

August 13, 2024

Perungudi Real Estates Private Limited: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|--------------------------------------|-------------------------------------|---|
| Long-term Fund-based – Term loan | 1180.0 | 1210.0 | [ICRA]A (Stable); reaffirmed |
| Long-term – Interchangeable (sub-limit of fund-based) | (44.0) | (32.0) | [ICRA]A (Stable); reaffirmed |
| Unallocated | 170.0 | 140.0 | [ICRA]A (Stable) / [ICRA]A1; reaffirmed |
| Total | 1350.0 | 1350.0 | |

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the healthy leasing of Perungudi Real Estates Private Limited's (PREPL) commercial office, World Trade Centre (WTC) and the healthy sales performance in the residential project – Brigade Residences. WTC's committed occupancy stood at ~93% as of June 2024 (89% as of September 2023). The residential project is ~89% sold as of March 2024. The ratings consider the favourable location of the project at Perungudi, on Old Mahabalipuram Road (OMR), in Chennai. PREPL is expected to generate healthy cash flow from operations from the residential segment during FY2025-FY2026. The adequacy of committed cash flows (committed receivables in ongoing projects/pending cost in ongoing projects and debt outstanding) stood at 77% as of March 2024. The company is planning to launch a hotel in one of the towers and the same is expected to start from Q3FY2026. Further, the ratings draw comfort from the strong profile of PREPL'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 the commercial and residential real estate sector. ICRA expects the parent, BEL, to provide timely financial support to PREPL, if any, given PREPL's strategic importance for the parent and parent's reputation sensitivity to default.

The ratings are, however, constrained by the high tenant concentration risk with top three tenants accounting for ~80% of the leased area of the commercial project as on June 30, 2024. Although there is no lease expiry expected in FY2025, lease tenure of 54% of the total leased area is expiring in FY2026, exposing the company to lease renewal risk. Nonetheless, the Brigade Group's established track record of leasing commercial assets and the favourable location of the project provide comfort. The leverage indicators measured by Gross debt/CFO are adequate at 4.41 times as of March 2024 (3.06 times: March 2023) and are likely to sustain at 5.0-6.0 times in FY2025-FY2026 due to increase in debt levels. The debt coverage indicators for the LRD loan are expected to be adequate, with estimated five-year average DSCR in the range of 1.20- 1.30 times for FY2025 to FY2029, and the same remains vulnerable to changes in interest rates and reduction in occupancy levels. The ratings factor in the cyclical risk inherent in the real estate business and high geographical concentration risk with presence in a single micromarket.

The Stable outlook reflects ICRA's expectations that the company's credit profile will be supported by the strong leasing of WTC and healthy collections from the residential project, favourable location as well as the strong profile of the promoters.

Key rating drivers and their description

Credit strengths

Experience and track record of promoters in real estate sector – PREPL is a 51% subsidiary of BEL, with GIC of Singapore holding the remaining 49% stake. As on March 31, 2024, the Brigade Group has completed and delivered a total area of more than 86 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.

Attractive project location resulting in healthy leasing – The mixed-use project is being developed on Old Mahabalipuram Road (OMR) in Chennai. The region is seen as one of the preferred IT corridors in the city and attracts a large share of office space absorption. Additionally, the residential project's demand prospects appear favourable due to its proximity to various corporate offices in the vicinity and well-developed social infrastructure. The company has achieved strong leasing with committed occupancy of ~93% as of June 2024 of the total leasable area (89% as of September 2023). The tenant profile consists of reputed names with long lease tenure of 10 to 15 years and lock-in period in the range of 3 to 3.5 years.

Healthy sales in residential segment – The company has demonstrated healthy sales performance in the residential project – Brigade Residences, with ~89% units sold as of March 2024. The adequacy of committed cash flows (committed receivables in ongoing projects / pending cost in ongoing projects and debt outstanding) stood at 77% as of March 2024. PREPL is expected to generate healthy cash flow from operations from this segment during FY2025-FY2026.

Credit challenges

Adequate debt coverage and leverage indicators which are vulnerable to changes in interest rate and occupancy levels – As on March 31, 2024, the company's external debt comprising entirely LRD loans, increased to ~Rs. 996 crore (PY: ~Rs. 638 crore). It has undrawn LRD debt of Rs. 227 crore in place as on March 31, 2024. The debt leverage indicators remained adequate at 4.41 times as of March 2024 (PY: 3.06 times) and are likely to sustain at 5.0-6.0 times in FY2025-2026 due to increase in debt levels. The debt coverage indicators are expected to be adequate, with an estimated five-year average DSCR in the range of 1.20-1.30 times for FY2025 to FY2029, and the same remains vulnerable to changes in interest rates and reduction in occupancy levels.

Exposure to tenant concentration and lease renewal risks – The company remains vulnerable to tenant concentration risk with ~80% of the leased area being occupied by the top three tenants as on June 30, 2024. Although there is no lease expiry expected in FY2025, lease tenure of 54% of total leased area is expiring in FY2026, exposing the company to lease renewal risk. Nonetheless, the Brigade Group's established track record of leasing commercial assets and favourable location of the project provide comfort.

Cyclicality risk inherent in the real estate sector – The ratings factor in the cyclicality risk inherent in the real estate business and high geographical concentration risk with significant dependence on the Chennai market, which accounts for ~100% of the total saleable/leasable area in its ongoing and upcoming residential and commercial projects including hotel.

Liquidity position: Adequate

PREPL's liquidity is adequate. The total pending cost of Rs. 101 crore for the ongoing residential project is expected to be met through committed receivables and internal accruals. The company's debt repayment obligations on external debt are anticipated to be met from the cash flow from operations. As on June 30, 2024, it had free cash and bank balance of ~Rs. 325 crore, which is likely to be utilised for repaying the promoter debt and/or for construction of ongoing projects.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to reduce the leverage substantially resulting in strong debt protection metrics with five-year average DSCR of above 1.25 times on sustained basis.

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

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate credit rating methodology Realty - Commercial/Residential/Retail Realty - Lease Rental Discounting (LRD) Rating Methodology - Hotels |
| Parent/Group support | Parent Company: Brigade Enterprises Limited (BEL). ICRA expects the parent, BEL, to provide timely financial support to PREPL, given their PREPL's strategic importance for the parent and parent's reputation sensitivity to default. |
| Consolidation/Standalone | Standalone |

About the company

Perungudi Real Estates Private Limited (PREPL) is a special purpose vehicle incorporated in September 2015 to undertake a mixed-use real estate development project on OMR, in Perungudi, Chennai. The company is a 51% subsidiary of Brigade Enterprises Limited (BEL). GIC, which is a global investment management company owned by Government of Singapore, holds the balance 49% stake in PREPL. The mixed-use real estate development project has a commercial office space project- World Trade Centre (WTC) having 2.0 msf leasable area, which was completed in Q1 FY2021 and has a residential project named Brigade Residences @ WTC, Chennai - consisting of three residential towers. The occupancy certificate (OC) has been received for one tower in Q1 FY2025, while the other two towers are expected to be completed by October 2024.

Key financial indicators (audited)

| | FY2023 | FY2024 |
|--|--------|--------|
| Operating income | 119.0 | 376.9 |
| PAT | -54.4 | -52.1 |
| OPBDIT/OI | 103.3% | 40.8% |
| PAT/OI | -45.7% | -13.8% |
| Total outside liabilities/Tangible net worth (times) | -52.3 | -86.4 |
| Total debt/OPBDIT (times) | 12.0 | 12.0 |
| Interest coverage (times) | 0.9 | 0.9 |

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

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

Rating history for past three years

| Instrument | Type | Current rating (FY2025) | | Chronology of rating history for the past 3 years | | |
|------------------|--------------------------|-----------------------------|--------------------------------|---|--------------------------------|--------------------------------|
| | | Amount rated (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | August 13, 2024 | Nov 20, 2023 | Aug 26, 2022 | Jun 04, 2021 |
| 1 Term loan | Long term | 1210.0 | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) |
| 2 Bank guarantee | Long term | (32.0) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) |
| 3 Unallocated | Long term/ Short term | 140.0 | [ICRA]A (Stable) / [ICRA]A1 | [ICRA]A (Stable) / [ICRA]A1 | [ICRA]A (Stable) / [ICRA]A1 | [ICRA]A (Stable) / [ICRA]A1 |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Long-term – Term loan | Simple |
| Long-term – Interchangeable (Bank guarantee) | Very simple |
| Unallocated | 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 | Term loans | FY2022 | - | FY2039 | 1210.0 | [ICRA]A (Stable) |
| NA | Bank guarantee | - | - | - | (32.0) | [ICRA]A (Stable) |
| NA | Unallocated | - | - | - | 140.0 | [ICRA]A (Stable) /[ICRA]A1 |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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