September 30, 2021

Prestige Shantiniketan Leisures Pvt Ltd: [ICRA]A (Stable) assigned; [ICRA]A+(CE)& withdrawn for earlier rated limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based TL1	193.50	0.00	[ICRA]A+(CE)&; Withdrawn
Fund-based TL2	0.00	178.00	[ICRA]A (Stable); Assigned
Total	**193.50**	**178.00**	

**Instrument details are provided in Annexure-1;*

***Note**: Total sanctioned limits from banks/lenders correspond to Rs. 268.0 crore.*

Rationale

ICRA has taken consolidated view of seven SPVs (as mentioned in annexure-2 and collectively referred to as "rated entities") of the Nexus Mall Group (retail mall arm of Blackstone Group), given the common management, business linkages and cash flow fungibility, supported by cross collateralisation and cross default clauses as per the lender's sanction.

The assigned rating draws comfort from the established track record of the sponsors in the real estate sector and the diverse portfolio in retail real estate business in India. The seven malls and one 143-key hotel, housed under the rated entities, are managed by "Nexus Malls", which is the retail platform of Blackstone Real Estate in India. The malls are expected to benefit from the Nexus Malls' brand presence and track record of managing multiple retail malls across the country. The ratings favourably factor in the diversified asset portfolio of the rated entities, with presence across five cities, namely Bangalore, Hyderabad, Mangalore, Mysore and Udaipur, as well as established operating track record for the malls. The assets are situated in prominent micro-markets of the respective cities, providing good visibility and thereby enhancing its marketability. The malls cumulatively cover leasable area of 3.48 mn sq ft, of which 85% of the area was occupied and operational as of July 2021. Occupancy levels across majority of the malls remain adequate at levels of 85% and above, with reputed groups such as PVR, Cinepolis, Landmark, Reliance, Tata & Trent, Aditya Birla, Arvind, SPAR, being amongst the largest tenants. The ratings further draw comfort from cross-collateralisation loan clause leading to cashflow fungibility among the entities. The mall assets (adjusted for Blackstone Group's share) provide a comfortable security cover of 2.1x times the external debt outstanding as of March 31, 2021.

The ratings remain constrained by the moderate leverage levels and reduced operational inflows in the recent past owing to the Covid-19 pandemic, putting pressure on the coverage indicators in the near term. Overall the last 18 months, the mall and hotel operations were adversely impacted by the pandemic induced lockdown restrictions imposed during Q1FY2021 and Q1FY2022. In FY2021, the cumulative net operating income (NOI) of the rated entities stood at around 40% of the NOI recorded during FY2020. The leverage level (as measured by Debt/NOI of FY2021) remained high at 15.2 times as of March 31, 2021 due to reduced NOI, as against steady-state moderate leverage level of close to 6.0 times. Debt servicing during the last 18 months have remained supported by timely infusion of funds from sponsors, loan moratorium availed during H1FY2021, as permitted by RBI as well as tax refunds. Going forward, debt protections indicators are expected to improve in line with recovery in mall operations, which have witnessed improvement since the reopening after the second wave. The mall operations have been witnessing better recovery trends than that witnessed during FY2021. In YTD FY2022 (period of April 2021 to August 2021), the cumulative NOI recovered to levels of 40% of NOI of FY2020, as against recovery levels of 26% of FY2020 NOI during comparable period in FY2021. Nevertheless, the expected recovery can take longer in case of any subsequent surges in pandemic, resulting in further restrictions on operations. Further, the debt coverage metrics remain vulnerable to any changes in interest rates, TDS rates or dip in occupancy levels in the operational assets.

The stable outlook reflects ICRA's expectation that the rated entities would continue to benefit from Nexus Malls' track record and the diverse geographical presence, mitigating to some extent concerns of temporary drop in occupancy levels or rental collections in any single asset. Further, presence of considerable liquidity buffer in the form of DSRA equivalent to three-month debt servicing and additional cash deposits of Rs. 18.33 crore supports the credit profile, while enabling the portfolio to withstand any cashflow uncertainties over the short to medium term.

ICRA has withdrawn the [ICRA]A+(CE)& rating outstanding on the earlier rated bank facilities of Prestige Shantiniketan Leisures Pvt Ltd (PSLPL) at the request of the company and based on No Dues Certificate received from the banker and in accordance with ICRA's policy on withdrawal and suspension of credit rating. The earlier rating was based on the strength of the corporate guarantee provided by erstwhile promoter, Prestige Estates Projects Limited (PEPL). With the conclusion of the sale transaction, the corporate guarantee from PEPL was withdrawn and the loan was repaid.

Key rating drivers and their description

Credit strengths

Strong sponsor group lends financial flexibility – The rated entities are majority owned by Blackstone Group through its affiliates. The sponsor is one of India's leading office and mall landlords. The assets housed under the rated entities are managed by "Nexus Malls", which is the retail platform of Blackstone Real Estate in India. The established track record of the shareholders in the real estate sector and the diverse portfolio in retail real estate business in India provide comfort. The mall is expected to benefit from the Nexus Malls' presence and the experienced management in terms of operational and financial synergies due to the large retail portfolio.

Diversified asset profile with established operational track record - The rated entities have a diversified portfolio of seven mall assets and a 143-key hotel, with presence across five cities, namely Bangalore, Hyderabad, Mangalore, Mysore and Udaipur, as well as established operating track record for the malls. The assets are situated in prominent micro-markets of the respective cities, providing good visibility and thereby enhancing its marketability.

Adequate occupancy levels across majority of the malls; presence of reputed clientele - The malls cumulatively cover leasable area of 3.48 mn sq ft, of which 85% of the area was occupied and operational as of July 2021. Occupancy levels across majority of the malls remain adequate at levels of 85% and above, with reputed groups such as PVR, Cinepolis, Landmark, Reliance, Tata & Trent, Aditya Birla, Arvind, SPAR, being amongst the largest tenants.

Cross-collateralised loan structure – The loans availed have cross-collateralisation clauses and a well-defined waterfall mechanism, due to which the surplus available in any of the rated entities post debt servicing and operational funding requirements, would first be utilised towards meeting any debt servicing shortfalls in any of the other rated entities. Further, presence of considerable liquidity buffer in the form of DSRA equivalent to three-month debt servicing and additional cash deposits of Rs. 18.33 crore provides comfort. The mall assets (adjusted for Blackstone Group's share) provide a comfortable security cover of 2.1x times the external debt outstanding as of March 31, 2021.

Credit challenges

Adverse impact of pandemic on operations and cash flows; vulnerability to continued impact of pandemic – Overall the last 18 months, the mall and service apartment operations have remained adversely impacted by the pandemic induced lockdown restrictions imposed during Q1FY2021 and Q1FY2022. In FY2021, the cumulative net operating income (NOI) of the rated entities stood at around 40% of the NOI recorded during FY2020. Currently, with easing of lockdown restrictions, the malls have been witnessing gradual recovery in sales and footfalls. In YTD FY2022 (period of April 2021 to August 2021), the cumulative NOI recovered to levels of 40% of NOI of FY2020, as against recovery levels of 26% of FY2020 NOI during comparable period in FY2021. The entities have been witnessing better recovery trends than that witnessed during FY2021. Nevertheless, the continued recovery remains vulnerable to disruptions created by any subsequent surge in pandemic levels.

Moderate leverage levels – The leverage level (as measured by Debt/NOI of FY2021) remained high at 15.2 times as of March 31, 2021, due to reduced NOI, as against steady-state moderate leverage level of close to 6.0 times. Debt servicing during the last 18 months have remained supported by timely infusion of funds from sponsors, loan moratorium availed during H1FY2021, as permitted by RBI as well as tax refunds. Going forward, debt protections indicators are expected to improve in line with recovery in mall operations, which have witnessed improvement since the reopening after the second wave. However, the coverage indicators are expected to remain under pressure in the near term, given the moderate leverage levels and reduced operational inflows in the recent past owing to the Covid-19 pandemic.

Debt coverage metrics vulnerable to changes in occupancy levels, interest rates or TDS deduction rates - The debt coverage ratios remain linked to changes in interest rates, occupancy levels and TDS rates. Any increase in interest rate/TDS rates or decline in occupancy levels in the operational assets might put pressure on the debt coverage metrics.

Liquidity position: Adequate

The liquidity position is adequate, with unencumbered cash and bank balance of Rs. 29.18 crore as on March 31, 2021. Further, the presence of debt servicing reserve account (DSRA) funds of Rs. 30.78 crore (equivalent to one quarter of interest and principal repayment) and additional cash deposit of Rs. 18.33 crore maintained with lenders provides additional liquidity comfort. With opening of mall operations, there has been reasonable recovery in operational cash inflows leading to improvement in coverage indicators over the last couple of months. Moreover, the overall liquidity profile remains supported by the comfort drawn from expectation of timely infusion of funds from the sponsor in case of any cashflow mismatch. The capital expenditure/investing requirements in the near term would be met through funds earmarked at the sponsor level.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of improvement in occupancy levels and increase in contracted rent rates, resulting in higher accruals and improved debt protection metrics. Specific credit metrics leading to an upgrade in ratings could be DSCR remaining higher than 1.4x times on a sustained basis.

Negative factors – Negative pressure on ratings could arise in case of slower-than-expected ramp-up in mall rent income, resulting in moderation in the company's financial risk profile. Further, any reduction in occupancy levels or any additional debt raised for acquisition/capex/other corporate funding requirements would be a key monitorable. Specific credit metrics leading to downgrade in ratings could be DSCR falling below 1.25x times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has taken consolidated view of seven SPVs (as mentioned in annexure-2) of the Nexus Mall Group (retail arm of Blackstone Group), given the common management, business linkages and cash flow fungibility, supported by cash flow pooling mechanism and cross collateralisation.

About the company

Prestige Shantiniketan Leisures Pvt Ltd (PSLPL) is a private limited company incorporated as an SPV of the Prestige Group. In FY2021, Blackstone Group acquired 85% shareholding in the company. PSLPL operates a retail mall named Forum Shantiniketan mall in Whitefield, Bangalore. The project was developed under JDA mode (revenue share) with PSLPL's share at 64.9%. The mall has a leasable area of 0.61 mn sq ft and is occupied by reputed tenants. The mall is 85.6% occupied as on July 2021.

Key financial indicators

PSLPL Standalone	FY2020 audited	FY2021 provisional
Operating Income (Rs. crore)	51.3	22.4
PAT (Rs. crore)	-13.1	-32.2
OPBDIT/OI (%)	50.3%	-117.3%
PAT/OI (%)	-25.6%	-143.5%
Total Outside Liabilities/Tangible Net Worth (times)	3.9	-9.2
Total Debt/OPBDIT (times)	9.0	-16.1
Interest Coverage (times)	1.2	-1.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Note: Amount in Rs. crore; All calculations are as per ICRA research
Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jul 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					30-Sep-2021	08-Mar-2021	06-Apr-2020	-	-
1	Fund based - TL1	Long-term	193.50	-	[ICRA]A+ (CE)& withdrawn	[ICRA]A+ (CE)&	[ICRA]A+ (CE) (Stable)	-	-
2	Fund based - TL2	Long-term	178.00	177.12	[ICRA]A (Stable)	-	-	-	-

& - under rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan 1	Not Applicable
Long-term Fund-based – Term Loan 2	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 analyzing 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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan 1	Sep-19	NA	Nov-32	193.50	[ICRA]A+(CE)& withdrawn
NA	Term Loan 2	Mar-21	NA	Mar-33	178.00	[ICRA]A(Stable)

Source: *Company; & - under rating watch with developing implications*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership^	Consolidation Approach
Prestige Mangalore Retail Ventures Private Limited	85%	Full Consolidation
Prestige Hyderabad Retail Ventures Private Limited	85%	Full Consolidation
Prestige Shantiniketan Leisures Pvt Ltd	85%	Full Consolidation
Prestige Retail Ventures Ltd*	0%*	Full Consolidation
Prestige Mysore Retail Ventures Pvt Ltd	85%	Full Consolidation
Flicker Projects Pvt. Ltd	85%	Full Consolidation
Prestige Garden Constructions Private Limited	85%	Full Consolidation

^Ownership of Blackstone Group in terms of shareholding in the respective entities.

*__Note:__ Prestige Retail Ventures Ltd (PRVL) is a 100% subsidiary of PEPL (Prestige Estates Private Limited; flagship company of Prestige Group). On March 09, 2021, Prestige Group entered into an Investment agreement with Blackstone Group for sale of the retail mall asset "The Forum, Koramangala", currently housed under PRVL. As part of the agreement, the said asset will be demerged from PRVL and be housed under Prestige Hyderabad Retail Ventures Pvt Ltd (PHRVL). The demerger process for the same is underway and is expected to be concluded in near-term. Currently, the mall is being operated and managed by Blackstone Group.

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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