August 26, 2022

Perungudi Real Estates Private Limited: Ratings reaffirmed; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1430.0	1180.0	[ICRA]A (Stable); reaffirmed
Long-term – Interchangeable (sub-limit of fund-based)	(44.0)	(44.0)	[ICRA]A (Stable); reaffirmed
Unallocated	20.0	20.0	[ICRA]A (Stable) / [ICRA]A1; reaffirmed
Total	**1450.0**	**1200.0**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation takes into account the attractive project location of Perungudi Real Estates Private Limited's (PREPL) mixed-use project at Perungudi on Old Mahabalipuram Road (OMR) in Chennai, which comprises the World Trade Center (WTC) Chennai and the Brigade Residences. The WTC, with a leasable area of around 2.0 million square feet (mn. sq. ft.), has achieved adequate leasing and reported a committed occupancy of 75% as of June 2022. The lease rental discounting (LRD) debt availed against the property has a comfortable leverage and debt coverage metrics. The ratings consider the healthy sales performance in the residential development in PREPL (Brigade Residences at WTC), which provides high cash flow visibility through receivables from the sold area. PREPL is expected to generate healthy free cash flow from the residential segment in the medium term. Additionally, the ratings draw comfort from the profile of PREPL's promoters—Brigade Enterprises Limited (BEL; rated [ICRA]A+ (Stable)) and the Government of Singapore Investment Corporation (GIC), as well as the track record of the Brigade Group in the commercial and residential real estate sector.

The ratings are, however, constrained by the pending market risk related to WTC, wherein nearly 25% of the area is yet to be leased. Nonetheless, the risk is partly mitigated by the LRD debt drawdown being aligned to the occupancy with Rs. 700 crore drawn as of June 2022, out of the sanctioned debt of Rs. 1,180 crore. Incremental leasing progress has been affected by the Covid-19 pandemic. Nonetheless, with resumption of work-from-office, the balance area is expected to be leased out in the near to medium term. The ratings factor in the high tenant concentration risk, with top three tenants accounting for 93% of the leased area and 92% of monthly rent income as of June 2022.

The Stable outlook reflects ICRA's expectations that the company's credit profile will be supported by the leasing tie-ups already in place as well as the strong profile of the promoters.

Key rating drivers and their description

Credit strengths

Experience and track record of PREPL's promoters in real estate sector – PREPL is a 51% subsidiary of BEL, with GIC of Singapore holding the remaining 49% stake. The Brigade Group has completed and delivered a total area of more than 66 mn. sq. ft., comprising over 250 residential, commercial and hospitality projects. ICRA expects that the company will continue to benefit from the operational and financial support it derives from its parent, BEL, which has strong execution capabilities in developing large-size projects, with an established track record in the commercial space. BEL owns the licences for developing the World Trade Centres in four cities in southern India and has developed one each in Bangalore, Kochi and Chennai already.

Attractive project location – The mixed-use project will be developed on Old Mahabalipuram Road (OMR) in Chennai. The region is seen as one of the preferred IT corridors in the city and attracts a large share of office space absorption. Additionally, the residential project's demand prospects appear favourable due to its proximity to various corporate offices in the vicinity and well-developed social infrastructure.

Adequate leasing and reputed tenant profile – The company has achieved adequate leasing till date with committed occupancy of 75% as of June 2022. The tenant profile consists of reputed names with long lease tenure of 10 to 15 years and lock-in period in the range of 3 to 3.5 years. With the existing lease tie-up, PREPL has successfully raised adequate LRDs and repaid the construction finance loan availed for the project.

Healthy sales in residential segment – The company has demonstrated healthy sales performance in the residential development (Brigade Residences at WTC) sector, which provides high cash flow visibility through receivables from the sold area. The segment generated healthy cash flows in FY2022 through which the project debt has been pre-paid. PREPL is expected to generate healthy free cash flow from the residential segment in the medium term.

Credit challenges

Market risk for balance area in WTC – WTC's committed occupancy remains modest at 75% due to non-exercise of hard option for leasing of 0.27 mn. sq. ft. of area by one of the tenants. The impact of the lower occupancy is offset by the LRD debt drawdown being aligned to the occupancy, with Rs. 700 crore drawn as of June 2022, out of the sanctioned debt of Rs. 1,180 crore. Incremental leasing progress has been affected by the Covid-19 pandemic. Nonetheless, with resumption of work-from-office, the balance area is expected to be leased out in the near to medium term.

High tenant concentration – The tenant concentration remains high with 90% of the currently leased area being occupied by the top three tenants. While the long lease tenure and lock-in period provide comfort, the company continues to remain exposed to market risk in case of any vacancy/non-renewal of lease.

Liquidity position: Adequate

PREPL's liquidity is adequate, supported by comfortable debt coverage metrics, healthy collections from customers in the residential segment and financial flexibility, derived as a part of the Brigade Group. The company had surplus free cash balances of Rs. 92 crore as on March 31, 2022 and Rs. 145 crore as on June 30, 2022, and eligibility to draw LRD debt of around Rs. 50 crore based on the current status of leasing. The pending cost for the residential project is likely to be met using the customer advances/collections from the sold receivables.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to reduce the leverage substantially in the leasing segment, along with significant leasing tie-ups at adequate rent rates resulting in strong debt protection metrics. The ratings would also remain sensitive to the credit profile of the parent, BEL.

Negative factors – The ratings could be downgraded if decline in occupancy or increase in leverage from current levels in the leasing segment results in weakening of liquidity and debt coverage metrics. The ratings would also remain sensitive to the credit profile of the parent, BEL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate credit rating methodology Rating Methodology for Debt Backed by Lease Rentals Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent Company: BEL The ratings are based on the linkages of PREPL's credit profile with that of its parent– BEL
Consolidation/Standalone	ICRA has evaluated the standalone operational and financial profile of PREPL.

About the company

PREPL is a 51% subsidiary of BEL. GIC, which is a global investment management company owned by the Government of Singapore, holds the remaining 49% stake in the company. PREPL is a special purpose vehicle (SPV) incorporated to undertake an SEZ development and a residential project on OMR in Perungudi, Chennai. The SEZ area in the project is being developed under the brand, World Trade Centre (WTC). The SEZ has a total leasable area of 2.0 mn. sq. ft. The construction for the same started in July 2017 and was completed in FY2021. The residential project named Brigade Residences–WTC Chennai, with a total saleable area of 0.63 mn. sq. ft., was launched in January 2020, post receipt of the necessary approvals.

Key financial indicators

RHPL	Audited	Audited
	FY2021	FY2022
Operating income (Rs. crore)	-	105.3
PAT (Rs. crore)	-18.2	-151.8
OPBDIT/OI (%)	NM	85.7%
PAT/OI (%)	NM	-144.2%
Total outside liabilities/Tangible net worth (times)	NM	-42.8
Total debt/OPBDIT (times)	717.8	16.4
Interest coverage (times)	0.1	0.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, NM: Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Aug 26, 2022	Jun 04, 2021	Dec 18, 2020	Apr 01, 2020	Jan 21, 2019
1	Term loan	LT	1180.0	660.6	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Bank guarantee	LT	(44)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-
3	Unallocated	LT / ST	20.0	-	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A2+	[ICRA]BBB+ (Positive) / [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term loan	Simple
Long-term – Interchangeable (Bank guarantee)	Very simple
Unallocated	Not applicable

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 are available on ICRA's website: www.icra.in

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 1	FY2022	-	FY2035	1180.0	[ICRA]A (Stable)
NA	Bank guarantee	-	-	-	(44.0)	[ICRA]A (Stable)
NA	Unallocated	-	-	-	20.0	[ICRA]A (Stable) /[ICRA]A1

Source: Company

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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