March 22, 2024

Brigade Enterprises Limited: [ICRA]AA- (Stable) assigned for the enhanced amount; rating outstanding for the existing facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	2,080.00	2,550.00	[ICRA]AA- (Stable); outstanding for existing limits; Assigned for enhanced amount
Long-term Fund-based – CC/OD	90.00	140.00	[ICRA]AA- (Stable); outstanding for existing limits; Assigned for enhanced amount
Long-term Unallocated limits	330.00	310.00	[ICRA] AA- (Stable); Outstanding
Short-term Non-fund based sublimit of CC/OD	(40.00)	(40.00)	[ICRA]A1+; Outstanding
Total	**2,500.00**	**3,000.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings factor in Brigade Enterprises Limited's (BEL) strong operating performance in 9M FY2024, marked by healthy growth in cash flows and significant reduction in leverage in the real estate segment[1], which is expected to sustain in FY2025, supported by healthy end-user demand and good affordability. In 9M FY2024, BEL, on a consolidated basis, sold an area of 4.83 million square feet (msf, 22% YoY growth) and reported pre-sales and collections of ~Rs. 3,770 crore (44% YoY growth) and ~Rs. 3,300 crore (16% YoY growth), respectively, from its real estate segment. The receivables from the sold area in the completed and ongoing projects improved to ~100% of the pending cost and residential debt outstanding as of December 2023 from 88% as of December 2022. Additionally, the collections are likely to remain robust and are estimated to increase by 6% to Rs. 4,115 crore in FY2024 and grow further by ~23% in FY2025. This growth is driven by adequate committed sales and construction progress for the ongoing projects and a healthy launch pipeline of upcoming projects. Aided by healthy cash inflows, the debt in the real estate segment has reduced to Rs. 10 crore as of December 2023 from Rs. 77 crore as of December 2022.

The ratings favourably note the Brigade Group's diversified operations across various segments, including residential, commercial, retail and hospitality. The performance of all the key segments remained healthy in 9M FY2024 and is expected to be sustained in FY2025. The leasing in the Group's completed commercial office properties improved to 93% in December 2023 against 81% in December 2022, while for retail malls, the occupancy has stabilised to 95% in December 2023 (93% in December 2022). In the hospitality segment, the RevPAR grew by 13.7% to Rs. 4,469 in 9M FY2023 from Rs. 3,930 in 9M FY2022. The company's overall leverage is anticipated to remain comfortable with total debt[2]/cash flow from operations (CFO) of 3.0 times in FY2024 and 2.0 times in FY2025. As of December 2023, around 90% of the total debt is self-liquidating and the same is anticipated to increase going forward. The ratings continue to factor in BEL's established position in the Bengaluru real estate market and its diversified presence across residential, commercial and hospitality segments. It is projected to invest around ~Rs. 1,000-1,200 crore over the next 3-4 years towards land acquisition and the same is likely to be funded by internal accruals.

[1] *Real estate segment includes residential and commercial projects on sale model.*

[2] *Total expected debt for FY2024 includes debt of Rs. 58 crore in residential segment, Rs. 3,912 crore in commercial leasing segment and Rs. 445 crore in hospitality segment.*

The ratings are, however, constrained by the exposure to execution and market risks arising from the company's large expansion plans (estimated launch pipeline of 10.82 msf over the next twelve months). It is further exposed to the residual market risk for the vacant area of 0.44 msf in the commercial office space segment. Nonetheless, with the incremental leasing tie-ups in 9M FY2024, the leverage and coverage ratios in the office leasing segment have improved mitigating the refinancing risk for the construction loan. The ratings are constrained by the cyclicality risk inherent in the real estate business, geographical concentration risk with significant dependence on Bengaluru micro market for its completed, ongoing as well as future projects. The ratings also note the vulnerability of the hospitality and retail leasing operations to external shocks such as the Covid-19 pandemic.

The Stable outlook on the long-term rating reflects ICRA's opinion that BEL will continue to maintain healthy sales and collection in the real estate segment, backed by a strong launch pipeline, resulting in healthy growth in cash flows from operations, liquidity, and comfortable leverage metrics. Further, the healthy occupancy for office and retail mall segments and improvement in REVPARs for the hospitality segment are expected to sustain in the medium term.

Key rating drivers and their description

Credit strengths

Established position in real estate market with diversification across segments – BEL is one of the leading real estate developers in South India. It has completed and delivered a total area of more than 83 msf, comprising over 280 residential, commercial and hospitality projects. The company has established itself as one of the major diversified real estate developers in Bengaluru generating revenue from three segments – sale of residential and commercial real estate projects, lease income from the owned commercial property (office and retail) and income from hospitality projects. It is developing 20.66 msf (BEL's share – 15.31 msf) of real estate projects (by saleable area), 1.4 msf of leasing development and 0.1 msf of hospitality projects as on December 31, 2023. The diversification in the revenues and cash flows allows the Group to offset the challenges associated with the cyclicality in these sectors to some extent. BEL has a good brand equity, which supports the saleability of its residential real estate projects.

Continued healthy performance in residential real estate segment – The company has achieved pre-sales of 4.8 msf in 9M FY2024 (22% YoY growth) and reported pre-sales and collections of ~Rs. 3,770 crore (44% YoY growth) and Rs. 3,302 crore (16% YoY growth), respectively, from its real estate segment. Residential real estate segment dominates the pre-sales in 9M FY2024 with accounted for over 98% from the total sold area. The new launches of residential projects of 3.98 msf in 9M FY2024 contributed to the high cash flows across the ongoing project portfolio. In the real estate segment for sale, the collections have increased by 16% in ~Rs. 3,300 crore in 9M FY2024. The good saleability in the ongoing projects has translated into high visibility on cash flows. The real estate segment is expected to grow further, aided by a robust launch pipeline and investments in new land bank, while maintaining low leverage metrics. The receivables from the sold area of the completed and ongoing projects covered ~100% of the pending cost and residential debt outstanding as of December 2023, which improved from 88% as of December 2022. Healthy cash flows from the residential real estate projects have enabled low reliance on external debt with Rs. 10 crore of external debt as on December 2023.

Improvement in operational metrics of leasing and hospitality segment – The leasing progress in the Group's completed office properties improved to 93% in December 2023 against 81% in December 2022, while for retail, the occupancy has stabilised to 95% in December 2023. In the hospitality segment, the RevPAR grew by 13.7% to Rs. 4,469 in 9M FY2023 from Rs. 3,930 in 9M FY2022.

Credit challenges

High dependence on Bengaluru real estate market – BEL's dependence on the Bengaluru real estate market remains high (more than 80% of total residential sales and 75% of leasing segment income in 9M FY2024), which exposes it to any region-specific downturn in demand. While it plans to launch multiple projects in various cities outside Bengaluru, the extent of scale up in these territories and their contribution to the consolidated sales mix will remain a key monitorable.

Exposure to execution and market risks – BEL has significant plans of expanding its ongoing portfolio to maintain the growth momentum and strengthen its market presence in the existing as well as new micromarkets. The company plans to launch ~10.82 msf over the next four quarters, exposing it to execution and market risks. However, ICRA takes comfort from BEL's track record of project execution and sales. It is further exposed to the residual market risk for the vacant area of 0.44 msf in the commercial office space segment.

Cyclicality inherent in real estate sector – The company is vulnerable to the inherent risks in the real estate sector, such as susceptibility to declining property prices, a slowdown in economy and reduction in housing demand. Further, the hospitality and leasing segments are exposed to risks arising from the cyclicality in the sector and vulnerability to exogenous shocks such as the Covid-19 pandemic, which could impact the cash flows.

Environmental and social risks

The real estate segment is exposed to risks of increasing environmental norms impacting operating costs, including higher cost of compliance with pollution control regulations. Environmental clearances are required for commencement of projects and lack of timely approvals can affect its business operations. Impact of changing environmental regulations on licences taken for property development could create credit risks.

In terms of social risks, the trend post-pandemic has been favourable to residential real estate developers as demand for quality home with good social infrastructure has increased. Further, rapid urbanisation and a high proportion of workforce population (aged 25-44 years) will support long-term demand for the real estate sector in India.

Liquidity position: Strong

The company's liquidity profile is strong with cash and liquid investments worth Rs. 1,562.2 crore as on December 31, 2023 (including encumbered cash of Rs. 127.8 crore towards DSRA). The liquidity is supported by undrawn bank debt levels of around Rs. 1,350 crore, including undrawn LRD debt. The cash generation from the residential segment is expected to remain strong. BEL's consolidated debt repayment in FY2025 and FY2026 stands at ~Rs. 240 crore and ~Rs. 820 crore, respectively, which can be comfortably met from its cash flow from operations.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to significantly improve its sales and collections along with geographical diversification in the residential segment, while maintaining low leverage. Deleveraging in both leasing and hospitality segment, along with maintaining the Total Debt to CFO ratio below 2.25 times, on a sustained basis, at the consolidated level, could trigger a rating upgrade.

Negative factors – Any significant weakening of sales velocity and collections in the residential segment and/or any increase in vacancy in the leasing portfolio and/or considerable debt-funded investments in new projects resulting in weakening of leverage metrics or liquidity position, on a sustained basis, may lead to a rating downgrade. Specific trigger which may result in a rating downgrade, includes Total Debt to CFO[3], at the consolidated level, remaining above 3.75 times on a consistent basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD) Realty - Commercial/Residential/Retail Rating Methodology for hotels
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of BEL and its subsidiaries given the close business, financial and managerial linkages among them. The list of companies that are consolidated to arrive at the rating is given in Annexure II.

About the company

BEL, a real estate development company, is promoted by Mr. M. R. Jaishankar and his family. The Brigade Group has completed and delivered a total area of more than 83 msf, comprising over 280 residential, commercial and hospitality projects. The company has established itself as one of the major diversified real estate developers in Bengaluru. It is developing 20.66 msf (BEL's share – 15.31 msf) of real estate projects (by saleable area) as on December 31, 2023, 1.4 msf of leasing development and 0.11 msf of hospitality project. Though BEL's operations are concentrated in Bengaluru, it is developing projects in Chennai, which is emerging as the second largest market for the company and a few other projects in Hyderabad, Mysore, Kochi, and GIFT City.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	9M FY2024*
Operating income	2,998.8	3,444.6	3,194.3
PAT	-67.5	218.1	190.2
OPBDIT/OI	25.6%	24.9%	23.8%
PAT/OI	-2.2%	6.3%	6.0%
Total outside liabilities/Tangible net worth (times)	4.2	4.1	-
Total debt/OPBDIT (times)	0.9	-	-
Interest coverage (times)	1.7	2.0	2.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; Provisional*

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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[3] Total debt includes construction finance debt for residential, commercial and hospitality segments and LRD loan for commercial and hospitality segments. Cash flow from operations includes collection from residential and commercial projects, leasing income and hospitality income net off construction and direct cost attributable to the segments.

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 # (Rs. In crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
					Mar 22, 2024	May 19, 2023	Mar 31, 2023	Nov 18, 2022	Dec 03, 2021	Aug 02, 2021	Dec 18, 2020
1	Term loans	Long term	2550.0	1455.6	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Cash Credit (CC)/Overdraft (OD)	Long term	140.0	23.45	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Unallocated limits	Long term	310.0	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
4	Interchangeable LC/ BG -sub limit of CC/OD*	Short Term	(40.0)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5	WCTL*	Short Term	-	-	-	-	-	-	[ICRA]A1	[ICRA]A1	-

*# as on December 31, 2023; * - Letter of credit / bank guarantee*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term loan	Simple
Long-term – CC/OD	Simple
Long-term – Unallocated	Not Applicable
Short-term Non-fund based sublimit of CC/OD – interchangeable	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2013-FY2023 @	-	FY2036&	2,550.00	[ICRA]AA- (Stable)
NA	Overdraft	-	-	-	140.00	[ICRA]AA- (Stable)
NA	Unallocated limits	-	-	-	310.00	[ICRA]AA- (Stable)
NA	sublimit of CC/OD	-	-	-	(40.00)	[ICRA]A1+

@ *Represents loans sanctioned between FY2013 and FY2023*

& *Represents the farthest maturity date among the various maturity dates for different term loans*

Source: Brigade Enterprises Limited

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Brigade Enterprises Limited (Holding Company)	-	**Full Consolidation**
BCV Developers Private Limited	62.51%	Full Consolidation
Brigade Properties Private Limited	51%	Full Consolidation
Perungudi Real Estates Private Limited	51%	Full Consolidation
SRP Prosperita Hotel Ventures Limited	50.01%	Full Consolidation
Brigade Hospitality Services Limited	100%	Full Consolidation
WTC Trades and Projects Private Limited	100%	Full Consolidation
Brigade Tetrarch Private Limited	100%	Full Consolidation
Brigade Estates and Projects Private Limited	100%	Full Consolidation
Brigade Infrastructure and Power Private Limited	100%	Full Consolidation
Celebrations Private Limited	100%	Full Consolidation
Brigade (Gujarat) Projects Private Limited	100%	Full Consolidation
Mysore Projects Private Limited	100%	Full Consolidation
Brigade Innovations, LLP	95.38%	Full Consolidation
Brigade Hotel Ventures Limited	100%	Full Consolidation
Augusta Club Private Limited	100%	Full Consolidation
Brigade Flexible Office Spaces Private Limited	100%	Full Consolidation
Tetrarch Developers Limited	100%	Full Consolidation
Venusta Ventures Private Limited	100%	Full Consolidation
Zoiros Projects Private Limited	100%	Full Consolidation
Vibrancy Real Estate Private Limited	100%	Full Consolidation
Propel Capital Ventures LLP	99%	Full Consolidation
BCV Real Estates Private Limited	100%	Full Consolidation
Tandem Allied Services Private Limited	100%	Full Consolidation
Tetrarch Real Estates Private Limited	100%	Full Consolidation

Source: Company

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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.

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