

Brigade Enterprises Limited

September 03, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based Bank Lines	2,870.0	2,286.0	[ICRA]A (Stable); reaffirmed
Long term - Unallocated limits	Nil	584.0	[ICRA]A (Stable); reaffirmed
Short term – Non-Fund based Bank Lines	60.0	60.0	[ICRA]A1; reaffirmed
Total	2,930.0	2,930.0	

*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. 2,286.0-crore (revised from Rs. 2,870.0-crore) fund-based bank lines and Rs. 584.0-crore (revised from Nil) unallocated limits of Brigade Enterprises Limited (BEL/ the company). The long-term rating carries a Stable outlook. ICRA has reaffirmed the short-term rating of [ICRA]A1 (pronounced as ICRA A one) assigned to the Rs. 60.0-crore non-fund based bank lines of the company.

Rationale

The ratings reaffirmation 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 last two financial years, ICRA expects pick-up in the pre-sales volumes during FY2019, aided by launch of new projects in the residential and commercial segments. The ratings continue to draw comfort from BEL's commercial real estate portfolio with a leasable area of 2.41 million square feet (mn sqft) that generates stable rental income; around 44% of the consolidated debt profile of BEL as on June 2018 is in the form of rental securitization loans. The Group's hospitality projects (a mix of mature and newly commissioned assets), support the growth prospects and provide additional diversification. Stabilisation of operations in the recently commissioned hospitality assets would further boost BEL's cash flows in FY2019. Furthermore, BEL is expected to close certain stake dilution transactions in identified projects / SPVs during FY2019; if these transactions are concluded, the proceeds will reduce the funding requirements towards the ongoing capex projects.

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. 2,289 crore as on June 2017 to Rs. 2,903 crore as on June 2018. Given the large funding requirements arising from the ongoing and planned capex projects, BEL's debt levels are expected to increase further in the near-to-medium term. Its pre-sales in the residential real estate segment remained weak in FY2018 and Q1 FY2019 on account of the challenging market conditions and limited project launches. However, improvement in the launch volume in Q2 FY2019 is expected to support recovery in pre-sales during FY2019. BEL's expansion in the hospitality segment may result in moderation of its profitability indicators in the short-to-medium term as well as expose it to the inherent cyclicity 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 launch and pre-sales volume in the residential segment, extent of investment in land, inflows from stake dilution transactions, timely tie-up of leases in the ongoing commercial projects and overall movement in debt levels will be the key rating sensitivities.

Outlook: Stable

ICRA believes that the Group's strong track record and healthy annuity income portfolio will support its operational and financial risk profile in the near-to-medium term. The outlook may be revised to Positive in case of better-than-expected sales performance in the residential segment and inflows from stake dilution in identified projects / SPVs, resulting in improved cash flows. The outlook may be revised to Negative in case of sustained weakness in the residential segment, or higher-than-expected debt levels owing to higher land investments or weaker operational cash flows than estimated.

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 33 mn sqft, comprising over 110 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 FY2018, BEL derived around 73% of its revenues from real estate operations (including sale of commercial property), 12% from hospitality assets and 15% from its lease segment.

Stable cash flows from the commercial lease segment: BEL's commercial real estate portfolio, with leasable area of 2.41 mn sqft generates stable lease income with annualised rental potential of close to Rs. 243 crore. Around 44% of the consolidated debt profile of BEL as on June 2018 is in the form of rental securitization loans.

Liquidity position of the company supported by undrawn bank lines and liquid investments: As on June 2018, BEL had undrawn bank lines of Rs. 1,231 crore (including undrawn debt against residential portfolio), which will primarily be used towards capex in the commercial leasing segment. Also, the company had cash and liquid investments of close to Rs. 340 crore as on June 2018 that supports the liquidity position of the company.

Credit challenges

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 5.0 mn sqft.

Pre-sales from development portfolio continues to remain weak: In FY2018, BEL has witnessed further decline in pre-sales in the residential segment after weak performance in FY2017. BEL reported pre-sales of 1.57 mn sqft in FY2018, which was 3% lower on a y-o-y basis. The pre-sales remained moderate at 0.43 mn sqft in Q1 FY2019 as well. However, improvement in the launch volume in Q2 FY2019 (the company has launched three residential projects and four commercial for sale projects during the quarter compared to no major launches in the 12 months ending June 2018) enhance the prospects for recovery in sales volumes.

Profitability in the hospitality segment remains moderate despite some improvement in FY2018: Despite some improvement in profitability in the hospitality segment in FY2018, the same remains moderate on account of low profits from the newly commissioned assets during the stabilisation phase. The EBITDA margin in this segment stood at 25% in FY2018 which improved from 19% in FY2017. Going forward, the timely stabilisation of operational and financial metrics of newly commissioned assets and under-construction assets once they become operational 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 79% 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 522 acres as of June 2018, 75% 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 Debt Backed by Lease Rentals](#)

[Rating Methodology for Real Estate Entities](#)

[Rating Methodology for Entities in the Hotel Industry](#)

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 33 mn sqft, comprising over 110 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 11.26 mn sqft of real estate projects (by saleable area), 6.71 mn sqft of leasing development and three 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.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	2,024.1	1,897.2
PAT (Rs. crore) #	167.5	134.0
OPBDIT/ OI (%)	28.4%	29.2%
RoCE (%)	17.0%	13.5%
Total Debt/ TNW (times)	1.3	1.4
Total Debt/ OPBDIT (times)	4.5	6.1
Interest Coverage (times)	2.3	2.1

Source: company, ICRA; **OPBDITA:** Operating Profit before Depreciation, Interest, Taxes and Amortisation; **PAT:** Profit after Tax; **NWC:** Net Working Capital; **TNW:** Tangible Net Worth; **RoCE:** Return on Capital Employed; **OI:** Operating Income; **#** Represents total comprehensive income for the year

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No	Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016
					September 2018	October 2017	May 2017	March 2017	October 2016	August 2015
1	Term loans	Long Term	2,286.0	1,809.1 #	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Positive)
2	Letter of Credit / Bank Guarantee	Short Term	60.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Unallocated limits	Long Term	584.0	-	[ICRA]A (Stable)	-	-	-	-	-

As on June 30, 2018

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loans	FY2013-FY2019 @	-	FY2030&	2,286.0	[ICRA]A (Stable)
-	Letter of Credit / Bank Guarantee	-	-	-	60.0	[ICRA]A1
-	Unallocated limits	-	-	-	584.0	[ICRA]A (Stable)

@ Represents loans sanctioned between FY2013 and FY2019

& Represents the farthest maturity date among the various maturity dates for different term loans

Source: Brigade Enterprises Limited

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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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