November 28, 2023

Brigade Properties Private Limited: Rating reaffirmed; rating reaffirmed and withdrawn for unplaced NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term NCD	49.0	49.0	[ICRA]A-(Stable) reaffirmed
Long-term NCD^	51.0	0.00	[ICRA]A- (Stable); reaffirmed and withdrawn
Total	**100.0**	**49.0**	

Instrument details are provided in Annexure-I; ^ unplaced NCD

Rationale

The rating reaffirmation factors in the favourable location of Brigade Properties Private Limited's (BPPL) commercial office project - Brigade Tech Garden (BTG) with leasable area of 3 million square feet (msf) and the mixed-use project – The Residences of 0.21 msf, at Brookefield on ITPL Mail Road in Bengaluru, which has supported their marketability. As of September 2023, the committed occupancy for BTG improved to 80% (including LOIs for 3% of total leasable area) from 65% as of September 2022. The mixed-use project, The Residences, has been fully constructed and it was launched for sale in April 2023. The project has witnessed a healthy sales response, with 60% of area booked as of September 2023 and is expected to generate healthy cash flows from operations (CFO) during FY2024-FY2025. The cash flow adequacy of project, The Residences, is strong with committed receivables of Rs. 200 crore against payables of Rs. 88 crore and no outstanding debt. The rating continues to draw comfort from the strong profile of BPPL'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 the Brigade Group in commercial and residential real estate sector. ICRA expects the parent, BEL, to provide timely financial support to BPPL, for funding shortfall, if any, given their substantial financial linkages, BPPL's strategic importance for the parent and parent's reputation sensitivity to default. In the past, the promoters have supported BPPL by infusing Rs. 60 crore in Q3 FY2023 and Rs. 100 crore in Q2 FY2022.

The rating is, however, constrained by BPPL's exposure to market risk as 0.6 msf of BTG's area (20% of total leasable area) is yet to be leased and high tenant concentration risk with top five tenants accounting for 62% of the leased area as of September 2023. Nonetheless, the reputed tenant profile, favourable location of the project and the Brigade Group's established track record of leasing commercial assets 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 1.15-1.17 times during FY2024-FY2028. The same remains vulnerable to changes in interest rates and reduction in occupancy levels. Nonetheless, the unencumbered operating cash flows from the mixed-use project, The Residences, are expected to provide additional liquidity cushion. The leverage for the commercial office project, measured for Debt/Net operating income (NOI), is projected at around 5 times as of March 2024 and is likely to remain in the range of 6- 6.5 times during FY2025-FY2026 as the company plans to avail additional LRD debt in future, which could be utilised for redeeming the debentures issued to promoters. Besides, the rating is constrained by the subordinated nature of the rated debt instrument with equity-like characteristics.

The Stable outlook reflects ICRA's expectations that the company's credit profile will be supported by healthy leasing tie-ups for the commercial office project, the favourable project location enhancing the marketability, and the strong profile of the promoters.

The rating for Rs. 51 crore of unplaced NCDs has been reaffirmed and withdrawn as requested by the company.

Key rating drivers and their description

Credit strengths

Experience and track record of BPPL's promoters in real estate sector – BPPL is a 51% subsidiary of BEL, with GIC of Singapore holding the remaining shares through Reco Begonia Pte Ltd. As on September 30, 2023, the Brigade Group has completed and delivered a total area of more than 83 msf, 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. ICRA expects the parent, BEL, to provide timely financial support to BPPL, for funding shortfall, if any, given their substantial financial linkages, BPPL's strategic importance for the parent and parent's reputation sensitivity to default. In the past, the promoters have supported BPPL by infusing Rs. 60 crore in Q3 FY2023 and Rs. 100 crore in Q2 FY2022.

Favourable project location – The commercial office project, BTG, is favourably located at Brookfield, East Bangalore and is close to Outer Ring Road, Marathahalli, which is the hub for numerous multi-national companies. The favourable location of the asset has supported the committed occupancy levels, which improved to 80% as of September 2023 from 65% as of September 2022. Additionally, the demand prospects for the mixed-use project, The Residences, located adjacent to BTG, are favourable due to its proximity to various corporate offices in the vicinity and well-developed social infrastructure.

Improved occupancy in commercial project and healthy sales in mixed use project – As of September 2023, the committed occupancy for BTG improved to 80% as of September 2023 (including LOIs for 3% of total leasable area) from 65% as of September 2022. The mixed-use project, The Residences, has been fully constructed and was launched for sale in April 2023. The project witnessed a healthy sales response, with 60% of area booked as of September 2023 and is expected to generate CFO during FY2024-FY2025. The cash flow adequacy of The Residences is strong with committed receivables of ~Rs. 200 crore against payables of Rs. 88 crore for the project and no outstanding debt.

Credit challenges

Market risk associated with leasing of remaining space for commercial project; exposure to tenant concentration risk – As of September 2023, 0.6 msf of BTG's area (20% of the total leasable area) was yet to be leased, thus exposing the company market risk. Any significant delay in additional leasing can impact the cash flows and the debt coverage indicators. BPPL remains exposed to tenant concentration with 62% of the leased area being occupied by the top five tenants as on September 30, 2023. Nonetheless, the Brigade Group's established track record of leasing commercial assets and favourable location of the project provide comfort.

Vulnerability of debt coverage indicators to changes in interest rate and occupancy levels – As on September 30, 2023, the company's external debt stood at around Rs. 957 crore, comprising LRD loans of Rs. 867 crore and term loans of Rs. 89 crore. It had undrawn LRD loan of Rs. 31.30 crore, which is expected to be availed by FY2024. The company plans to avail additional LRD in future based on its eligibility, which could be utilised for redemption of debentures (along with payment of accrued interest) issued to promoters. The leverage for the commercial office project, measured for Debt/Net operating income (NOI) is projected at around 5 times as of March 2024 and is likely to remain in the range of 6- 6.5 times during FY2025-FY2026. The debt coverage indicators for the LRD loan are expected to be moderate, with estimated 5-year average DSCR in the range of 1.15-1.27 times during FY2024-FY2028. The same remains vulnerable to changes in interest rates and reduction in occupancy levels. Nonetheless, the unencumbered operating cash flows from the mixed-use project – The Residences – are expected to provide additional liquidity cushion.

Equity-like characteristics for the rated debt instrument – The NCD being rated is issued to the company's promoters, which is subordinated with equity-like characteristics with 'pay when able' clauses.

Liquidity position: Adequate

BPPL's liquidity is adequate. As on September 30, 2023, the company had free cash of Rs. 66.5 crore and DSRA balance of Rs. 48.65 crore covering three months of principal and interest obligations for the LRD loan. Its LRD debt obligations are estimated to be around Rs. 165 crore in FY2024, which are likely to be met from the cash flow from operations. The liquidity is further supported by unencumbered operating cash flows expected from the sale of mixed-use project.

Rating sensitivities

Positive factors – Given the characteristics of the debt instrument rated, the rating upgrade is unlikely.

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

Analytical approach

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

About the company

BPPL is a 51% subsidiary of BEL with the balance 49% stake held by GIC (through Reco Begonia Pte Ltd), which is a global investment management company owned by the Government of Singapore. In March 2015, BPPL purchased 100% equity stake in Brooke Bond Real Estate Private Limited (currently named Brookefields Real Estates and Projects Private Limited), a company earlier owned by Hindustan Unilever Limited. BREPPL was developing a commercial office project named Brigade Tech Gardens (BTG), with a total leasable area of around 3 msf on a 26-acre land parcel in Whitefield with SEZ status. Pursuant to the confirmation order of the scheme of amalgamation by the relevant authorities, BREPPL was amalgamated with BPPL in October 2019. BTG was completed by BPPL in March 2021 with a total leasable area of 3 msf. The company has developed a mixed-use project of 0.21 msf, The Residences at BTG, which consists of 45 residential units, 10 commercial units and 18 retail units including kiosks.

Key financial indicators

Consolidated	FY2022 (Audited)	FY2023 (Audited)	H1 FY2024 (Unaudited)
Operating income	94.6	141.2	126.4
PAT	-143.6	-80.0	-36.9
OPBDIT/OI	87.1%	85.6%	65.7%
PAT/OI	-151.8%	-56.6%	-29.2%
Total outside liabilities/Tangible net worth (times)	-26.5	-15.4	-14.9
Total debt/OPBDIT (times)	17.0	11.5	8.3
Interest coverage (times)	0.6	0.9	1.2

Source: PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore ; all ratios as per ICRA's calculations

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 Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 28, 2023	Nov 30, 2022	Dec 18, 2021	Dec 18, 2020
1	NCD	Long-term	49.0	49.0	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	NCD	Long-term	51.0*	Nil	[ICRA]A- (Stable); withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)

** unplaced NCD*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – NCD	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
INE454S08083*	**NCD**	Mar 20, 2015	12%	Mar 19, 2025	49.0	[ICRA]A-(Stable)
Unplaced	**NCD**	-	-	-	51.0	[ICRA]A- (Stable); withdrawn

*Source: Company; * ISIN number for the NCD has changed to INE454S08083 from the earlier ISIN of INE454S08018, following the modification of terms of NCD in March 2022*

Annexure II: List of entities considered for consolidated analysis - Not applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 4547 4829
anupama.reddy@icraindia.com

Tushar Bharambe
+91 22 6169 3347
tushar.bharambe@icraindia.com

Pulkit Varshney
+91 80 432 6427
pulkit.varshney@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches