May 31, 2017

Brigade Enterprises Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long term – Fund based bank lines	2,140.00	[ICRA]A reaffirmed; outlook revised from Negative to 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 Negative to Stable. 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 improvement in the capital structure and liquidity position of BEL subsequent to fund infusion of Rs. 500 crore through a qualified institutional placement (QIP) of shares in May 2017. The equity funds raised through the QIP issue will reduce the dependence on debt funding for the ongoing and planned capital expenditure projects of BEL in the near to medium term. In addition, the company has also launched three projects till date during Q1 FY2018 under the residential segment as compared to none during FY2017, which is expected to support the sales and the collections in this segment going forward.

The ratings continue to factor in BEL's established position in the Bangalore real estate market and its diversified presence across residential, commercial and hospitality segments. Notwithstanding the moderation in pre-sales in residential segment during FY2016 and FY2017, 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 2.16 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 addition, stabilization of operations in the recently commissioned commercial for lease and hospitality assets would provide further boost to BEL's cash flows during FY2018.

The ratings are, however, constrained by the increasing debt 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 1,999 crore as on March 2016 and further to Rs 2,177 crore as on March 2017. Given the large funding requirements arising from the ongoing and planned projects, as well as land payment commitments, BEL's debt levels are expected to increase further in the near to medium term; nonetheless, the gearing level would be kept in check by the fresh equity funds raised through the QIP. BEL's pre-sales in the residential real estate segment had weakened in FY2017 on account of challenging market conditions and limited project launches, thereby reducing the visibility on future operational cash flows from this segment. Moreover, BEL's 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, BEL'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
- Improved capital structure and liquidity position post infusion of funds through QIP
- 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 weaknesses
- High level of ongoing and planned capex projects as well as 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 FY2017, 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.

In the residential real estate segment, BEL has witnessed a decline in its pre-sales volumes over FY2016 and FY2017. BEL reported residential pre-sales of 1.45 msf during FY2017, which is 27% lower than that during FY2016. The pre-sales during second half of FY2017 were significantly impacted by the weak consumer sentiments post announcement of demonetization of high denomination currency notes. 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. However, the recent launch of three new residential projects during Q1 FY2018 should provide some support to the sales velocity going forward.

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 FY2017. In the leasing segment, BEL's portfolio comprises 2.16 msf of office and retail space, largely located in Bangalore. The occupancy as on March 2017 was 94% which has improved from 90% as on December 2016 as the company has leased out additional space in Orion East Mall, Bangalore. 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.

BEL's debt levels have seen significant increase over the last two years due to capital expenditure relating to the hospitality and leasing business. Furthermore, BEL has made significant land investments during this period. This had resulted in increased leverage levels, including in the residential real estate operations. Given the large funding requirements arising from the ongoing and planned projects and land payment commitments, BEL's debt levels are expected to moderately increase in the near to medium term. Nonetheless, backed by the recent equity fund raising, the gearing levels are expected to be kept in check despite the high level of capital expenditure. Moreover, 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 Methodology
Rating Methodology for 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 16.43 msf of real estate projects (by saleable area), 1.89 mf of leasing development and five 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 FY2017, BEL (consolidated) reported net profit after tax of Rs 153 crore on operating income of Rs 2,024 crore as against net profit after tax of Rs 123 crore on an operating income of Rs 2,038 crore during FY2016.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years:

Table: Rating History

Sl. No	Name of Instrument	Current Rating			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. Crore)	Date & rating	Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015
				May-2017	Mar-2017	Sept-2016	Aug-2015	Jul-2014
1	Fund based limits	Long Term	2,140.0	[ICRA]A (Stable)	[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	[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 Instruments

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 (Stable)
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.

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