India Ratings & Research
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India Ratings Upgrades Puravankara to 'IND A-'/Positive

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By Pranav Nagar

India Ratings and Research (Ind-Ra) has upgraded Puravankara Limited's Long-Term Issuer Rating to 'IND A-' from 'IND BBB+'. The Outlook is Positive. The instrument-wise rating action is as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital facility				INR1,000	IND A-/Positive	Upgraded

Analytical Approach: Ind-Ra continues to consider the consolidated financial profile of Puravankara and its subsidiaries and associates (collectively called Puravankara) for the ratings, as all the entities operate in the same line of business and have a common management.

The Positive Outlook reflects the agency's expectations that Puravankara will see a sustained improvement in its credit metrics in FY22.

KEY RATING DRIVERS

Significant Reduction in Net Debt and Improvement in Pre-sales: The upgrade follows a reduction in Puravankara's net debt to INR21,700 million during 1QFY22 (including INR 3,220 million of hybrid debt*) from INR26,580 million during 1HFY21 (FY20: INR25,356 million, FY21: INR26,210 million). The reduction was mostly due to inorganic factors: 1) the company made a strategic exit from one of its commercial projects and received net proceeds of INR5,150 million (INR1,700 million to be received later in FY22) 2) The company raised hybrid debt worth INR3,220 million. Puravankara's pre-sales rose to INR22,020 million in FY21 (FY20: INR17,140 million), despite the adverse impact of COVID-19, as tier 1 players won market share in the residential real estate market. The company's presales/net debt ratio rose to 0.84x in FY21 (FY20: 0.85x). Ind-Ra expects the ratio to exceed 1.7x in FY22 with its sales benefitting from a recovering economy, a large new launch pipeline and the declining net debt.

*The hybrids do not guarantee any minimum coupon or principal repayment but have been treated as debt by Ind-Ra because in certain unlikely circumstances such as a failure to launch the project within one year, gross negligence, failure to abide by the law, fraudulent conduct, etc. Puravankara will be liable to pay back the money with a high assured return

Well-timed Increase in Launches: Puravankara launched 9.4 million square feet (msf) of residential floor space over FY18-FY21. The company plans to launch 14.51msf of residential floor space (Puravankara's share: 9.42msf), including 3.86msf of plots, over FY22 and 1QFY23. Ind-Ra expects the residential floor space sold in India to rise by around 25% yoy in FY22 (FY21: down 29%) on a low base. In this context, having a large launch pipe line may turn out to be the ideal strategy for the company in the agency's opinion.

The company had launched 4.77msf of floor space in FY17. This was followed by a period of rising debt and poor cash flows. However, Puravankara has clearly articulated to Ind-Ra that it is planning to follow a much more prudent strategy this time. It will open new projects for sale in small phases and try to sell a high percentage of total space before opening new phases. The company is also not planning to hold inventory in the hope of seeing a price rise. Therefore, Ind-Ra opines that a high number of launches will help Puravankara monetise its large land bank and improve cash flows.

Puravankara has sufficient land bank with up to 65 million square feet (sf) of floor space for launching projects. As annual bookings have historically typically been to the tune of 2.8-3.6msf, the company has enough land bank for almost two decades. Towards the end of FY19, Puravankara decided to avoid buying new land parcels, especially through debt, but instead, to accord priority to the monetisation of the existing land bank. The company has generally been able to sell its properties at INR5,000-6,000 per sf for its affordable brand Provident and INR6,000-10,000 per sf for the premium brand Puravankara, and the typical cost of construction, excluding land, is INR2,000-2,500 per sf and INR3,000-4,000 per sf, respectively. The company's adherence to this strategy is a key monitorable for its ratings. As such, the agency has not modelled any major outflows on land in its base case expectation for FY22 and FY23.

Moderate Financial Leverage: At end-1QFY22, Puravankara's net debt/net working capital stood at around 0.74x, suggesting moderate financial leverage (FY21: 0.84x, FY20: 0.85x). Ind-Ra expects the ratio to decline to roughly 0.58x by FYE22. At FYE21, Puravankara had pending collections from the sold stock of INR22,670 million. In addition, Ind-Ra estimates it had unsold inventory worth INR48,480 million. The company is scheduled to receive INR6,850 million over FY22 (including INR5,150 million already received) as part of its exit from a commercial project. The pending construction cost to complete the ongoing projects was INR24,895 million at FYE21. Therefore, the pending collections and unsold inventory would be more than enough to complete the ongoing projects and pay off the entire FYE21 net debt of INR22,990 million. As such, the agency expects the company to assume substantial debt to complete work-in-progress projects or for the purpose of new launches.

Large Size, Long Track Record and Established Brands: Puravankara has completed more than 70 projects over the last four decades with a total floor space of more than 42msf across both brands – Provident and Puravankara -in major cities of south and west India. Provident, as a brand, has been in existence for over 11 years now, and both the brands are well established.

Diversified Projects Across Geographies and Price Bands: Bengaluru accounted for 53% of the ongoing project base in terms of saleable area at FYE21; Chennai (7%), Hyderabad (5%), Cochin (15%) and others (20%) accounted for the rest. Since FY16, Puravankara has diversified and de-risked its geographic portfolio. The company's affordable brand, Provident, and premium brand, Puravankara, account for roughly 50% of the overall portfolio each. The project concentration is lower than peers, with the top five projects accounting for 47% of pre-sales in FY21. This product portfolio is likely to diversify further with the launch of new projects. Some the projects of the company have been slow moving in terms of buyer interest, emphasising risks related to ensuring the right product at the right price. The slow-moving projects were roughly 10% of overall work in progress projects by floor space.

Liquidity Indicator - Adequate: Ind-Ra expects Puravankara to generate free cash flow before interest expense of INR16,480 million over FY22-FY23 (FY21: INR2,790 million, FY20: INR5,243 million). The company had cash and bank balances of INR1,639 million and undrawn banking facilities of INR6,773 million at FYE21. These funds, combined with estimated inflows of INR6,850 million over FY22 from the strategic exit mentioned above, would be more than enough to meet the interest expense and repayment liabilities of INR19,324 million over FY22-FY23 (FY22: INR9,564 million, FY23: INR9,670 million). The company is a publicly listed entity and has relationships with a wide base of banks and financial institutions, suggesting a strong access to various sources of financing. The company, however, has a high reliance on non-banking finance companies and an overall cost of borrowing of more than 11.8% at 1QFY22.

Cyclicality and Regulatory Risk: The Indian real estate industry is highly cyclical with volatile cash flows. The sector is also subject to multiple regulatory approvals, and the timely receipt of the same is critical for launching new projects within the scheduled timelines and for future sales/collections.

Project Execution Risk: The company is likely to see a significant increase in its under-construction portfolio, which exposes it to project execution risk. The annual run rate of completed projects remains below 2msqft per annum for the company, which is dwarfed by the launch plans.

The company has clearly articulated to Ind-Ra that it is planning to follow a much more prudent strategy of unwinding the existing finished and under construction inventory and monetise land bank. It will open new projects for sale in phases and try to sell a high % of total space before opening new phases.

Pace of Collection Key to Ensure Positive Organic Free Cash Flow: Over FY18-FY21, Puravankara's cumulative collections were 73% of new bookings (FY21: 58%). Excluding the impact of divestitures, the company has generated only modest free cash flow over FY18-FY21. A pick up in collections is a key monitorable for the agency.

RATING SENSITIVITIES

Positive: An improvement in project execution and collections leading to the net debt/net working capital falling below 0.65x and pre sales/net debt exceeding 1.2x in FY22 could lead to an upgrade.

Negative: Net debt/net working capital remaining above 0.65x for the full year and pre sales/net debt staying below 1.2x in FY22 could lead to the Outlook being revised to Stable.

COMPANY PROFILE

Headquartered in Bengaluru, Puravankara is one of India's leading listed real estate companies. Ravi Puravankara owns 75% stake in the company. The company has completed real estate projects with more than 42msf and has an ongoing project footprint of nearly 24msf.

FINANCIAL SUMMARY

Particulars (INR million)	FY21	FY20
Revenue	9,607	21,284
EBITDA	2,837	4,504
Gross finance cost	3,569	3,431
Net debt	26,210	25,356
Source: Puravankara, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Rated Limits (million)	Rating	21 October 2020

Issuer rating	Long-term	-	IND A-/Positive	IND BBB+/Positive
Fund based working capital limits	Long-term	INR1,000	IND A-/Positive	IND BBB+/Positive

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fund-based working capital facilities	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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