

December 22, 2023

Brookfield India Real Estate Trust: [ICRA]AAA (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	[ICRA]AAA (Stable); assigned
Total	-	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned by ICRA to Brookfield India Real Estate Trust (BIRET), a real estate investment trust (REIT), is not a comment on the trust's ability to meet distribution/dividend pay-outs to unitholders/investors, neither should it be construed as an opinion on the debt servicing ability of the individual project assets or special purpose vehicles (SPVs) held by the Trust. BIRET is sponsored by BSREP India Office Holdings V Pte. Ltd and is managed by Brookprop Management Services Private Limited which are affiliates of Brookfield Corporation.

ICRA has undertaken a consolidated financial analysis of BIRET and its 7 SPVs namely – Candor Gurgaon One Realty Projects Private Limited (CGORPPL), Candor India Office Parks Private Limited (CIOPPL), Candor Kolkata One Hi-Tech Structures Private Limited (CKOHSPL), Festus Properties Private Limited (FPPL), Kairos Property Managers Private Limited (KPMPL), Seaview Developers Private Limited (SDPL), Shantiniketan Properties Private Limited (SPPL). There are seven commercial office assets under six SPVs and one operational service provider (CIOPPL).

The rating assigned to BIRET favourably factors in the diversified office portfolio of assets measuring 25.3¹ million square feet (msf) of leasable area, which includes completed area of 20.7 msf and under construction area of 0.6 msf (2.4% of total area). In August 2023, BIRET, in equal partnership with GIC, has acquired two SPVs, CGORPPL and KPMPL, taking the total area to 25.3 msf as on September 30, 2023, from 18.7 msf as on June 30, 2023. BIRET's assets are diversified across major cities such as Gurugram, Noida, Mumbai and Kolkata, with a reputed and diversified tenant mix across sectors comprising of leading multi-national and Indian corporates, wherein the top 10 tenants generate ~44% of gross contracted rentals as on September 30, 2023. The rating derives comfort from the experience and track record of the Brookfield Group, which is one of the world's largest alternative asset managers. In India, Brookfield through its affiliates has an established track record of more than a decade with around USD 8.5 billion real estate assets under management.

The committed occupancy has declined to ~80% as of September 2023 from ~84% as of March 2023 mainly due to vacancies in the SEZ assets (accounting for ~77% of total leasable area). However, the occupancy levels are expected to sustain at 80% as of March 2024 and is likely to improve in the near term, driven by healthy leasing pipeline and minimal lease expiries in the SEZ space in FY2025. Further, the effective economic occupancy including the income support for SDPL and CGORRPL from the Brookfield Group stands at 88% as of September 2023. Since January 2022, the Brookfield Group has provided Rs. 164 crore towards income support till September 30, 2023. It has pending income support limit of ~Rs. 20crore for SDPL till March 31, 2024 and ~Rs. 166 crore for CGPRRPL till July 31, 2025. ICRA notes that tenant leases contributing to ~8% and ~5% of the gross contracted rentals will be due for expiry in H2 FY2024 and FY2025 respectively. The vacancy risk is partially mitigated by lower-than-market rentals, increasing the tenant stickiness.

With low debt amortisation in the next four years, the coverage metrics are comfortable with 5-year average DSCR estimated at ~1.54 times over FY2024-FY2028. While the debt (other than commercial paper) has a weighted average maturity of ~10 years, it is expected to be refinanced prior to FY2028 when the yearly principal repayment increases significantly. At REIT level,

¹ Includes future development potential of 4.0 msf

it has ~Rs. 700² crore of debt in form of commercial paper (bridge financing raised for recent acquisition) whose maturity is in August 2024 which exposes BIRET to refinancing risk. However, comfort can be drawn from the strong financial flexibility of BIRET.

The rating considers the increase in external leverage post recent acquisition of two assets in August 2023 with rise in net LTV to 34.3% as on September 30, 2023, from 32% as on March 31, 2023. The LTV is expected to remain at similar levels by March 31, 2024. ICRA will continue to monitor the future asset acquisitions and their consequent impact on the leverage. Comfort, however, can be drawn from the track record of the Brookfield Group in managing the assets and the strong financial flexibility of BIRET. In addition, the recent announcement by government to allow floor wise denotification of SEZ spaces is expected to benefit BIRET to ramp-up the occupancy of SEZ assets. The REIT remains exposed to the inherent cyclicity in the real estate industry and vulnerability to external factors.

ICRA expects that BIRET's credit profile will be supported by REIT regulations that restrict the extent of under construction assets in the portfolio to less than 20% of the asset value and the cap on leverage at 49% of the asset value.

The Stable outlook reflects ICRA's opinion that the Trust will benefit from its large, diversified, and stable operational portfolio, comfortable coverage metrics and long track record of the sponsor in managing the office assets.

Key rating drivers and their description

Credit strengths

Well diversified portfolio of assets with strong tenant profile – BIRET's current portfolio as on September 30, 2023, has seven commercial office properties (5 SEZ and 2 non-SEZ) under six SPVs spread across four cities in India – Gurugram, Noida, Mumbai and Kolkata. It has a reputed and diversified tenant mix across sectors comprising of leading multi-national and Indian corporates, wherein the top 10 tenants generate ~44% of gross contracted rentals as on September 30, 2023. In August 2023, BIRET in equal partnership with GIC has acquired two SPVs namely CGORPPL and KPMPL, thereby taking the total area to 25.3 msf as on September 30, 2023, from 18.7 msf as on June 30, 2023.

Comfortable debt coverage metrics – The debt coverage metrics remain comfortable with 5-year average DSCR estimated at ~1.54 times over FY2024-FY2028. While the debt (other than commercial paper) has a weighted average maturity of ~10 years, it is expected to be refinanced prior to FY2028 when the yearly principal repayment increases significantly supported by strong financial flexibility of BIRET.

Track record of sponsor and REIT manager – Brookfield through its affiliates owns 43.9% of BIRET, as on September 30, 2023. The assets housed under BIRET have been historically managed by the management team of Brookprop Management Services Private Limited, which manages Brookfield properties in India. The established track record of the sponsor group in the real estate sector and the diversified portfolio in commercial real estate business in India provides comfort. The portfolio is likely to benefit from the experienced management team and strong parentage.

Credit challenges

Moderate leverage levels and recent decline in occupancy – The rating considers the increase in leverage after the acquisition of two assets in August 2023 with rise in net LTV to 34.3% as on September 30, 2023, from 32% as on March 31, 2023, and is expected to remain at similar levels by March 31, 2024. ICRA will continue to monitor the future asset acquisitions and their consequent impact on the leverage. BIRET has ~Rs. 700 crore of outstanding debt in the form of commercial paper (bridge financing raised for recent acquisition) which will mature in August 2024 and exposes it to refinancing risk. Comfort, however, can be drawn from the track record of the Brookfield Group in managing the assets and the financial flexibility of BIRET. The committed occupancy has declined to ~80% as of September 2023 from ~84% as of March 2023 primarily due to vacancies in the SEZ assets. However, the occupancy levels are expected to sustain at 80% as of March 2024 and is likely to improve in the

² Issued value of commercial paper is Rs. 750 crore

near term, aided by healthy leasing pipeline and minimal lease expiries in the SEZ space in FY2025. Further, the effective economic occupancy including the income support for SDPL and CGORRPL from the Brookfield Group stands at 88% as of September 2023.

Vulnerability of commercial real estate sector to cyclicity – BIRET remains exposed to the inherent cyclicity in the real estate industry and vulnerability to external factors. The tenant leases contributing to ~8% and 5% of the gross contracted rentals will be due for expiry in H2 FY2024 and FY2025, respectively. However, the vacancy risk is partially mitigated by lower-than-market rentals, which increase the tenant stickiness. In addition, the recent announcement by Government to allow floor wise denotification of SEZ spaces is expected to benefit BIRET to ramp-up the occupancy of SEZ assets in the medium term.

Liquidity position: Strong

BIRET’s liquidity position is supported by stable rental income from the underlying assets and low operational expenditure in the leasing business. Healthy cash flow from operations will be adequate to cover the debt servicing obligations. Additionally, BIRET had free cash and bank balances of Rs. 433 crore as on September 30, 2023. Further, it had unutilised overdraft/LRD facilities of ~Rs. 620 crore as on September 30, 2023, which supports the liquidity profile.

Rating sensitivities

Positive factors – NA

Negative factors –

- Increase in indebtedness reducing the cushion for LTV of 40% on a sustained basis
- Decline in the committed occupancy to lower than 80% on a sustained basis
- Any non-adherence to the debt structure

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Real Estate Investment Trusts (REIT)
Parent/Group support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of BIRET and its subsidiaries (as mentioned in Annexure II)

About the company

BIRET is registered under SEBI’s REIT Regulations, 2014 on September 14, 2020, in Mumbai. It is incorporated as a registered trust and listed through a public issue of units. BIRET was India’s third commercial office REIT which was listed on February 16, 2021. Post listing, BIRET has acquired three assets held by three SPVs – N2 (100%) in February 2022 and G1 (50%) & Downtown, Powai (50%) in August 2023. As of September 2023, BIRET has total of six SPVs holding seven assets and one operational service provider with total operational area of 20.7 msf. It owns 100% of four SPVs and 50% of two recently acquired SPVs with remaining 50% stake at SPV level held by affiliates of GIC.

Key financial indicators (audited)

Consolidated (in Rs. Crore)	FY2022	FY2023
Operating income	877.5	1,198.6
PAT	246.3	131.2
OPBDIT/OI	70.5%	68.2%
PAT/OI	28.1%	10.9%
Total outside liabilities/Tangible net worth (times)	0.6	0.7
Total debt/OPBDIT (times)	8.4	6.7
Interest coverage (times)	3.0	1.9

Source: BIRET, ICRA Research

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

Status of non-cooperation with previous CRA: Not applicable

Any other information:

The company also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial covenants, operating covenants and rating linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024 Dec 22, 2023	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
1	Issuer rating	Long term	--	--	[ICRA] AAA (Stable)	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	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	Issuer rating	NA	NA	NA	--	[ICRA]AAA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Brookfield India Real Estate Trust	100% (Rated Entity)	Full Consolidation
Candor Kolkata One Hi-Tech Structures Private Limited	100%	Full Consolidation
Shantiniketan Properties Private Limited	100%	Full Consolidation
Seaview Developers Private Limited	100%	Full Consolidation
Festus Properties Private Limited	100%	Full Consolidation
Candor India Office Parks Private Limited	100%	Full Consolidation
Candor Gurgaon One Realty Projects Private Limited	50%	Full Consolidation
Kairos Properties Managers Private Limited	50%	Full Consolidation

Source: BIRET and ICRA Research

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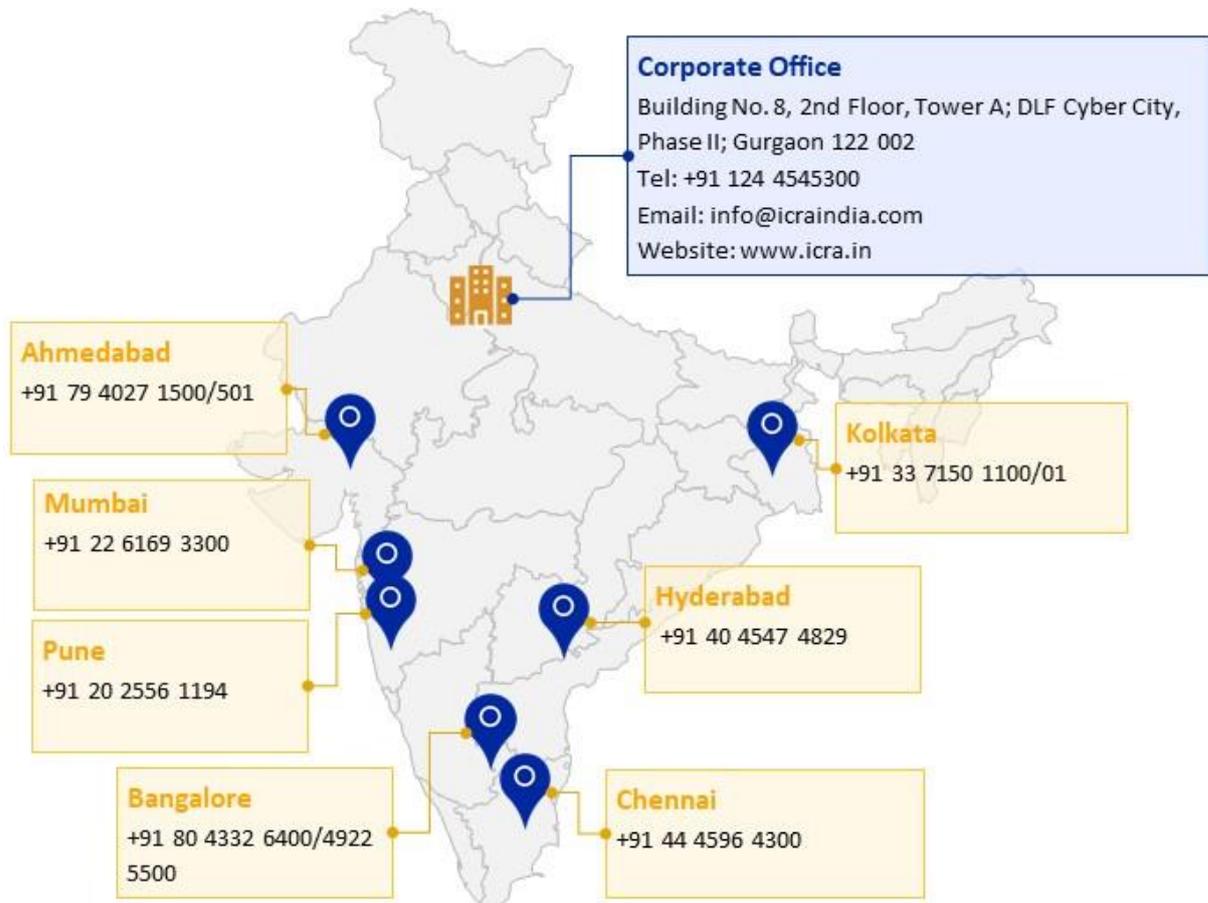
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