December 18, 2020

Brigade Enterprises Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based - Term Loan	2,615.94	2,435.28	[ICRA]A (Stable); Reaffirmed
Long-term Fund-based - CC/OD	60.00	50.00	[ICRA]A (Stable); Reaffirmed
Long-term Unallocated Limits	189.06	339.72	[ICRA]A (Stable); Reaffirmed
Short-term Non-fund Based	65.00	105.00	[ICRA]A1; Reaffirmed
Total	**2,930.00**	**2,930.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to factor in Brigade Enterprises Limited's (BEL's) established position in the Bangalore real estate market and its diversified presence across residential, commercial and hospitality segments. The ratings take into account the steady pre-sales volumes in the residential segment since Q4-FY2019, aided by healthy saleability in new project launches. In Q1-FY2021, despite disruption in operations due to the outbreak of Covid-19 pandemic, the company observed reasonable pre-sales momentum in the residential real estate segment with sales of 0.42 million square feet (mn sqft); further in Q2, the sales volume bounced back to 0.99 mn sqft. Overall for H1 FY2021, the company has recorded a de-growth of 34% over the same period last year. The receivables from the sold area in the completed and ongoing projects cover 50% of the pending cost and the debt outstanding in this segment as on September 30, 2020.

The ratings continue to draw comfort from BEL's commercial real estate portfolio with a leasable area of 4.8 mn sqft that generates a stable rental income. Around 40% of BEL's consolidated debt profile as of September 2020 is in the form of rental securitisation loans. Under the commercial real estate segment, operational office assets continued to report healthy performance with rental collection efficiency of 99% in H1-FY2021 and no significant impact on occupancy. However, extended period of work-from-home and other Covid-19 related disruptions in the market affected the leasing of the under-construction portfolio. Moreover, in the retail mall operations, tenants been granted waivers and deferment of rent payments. In the hospitality sector, occupancy continues to be low in most of BEL's hotels, averaging at 15% in Q2-FY2021. The outlook for hospitality segment also remains weak with recovery dependent on revival of domestic and international travel.

The ratings continue to be constrained by the company's increasing debt levels, primarily on account of the capex for its commercial projects, Brigade Tech Gardens (BTG) in Bengaluru and World Trade Centre (WTC) in Chennai, which are nearing completion. Out of 3.8 mn sqft under implementation for these two projects, 1.6 mn sqft is pre-leased (1.9 mn sqft including hard option). The company is exposed to market risk associated with timely leasing in these projects as any delay may adversely impact the company's cash flow position and its ability to refinance the construction loan. The ratings factor in the high leverage levels and the modest debt coverage metrics for the hospitality division and the exposure to inherent cyclicality in the sector. The ratings are also constrained by the concentration of BEL's operations in the Bangalore market as well as sensitivity to a decline in property prices, slowdown in economy, and decrease in housing demand.

The Stable outlook reflects ICRA's expectation that the Group's strong track record and healthy annuity income portfolio - which is expected to grow further post full occupancy of BTG and WTC, and thus supporting its operational and financial risk profile in the near to medium term.

Key rating drivers

Credit strengths

Established position in Bangalore real estate market - BEL is a leading real estate developer in Bangalore. It has completed and delivered a total area of more than 66 mn sqft, comprising over 250 real estate and hospitality projects. It has a good brand equity, which supports saleability of its residential real estate projects.

Diversified revenue portfolio with presence in residential, commercial and hospitality segments - BEL generates revenue primarily from three segments - sale of residential and commercial real estate projects, lease income from owned commercial property (office and retail), and income from hospitality projects. In FY2020, BEL derived around 74% of its revenues from real estate operations (including sale of commercial property), 12% from hospitality assets and 14% from its leasing segment.

Stable cash flows from office leasing segment - BEL's commercial real estate portfolio, with a leasable area of 4.8 mn sqft, generates a stable lease income with annualised rental potential of close to Rs. 325 crore in FY2021. Of this, around Rs 255 crore was from the office leasing segment where cash flows remained resilient even during the Covid-19 lockdown period. Around 40% of BEL's consolidated debt profile as of September 2020 was in the form of rental securitisation loans. Further, around 30% of the debt profile was in the form of construction finance for the ongoing capex projects with more than 5.0 mn sqft of leasable area. Timely completion of development and leasing in these projects and conversion into self-liquidating rental discounting loans can further improve the maturity profile of BEL's loan book.

Steady pre-sales in FY2020; healthy uptick in sales volume in Q2-FY2021 – BEL maintained steady pre-sales volume since Q4-FY2019, aided by the healthy saleability in new projects. The company reported pre-sales volume of 4.27 mn sqft in FY2020, as compared to 2.96 mn sqft sold in FY2019. In Q1-FY2021, despite disruption in operations due to the outbreak of Covid-19 pandemic, the company observed reasonable sales momentum with sales of 0.42 million square feet (mn sqft) and in Q2, it bounced back to 0.99 mn sqft. The receivables from the sold area in the completed and ongoing projects cover 50% of the pending cost and the debt outstanding in this segment as on September 30, 2020.

Credit challenges

Increase in leverage in the leasing segment; market risk associated with timely leasing - The ratings continue to be constrained by the company's increasing debt levels, primarily on account of the capex for its commercial projects, Brigade Tech Gardens (BTG) in Bengaluru and World Trade Centre (WTC) in Chennai, which are nearing completion. The company is exposed to market risk associated with timely leasing in these projects as any delay may adversely impact the company's cash flow position and its ability to refinance the construction loan. Out of 3.8 mn sqft under implementation for these two projects, 1.6 mn sqft is pre-leased (1.9 mn sqft including hard option). Going forward, the company will also have funding requirements arising from its upcoming commercial project, Brigade Twin Towers.

High concentration on Bangalore real estate market - Though BEL's revenue mix is moderately diversified among the various segments it operates in, it is mainly focussed on the Bangalore real estate market. The Bangalore projects represent around 79% of the ongoing residential development (by area), exposing the company to adverse movements in the regional real estate market. Moreover, out of the total land bank of 367 acres as of September 2020, 71% is located in the city.

Adverse impact of Covid-19 pandemic on company operations – The lockdowns imposed during April 2020 due to the outbreak of Covid-19 pandemic, adversely impacted the company's operations, primarily the retail and hospitality divisions. The cash flows from retail mall operations have been impacted with tenants being granted temporary waivers and deferment of rent payments. In the hospitality sector, occupancy continues to be low in most of the hotels, averaging at 15% in Q2-FY2021. The hospitality sector financial metrics remain constrained by high leverage levels and modest debt coverage metrics. The outlook for hospitality segment also remains weak with recovery dependent on revival of domestic and international travel. Moreover, the extended period of work-from-home and other Covid-19 related market disruptions have affected the leasing of the under-construction commercial real estate portfolio.

Liquidity position: Adequate

The company's liquidity profile remains adequate supported by undrawn bank lines of around Rs. 1,300 crore and cash and liquid investments worth Rs. 513 crore as on September 30, 2020. The same is expected to support the capital expenditure requirement in the commercial leasing segment. Moreover, the top ups in lease rental discounting loans to be availed in the two large office leasing projects – WTC and BTG, operational surplus from the residential segment and inflow from warrants issued in FY2020 will be additional sources of liquidity.

Rating sensitivities

Positive triggers - ICRA could upgrade BEL's ratings if the company is able to sustain its pre-sales volume in the residential segment, and achieve significant incremental leasing in its commercial real estate portfolio (primarily, BTG, Bengaluru and WTC, Chennai).

Negative triggers - Negative pressure on BEL's ratings could arise in case there is a delay in leasing tie-ups in the ongoing commercial real estate projects. The net debt to rent income ratio increasing above 6.5 times in the completed leasing portfolio could lead to pressure on BEL's ratings. The ratings could also be downgraded in case of weakness in pre-sales in the residential segment, or substantial debt increase in the segment owing to increased land investments, or weak operational cash flows.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Real Estate Entities Rating Methodology for Entities in the Hotel Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of BEL and its subsidiaries given the close business, financial and managerial linkages among them.

About the company

BEL, a real estate development company, is promoted by Mr. M.R. Jaishankar and his family. The Brigade Group has completed and delivered a total area of more than 66 mn sqft, comprising over 250 residential, commercial and hospitality projects. BEL has established itself as one of the major diversified real estate developers in Bangalore. At present, it is developing 15.9 mn sqft (BEL's share – 12.6 mn sqft) of real estate projects (by saleable area), 6.3 mn sqft (BEL's share – 4.2 mn sqft) of leasing development and a hospitality project with a total of 151 keys. Though BEL's operations are mainly concentrated in Bangalore, it is developing few projects in other cities such as Chennai, Hyderabad, Mysore, Kochi, Mangalore and GIFT City.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	2972.8	2632.2
PAT (Rs. crore)	280.1	112.4
OPBDIT/ OI (%)	26.6%	25.3%
PAT/ OI (%)	9.4%	4.3%
Total Outside Liabilities/Tangible Net Worth (times)	3.5	4.0
Total Debt/ OPBDIT (times)	4.8	6.9
Interest Coverage (times)	2.8	2.0

Source: Company, ICRA; OPBDIT: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit after Tax;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018			
					18-Dec-2020	20-Sep-2019	03-Sep-2018	14-Nov-2017	26-Oct-2017	03-Oct-2017	31-May-2017
1	Term Loans	Long Term	2,435.28	2,435.28	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Overdraft	Long Term	50.00	50.00	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-	-
3	Unallocated Limits	Long Term	339.72	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-
4	Letter of Credit/ Bank Guarantee	Short Term	105.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loans	FY2013-FY2021 @	-	FY2036&	2,435.28	[ICRA]A(Stable)
-	Overdraft	-	-	-	50.00	[ICRA]A(Stable)
-	Unallocated Limits	-	-	-	339.72	[ICRA]A(Stable)
-	Letter of Credit/ Bank Guarantee	-	-	-	105.00	[ICRA]A1

@ Represents loans sanctioned between FY2013 and FY2020
& Represents the farthest maturity date among the various maturity dates for different term loans
Source: Brigade Enterprises Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Brigade Enterprises Limited (Holding Company)	**-**	**Full Consolidation**
Subsidiary Companies		
BCV Developers Private Limited	50.01%	Full Consolidation
Brigade Properties Private Limited	51%	Full Consolidation
Perungudi Real Estates Private Limited	51%	Full Consolidation
SRP Prosperita Hotel Ventures Limited	50.01%	Full Consolidation
Orion Property Management Services Limited	100%	Full Consolidation
Brigade Hospitality Services Limited	100%	Full Consolidation
WTC Trades and Projects Private Limited	100%	Full Consolidation
Brigade Tetrarch Private Limited	100%	Full Consolidation
Brigade Estates and Projects Private Limited	100%	Full Consolidation
Brigade Infrastructure and Power Private Limited	100%	Full Consolidation
Celebrations, LLP	95%	Full Consolidation
Brigade (Gujarat) Projects Private Limited	100%	Full Consolidation
Mysore Projects Private Limited	100%	Full Consolidation
Brigade Innovations, LLP	99.80%	Full Consolidation
Brigade Hotel Ventures Limited	100%	Full Consolidation
Augusta Club Private Limited	100%	Full Consolidation
Brigade Flexible Office Spaces LLP	100%	Full Consolidation

Source: FY2020 Audited financial statement

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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.

For more information, visit www.icra.in

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