Brigade Enterprises Limited

Instrument	Amount	Rating Action
	In Rs Crore	September 2016
Long term – Fund based bank lines	2,140.00 (enhanced from 1,827.69)	[ICRA]A (Stable) assigned / outstanding
Short term – Non fund based bank lines	60.00	[ICRA]A1 outstanding

ICRA has reaffirmed the long-term rating of [ICRA]A to the Rs 2,140.00 crore fund based bank lines (enhanced from Rs 1,827.69 crore) of Brigade Enterprises Limited (BEL). The outlook on the long term rating is stable. ICRA also has short term rating outstanding of [ICRA]A1 (pronounced as ICRA A one) on 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 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.

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).

[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

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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