September 29, 2023

Prestige Exora Business Parks Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan	250.00	250.00	[ICRA]A+ (CE) (Stable); Reaffirmed
Total	**250.00**	**250.00**	

Rating Without Explicit Credit Enhancement	[ICRA]BBB+

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of rating of [ICRA]A+ (CE) (Stable) for the Rs. 250-crore term loan of Prestige Exora Business Parks Limited (PEBPL) is based on the strength of the corporate guarantee provided by the parent, Prestige Estates Projects Limited (PEPL/the guarantor, rated [ICRA]A+ (Stable)). The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, PEPL.

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. In case the rating of the guarantor or the Unsupported Rating of PEBPL were to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well. 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.

PEBPL's asset, Alphatech is favourably located at Kharadi, Pune, which enhances its marketability. It has signed a letter of intent (LOI) with a single tenant for 87% of the total leasable area of the project, which exposes it to high tenant concentration risk. The company is required to handover the area to BNY Mellon not later than March 31,2024 as per the LOI. The company has incurred ~70% of construction cost as on August 31, 2023 and the Prestige Group's strong track record of project execution and leasing provides comfort.

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 PEPL for the entire loan amount, along with a non-disposal undertaking.

Key rating drivers and their description

Credit strengths

Corporate guarantee provided by PEPL towards the rated bank facility – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by PEPL. The rated instrument does not involve a structured payment mechanism.

Established track record of Prestige Group in real estate business – The Prestige Group has an established track record of more than 35 years in the Bengaluru real estate market with strong project execution capabilities and has completed 285 projects covering 170 million square feet (msf) of area as on June 30, 2023. ICRA expects the parent to provide timely financial support to PEBPL, for funding shortfall, if any, given its strategic importance and PEPL's reputation sensitivity to default.

Favourable location of the property and healthy pre-leasing status with LOI for 87% of leasable area – Prestige Alphatech is located in Kharadi, Pune. It is an established area for commercial office property and is well connected to other parts of the city. The company has signed an LOI with BNY Mellon for 87% of the total leasable area of the project (0.97 msf), thus reducing the market risk for the project.

Credit challenges

Exposure to tenant concentration risk – The company has signed an LOI with a single tenant for 87% of the total leasable area of the project, which exposes it to high tenant concentration risk. The single asset nature of the development increases the market risk as delayed commencement of lease/vacancy/non-renewal of leases may impact its project cash flows.

Exposure to residual execution risk –The total cost of project has been revised upwards to Rs. 740 crore from Rs. 569 crore, mainly on account of increase in construction cost (due to tenant improvement required by BNY Mellon, rise in input costs and expansion in the overall leasable area) and additional refundable deposit paid to the landowner. As on August 31, 2023, 31.5% of the revised project cost (Rs. 234 crore) was to be incurred. While the date of commencement of commercial operations (DCCO) for the project is December 31, 2025, as per the LOI signed with BNY Mellon, the company is required to handover the area to BNY Mellon not later than March 31,2024. The project is exposed to residual execution risk, given that 30% of the construction cost is yet to be incurred. Any time overrun beyond the handover date could delay the rental commencement or could lead to cancellation of LOI, which exposes the project to residual construction risk. Nonetheless, the Prestige Group's established track record of project execution provides comfort.

Liquidity position

For the Rated Entity (PEBPL): Adequate

On a standalone basis, PEBPL's liquidity profile is adequate. The balance pending cost of Rs. 234 crore is expected to be met from undrawn construction finance (CF) loan of Rs. 23 crore, additional CF loan of around Rs. 75 crore, security deposits of Rs. 60 crore and the balance from the promoter contribution. Based on the LOI which is in place for 87% of the total leasable area, the company would have adequate eligibility to convert the existing as well as the proposed CF loan into a lease rental discounting (LRD) loan. Post commencement of leasing, the operating cash flows are likely to be sufficient to service the LRD debt obligations.

For the Guarantor (PEPL): Adequate

PEPL's liquidity profile is adequate, supported by unencumbered cash balances of around Rs. 1,616.8 crore as on March 31, 2023 and adequate cash flow from operations. The company has Rs. 2,282.0 crore and Rs. 2,893.0 crore of debt repayment at the Group level in FY2024 and FY2025, respectively. The repayment of the LRD loans and residential project loans are expected to be adequately covered by the associated operational cash flows. 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 likely to be adequately covered by the associated operational cash flows.

Rating sensitivities

Positive factors – Timely commencement of rentals resulting in healthy debt coverage indicators, 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 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 Rating Methodology for Debt Backed by Lease Rentals
Parent/Group support	Parent: PEPL ICRA expects the parent, PEPL, to provide timely financial support to PEBPL, for funding any shortfall, given their close financial linkages, PEBPL'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 borrowing programme of rated bank facility in PEBPL. Link to the last rating rationale of the guarantor
Consolidation/Standalone	ICRA has considered the standalone business and financial profile of PEBPL.

About the company

Prestige Exora Business Parks Limited (PEBPL) is a subsidiary of PEPL (Prestige Estates Projects Limited; flagship company of the Prestige Group). It is currently developing a Grade-A commercial property – Alphatech, in Kharadi, Pune under joint development agreement (JDA) with landowner. PEBPL has delivered a commercial project – Prestige Summit in Q3 FY2023, in Bengaluru, with a total leasable area of 1.3 lakh square feet (developer's share 65,000 square feet). The same is fully leased and operational.

Key financial indicators (audited)

PEBPL	FY2022	FY2023
Operating income (Rs. crore)	19.9	124.2
PAT (Rs. crore)	65.4	127.0
OPBDIT/OI (%)	-11.5%	9.8%
PAT/OI (%)	328.7%	102.2%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	NM	46.5
Interest coverage (times)	NM	3.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, NM: Not Meaningful; all ratios as per ICRA's calculation
Source: Audited financial statements

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on August 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021			
					Sep 29, 2023	Jun 27, 2022	Dec 17, 2021	Mar 08, 2021	May 12, 2020	May 08, 2020
1	Term loans	Long-term	-	-	-	[ICRA]A- (Stable) Withdrawn	[ICRA]A-(Stable) assigned; [ICRA]A+ (CE)& withdrawn	[ICRA]A+ (CE)&	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)
2	Term loans	Long-term	250.00	227.00	[ICRA]A+ (CE) (Stable)	[ICRA]A+ (CE) (Stable)	-	-	-	-

&Placed under Rating Watch with Developing Implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – 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, is 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
NA	**Term loan**	June 22, 2021	NA	Jan 31, 2026	250.00	[ICRA]A+(CE) (Stable)

Source: Firm

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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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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