

April 30, 2024

Bharti Realty Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	450.0	450.0	[ICRA]A1+; reaffirmed
Total	450.0	450.0	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for the proposed commercial paper (CP) programme of Bharti Realty Limited (BRL) factors in the company's long operational track record in the real estate sector, and its strategic importance as the key entity for the Bharti Group's real estate operations. The rating factors in the extensive operational, managerial, and financial support extended to BRL by the Bharti Group, shared brand name along with a common treasury team. The Group remains committed to meet all the operational and financial requirements in a timely manner, as witnessed in the past. The rating draws comfort from the exceptional financial flexibility enjoyed by the company, considering its association with the Bharti Group, the favourable location and the quality of the properties owned by BRL and strong tenant profile.

BRL has 0.6 million square feet (msf) of operational leasable area, along with the under-development area of 10.3 msf under Delhi International Airport Limited (DIAL) 2 project with 7.4 msf under Phase 1A (with 4 SPVs) and 3.0 msf under Phase 1B (with 2 SPVs). ICRA notes that there has been an increase in the Gross Leasable Area (GLA) for Phase 1A post finalisation of the building plans. Debt tie-up for Phase 1B is expected in FY2025. Timely debt tie-ups and completion of construction without any major time or cost overrun will remain a key rating monitorable.

The rating, however, is constrained by the change in BRL's business risk profile of BRL with the current portfolio skewed towards under construction assets. Around 95% of the company's consolidated portfolio is under construction at present, exposing it to project, execution and market risks. In addition, the occupancy for the operational portfolio remains moderate at around 59% as of January 2024 (57% as of December 2022), owing to vacancy in its Lucknow property. ICRA notes the high leverage levels of the operational and under construction portfolio leading to moderate debt coverage metrics. Further, BRL remains exposed to refinancing risk in FY2025 on account of large scheduled repayments. Nonetheless, the risk is mitigated by the company's exceptional financial flexibility. Under special purpose vehicles (SPVs), BRL is developing the DIAL 2 project on a leased land, which entails annual payments to DIAL for the planned phases. For the DIAL 2 project, so far, the promoters have infused majority of the equity amounting to Rs. 3,049 crore till January 2024, and debt is yet to be tied-up for Phase 1B exposing the project to residual funding risk. However, the strong reputation and financial flexibility of the Group provides comfort. The rating also considers the marketing risks for the under-development projects under SPVs. Any time or cost overrun or change in scope of the project entailing additional cost or slower-than-expected ramp-up in occupancy post-commercialisation could adversely affect the company's liquidity and credit profile. Nevertheless, BRL's long and established track record in successfully developing and leasing out office and retail space mitigates the risk. In addition, BRL's revenues also remain exposed to adverse macroeconomic conditions, which could impact the tenants' business risk profiles.

Key rating drivers and their description

Credit strengths

Status of BRL as a part of the Bharti Group provides exceptional financial flexibility – BRL is a part of the Bharti Group. The flagship company of the Group, Bharti Airtel Limited, is one of India's leading integrated telecommunication service providers. BRL benefits from its strategic importance as the key entity for the Bharti Group's real estate operations. The rating factors in the extensive operational, managerial, and financial support extended to BRL by the Bharti Group, shared brand name along

with a common treasury team. The Group remains committed to meet all the operational and financial requirements in a timely manner, as witnessed in the past. The rating draws comfort from the exceptional financial flexibility enjoyed by the company, considering its association with the Bharti Group.

Established real estate developer with long track record – Established in 2003, BRL has been involved in the business of real estate development and leasing for around two decades. Along with its subsidiaries, the company has completed 18 commercial properties spread across around ~5 msf area. At present, BRL has 0.6 msf of the operational leasable area, along with the under-development area of with 7.4 msf under Phase 1A (with 4 SPVs) and 3.0 msf under Phase 1B (with 2 SPVs) project.

Favourable location and high-quality development – Most of BRL's properties are well located and have Grade-A specifications, which enhances their marketability. The properties have attracted reputed tenants. A substantial part of the total leased area is occupied by the Bharti Group companies, which supports lease continuity and mitigates the counterparty risks.

Credit Challenges

Moderate debt coverage metrics – ICRA notes the high leverage levels of the operational and under construction portfolio leading to moderate debt coverage metrics. Further, BRL remains exposed to refinancing risk in FY2025 on account of large scheduled repayments. However, the risk is mitigated by the company's exceptional financial flexibility. Under SPVs, the company is undertaking the DIAL 2 project on a leased land, which entails annual payments to DIAL for the planned phases. For the DIAL 2 project, so far, the promoters have infused majority of the equity amounting to Rs. 3,049 crore till January 2024, and debt is yet to be tied-up for Phase 1B exposing the project to residual funding risk. However, the strong reputation and financial flexibility of the Group provides comfort.

Exposed to project execution and market risks – BRL's with the current portfolio remains skewed towards under construction assets. Around 95% of it's consolidated portfolio is under construction at present, exposing it to execution and market risks. In addition, the occupancy for the operational portfolio remains moderate at around 59% as of January 2024 (57% as of December 2022), owing to vacancy in its Lucknow property. Any time or cost overrun or change in scope of the project entailing additional cost or slower-than-expected ramp-up in occupancy post-commercialisation could adversely affect the company's liquidity and credit profile. Nevertheless, BRL's long and established track record in successfully developing and leasing out office and retail space mitigates the risk.

Vulnerability of commercial real estate sector to cyclical – BRL's revenues remain exposed to adverse macroeconomic and external conditions, which could impact the tenants' business risk profiles.

Liquidity position: Adequate

BRL's liquidity position is adequate with ~Rs. 160 crore of unencumbered cash and equivalents as of March 31, 2024. In FY2025, BRL on consolidated basis (including SPVs) has repayment obligations of ~Rs. 665 crore, majority of which is expected to be rolled-over/ refinanced. The company has exceptional refinancing capabilities on the back of strong parentage. In addition, the funds inflow from proposed monetisation of operational assets would support liquidity.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Negative pressure on BRL's rating could arise in case of lack of adequate and timely financial support from the Group to meet all its funding needs. Further, downward pressure on the rating may arise in case of deterioration in the credit profile of the Bharti Group or dilution in the company's strategic importance to the Group. Any significant delay in lease tie-ups and cost overruns for the under-construction portfolio under BRL could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Investment Companies Realty - Lease Rental Discounting (LRD)
Parent/Group support	Group: Bharti Group BRL holds high strategic importance for the Bharti Group (flagship company, Bharti Airtel Limited) and its promoters, as demonstrated by the common name shared by the entities along with a common treasury team. The Bharti Group holds 100% of BRL and ICRA expects the managerial, operational, financial support from the Group to continue going forward.
Consolidation/Standalone	Consolidated with subsidiaries of BRL as given in Annexure II

About the company

Bharti Realty Limited (BRL), together with its subsidiaries, operates as a real estate development company with focus on commercial projects. The company was incorporated in 2003 and is based in Gurgaon, India. At present, BRL has 0.6 msf of the remaining operational area, along with under-development area of 10.3 msf under Delhi International Airport Limited (DIAL) two project covering 7.4 msf of area under Phase 1A (in 4 SPVs - Angelica Developers Limited, Populus Realty Limited, Vinta Realty Limited, Alborz Developers Limited) and 3.0 msf under Phase 1B (in 2 SPVs – Pamir Developers Limited and Zagros Developers Limited).

Key financial indicators (audited) - Consolidated

	FY2022	FY2023
Operating income	606.2	98.9
PAT	0.3	288.3
OPBDIT/OI	81.7%	42.9%
PAT/OI	0.1%	291.5%
Total outside liabilities/Tangible net worth (times)	156.3	1.4
Total debt/OPBDIT (times)	10.9	21.9
Interest coverage (times)	1.5	145.4

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs.crore; the above financial numbers and ratios reflect the analytical adjustments made by ICRA and may not be comparable with the reported financials.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Apr 30, 2024	April 28, 2023	April 29, 2022	Apr 08, 2021
¹ Commercial paper	Short-term	450.0#	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

not placed

Complexity level of the rated instruments

Instrument	Complexity Indicator
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
-	Commercial paper	-	-	-	450.00 [#]	[ICRA]A1+

Source: Company, [#] not placed

Annexure II: List of entities considered for consolidated analysis

Company Name	BRL Ownership	Consolidation Approach
Beech Projects Limited	100%	Full Consolidation
Angelica Developers Limited	100%	Full Consolidation
Bharti Land Limited	100%	Full Consolidation
Pomor Realty Limited	100%	Full Consolidation
Triskhi Realty Limited	100%	Full Consolidation
Pamir Developers Limited	51%	Full Consolidation
Populus Realty Limited	51%	Full Consolidation
Zagros Developers Limited	51%	Full Consolidation
Vinta Realty Limited	51%	Full Consolidation
Alborz Developers Limited	51%	Full Consolidation

Source: Annual report FY2023, ICRA research

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