company's refinancing ability for conversion of construction finance loan into LRD loan or increase in indebtedness impacting its debt protection metrics could result in a rating downgrade. Additionally, deterioration in the credit profile of the guarantor, PEPL, or weakening of business linkages or strategic importance of POV towards the guarantor could also put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty – Commercial/Residential/Retail Realty – Lease Rental Discounting (LRD)
Parent/Group support	**Parent: 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 POV. Link to the last rating rationale of the guarantor
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Prestige Office Ventures (POV), 100% subsidiary of PEPL (Prestige Estates Projects Limited; a flagship company of Prestige Group), was incorporated on February 14, 2017, as a partnership firm. Along with the recently completed commercial project, Prestige Skytech, in Hyderabad (company's share includes ~1.5 msf of leasable area), the completed commercial projects owned by the entity includes certain space in Prestige Shantiniketan, in Bengaluru, and Prestige Phoenix, in Hyderabad. Further, the company is developing two commercial projects – Prestige Waterfront (company's share: ~0.2 msf of leasable area) and Prestige Tech Habitat (company's share: ~0.6 msf of saleable area) – in Nagawara and Varthur, respectively, in Bengaluru. Additionally, the project, Prestige Tech Habitat is being currently executed for sale basis, against the earlier strategy of the leasing model, driven by the healthy demand. POV also has an ongoing residential project, Prestige Lavender Fields, (company's share: ~2.2 msf of saleable area) located in Varthur, Bengaluru.

Key financial indicators (audited)

POV	FY2023	FY2024
Operating income	28.5	141.2
PAT	0.2	-0.7
OPBDIT/OI	70.3%	77.6%
PAT/OI	0.7%	-0.5%
Total outside liabilities/Tangible net worth (times)	0.8	3.2
Total debt/OPBDIT (times)	26.6	4.2
Interest coverage (times)	2.0	1.4

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 (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long term	500.00	31-Dec-2024	**[ICRA]A+ (CE) (Stable)**	29-Sept-2023	**[ICRA]A+ (CE) (Stable)**	28-Jun-2022	**[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	**Fund-based – Term loan**	June 17, 2001	NA	October 2025	500.00	[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 – Not Applicable

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