

November 20, 2023

Perungudi Real Estates Private Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1180.0	1180.0	[ICRA]A (Stable); reaffirmed
Long-term – Interchangeable (sub-limit of fund-based)	(44.0)	(44.0)	[ICRA]A (Stable); reaffirmed
Unallocated	20.0	170.0	[ICRA]A (Stable) / [ICRA]A1; reaffirmed and assigned for enhanced limit
Total	1200.0	1350.0	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the healthy leasing of the commercial asset, World Trade Center (WTC), with committed occupancy of 89% as of September 2023 including LOIs for 6.6% of total leasable area (75% as on June 2022) and the favourable location of the project, which includes WTC and the Brigade Residences at Perungudi on Old Mahabalipuram Road (OMR) in Chennai. The rating also considers the healthy sales performance in the residential development, Brigade Residences, with 100% units sold as on September 30, 2023 and PREPL is expected to generate healthy cash flow from operations from this segment during FY2024-FY2025. The cash flow adequacy of Brigade Residences is strong with committed receivables of Rs. 161 crore as against pending cost of Rs. 133 crore and no outstanding debt. Further, the rating draws comfort from the profile of PREPL's promoters - Brigade Enterprises Limited (BEL; rated [ICRA]AA- (Stable)) and the Government of Singapore Investment Corporation (GIC), as well as the track record of Brigade group in commercial and residential real estate sector. ICRA expects the parent, BEL, to provide timely financial support to PREPL, for funding shortfall, if any, given their substantial financial linkages, PREPL's strategic importance for the parent and parent's reputation sensitivity to default.

The ratings are, however, constrained by high tenant concentration risk with top three tenants accounting for 73% of the leased area of the commercial project as of September 30, 2023. Further, the lock-in period for 25% and 20% of total leased area is expiring in FY2024 and FY2025, respectively, exposing the company to lease renewal risk. Nonetheless, the Brigade group's established track record of leasing commercial assets and favourable location of the project provide comfort. The debt coverage indicators for the LRD loan are expected to be moderate, with estimated 5-year average DSCR in the range of 1.18-1.20 times for FY2024 to FY2028, and the same remain vulnerable to changes in interest rates and reduction in occupancy levels. The ratings also factor in the cyclical risk inherent in the real estate business and high geographical concentration risk with significant dependence on Chennai market.

The Stable outlook reflects ICRA's expectations that the company's credit profile will be supported by the leasing tie-ups already in place, favourable location as well as the strong profile of the promoters.

Key rating drivers and their description

Credit strengths

Experience and track record of PREPL's promoters in real estate sector – PREPL is a 51% subsidiary of BEL, with GIC of Singapore holding the remaining 49% stake. As of September 30, 2023, the Brigade Group has completed and delivered a total area of more than 83 mn. sq. ft., comprising over 280 residential, commercial and hospitality projects. ICRA expects that the

company will continue to benefit from the operational and financial support it derives from its parent, BEL, which has strong execution capabilities in developing large-size projects, with an established track record in the commercial and residential space. BEL owns the licences for developing the World Trade Centres in four cities in southern India and has developed one each in Bangalore, Kochi and Chennai already.

Attractive project location resulting in healthy leasing – The mixed-use project is being developed on Old Mahabalipuram Road (OMR) in Chennai. The region is seen as one of the preferred IT corridors in the city and attracts a large share of office space absorption. Additionally, the residential project's demand prospects appear favourable due to its proximity to various corporate offices in the vicinity and well-developed social infrastructure. The company has achieved adequate leasing with committed occupancy of 89% as of September 2023 including signed Letter of Intent (LOIs) for 6.6% of the total leasable area (75% as on June 2022). The tenant profile consists of reputed names with long lease tenure of 10 to 15 years and lock-in period in the range of 3 to 3.5 years.

Healthy sales in residential segment – The company has demonstrated healthy sales performance in the residential development, Brigade Residences, with 100% units sold as on September 30, 2023. The cash flow adequacy of Brigade Residences is strong with committed receivables of Rs. 161 crore as against pending cost of Rs. 133 crore and no outstanding debt. PREPL is expected to generate healthy cash flow from operations from this segment during FY2024-FY2025.

Credit challenges

Moderate debt coverage indicators which remain vulnerable to changes in interest rate and occupancy levels – As on September 30, 2023, the company's external debt comprising entirely LRD loans, increased to Rs 870 crore from ~Rs 638 crore as on March 2023. The company has undrawn LRD debt of Rs 227 crore in place as on September 30, 2023. The debt coverage indicators for the LRD loan are expected to be moderate, with an estimated 5-year average DSCR in the range of 1.18-1.20 times for FY2024 to FY2028, and the same remain vulnerable to changes in interest rates and reduction in occupancy levels.

Exposure to tenant concentration – The company remains exposed to tenant concentration with 73% of the leased area being occupied by the top three tenants as on September 30, 2023. Further, the lock-in period for 25% and 20% of total leased area is expiring in FY2024 and FY2025, respectively, exposing the company to lease renewal risk. Nonetheless, the Brigade group's established track record of leasing commercial assets and favourable location of the project provide comfort.

Cyclicality risk inherent in the real estate sector – The ratings also factor in the cyclicality risk inherent in the real estate business and, high geographical concentration risk with significant dependence on Chennai market, which accounts for ~100% of the total saleable/leasable area in its ongoing and upcoming residential and commercial projects.

Liquidity position: Adequate

PREPL's liquidity is adequate. The total pending cost of Rs 133 crore for the ongoing residential project is expected to be met through committed receivables of Rs 161 crore. The company's debt repayment obligations on external debt are expected to be met from the cash flow from operations. As on September 30, 2023, the company had free cash of Rs. 190.26 crore which is expected to be utilized for repaying the promoter debt.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to reduce the leverage substantially resulting in strong debt protection metrics with 5-year average DSCR of above 1.25 times on sustained basis.

Negative factors – The ratings could be downgraded if a decline in occupancy or significant increase in indebtedness resulting in weakening of liquidity and debt coverage metrics. Additionally, deterioration in the credit profile of the parent, BEL or the weakening of business linkages or strategic importance of the company towards the parent could also put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate credit rating methodology Rating Approach - Lease Rental Discounting (LRD) Rating methodology for Real Estate Entities
Parent/Group support	Parent Company: Brigade Enterprises Limited (BEL). ICRA expects the parent, BEL, to provide timely financial support to PREPL, for funding any shortfall, given their substantial financial linkages, PREPL's strategic importance for the parent and parent's reputation sensitivity to default.
Consolidation/Standalone	Standalone

About the company

PREPL is a 51% subsidiary of BEL. GIC, which is a global investment management company owned by the Government of Singapore, holds the remaining 49% stake in the company. PREPL is a special purpose vehicle (SPV) incorporated to undertake an SEZ development and a residential project on OMR in Perungudi, Chennai. The SEZ area in the project is developed under the brand, World Trade Center (WTC). The SEZ has a total leasable area of 2.0 mn. sq. ft. The construction for the same started in July 2017 and was completed in FY2021. The residential project named Brigade Residences–WTC Chennai, with a total saleable area of 0.63 mn. sq. ft., was launched in January 2020, post receipt of the necessary approvals and is expected to be completed by October 2024.

Key financial indicators (audited)

	FY2022	FY2023	H1FY2023*
Operating income	105.3	119.0	66.5
PAT	-151.8	-54.4	-32.8
OPBDIT/OI	85.7%	103.3%	94.7%
PAT/OI	-144.2%	-45.7%	-49.4%
Total outside liabilities/Tangible net worth (times)	-42.8	-52.3	-193.3
Total debt/OPBDIT (times)	16.4	12	12.4
Interest coverage (times)	0.6	0.9	0.9

Source: Company, All ratios are as per ICRA's Calculations, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation;
*Provisional

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 Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & Rating in FY2022			Date & rating in FY2021
						November 20, 2023	Aug 26, 2022	Jun 04, 2021	
1 Term loan	Long term	1180.0	870.3	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)
2 Bank guarantee	Long term	(44.0)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-
3 Unallocated	Long term/ Short term	170.0	-	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A2+	[ICRA]A- (Stable) / [ICRA]A2+	[ICRA]BBB+ (Positive) / [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term loan	Simple
Long-term – Interchangeable (Bank guarantee)	Very simple
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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan 1	FY2022	-	FY2035	1180.0	[ICRA]A (Stable)
NA	Bank guarantee	-	-	-	(44.0)	[ICRA]A (Stable)
NA	Unallocated	-	-	-	170.0	[ICRA]A (Stable) /[ICRA]A1

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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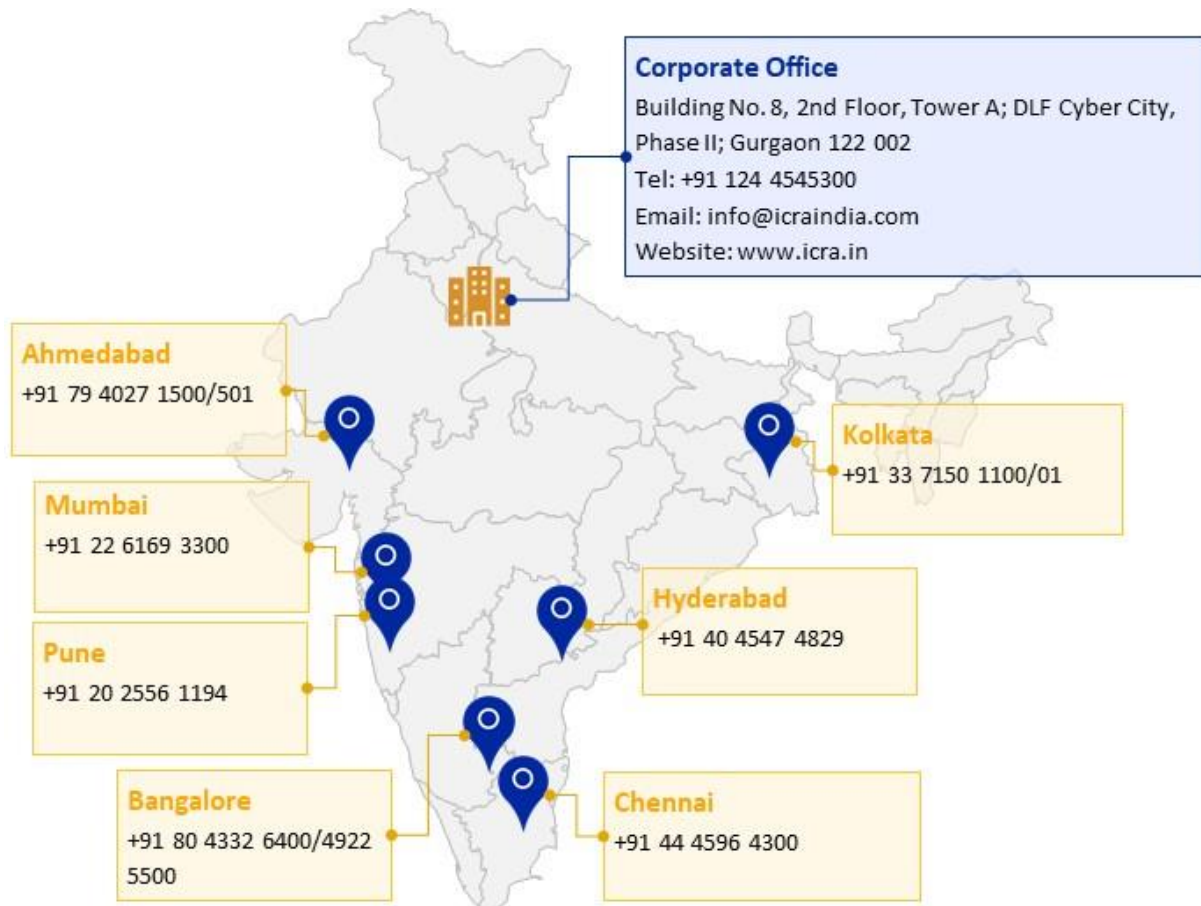
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