March 10, 2017

# Brigade Enterprises Limited

| Instrument* | Rated Amount (in crore) | Rating Action |
|---|---|---|
| Long term – Fund based bank lines | 2,140.00 | [ICRA]A reaffirmed; outlook revised to Negative from Stable |
| Short term – Non fund based bank lines | 60.00 | [ICRA]A1 reaffirmed |
| **Total** | **2,200.00** | |

*instrument details are provided in Annexure-1

**Rating Action**

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced as ICRA A) assigned to the Rs 2,140.0-crore long-term fund based bank lines of Brigade Enterprises Limited (BEL) while revising the outlook on the long-term rating from Stable to Negative. ICRA has reaffirmed the short-term rating of [ICRA]A1 assigned to the Rs 60.0-crore short-term non fund based bank lines of BEL.

**Rationale**

The revision in rating outlook takes into account the continuous decline in BEL's pre-sales in the residential real estate segment in FY2017 on account of challenging market conditions and limited project launches. BEL's pre-sales were especially impacted in Q3 of FY2017 due to weak consumer sentiments in real estate sector following the demonetization of high denomination currency notes announced in November 2016. In the first 9 months of FY2017, BEL achieved pre-sales of 1.1 million square feet (msf) in residential segment, compared to 1.6 msf in the same period last year. Given the modest sales volumes achieved in recent quarters, there is high dependence on fresh pre-sales to meet the pending operational and financial commitments in the short to medium term.

The ratings assigned, nonetheless, 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 pre-sales in residential segment notwithstanding, BEL has a strong brand position and established track record of project completions and delivery. The ratings continue to draw comfort from BEL's commercial real estate portfolio with leasable area of 2.2 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 high leverage levels of the company, owing to investments in ongoing capex projects and land banking. On a consolidated basis, BEL's debt levels increased from Rs 1,394 crore as on March 2015 to Rs 2,085 crore as on December 2016. 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. Moreover, 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 pre-sales in the residential segment, performance of its hospitality portfolio and the extent of capital expenditure and investment in land will be the key rating sensitivities.

**Key Rating Drivers**

**Credit Strengths**
- Established market position in Bangalore real estate market
- Diversified revenue portfolio with presence in residential, commercial and hospitality segments
- Financial flexibility derived from undrawn bank lines against residential projects and stable cash flows in commercial and hospitality segments

**Credit Weakness**
- Increase in the company's leverage levels due to ongoing capex projects and land investments
- Weak pre-sales from residential segment reported in FY2016 and FY2017
- Profitability from hospitality segment to be impacted in near term pending stabilization of new assets
- High concentration on the Bangalore real estate market

**Description of Key Rating Drivers:**
BEL is one of the leading real estate developers in Bangalore, having completed and delivered a total area of more than 25 million square feet (msf), comprising over a hundred residential, commercial and hospitality projects. In the 9 months ending December 2016, BEL derived around 78% of its revenues from real estate operations (including sale of commercial property), 9% from hospitality assets and 13% from its leasing segment.

BEL's hospitality segment comprises of two established hotels in Bangalore, which have been consistently reporting healthy occupancy and gross operating profit margins. BEL commissioned a third hotel in Mysore during Q1 of FY2017; the losses from this asset during the stabilization phase have impacted overall profitability from hospitality segment during 9 months of FY2017. In the leasing segment, BEL's portfolio comprises 2.2 msf of office and retail space, largely located in Bangalore. The occupancy as on December 2016 was 90%, which is lower than historical levels due to sub-optimal occupancy in two recently commissioned projects. The stable cash flows from the hospitality and leasing business provide financial flexibility to BEL and they have been leveraged by the company for supporting its growth capital funding requirements.

In the residential real estate segment, BEL has witnessed continued decline in its pre-sales velocity over FY2016 and 9 months of FY2017. BEL reported residential pre-sales of 1.1 msf during 9 months of FY2017, which is 31% lower than that during the corresponding period of FY2016. The pre-sales during Q3 were significantly impacted by the weak consumer sentiments post announcement of demonetization. The effects are expected to spill over to some extent during Q4 too; hence BEL is expected to end FY2017 with pre-sales of around 1.5-1.6 msf. While BEL has been able to maintain high collections from customers during FY2017, ICRA expects the growth in cash flows from the segment to be moderated in the near term given the weak sales velocity in recent quarters; moreover, there is high dependence on fresh project launches and improved pre-sales to meet the pending operational and financial commitments.

BEL's debt levels have seen significant increase over FY2015 and FY2016 due to capital expenditure relating to the hospitality and leasing business. Furthermore, BEL has made significant land investments during this period. This has resulted in increased leverage levels, including in the residential real estate operations. Given the large funding requirements arising from the ongoing projects and land payment commitments, BEL is expected to be reliant on refinancing to meet the funding requirements in the near term. Nonetheless, the rating draws comfort from the financial flexibility available to BEL through undrawn bank lines against residential projects and headroom for additional debt against its leasing portfolio.

**Analytical Approach:**
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.

**Links to Applicable Criteria**
Corporate Credit Rating –A Note on Methodology
ICRA Rating Methodology – Real Estate Entities
Rating Methodology for Debt Backed by Lease Rentals

**About the Company:**
Brigade Enterprises Limited (BEL), a real estate development company, is promoted by Mr. M.R. Jaishankar and his family. Brigade Group has completed and delivered a total area of more than 25 million square feet (msf), comprising over a hundred residential, commercial and hospitality projects. BEL has established itself as one of the major diversified real estate developers in Bangalore. It is currently developing 15.8 msf of residential real estate projects (by saleable area), 3.5 mf of commercial real estate space and three hospitality projects. BEL's operations are mainly concentrated in Bangalore; however, it is also developing a few projects in other cities such as Mysore, Kochi, Mangalore, GIFT City and Chennai.

In the 9 months ending December 2016, BEL (consolidated) reported net profit after tax of Rs 79 crore on operating income of Rs 1,470 crore. In FY2016, BEL reported net profit after tax of Rs 123 crore on an operating income of Rs 2,038 crore.

**Status of Non-cooperation with Previous CRA:** Not Applicable

**Any Other Information:** Not Applicable

**Rating History:**

**Table: Rating History**

| Sl.No | Name of Instrument | Current Rating | | | Chronology of Rating History for the Past 3 Years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Rated amount (Rs. cr) | Month-Year and Rating | Month-Year and Rating | | |
| | | | | Mar-2017 | Sept-2016 | Aug-2015 | Jul-2014 |
| 1 | Fund based limits | Long Term | 2,140.0 | [ICRA]A (Negative) | [ICRA]A (Stable) | [ICRA]A (Positive) | [ICRA]A (Stable) |
| 2 | Non fund based limits | Short Term | 60.0 | [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**

**Details of Instrument**

| Name of the instrument | Date of Issuance | Coupon rate | Maturity Date | Size (Rs. Cr) | Current Rating and Outlook |
|---|---|---|---|---|---|
| Term Loans | - | - | 2017-2026 | 2,140.0 | [ICRA]A (Negative) |
| Letter of Credit / Bank Guarantee | - | - | - | 60.0 | [ICRA]A1 |
| **Total** | | | | **2,200.0** | |

*Source: BEL*

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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**

ICRA


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