ICRA

October 26, 2017

Brigade Enterprises Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs crore)	Rating Action
Long-term Fund-based Bank Lines	2,870.00 (enhanced from 2,140.00)	[ICRA]A (Stable) assigned/ outstanding
Short-term Non-fund Based Bank Lines	60.00	[ICRA]A1 outstanding
Total	**2,930.00**	

*instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]A (pronounced as ICRA A) to the Rs. 2,870.0-crore (enhanced from Rs. 2,140.0-crore) long-term fund-based bank lines of Brigade Enterprises Limited (BEL). The outlook on the long term rating is Stable. ICRA has outstanding short-term rating of [ICRA]A1 for the Rs. 60.0-crore short-term non-fund based bank lines of BEL.

Rationale

The rating action continues 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 the residential segment in the recent quarters, BEL has a strong brand position and an established track record of project completions and deliveries. The ratings continue to draw comfort from BEL’s commercial real estate portfolio with a leasable area of 2.16 million square feet (msf) that generates stable rental income. The company has undrawn debt limits of Rs. 253 crore against this portfolio as of June 2017, which enhances its liquidity position. Additionally, BEL had raised Rs. 500 crore through a qualified institutional placement (QIP) of shares in May 2017, which will largely be utilised towards its capex projects. The company’s hospitality projects (a mix of mature and newly commissioned assets), support the growth prospects of the Group. In addition, stabilisation of operations in the recently commissioned commercial for lease and hospitality assets would further boost BEL’s cash flows in FY2018.

The ratings, however, are constrained by the increasing debt levels of the company owing to investments in the ongoing capex and land banking. On a consolidated basis, BEL’s debt levels increased from Rs. 1,999 crore as on March 2016 to Rs. 2,177 crore as on March 2017 and further to Rs. 2,289 crore as on June 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 likely be kept in check by the fund infusion of Rs. 500 crore through QIP in May 2017. Its pre-sales in the residential real estate segment weakened in FY2017 and continues to be moderate in Q1 FY2018 on account of the challenging market conditions. This reduces visibility on future operational cash flows from this segment. Moreover, BEL’s expansion to the hospitality segment may result in moderation of its profitability indicators in the medium-to-short term as well as expose it to the inherent cyclicality of the sector. The ratings are also constrained by the concentration of BEL’s operations in the Bangalore market as the company remains exposed to 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, extent of capital expenditure and investment in land and timely tie-up of leases in the ongoing commercial projects will be the key rating sensitivities.

Key rating drivers

Credit strengths

- **Established market position in Bangalore real estate market:** BEL is one of the leading real estate developers in Bangalore. It has completed and delivered a total area of more than 30 msf, comprising over 100 real estate and hospitality projects.
- **Diversified revenue portfolio with presence in residential, commercial and hospitality segments:** BEL generates revenue primarily from three segments, namely sale of residential and commercial real estate projects, lease income from commercial property (office and retail) owned by it and income from 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 lease segment.
- **Stable cash flows from the commercial lease segment:** BEL's commercial real estate portfolio, with leasable area of 2.16 msf generates stable lease income with annualised rental potential of close to Rs. 240 crore.
- **Improved capital structure and liquidity position post infusion of funds through QIP:** In May 2017, BEL had raised equity funds of Rs. 500 crore through QIP of shares. This has improved the capital structure and liquidity position of the company and has reduced its dependence on debt funding for the ongoing and planned capital expenditure projects in the near-to-medium term.
- **Financial flexibility derived from undrawn bank lines:** As of June 2017, BEL had undrawn bank lines of Rs. 646 crore (including undrawn debt against residential portfolio) which results in financial flexibility and comfortable liquidity position for the company.

Credit weaknesses

- **High level of ongoing and planned capex as well as land investments:** Given the large funding requirements arising from the ongoing and planned capex and land payment commitments, BEL's debt levels are expected to increase further in the near-to-medium term. The bulk of the future capex outflow is likely to be on account of two commercial real estate projects with total leasable area of 5.00 msf. Nonetheless, backed by the recent equity fund raising, the gearing levels are expected to remain in check despite the high capital expenditure.
- **Weak pre-sales from residential segment in FY2017 and Q1 FY2018:** In the residential real estate segment, BEL has witnessed a decline in pre-sales volumes over FY2016, FY2017 and Q1 FY2018. BEL reported residential pre-sales of 0.28 msf in Q1FY2018, which is 23% lower on a y-o-y basis. Though BEL has been able to maintain high collections from customers in FY2017 and Q1 FY2018, ICRA expects the growth in cash flows from the segment to be moderated in the near term due to the weak sales velocity in the recent quarters.
- **Near-term profitability from hospitality segment impacted due to pending stabilisation of new assets:** The losses from the newly commissioned assets during the stabilisation phase in the hospitality segment have impacted overall profitability from this segment in FY2017 and Q1 FY2018. Going forward, the timely stabilisation of operational and financial metrics of newer assets in the hospitality segment will be key rating sensitivities.

- **High concentration on the Bangalore real estate market:** Though BEL's revenue mix is moderately diversified among the various segments it operates in, it is mainly focused on the Bangalore real estate market. The Bangalore projects represent around 90% of the ongoing residential development (by area), exposing the company to adverse movements in the regional real estate market. Moreover, out of the total land bank of 508 acres as of June 2017, 74% is located in the city.

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
BEL, a real estate development company, is promoted by Mr. M.R. Jaishankar and his family. The Brigade Group has completed and delivered a total area of more than 30 msf, comprising over 100 residential, commercial and hospitality projects. BEL has established itself as one of the major diversified real estate developers in Bangalore. At present, it is developing 15.78 msf of real estate projects (by saleable area), 5.21 msf of leasing development and four hospitality projects. Though BEL's operations are mainly concentrated in Bangalore, it is developing a few projects in other cities such as Mysore, Kochi, Mangalore, GIFT City and Chennai.

In FY2017, BEL (consolidated) reported total comprehensive income of Rs. 168 crore on operating income (OI) of Rs. 2,024 crore as against a total comprehensive income of Rs. 138 crore on an OI of Rs. 2,038 crore in FY2016.

Key financial indicators (consolidated)

	FY2016	FY2017
Operating Income (Rs. crore)	2037.9	2024.1
PAT (Rs. crore) ^	138.2	167.5
OPBDIT/ OI (%)	24.1%	28.4%
RoCE (%)	15.6%	16.9%
Total Debt/ TNW (times)	1.5	1.3
Total Debt/ OPBDIT (times)	5.0	4.5
Interest Coverage (times)	2.5	2.3
NWC/ OI (%)	65%	70%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital; ^ Total comprehensive income

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years
Table

Sl.No	Instrument	Current Rating			Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Date & rating	Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015
				October 2017	September 2017	May 2017	March 2017	September 2016	August 2015	July 2014
1	Fund-based Limits	Long Term	2,870.0	**[ICRA]A (Stable)**	[ICRA]A (Stable)	[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	[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

Instrument Details

Name of the instrument	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loans	-	-	2017-2026	2,870.0	[ICRA]A (Stable)
Letter of Credit / Bank Guarantee	-	-	-	60.0	[ICRA]A1
Total				**2,930.0**	

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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