

November 18, 2022

Brigade Enterprises Limited: Ratings reaffirmed, outlook on long-term rating revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1,668.00	1,582.00	[ICRA]A+ reaffirmed with outlook revised to Positive from Stable
Long-term Fund-based - CC/OD	50.00	90.00	
Long-term Unallocated limits	442.00	528.00	
Short-term Non-fund based sublimit of CC/OD	(40.00)	(40.00)	[ICRA]A1 reaffirmed
Short-term Fund-based	40.00	-	-
Total	2,200.00	2,200.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in rating outlook factors in the healthy growth in cash flows from the residential real estate segment of Brigade Enterprises Limited (BEL/the Group), resulting in significantly reduced leverage in the segment. Aided by healthy launch pipeline and expected investments in new land bank, the Group's residential real estate segment is likely to witness continued growth, while maintaining low leverage metrics. The good saleability in the ongoing projects has translated into high visibility on cash flows. The Positive outlook factors in the healthy recovery in the retail leasing and hospitality segments post the pandemic, with both segments expected to surpass the pre-Covid level of earnings reported in FY2020. The company's gross debt to cash flow from operations (CFO) is estimated to remain low in the range of 3.0 times to 3.2 times in FY2023.

The company achieved sales of 4.70 million square feet (msf) in FY2022, and 2.45 msf in H1 FY2023, a 17% growth over H1 FY2022. The debt outstanding in the segment has reduced to Rs. 154 crore as of September 2022 from Rs. 597 crore as of March 2021. The receivables from the sold area in the completed and ongoing projects cover 78% of the pending cost and the debt outstanding in this segment as on September 30, 2022. The trend of market consolidation in the real estate market and its planned project pipeline is expected to translate into healthy sales in the Group's ongoing and upcoming projects in the near to medium term. 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 company is likely to invest around Rs. 500-600 crore in H2FY2023 towards land acquisition and launch 9 msf of projects each during the next three years.

The ratings, however, are constrained by the slower-than-anticipated leasing in the newly completed properties in the Group's office leasing segment. Leasing in these properties continues to remain moderate. Nonetheless, ICRA notes that with the incremental leasing tie-ups in H1 FY2023, the leverage and coverage ratios in the office leasing segment have improved and most of these properties are better placed to refinance their construction loan into longer tenure lease rental discounting (LRD) loans by March 2023, 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, and hospitality and retail leasing segments remaining vulnerable to external shocks such as the Covid-19 pandemic.

Key rating drivers and their description

Credit strengths

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

BEL generates revenue primarily from three segments - sale of residential and commercial real estate projects, lease income from the owned commercial property (office and retail) and income from hospitality projects. The diversification in the revenues and cash flows allows the Group to offset the challenges associated with the cyclicity in these sectors to some extent.

Continued healthy performance in residential real estate segment – BEL achieved pre-sales of 4.7 msf in FY2022 and 2.45 msf in H1 FY2023, against 4.6 msf in FY2021. The company witnessed healthy saleability across its ongoing project portfolio including the new launches of 3.79 msf in FY2022. Aided by healthy launch pipeline and expected investments in new land bank, the Group's residential real estate segment is likely to witness continued growth, while maintaining low leverage metrics. The good saleability in ongoing projects has translated into high visibility on cash flows. The receivables from the sold area in the completed and ongoing projects covered 78% of the pending cost and the debt outstanding in this segment as on September 30, 2022. Healthy cash flows from the residential projects have enabled further reduction in leverage against this segment.

Demand recovery in retail leasing and hospitality segments – The Covid-19 pandemic-related disruptions in the market adversely influenced the company's operations, primarily the retail leasing and hospitality segments in FY2021 and partially in FY2022. However, since H2 FY2022, the demand has recovered in both the segments resulting in improved occupancy level. In FY2023, both the segments are expected to surpass the pre-Covid level of earnings reported in FY2020.

Credit challenges

Market risk associated with leasing in office assets – The leasing progress in the Group's recently completed office properties, Brigade Tech Gardens and World Trade Centre Chennai, has been slower than anticipated. Extended period of work-from-home adopted by certain corporates slowed incremental leasing activity in these two properties with an aggregate occupancy of 69% as of September 2022. While the leverage and coverage ratio improved in the segment in FY2022 with rent commencement from various leases, the market risk associated with leasing of the remaining space.

Nonetheless, ICRA notes that with the incremental leasing tie-ups in H1 FY2023, the leverage and coverage ratios in the office leasing segment have improved and most of these properties are better placed to refinance their construction loan into longer tenure LRD loans by March 2023, which reduces the cash flow mismatches in the near to medium term.

Cyclicity inherent in real estate sector – The company is exposed to the inherent risks in the real estate sector such as sensitivity to declining property prices, slowdown in economy and decrease in housing demand. The hospitality and retail leasing segments will also remain vulnerable to external shocks such as the Covid-19 pandemic.

Environmental and social risks

The real estate segment is exposed to risks of increasing environmental norms impacting operating costs, including higher cost of compliance with pollution control regulations. Environmental clearances are required for commencement of projects and lack of timely approvals can affect its business operations. Impact of changing environmental regulations on licences taken for property development could also create credit risks.

In terms of the social risks, the trend post-pandemic has been favourable to residential real estate developers as demand for quality home with good social infrastructure has increased. Further, rapid urbanisation and a high proportion of workforce population (aged 25-44 years) will support long-term demand for the real estate sector in India.

Liquidity position: Strong

The company's liquidity profile is strong with a cash and liquid investments worth Rs. 1,574 crore as on March 31, 2022. The liquidity is supported by undrawn bank debt levels of around Rs. 1,100 crore, including undrawn LRD debt. The cash generation from the residential segment is expected to remain strong in FY2023, which will result in a strong liquidity position in the near term. The company is estimated to invest around Rs. 500-600 crore in H2FY2023 towards land acquisitions and the same is likely to be funded primarily by internal accruals.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to sustain growth in its operational metrics and cash flows from the residential segment, supporting the low leverage in the segment. High levels of occupancy in the leasing segment, on a sustained basis, and deleveraging in the hospitality segment could also be triggers for a rating upgrade.

Negative factors – Any significant weakening of sales and cash flows in the residential segment or any increase in vacancy in the office leasing portfolio resulting in stress in leverage metrics or weakening of liquidity position may lead to rating downgrade. Specific triggers, which may result in a rating downgrade, include total debt to annualised NOI ratio in the 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 Rating approach - Lease rental discounting (LRD) Hotels Rating approach - Consolidation
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 II.

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 msf, 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 17.77 msf (BEL's share – 13.62 msf) of real estate projects (by saleable area) as of September 2022, 1.3 msf of leasing development and a hospitality project with 138 keys. Though BEL's operations are concentrated in Bangalore, it is developing projects in Chennai which is currently emerging as the second largest market for the company and a few other projects in Hyderabad, Mysore, Kochi, and GIFT City.

Key financial indicators (audited) - Consolidated

Consolidated	FY2021	FY2022	H1FY2023
Operating income (Rs. crore)	1950	2999	1,782
PAT (Rs. crore)	-99.0	-67.5	112
OPBDIT/OI (%)	24.2	25.6	25.0
PAT/OI (%)	-5.1	-2.2	6.2
Total outside liabilities/Tangible net worth (times)	4.5	4.2	4.2
Total debt/OPBDIT (times)	8.5	6.4	8.9
Interest coverage (times)	1.4	1.7	2.1

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	Current Rating (FY2023)				Chronology of Rating History			
		Type	Amount Rated (Rs. crore)	Amount Outstanding # (Rs. crore)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Nov 18, 2022	Dec 3, 2021	Aug 2, 2021	Dec 18, 2020	Sep 20, 2019
1	Term loans	Long Term	1582	1534	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Overdraft	Long Term	90	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Unallocated limits	Long Term	528	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
4	LC / BG *	Short Term	(40)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5	WCTL*	Short Term	-	-	-	[ICRA]A1	[ICRA]A1	-	-

as on sep 30, 2022; * - Letter of credit / bank guarantee

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term– Term loan	Simple
Long-term– CC/OD	Simple
Short-term Non-fund based sublimit of CC/OD – interchangeable	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2013-FY2022 @	-	FY2036&	1,582.00	[ICRA]A+(Positive)
NA	Overdraft				90.00	[ICRA]A+(Positive)
NA	Unallocated limits				528.00	[ICRA]A+(Positive)
NA	Letter of credit/ Bank guarantee				(40.00)	[ICRA]A1

@ Represents loans sanctioned between FY2013 and FY2022

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

Source: Brigade Enterprises Limited

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: 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
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 Private Limited	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 Private Limited	100%	Full Consolidation
Tetrarch Developers Limited	100%	Full Consolidation
Venusta Ventures Private Limited	100%	Full Consolidation
Zoiros Projects Private Limited	100%	Full Consolidation
Vibrancy Real Estate Private Limited	100%	Full Consolidation
Propel Capital Ventures LLP	100%	Full Consolidation
BCV Real Estates Private Limited	100%	Full Consolidation
Tandem Allied Services Private Limited	100%	Full Consolidation

Source: Company

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