

October 09, 2023

## Brigade Infrastructure and Power Private Limited: Rating reaffirmed, outlook on long-term rating revised to Stable from Positive

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	750.00	750.00	[ICRA]A+(CE) (Stable); reaffirmed; with outlook revised to Stable from Positive
<b>Total</b>	<b>750.00</b>	<b>750.00</b>	

### Rating Without Explicit Credit Enhancement

[ICRA]BBB+

\*Instrument details are provided in Annexure I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

### Rationale

The rating for the Rs. 750-crore term loan facilities of Brigade Infrastructure and Power Private Limited (BIPPL) is based on the strength of the corporate guarantee extended by the parent Brigade Enterprises Limited (BEL/the guarantor, rated at [ICRA]AA-(Stable)/A1+) for the rated facilities, besides its standalone credit considerations. The above rating has been reaffirmed at [ICRA]A+(CE) with the outlook revised to Stable from Positive. The rating is one notch lower than the rating of the guarantor and is constrained, given the absence of a well-defined pre-default invocation and payment mechanism in the corporate guarantee deed. Further, the rating is constrained by BIPPL's exposure to asset concentration risk, besides execution and market risk for the sole ongoing commercial project. The Stable outlook on the rating is aligned with the outlook on the rating of the guarantor (BEL).

### Adequacy of credit enhancement

The corporate guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument, though it does not have a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by BEL results in an enhancement in the rating of the said instrument to [ICRA]A+(CE) against the rating of [ICRA]BBB+ without explicit credit enhancement. In case the rating of the guarantor or the Unsupported Rating of BIPPL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of the instrument may also undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

The project, Brigade Twin Towers, is favourably located in Yeswanthpur, Bengaluru, thus enhancing the marketability. However, the project is exposed to residual execution risk with 35% of project cost is yet to be incurred as of June 2023. Further, the project is exposed to market risk with no pre-leasing as of June 2023. Significant delays in leasing and/or at adequate rentals, will adversely affect its cash flow position and increase the refinance risk for the construction finance (CF) loan availed for the project. Nonetheless, the Brigade Group's strong track record of project execution and leasing provides comfort. The company has sufficient time to achieve adequate leasing tie-ups for refinancing the bullet repayment for the CF loan falling due in May 2025, as the project is expected to be ready by March 2024.

### Salient covenants of the rated facility

1. Promoter's contribution/margin for the project should be always at or above 44%, with fixed asset coverage ratio (FACR) of 1.66 times.
2. The parent company, BEL's, undertaking that in case of cost overrun, the difference amount will be made good by BEL.
3. BEL's an undertaking that in case of delay in tie-up of LRD for full loan when the construction term loan is due for repayment, the difference will be made good by BEL.

### Key rating drivers and their description

#### Credit strengths

**Corporate guarantee from BEL towards rated bank facilities of BIPPL** – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by BEL, though it does not have a well-defined invocation and payment mechanism.

**Established track record of Group in real estate sector** – BIPPL is a part of the Brigade Group, which is one of the leasing real estate developers in South India. BEL is its flagship company. The Group has completed and delivered a total area of more than 80 msf, comprising over 260 residential, commercial and hospitality projects. It has established itself as one of the major diversified real estate developers in Bengaluru. It is developing 20.02 msf (BEL's share – 14.21 msf) of real estate projects (by saleable area), 1.49 msf of leasing development and 0.11 msf of hospitality project as of June 2023.

**Favourable location of project** – The project, Brigade Twin Towers, is located on the north-western part of Bangalore, along the Bangalore Pune Highway (NH-4) in Yeshwanthpur Industrial Suburb, which is an emerging location for commercial office space, enhancing the marketability. Yeshwanthpur lies in contiguity to the major Peenya Industrial Area, which hosts several small, medium and large-scale industries. Some prominent industrial units placed here are Kirloskar Electric, Volvo Construction, Triveni Turbine, ABB India, etc. Moreover, other key tech parks are accessible including Manyata Tech Park, and Rajajinagar IT Park.

#### Credit challenges

**Exposure to execution risk and market risk, no pre-leasing tie-up in place** – As of June 2023, the company incurred 65% of project cost for its ongoing commercial project, Brigade Twin Towers, in Yeshwanthpur, Bengaluru, with a total leasable area of 1.3 msf, exposing it to residual execution risk. Further, no leasing tie-ups were in place, exposing it to significant market risk. Nonetheless, the favourable location of the project, current construction progress and the Brigade Group's established track record in leasing commercial real estate projects mitigate the market risk to an extent.

**Exposure to refinancing risk** – Any significant delays in achieving leasing tie-ups for the ongoing commercial project, could adversely impact the company's cash flow position and its ability to refinance the construction loan availed for this project. Nonetheless, it has sufficient time to achieve adequate leasing tie-ups for refinancing the bullet repayment for the CF loan falling due in May 2025, as the project is expected to be ready by March 2024.

#### Liquidity position

##### For the rated entity (BIPPL): Adequate

On a standalone basis, BIPPL's liquidity profile is adequate. The remaining project cost of Rs. 312 crore for the ongoing commercial project is expected to be met from Rs. 201 crore of undrawn CF loan and the remaining from promoter funds. The CF loan availed for this project has a bullet repayment in May 2025, whereas the project is likely to be ready by March 2024.

This should provide adequate time for achieving lease tie-ups and subsequent refinancing of this CF loan by a lease rental discounting (LRD) facility.

### For the guarantor (BEL): Strong

The company's liquidity profile is strong. As of June 2023, consolidated cash and liquid investments of the group stood at Rs. 1,771 crore (including encumbered cash of approximately Rs. 150 crore towards DSRA). The liquidity is supported by undrawn bank debt levels of around Rs. 1,845 crore, including undrawn LRD debt as of June 2023. The cash generation from the residential segment is expected to remain strong. It is estimated to invest around Rs. 1,000 crore in FY2024 towards land acquisitions and the same is likely to be funded primarily by internal accruals.

### Rating sensitivities

**Positive factors** – Rating could be upgraded in case of strong leasing tie-ups at adequate rental rates, along with commencement of rentals resulting in healthy five-year average DSCR of above 1.35 times on a sustained basis, while maintaining healthy leverage metrics.

**Negative factors** – Any significant delay in construction progress and/or inability to tie-up leases at adequate rental rates or increase in indebtedness impacting the company's debt protection metrics could result in a rating downgrade. Additionally, deterioration in the credit profile of the guarantor, BEL or the weakening of business linkages or strategic importance of the company with the guarantor could also put pressure on the ratings.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating approach - Lease rental discounting (LRD)</a>
Parent/Group support	Parent company: Brigade Enterprises Limited (BEL)  ICRA expects the parent, BEL, to provide timely financial support to the company, for funding any shortfall, given their close financial linkages, the company's strategic importance for the parent and the parent's reputation sensitivity to default. Moreover, BEL has provided an irrevocable, unconditional corporate guarantee to the rated bank facility of BIPPL. <a href="#">Link to the last rating rationale of the guarantor</a>
Consolidation/Standalone	The rating is based on the standalone operational and financial profile of the company.

### About the company

In December 2017, BEL through its wholly-owned subsidiary, BIPPL, acquired land admeasuring 12.95 acre at Yeshwanthpur, North Bangalore from SABMiller India. It started construction of the commercial office project—Brigade Twin Towers—in FY2020. It is planning to complete both phases of the project by FY2024. The land for the project is owned by the special purpose vehicle (SPV), and the civil construction for development of the first phase of ~1.3 msf of commercial office space is in progress at present. The leasable area will be enhanced to 2.07 msf upon receipt of necessary approvals. The total project cost (including land) for ~1.3 msf is Rs. 895 crore, which is to be funded by debt to equity ratio of 56%:44%.

### Key financial indicators (audited)

	FY2022	FY2023	Q1 FY2024 *
Operating income	0.0	0.0	0.0
OPBDIT	-0.1	-0.3	-0.1
OPBDIT/OI	0.0	0.0	0.0
PAT/OI	0.0	0.0	0.0
Total outside liabilities/Tangible net worth (times)	0.5	1.1	1.2
Total debt/OPBDIT (times)	n.m	n.m	n.m
Interest coverage (times)	n.m	n.m	n.m

\*Provisional; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; n.m- not material; all ratios as per ICRA's calculations; Source: Company

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
				Oct 09, 2023	Jan 10, 2023	Nov 22, 2022	Aug 6, 2021	Jul 17, 2020
1	Term loans							
2	Capex LC (sublimit of term loan)							

Source: Company

### Complexity level of the rated instruments

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

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 loans	FY2020	-	FY2026	750.0	[ICRA]A+(CE)(Stable)

Source: Company-

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

**Annexure II: List of entities considered for consolidated analysis: Not Applicable**

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