Brigade Enterprises Limited

Instrument	Amount	Rating Action
	In Rs Crore	August 2016
Long term – Fund based bank lines	1,827.69	[ICRA]A reaffirmed; outlook revised to stable from positive
Short term – Non fund based bank lines	60.00	[ICRA]A1 reaffirmed

ICRA has reaffirmed the long term rating assigned to the Rs 1,827.69 crore fund based bank lines of Brigade Enterprises Limited (BEL) at [ICRA]A (pronounced as ICRA A). The outlook on the long term rating has been revised from positive to stable. ICRA has also reaffirmed the short term rating of [ICRA]A1 (pronounced as ICRA A one) assigned to the Rs 60.00 crore non fund based bank lines of BEL.

While assigning the ratings, ICRA has taken a consolidated view of BEL along with its subsidiaries, given the strong operational and financial linkages between these entities.

The revision in rating outlook takes into account the moderation in BEL's operational performance in the residential real estate segment in the recent quarters against the backdrop of increased debt levels taken to support the company's ongoing capital expenditure projects and land investments. BEL's sales in the residential real estate segment witnessed a 20% decline in value terms during FY2016; consequently, ICRA expects the growth in cash flows from the segment to be moderated in the near term.

The ratings assigned factor in BEL's established position in the Bangalore real estate market and its diversified presence across residential, commercial and hospitality segments. The recent moderation in sales volumes in residential segment notwithstanding, BEL has a strong market position and established track record of project completions and delivery; these factors, along with the expected pick up in new project launches and availability of ready to occupy stock from certain completed projects[1] would support BEL's target of achieving 2.5-3 million square feet of residential sales during FY2017. The ratings continue to draw comfort from BEL's commercial real estate portfolio with leasable area of 2.1 million square feet (msf) which generates stable rental income and also provides financial flexibility to raise lease rental discounting loans. BEL's hospitality projects continue to report stable operating metrics and their healthy cash flows have also been leveraged by the company for supporting its growth capital funding requirements. In the last one year, BEL has added 0.5 msf of leasable area and one hospitality project to its portfolio of completed projects and stabilization of operations in these assets during FY2017 would provide further boost to BEL's cash flows.

The ratings are, however, constrained by the increase in the company's leverage levels over FY2016 with the growth in scale of operations, ongoing capex projects, and significant investments in land banking. On a consolidated basis, BEL's debt levels increased from Rs 1,394 crore as on March 2015 to Rs 1,999 crore[2] as on March 2016, resulting in adjusted gearing levels rising to 0.95x as on March 2016 from 0.84x as on March 2015. Given the large funding requirements arising from the ongoing projects and land payment commitments, BEL is expected to be reliant on refinancing or sale of commercial assets under development to meet the funding requirements in the near term. Material reduction in the leverage levels through improvement in cash flows from the residential and commercial segments (including sale of commercial property) would be a key rating sensitivity going forward. Further, the expansion in hospitality segment may result in moderation of its profitability indicators in the short to medium term while also exposing it to the inherent cyclicality of the sector. The rating is also constrained by the high concentration of BEL's operations in the Bangalore market which exposes it to any fluctuations in a single market's performance.

Going forward, Brigade's ability to improve its sales volume and collections will be key rating sensitivities.

Moreover, the ability to moderate the debt levels and the extent of capital expenditure and investment in land will be other key rating monitorables.

[1] BEL has stock of 3 lakh sft in 2 completed projects which were earlier not available for sale due to litigation; in FY17 the litigation was resolved in BEL's favour and this stock has become available for sale.
[2] excluding loans from other equity shareholders in subsidiaries; adjusted gearing calculated after giving equity credit to loans from other equity shareholders in subsidiaries

Company Profile
Brigade Enterprises Limited, a real estate development company, was promoted by Mr M R Jaishankar and Ms Githa Shankar as a partnership firm called Brigade Enterprises in 1990 and converted to a private limited in 1995 and to a public limited company in July 2007. In December 2007, BEL raised about Rs 704 crore through an initial public offering (IPO).

Brigade has completed and delivered saleable area of over 25 msf comprising more than a hundred residential, commercial and hospitality projects. BEL has established itself as one of the major diversified real estate developers in Bangalore. BEL is currently developing 15.8 msf of residential real estate projects (by saleable area), 2.9 mf of commercial real estate space and three hospitality projects aggregating to 689 keys. Besides Bangalore, BEL has taken up a few projects in other cities such as Mysore, Kochi, Mangalore, Hyderabad and Chennai.

Recent Results
During FY2016, BEL (consolidated) reported a net profit of Rs 148 crore on an operating income of Rs 1,676 crore. During FY2015, BEL (consolidated) reported a net profit of Rs 116 crore on an operating income of Rs 1,311 crore. During Q1 of FY2017, BEL (consolidated) reported a net profit of Rs 22 crore on an operating income of Rs 459 crore as against net profit of Rs 25 crore and operating income of Rs 435 crore in the corresponding quarter of FY2016.

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For further details please contact:
Analyst Contacts:
Mr. Rohit Inamdar (Tel. No. +91-124-4545847)
rohit.inamdar@icraindia.com

Mr. Shubham Jain (Tel. No.+91 124 4545 306)
shubhamj@icraindia.com

Mr. Mathew Kurian Eranat (Tel. No. +91 080 4332 6415)
mathew.eranat@icraindia.com

Relationship Contacts:
Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata
Mr. Jayanta Roy
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore
Bangalore
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231

Pune
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500