November 16, 2021

Prestige Estates Projects Limited: [ICRA]A+ (Stable) reaffirmed; rated amounts enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	3,898.80	3,898.80	[ICRA]A+ (Stable) reaffirmed
Long-term Non-fund-based	601.20	601.20	[ICRA]A+ (Stable) reaffirmed
Non-convertible debenture	350.00	350.00	[ICRA]A+ (Stable) reaffirmed
Proposed Non-convertible debenture	-	500.00	[ICRA]A+ (Stable) assigned
Total	**4,850.00**	**5350.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into consideration Prestige Estates Projects Limited's (PEPL's) long operational track record of more than 34 years in the real-estate industry, its strong project execution capabilities and the high market share in the residential real-estate segment of Bangalore. PEPL has diversified operations across residential, commercial, retail, hospitality and property management segments. Notwithstanding the adverse impact of the Covid-19 pandemic, the sales volume in the residential segment witnessed healthy improvement in FY2021 and H1FY2022. The company has made healthy progress in the liquidation of its completed inventory including some high-end projects in this segment which had provided healthy collections and helped the company in reducing its debt (both residential project and corporate) at group level to Rs 1,404 crore as on September 30, 2021 from Rs. 2,669 crore as on September 30, 2020. The company's receivables from sold area cover around 81% of the balance construction cost and debt outstanding as on September 30, 2021 in the segment.

The rating reaffirmation also takes into consideration the conclusion of the first phase of the sale of identified commercial offices, retail and hospitality properties, mall management and maintenance business to Blackstone Group. The proceeds from the transaction resulted in a significant reduction in the consolidated debt of the Group to Rs 5,313 crore[1] as on June 30, 2021 from Rs 10,802 crore as on September 30, 2020, while generating capital for the investments in various upcoming and planned projects. The second phase of the transaction is expected to be concluded by end of FY2022 which will result in a net inflow of around Rs 600 crore.

The rating, however, is constrained by the risks associated with the large-scale ongoing and upcoming projects of the Prestige group with a pipeline of 58 mn sqft of ongoing and 79 mn sqft of upcoming projects of which 54 mn sqft is planned in the commercial real estate projects. With the sale of large share of its completed commercial real estate portfolio, the overall portfolio of the Prestige Group has shifted towards under-development assets, entailing higher capex debt in the coming years. PEPL is expanding into newer geographies such as Mumbai and National Capital Region (NCR), where around 30% of the upcoming projects are planned in these two geographies which will expose PEPL to execution and market risks, as well as risks of any non-performance by JV partners of their obligations. The rating also considers the continuing impact of the pandemic on certain operating segments including retail malls and hospitality. The hospitality segment has been further impacted by the restriction in business travel as a result of the pandemic. The recovery of the retail mall and hospitality businesses will be a monitorable going forward. The pandemic has resulted in higher adoption of flexible working arrangements which might

[1] *The debt figures include 100% debt in the subsidiaries, associates and joint venture companies*

impact the commercial office segment. The impact of such trends on the vacancy rates, rent rates and new lease tie-up will be a key rating monitorable, considering the large scale of development plans of the Prestige Group.

ICRA believes the credit profile of PEPL will remain stable due to long track record of Prestige Group with its strong brand image in the South-Indian real estate market as well as its diversified business operations and healthy committed cash flow cover.

Key rating drivers and their description

Credit strengths

Leading real-estate developer with track record of 34 years; **strong market position with diversified portfolio -** The Prestige Group has strong project execution capabilities and enjoys a leading position in Bangalore's residential real-estate market. Till September 2021, the Group had completed development of 255 projects, spanning 144 mn sqft of the total developed area. PEPL generates revenue from a wide range of real-estate activities, which include sale of residential projects and commercial projects; facilities, rental and maintenance revenue from hospitality and retail segments; and rent, fit-out hire charges and maintenance income from commercial property.

Sale of assets to Blackstone Group provides growth capital for the upcoming development projects – Prestige group has concluded the first phase of the sale of identified commercial offices, retail and hospitality properties, mall management and maintenance business to Blackstone Group. The proceeds from the transaction resulted in a significant reduction in the consolidated debt of the Group to Rs 5,313 crore as on June 30, 2021 from Rs 10,802 crore as on September 30, 2020, while generating capital for the investments in various upcoming and planned projects. The second phase of the transaction is expected to be concluded by end of FY2022 which will result in a net inflow of around Rs 600 crore.

Strong sales in the residential segment and corresponding reduction in associated debt -. Notwithstanding the adverse impact of the Covid-19 pandemic, the sales volume in the residential segment witnessed healthy improvement in FY2021 and H1FY2022. During FY2021, the company reported pre-sales of 6.4 million square feet with value of Rs 4,285 crore, which represent growth of 19% and 13% respectively over FY2020. Further during Q2 of FY2022, the company recorded a 168% y-o-y growth and 354% q-o-q growth in area sold. The company also achieved a healthy progress in the sale of completed inventory which contributed to around 41% of total residential sales in H1 FY2022. This has helped the company to reduce the lower-maturity residential debt to Rs 1,404 crore as on September 30, 2021 from Rs. 2,669 crore as on September 30, 2020. The company' receivables from sold area cover around 81% of the balance construction cost and debt outstanding as on September 30, 2021, in the segment.

Credit challenges

Funding and execution risk in large-scale, ongoing and upcoming projects – The Prestige Group has large-scale ongoing and upcoming projects with a pipeline of 58 mn sqft of ongoing and 79 mn sqft of upcoming projects of which 54 mn sqft is planned in the commercial real estate projects. With the sale of large share of its completed commercial real estate portfolio, the overall portfolio of the Prestige Group has shifted towards under-development assets, entailing higher capex debt in the coming years. PEPL is expanding into newer geographies such as Mumbai and National Capital Region (NCR) - around 30% of the upcoming projects are planned in these two geographies which will exposes PEPL to execution and market risks, as well as risks of any non-performance by JV partners of their obligations.

Expected increase in debt as the company scales up operations, including in the commercial real estate segment - The gross debt at the Group level reduced to Rs 5,313 crore as on June 30, 2021 from Rs 10,802 crore as on September 30, 2020 on conclusion of the first phase of the sale transaction with Blackstone group. With the transfer of large proportion of completed commercial assets of the Group, the debt profile is expected to be skewed towards residential project debt and capex debt. With large scale expansion plans in the commercial real estate segment, the capex debt is expected to rise in the near to medium term. While the strong sales and collection trend in the residential segment may help to contain the debt within in that segment, the large projects underway in Mumbai and NCR markets will require significant construction finance.

Adverse impact of the pandemic on operational segments of Prestige Group - The pandemic had impacted the operational segments of Prestige Group, including the hotels and retail malls. The hospitality segment has been further impacted by the restriction in business travel as a result of the pandemic. The recovery of the affected business will be a monitorable going forward. The pandemic has resulted in higher adoption of flexible working arrangements which might impact the commercial office segment. The impact of such trends on the vacancy rates, rent rates and new lease tie-up will be a key rating monitorable, considering the large scale of development plans of the Prestige Group

Liquidity position: Adequate

PEPL's liquidity profile is supported by cash balances of around Rs. 775 crore as on September 30, 2021 and adequate cash flow from operations. The company has Rs 1,113 crore of scheduled debt repayment at group level in FY2022. The company will be reliant on refinancing to the extent of the construction loans availed for the commercial real estate segment. The repayment of the LRD loans and residential project loans are expected to be adequately covered by the associated operational cash flows. The company is also likely to avail construction finance to part-fund the large capex outlay for upcoming projects. Moreover, the proceeds from the second tranche of sale proceeds will be used to support investments in upcoming projects.

Rating sensitivities

Positive factors – The rating of PEPL might be upgraded if the company is able to rebuild its commercial asset portfolio through timely launch, development and leasing of the upcoming and ongoing projects, while maintaining its strong performance in the residential segment and comfortable leverage metrics.

Negative factors – Negative pressure on PEPL's rating could arise if the company makes significant investments in land or new projects funded by debt or if the leveraging of the LRD loans rises above 5.5 times of the annual net operating income or if there is a decline in the cover of receivables from sold area over pending costs and debt in the residential segment (including corporate debt) to lower than 50%.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Real Estate Methodology Rating Approach - Lease Rental Discounting (LRD) Rating Approach - Consolidation Hotel Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	While assigning the ratings, ICRA has taken a consolidated view of PEPL along with its operational subsidiaries, joint ventures and associate companies on account of the strong business and financial linkages between these entities. Refer Annexure-2

About the company

PEPL is the flagship company of the Prestige Group. It started operations as Prestige Estates and Properties, a partnership firm, in 1986 and subsequently converted into a private limited company in 1997 and into a public company in 2009. The company is promoted by Mr Irfan Razack and his brothers, who together hold 65.5% of the shares. The remaining shares are held by institutional investors (32.4%) and other public shareholders (2.1%), as on March 31, 2021.

Prestige has over 34 years of experience in real estate development and is one of the leading real estate developers in South India. It has completed 250 real estate projects, with a developable area of close to 136 mn sqft. It has developed a diversified portfolio of real estate projects focusing on the residential, commercial, hospitality and retail segments. Besides, Prestige also offers a variety of services such as property management services, sub-leasing and fit-out services. Prestige has 47 ongoing projects across segments, with a total developable area of around 58 mn sqft. It also has 79 mn sqft of upcoming projects and holds a land bank with a development potential of 27 mn sqft.

Key financial indicators - Consolidated

Consolidated	FY2020 (Audited)	FY2021 (Audited)	H1FY2022 (Provisional)
Operating Income (Rs. crore)	8,124.8	7,264.4	2,760.0
PAT (Rs. crore)	544.2	1,577.1	187.0
OPBDIT/OI (%)	29.0	27.1	30.0
PAT/OI (%)	6.7	21.7	6.8
Total Outside Liabilities/Tangible Net Worth (times)	4.2	2.7	2.9
Total Debt/OPBDIT (times)	3.9	1.8	4.7
Interest Coverage (times)	2.3	2.0	4.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; note – Company reported figures does not include debt of associates and joint venture companies

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2019
					November 16, 2021	Feb 12, 2021	Oct 28, 2020 April 27, 2020	Nov 29, 2019	Feb 28, 2019	Aug 6, 2018 Jul 6, 2018
1	Term Loans	Long-term	3,898.80	3,898.80	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+ (Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
2	Non-fund based	Long term	601.20	-	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+ (Stable)	-	-
3	NCD	Long term	350.00	350.00	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+ (Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
4	Proposed NCD	Long term	500.00	-	[ICRA]A+(Stable)	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term Fund-based – Non-fund based	Simple
Long term – NCD	Very 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: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2013-FY2021	NA	Jan 2035	3,898.80	[ICRA]A+(Stable)
NA	Non-fund based	-	-	-	601.20	[ICRA]A+(Stable)
INE811K07067	NCD	Aug 10, 2018	10.5%	Aug 10, 2023	350.00	[ICRA]A+(Stable)
NA	Proposed NCD	-	-	-	500.00	[ICRA]A+(Stable)

Source: *Company;*

Annexure-2: List of entities considered for consolidated analysis

Company Name	PEPL Ownership	Consolidation Approach
Avyakth Cold Storages Private Limited	100.00%	Full Consolidation
Dashanya Tech Parkz Private Limited	49.00%	Full Consolidation
Dollars Hotel & Resorts Private Limited	65.92%	Full Consolidation
ICBI (India) Private Limited	82.57%	Full Consolidation
K2K Infrastructure (India) Private Limited	75.00%	Full Consolidation
Northland Holding Company Private Limited	100.00%	Full Consolidation
Prestige Bidadi Holdings Private Limited	99.94%	Full Consolidation
Prestige Builders and Developers Private Limited	100.00%	Full Consolidation
Prestige Construction Ventures Private Limited	100.00%	Full Consolidation
Prestige Exora Business Parks Limited	100.00%	Full Consolidation
Prestige Falcon Realty Ventures Private Limited	100.00%	Full Consolidation
Prestige Garden Resorts Private Limited	100.00%	Full Consolidation
Prestige Hospitality Ventures Limited	100.00%	Full Consolidation
Prestige Leisure Resorts Private Limited	57.45%	Full Consolidation
Prestige Retail Ventures Limited	100.00%	Full Consolidation
Sai Chakra Hotels Private Limited	100.00%	Full Consolidation
Prestige Sterling Infra Projects Private Limited	80.00%	Full Consolidation
Village-De-Nandi Private Limited	100.00%	Full Consolidation
Prestige Mall Management Private Limited	100.00%	Full Consolidation
Prestige Garden Estates Private Limited	100.00%	Full Consolidation
Albert Properties	88.00%	Full Consolidation
Eden Investments & Estates	77.50%	Full Consolidation
Prestige AAA Investments	51.00%	Full Consolidation
Prestige Altavista Holdings	60.00%	Full Consolidation
Prestige Habitat Ventures	99.00%	Full Consolidation
Prestige Hi-Tech Projects	92.35%	Full Consolidation
Prestige Interiors	97.00%	Full Consolidation
Prestige Kammanahalli Investments	75.00%	Full Consolidation
Prestige Nottinghill Investments	51.00%	Full Consolidation
Prestige Office Ventures	99.99%	Full Consolidation
Prestige Ozone Properties	47.00%	Full Consolidation
Prestige Pallavaram Ventures	99.95%	Full Consolidation
Prestige Property Management & Services	97.00%	Full Consolidation
Prestige Southcity Holdings	51.00%	Full Consolidation
Prestige Sunrise Investments	99.99%	Full Consolidation
Prestige Whitefield Developers	47.00%	Full Consolidation

Company Name	PEPL Ownership	Consolidation Approach
PSN Property Management and Services	50.00%	Full Consolidation
Silver Oak Projects	99.99%	Full Consolidation
The QS Company	98.00%	Full Consolidation
Morph	40.00%	Full Consolidation
Villaland Developers LLP	80.00%	Full Consolidation
West Palm Developments LLP	61.00%	Full Consolidation
Prestige Valley View Estates LLP	51.05%	Full Consolidation
Prestige Whitefield Investments and Developers LLP	99.99%	Full Consolidation
Prestige OMR Ventures LLP	70.00%	Full Consolidation
Vijaya Productions Private Limited	50.00%	Equity Method
Prestige Projects Private Limited	100.00%	Equity Method
Thomsun Realtors Private Limited	50.00%	Equity Method
Bamboo Hotel and Global Centre (Delhi) Private Limited	50.00%	Equity Method
DB (BKC) Realtors Private Limited	28.99%	Equity Method
Apex Realty Management Private Limited	60.00%	Equity Method
Prestige Realty Ventures	49.90%	Equity Method
Prestige City Properties	51.00%	Equity Method
Silverline Estates	30.33%	Equity Method
Lokhandwala DB Realty LLP	50.00%	Equity Method
Apex Realty Ventures LLP	59.94%	Equity Method
Ace Realty Ventures (w.e.f Feb 15, 2021)	100.00%	Full Consolidation
Ariisto Developers Private Limited (w.ef. Jun 29, 2021)	100.00%	Full Consolidation

Source: *Company;*

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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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