

August 02, 2021

Brigade Enterprises Limited: Long term rating upgraded to [ICRA]A+ (Stable) and short term rating reaffirmed at [ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	2,435.28	1,912.00	[ICRA]A+(Stable); upgraded from [ICRA]A (Stable)
Long-term Fund-based - CC/OD	50.00	50.00	
Long-term Unallocated Limits	339.72	198.00	
Short-term Non-fund Based sublimit of CC/OD	105.00	(40.00)	[ICRA]A1 reaffirmed
Short-term Fund based	-	40.00	[ICRA]A1 reaffirmed
Total	2,930.00	2,200.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the sustained improvement in pre-sales and cash flows in the residential segment of Brigade Enterprises Limited (BEL), which has translated into reduction in leverage in the segment, along with healthy cash flow adequacy ratios. The rating upgrade also factors in the equity capital of Rs. 500 crore raised in Q1 FY2022, which will support the Group's investments in upcoming projects, while maintaining BEL's comfortable leverage position.

BEL's residential real estate operations were underpinned by healthy sales in the projects launched in FY2021. The company achieved an all-time high sales of 4.61 million square feet (msft) in FY2021, a growth of 16% over FY2020, despite the impact of Covid-19 pandemic in the first quarter. Notwithstanding the impact of the second wave of the pandemic in Q1FY2022, BEL's sales from real estate projects is estimated to be nearly double of that achieved in Q1FY2021. The receivables from the sold area in the completed and ongoing projects cover 53% of the pending cost and the debt outstanding in this segment as on March 31, 2021. Though pandemic related lockdowns have resulted in temporary disruptions in operations, the large and organised residential real estate developers such as BEL have benefited from improving market share during this period. The trend of market consolidation and planned project pipeline is expected to translate into healthy sales in the Group's ongoing and upcoming projects in the near to medium term, further strengthening the cash flows. Besides, 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.

The ratings, however, are constrained by the near-term challenges in the leasing and hospitality segments owing to the impact of second wave of Covid-19 pandemic. Though the company derived steady rental income from its stabilized leasing assets, the retail mall operations and hospitality segments recorded de-growth in its revenues in FY2021 due to covid-related disruptions. The second wave of the pandemic is likely to constrain recovery in these segments in FY2022 as well. The leverage and debt service coverage ratios in the leasing segment are impacted by the sub-optimal leasing tie-up in 3.4 msf of properties completed in FY2021. Leasing in these projects has been slow owing to subdued economic activity and extended period of work-from-home adopted by the corporates. Nonetheless, ICRA notes that the debt associated with most of these properties have been refinanced into longer tenure loans to a large extent, which reduces the cash flow mismatches in the near to medium term. The ratings are also constrained by the cyclicity risk inherent in the real estate business.

The Stable outlook reflects ICRA's expectation that the Group's strong track record, its continued diversification in to other geographic locations, and expected growth in annuity income as new properties stabilize will support the operational and financial risk profile in the near to medium term.

Key rating drivers and their description

Credit strengths

Established position in the real estate market – BEL is a leading real estate developer in South India. It has completed and delivered a total area of more than 72 msft, comprising over 255 real estate and hospitality projects. It has a good brand equity, which supports saleability of its residential real estate projects.

Diversified revenue portfolio with presence in residential, commercial and hospitality segments – BEL generates revenue primarily from three segments - sale of residential and commercial real estate projects, lease income from owned commercial property (office and retail) and income from hospitality projects. In FY2021, the company derived 76% of its revenues from real estate operations (including sale of commercial property), 18% from its leasing segment and 6% from its hospitality assets. The diversification in the revenues and cash flows allows the Group to offset the challenges associated with the cyclical nature in these sectors to some extent.

Healthy performance in residential real estate segment – Despite disruption in operations due to the outbreak of Covid-19 pandemic in Q1 FY2021, BEL achieved pre-sales of 4.6 msf in FY2021, compared to 4.3 msf in FY2020. The healthy sales in H2 FY2021 was primarily driven by significant new project launches of 4.5 msf, apart from healthy saleability in its ongoing projects. Even in the face of the impact caused by second wave of pandemic, the residential segment's performance showed high resilience in Q1FY2022 where the pre-sales area grew 100% on a y-o-y basis. The receivables from the sold area in the completed and ongoing projects covered 53% of the pending cost and the debt outstanding in this segment as on March 31, 2021. Healthy cash flows from the residential projects have enabled reduction in leverage against this segment.

Credit challenges

Increase in leverage and coverage in leasing segment; market risk associated with timely leasing – On completion of construction of two major projects, BTG and WTC Chennai, the office leasable area increased by 3.8 to 7.2 msf in FY2021. However, subdued economic activity and extended period of work-from-home adopted by certain corporates affected incremental leasing activity in FY2021 for BTG and WTC Chennai. Consequently, the leverage and debt coverage metrics in the segment are expected to be adversely impacted in the near to medium term.

Nonetheless, ICRA notes that the debt associated with these properties has been refinanced into longer tenure loans to a large extent, which reduces the cash flow mismatches in the near to medium term. Moreover, the Group has raised equity capital of Rs. 500 crore in Q1 FY2022, which will support the Group's investments in upcoming projects without significantly increasing its leverage levels.

Adverse impact of Covid-19 pandemic on retail leasing and hospitality segments – The Covid-19 pandemic-related disruptions in the market adversely influenced the company's operations, primarily the retail and hospitality divisions. The cash flows from retail mall operations have been impacted with tenants being granted temporary waivers and deferment of rent payments. In the hospitality sector, though the occupancy improved to 27% in Q3 FY2021 and 43% in Q4 FY2021 from 15% in Q2 FY2021, the occupancy was again affected in Q1 FY2022. The hospitality segment's financial metrics remain constrained by high leverage levels and modest debt coverage metrics. Nevertheless, the performance of the retail and hospitality sectors in Q1FY2022 improved indicating faster recovery from the impact of second wave of pandemic.

Cyclical risk inherent in the real estate sector – The company is exposed to the inherent risks in the real estate sector such as sensitivity to a decline in property prices, slowdown in economy and decrease in housing demand.

Liquidity position: Strong

The company's liquidity profile is **strong** with a cash and liquid investments worth Rs. 559 crore as on March 31, 2021, which has been further augmented by fresh capital of Rs. 500 crore raised through its QIP issue in June 2021. The liquidity is enhanced by undrawn bank debt levels of around Rs. 2,471 crore, along with top-ups in lease rental discounting loans to be availed in BTG commercial project. The cash generation from residential segment is expected to remain strong in FY2022, which will help to offset the challenges in cash flows from the leasing and hospitality segments in the near term.

Rating sensitivities

Positive factors – The rating may be upgraded if the company is able to significantly grow their operational metrics and cash flows from the residential segment, which would support low leverage in the segment. High levels of occupancy in the leasing segment on a sustained basis and material deleveraging in the hospitality segment could also be triggers for rating upgrade.

Negative factors – Any significant weakening of sales and cash flows in the residential segment or sustained delays in lease-up of the office leasing portfolio resulting in stress in leverage metrics or weakening of liquidity position may result in rating downgrade. Specific triggers which may result in downgrade of the rating include net debt to annualized rent income ratio in the completed and stabilized leasing portfolio remaining above 6.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Real estate entities Consolidation and Rating Approach Methodology on LRD Methodology on Hotels
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of BEL and its subsidiaries given the close business, financial and managerial linkages among them. Refer- Annexure-2

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 72 mn sqft, comprising over 255 residential, commercial and hospitality projects. The company has established itself as one of the major diversified real estate developers in Bangalore. At present, it is developing 18.01 msft (BEL's share – 13.73 msft) of real estate projects (by saleable area), 2.1 msft (BEL's share – 2.1 msft) of leasing development and a hospitality project with a total of 151 keys. Though BEL's operations are mainly concentrated in Bangalore, it is developing few projects in other cities such as Chennai, Hyderabad, Mysore, Kochi, Mangalore and GIFT City.

Key financial indicators (audited) - Consolidated

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	2632	1950
PAT (Rs. crore)	112.4	-99.0
OPBDIT/OI (%)	25.3	24.2
PAT/OI (%)	4.3	-5.1
Total Outside Liabilities/Tangible Net Worth (times)	4.0	4.5
Total Debt/OPBDIT (times)	6.9	8.5
Interest Coverage (times)	2.0	1.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2022)			Chronology of Rating History			
			Amount Rated (Rs. crore)	Amount Outstanding # (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
									Aug 2, 2021
1	Term Loans	Long Term	1,912	1,912	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
2	Overdraft	Long Term	50.00	28.14	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	
3	Unallocated Limits	Long Term	198.00	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
4	LC / BG *	Short Term	(40.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	
5	WCTL*	Short Term	40.00	40.00	[ICRA]A1	-	-	-	

as on March 31, 2021; * - Letter of credit / bank guarantee; WCTL – Working Capital Term Loan

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term– Term loan	Simple
Long-term– CC/OD	Simple
Short-term – Non-fund based	Very simple
Short-term – Fund based	Very Simple
Long-term– Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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
NA	Term Loans	FY2013-FY2021 @	-	FY2036&	1,912.00	[ICRA]A+(Stable)
NA	Overdraft				50.00	[ICRA]A+(Stable)
NA	Unallocated Limits				198.00	[ICRA]A+(Stable)
NA	Letter of Credit/ Bank Guarantee				(40.00)	[ICRA]A1
NA	Working Capital Term Loan				40.00	[ICRA]A1

@ Represents loans sanctioned between FY2013 and FY2021

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

Source: Brigade Enterprises Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Brigade Enterprises Limited (Holding Company)	-	Full Consolidation
Subsidiary Companies		
BCV Developers Private Limited	50.01%	Full Consolidation
Brigade Properties Private Limited	51%	Full Consolidation
Perungudi Real Estates Private Limited	51%	Full Consolidation
SRP Prosperita Hotel Ventures Limited	50.01%	Full Consolidation
Orion Property Management Services Limited	100%	Full Consolidation
Brigade Hospitality Services Limited	100%	Full Consolidation
WTC Trades and Projects Private Limited	100%	Full Consolidation
Brigade Tetrarch Private Limited	100%	Full Consolidation
Brigade Estates and Projects Private Limited	100%	Full Consolidation
Brigade Infrastructure and Power Private Limited	100%	Full Consolidation
Celebrations, LLP	95%	Full Consolidation
Brigade (Gujarat) Projects Private Limited	100%	Full Consolidation
Mysore Projects Private Limited	100%	Full Consolidation
Brigade Innovations, LLP	99.80%	Full Consolidation
Brigade Hotel Ventures Limited	100%	Full Consolidation
Augusta Club Private Limited	100%	Full Consolidation
Brigade Flexible Office Spaces LLP	100%	Full Consolidation

Source: Company

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About ICRA Limited:

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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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