

March 21, 2024

Brookfield India Real Estate Trust: [ICRA] A1+ assigned for Rs. 1,250 crore of commercial paper; rating reaffirmed for other instrument

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]AAA (Stable); reaffirmed
Commercial paper	0.0	1250.0	[ICRA] A1+ assigned
Total	0.0	1250.0	

*Instrument details are provided in Annexure-I

Rationale

ICRA has undertaken a consolidated financial analysis of Brookfield India Real Estate Trust (BIRET) and its 7 special purpose vehicles (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 Private Limited (KPPL), 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 action for BIRET favourably factors in the diversified office portfolio of assets measuring 25.4¹ million square feet (msf) of leasable area, which includes completed area of 20.7 msf and under-construction area of 0.7 msf (2.7% of total area). In August 2023, BIRET, in equal partnership with GIC, has acquired two SPVs, CGORPPL and KPPL, taking the total area to 25.4 msf as on December 31, 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 ~42% of gross contracted rentals as on December 31, 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 of real estate assets under management.

The committed occupancy declined to ~80% as of December 2023 from ~84% as of March 2023 mainly due to vacancies in the SEZ assets (accounting for ~78% 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 December 2023. Since January 2022, the Brookfield Group has provided ~Rs. 212 crore towards income support till December 31, 2023. It has pending income support limit of ~Rs. 5 crore for SDPL till March 31, 2024, and ~Rs. 132 crore for CGPRRPL till June 30, 2025. ICRA notes that tenant leases contributing to ~3% and ~7% of the gross contracted rentals will be due for expiry in Q4 FY2024 and FY2025 respectively. The vacancy risk is partially mitigated by lower-than-market rentals, increasing the tenant stickiness.

With low debt amortisation over 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, it has ~Rs. 700² crore of debt in form of commercial paper (bridge financing raised for recent acquisition) maturing

¹ Includes future development potential of 4.0 msf

² Issued value of commercial paper is Rs. 750 crore

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 December 31, 2023, from 32% as on March 31, 2023. The LTV is likely 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 the 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 December 31, 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 ~42% of gross contracted rentals as on December 31, 2023. In August 2023, BIRET in equal partnership with GIC has acquired two SPVs namely CGORPPL and KPPL, thereby taking the total area to 25.4 msf as on December 31, 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 December 31, 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 December 31, 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 declined to ~80% as of December 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 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 December 2023.

Vulnerability of commercial real estate sector to cyclical – BIRET remains exposed to the inherent cyclical in the real estate industry and vulnerability to external factors. The tenant leases contributing to ~3% and ~7% of the gross contracted rentals will be due for expiry in Q4 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 the 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, It had free cash and bank balances of Rs. 387.1 crore as on December 31, 2023.

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. IT 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%) and 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 the 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 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		Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 21, 2024	Dec 22, 2023			
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1	Issuer rating	Long term	--	--	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	--	--	--
2	Commercial paper	Short term	1250.0	714.9	[ICRA]A1+	--	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not Applicable
Commercial paper	Very 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	Issuer rating	NA	NA	NA	--	[ICRA]AAA (Stable)
INE0FDU14014	Commercial paper	Aug 2023	NA	Aug 2024	750.00	[ICRA]A1+
NA	Proposed commercial paper*	NA	NA	NA	500.00	[ICRA]A1+

Source: Company; *yet to be placed

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 Private Limited	50%	Full Consolidation

Source: BIRET and ICRA Research

ANALYST CONTACTS

Rajeshwar Burla

+91 40 6939 6443

rajeshwar.burla@icraindia.com

Anupama Reddy

+91 40 6939 6427

anupama.reddy@icraindia.com

Abhishek Lahoti

+91 40 6939 6433

abhishek.lahoti@icraindia.com

D Mohammed Rabbani

+91 40 6939 6422

d.rabbani@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

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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



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