

May 23, 2023

Bagmane Developers Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	5,000.00	4,558.00	[ICRA]AA (Stable); reaffirmed
Unallocated limits	-	2,442.00	[ICRA]AA (Stable); reaffirmed/assigned
Total	5,000.00	7,000.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Bagmane Developers Private Limited (BDPL) continues to factor in its established market position in the commercial real estate in Bangalore. Bagmane Group has an operational portfolio of 19.9 million square feet (msf) and healthy committed occupancy around 95% as on March 31, 2023, while maintaining low leverage and healthy debt coverage metrics. The rental inflows¹ increased by around 24% YoY to Rs. 1950 crore (estimated) in FY2023 and is expected to grow by 10-12% in FY2024 on the back of escalation in rental rates and rent starting for new completed area. The rating derives comfort from BDPL's comfortable leverage metrics, with estimated Debt² / NOI of around 2.0 times as of March 2024 and the five-year average debt servicing coverage ratio (DSCR) for FY2024-FY2028 likely to be above 2.0 times.

The strong and reputed tenant profile in the properties and the long-term lease tenure of 5- 15 years ensure medium-term rental visibility. Moreover, the rating draws comfort from the significant investments made by the tenants towards the fit outs in the leased premises, which reduces the vacancy risk to an extent. The rating factors in the favourable location and the asset quality of BDPL's portfolio.

The rating, however, remains constrained by the company's large expansion plans, with area under development of 5.3 msf (BDPL's owned share – 4.3 msf) as of March 2023, which exposes it to execution and market risks. The pending cost for the same including estimated construction cost of a '500-key' hotel as on March 31, 2023, stood at around Rs. 2000 crore which is expected to be incurred in FY2024-FY2025 and will be funded by debt and internal accruals. Timely completion of these assets and tie-up of leases along with the conversion of construction finance to LRD loans will be the key monitorable.

BDPL remains exposed to geographical concentration risks, with the entire leasable area being concentrated in Bangalore. The rating is constrained by the moderate tenant concentration risk with the top five tenants contributing ~47% of the leased area and ~49% of the annual rentals. Nevertheless, the risk is partially mitigated by the strong tenant profile, attractive location and high upfront investments / built to suit nature of development, which increase the tenant stickiness. Comfort can also be drawn from the land parcels available in the existing projects which enables BDPL and its tenants to grow organically resulting in high instances of the existing customers leasing spaces in under-construction projects. The rating also notes the vulnerability of debt coverage ratios to factors such as changes in interest rate or reduction in occupancy levels. The company is exposed to cyclical risk associated with the commercial real estate sector and vulnerability to external factors.

The Stable outlook reflects ICRA's expectation that BDPL will benefit from the large and stable operational portfolio, the expected growth from the assets currently under development, and the low leverage levels.

¹ Rental inflows exclude CAM, Solar and Other income

² Including construction finance loans outstanding

Key rating drivers and their description

Credit strengths

Group's established market position and growing scale - BDPL is among the established developers in the commercial office space in Bangalore, with a large portfolio of commercial office parks spread across the city. These commercial assets are located either close to the Central Business District (CBD) of Bangalore or in the IT/ITES corridor. The location-specific advantage aids in high occupancy levels. Its portfolio of commercial real estate assets include completed office space development having a leasable area of 19.9 msf and under- construction area of 5.3 msf (BDPL's owned share – 4.3 msf) as of March 31, 2023. The pre-leasing in the under-construction space is around 40%. The Group has solar power projects in its subsidiary company with an installed capacity of 74.4 MW which generates healthy cash flows.

High occupancy in leased assets and strong tenant profile - The company's committed occupancy levels stood healthy at ~95% as on March 31, 2023 (18.8 msf of area against 97% for 17.2 msf of area as of December 2021). The demand has been steady for most of the properties developed by BDPL with a sustained strong tenant profile and high occupancy levels. The tenant profile comprises of reputed multi-national companies such as Google, Amazon, Samsung, Volvo and Dell etc. The substantial investments in fit outs incurred by tenants and long-term lease tenures reduce the risk of vacancy to an extent.

Low leverage and healthy debt coverage metrics - The rental inflows increased by around 24% YoY to Rs. 1950 crore (estimated) in FY2023 and is expected to grow by 10-12% in FY2024 on the back of improved average rental rates and addition in the completed area. The company has comfortable leverage metrics, with estimated Debt/ NOI of around 2.0 times as of March 2024 and the five-year average DSCR for FY2024-FY2028 estimated to be above 2.0 times. It has high financial flexibility with sufficient headroom to raise additional debt against its completed assets, given the low leverage.

Credit challenges

Execution and market risks associated with ongoing development of commercial office space – BDPL's large expansion plans with area under development of 5.3 msf (BDPL's owned share – 4.3 msf) as of March 2023, exposes it to execution and market risks. The pending cost for the same including estimated construction cost of a '500-key' hotel as on March 31, 2023, stood at around Rs. 2000 crore which is expected to be incurred in FY2024-FY2025 and will be funded by debt and internal accruals. Timely completion of these assets and tie-up of leases along with the conversion of construction finance to LRD loans will be the key monitorable.

Exposed to geographical and tenant concentration risk - BDPL remains exposed to geographical concentration risks, with the entire leasable area being concentrated in Bangalore. The rating is constrained by the moderate tenant concentration risk with the top five tenants contributing ~47% of the leased area and ~49% of the annual rentals. Nevertheless, the risk is partially mitigated by the strong tenant profile, attractive location and high upfront investments / built to suit nature of development, which increase the tenant stickiness. Comfort can be drawn from the land parcels available in the existing projects which enables the company and its tenants to grow organically resulting in high instances of existing customers leasing spaces in under-construction projects.

Vulnerable to cyclical and changes in interest rates - The company remains exposed to the inherent cyclical nature in the real estate industry and vulnerability to external factors. Nonetheless, ICRA takes comfort from the high occupancy in BDPL's portfolio. The rating notes the vulnerability of debt coverage ratios to factors such as changes in interest rate or reduction in occupancy levels.

Liquidity position: Adequate

The company has an adequate liquidity with ~Rs. 230 crore of cash and cash equivalents including ~Rs. 80 crore of DSRA as on March 31, 2023. The estimated principal repayment of ~Rs. 640 crore in FY2024 and ~Rs. 580 crore in FY2025 can be comfortably met through estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade BDPL’s rating if the company is able to successfully diversify operations, sustain the pace of growth while maintaining high occupancies, low leverage levels and strong debt coverage metrics.

Negative factors – Negative pressure on BDPL’s rating could arise if there is a significant delay in leasing tie-ups in the ongoing and upcoming commercial projects, leading to slower-than-expected ramp-up in rentals and higher refinancing risk. Specific credit metrics that could lead to a downgrade of BDPL’s rating include net debt (including construction finance) to net operating income (NOI) increasing above 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of BDPL and Bagmane Green Power LLP (BGPL) and S.B.G. Software Private Limited (SBGSPL), given the close business, financial and managerial linkages between them (details in Annexure-2).

About the company

BDPL, incorporated in July 1996 as a private limited company, is involved primarily in the development and leasing of commercial office space. Its commercial real estate assets include Bagmane Tech Park in C V Raman Nagar, Bagmane World Technology Centre along with Bagmane Rio Tech Park and Bagmane Constellation Business Park located on the Outer Ring Road in Mahadevapura. Further, the company has developed two newer tech parks - Bagmane Capital and Solarium City. BDPL is the flagship company of the Bagmane Group. It is 99.9% held by Bagmane Realty and Infrastructure LLP, the Group's holding company.

Bagmane Green Power LLP (BGPL) is a SPV formed by the Bagmane Group for setting up solar power projects in Chikkodi and Sedam, Karnataka aggregating to an installed capacity of 74.4 MW DC. The entire generation is used for captive consumption by the Group.

S.B.G. Software Private Limited (SBGSPL) is a subsidiary of Akruthi Infra Build Developers Pvt Ltd (subsidiary of Bagmane Realty and Infrastructure LLP). The entity operates and owns the Goldstone Tower (a commercial office space of around 1 msf of leaseable area) in Bengaluru at the office park -Bagmane World Technology Centre.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	1,772.3	2,140.1
PAT	517.6	678.4
OPBDIT/OI	68.5%	68.6%
PAT/OI	29.2%	31.7%
Total outside liabilities/Tangible net worth (times)	1.9	1.8
Total debt/OPBDIT (times)	3.1	2.8
Interest coverage (times)	3.6	4.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					May 23, 2023	Mar 13, 2023	Apr 07, 2022	May 17, 2021	Nov 06, 2020	
1	Term loans	Long term	4,558	4,479	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	
2	Unallocated limits	Long term	2,442	-	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term - Unallocated	NA

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2014 – FY2023 @	-	March 2035&	4,558.00	[ICRA]AA (Stable)
NA	Unallocated	-	-	-	2,442.00	[ICRA]AA (Stable)

Source: Company

@ Loans sanctioned between FY2014 and FY2023

& the furthest maturity date among the various maturity dates for different term loan

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

Annexure II: List of entities considered for consolidated analysis

Company Name	BDPL Ownership	Consolidation Approach
Bagmane Green Power LLP	100.00%	Full Consolidation
S.B.G. Software Private Limited (SBG)	0%^	Full Consolidation

Source: Company; ICRA Research

^ SBG is held by 100% Akruthi Infra Build Developers Pvt Ltd which is subsidiary of Bagmane Realty and Infrastructure LLP, the Group's holding company. Recently the Group has announced the demerger of assets under SBG and merger of asset with BDPL.

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