

October 16, 2024

Brigade Infrastructure and Power 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 | 750.00 | 490.00 | [ICRA]A+(CE) (Stable); reaffirmed |
| Total | 750.00 | 490.00 | |

Rating Without Explicit Credit Enhancement

[ICRA]BBB+

*Instrument details are provided in Annexure-I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The rating reaffirmation for Brigade Infrastructure and Power Private Limited (BIPPL) is based on the strength of the corporate guarantee extended by the parent Brigade Enterprises Limited (BEL/the guarantor, rated at [ICRA]AA-(Stable)/A1+) for the rated facilities, besides its standalone credit considerations. The rating is one notch lower than the rating of the guarantor and is constrained, given the absence of a well-defined pre-default invocation and payment mechanism in the corporate guarantee deed. Further, the rating is constrained by BIPPL's exposure to asset concentration risk, besides market risk for the sole ongoing commercial project. The Stable outlook on the rating is aligned with the outlook on the rating of the guarantor (BEL).

Adequacy of credit enhancement

The corporate guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument, though it does not have a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by BEL results in an enhancement in the rating of the said instrument to [ICRA]A+(CE) against the rating of [ICRA]BBB+ without explicit credit enhancement. In case the rating of the guarantor or the unsupported rating of BIPPL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of the instrument may also undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

The project, Brigade Twin Towers, is favourably located in Yeswanthpur, Bengaluru, thus enhancing the marketability. However, the project is exposed to residual execution risk with 23% of the project cost yet to be incurred as of March 2024. Further, the project faces significant market risk for 0.66 msf of the commercial project for leasing and 91% of area yet to be sold of the total 0.55 msf of commercial project for sale, as of March 2024. Significant delays in leasing and/or at adequate rentals, will adversely affect its cash flow position and increase the refinance risk for the construction finance (CF) loan availed for the project. . . Nonetheless, the Brigade Group's strong track record of project execution and leasing provides comfort. ICRA notes that the DCCO has been extended by seven months i.e., from May 2024 to December 2024, with the approval of the lenders. Pursuant to which, the bullet repayment falling due in May 2025 is now revised to December 2025. The company has sufficient time to achieve adequate leasing tie-ups for refinancing the bullet repayment for the CF loan falling due in December 2025.

Salient covenants of the rated facility

1. Promoter's contribution/margin for the project should be always at or above 44%, with fixed asset coverage ratio (FACR) of 1.66 times.
2. The parent company, BEL's, undertaking that in case of cost overrun, the difference amount will be made good by BEL.
3. BEL's undertaking that in case of delay in tie-up of LRD for full loan when the construction term loan is due for repayment, the difference will be made good by BEL.

Key rating drivers and their description

Credit strengths

Corporate guarantee from BEL towards rated bank facilities of BIPPL – The ratings derive comfort from the irrevocable and unconditional corporate guarantee extended by BEL, though it does not have a well-defined invocation and payment mechanism.

Established track record of Group in real estate sector – BIPPL is a part of the Brigade Group, which is one of the leasing real estate developers in South India. BEL is its flagship company. It has completed and delivered a total area of more than 86 msf, comprising 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 was developing 20.88 msf (BEL's share –15.73 msf) of real estate projects (by saleable area), 0.97 msf of leasing development and 0.11 msf of hospitality projects as on March 31, 2024.

Favourable location of project – The project, Brigade Twin Towers, is located on the north-western part of Bengaluru, along the Bengaluru Pune Highway (NH-4) in Yeswanthpur Industrial Suburb, which is an emerging location for commercial office space, enhancing the marketability. Yeswanthpur lies in contiguity to the major Peenya Industrial Area, which hosts several small, medium and large-scale industries. Some prominent industrial units placed here are Kirloskar Electric, Volvo Construction, Triveni Turbine, ABB India, etc. Moreover, other key tech parks are accessible including Manyata Tech Park, and Rajajinagar IT Park.

Credit challenges

Exposure to residual execution risk and market risk, modest pre-leasing tie-up in place – As of March 2024, the company is yet to incur 23% of the project cost for its ongoing commercial project of 1.21 msf, which is expected to be completed by December 2024, exposing it to residual execution risk. Further, the project is exposed to significant market risk for 0.66 msf of the commercial project for leasing and 91% of area yet to be sold of the total 0.55 msf of commercial project for sale, as of March 2024. Also, the adequacy of committed cash flows (committed receivables in ongoing projects/pending cost in ongoing projects and debt outstanding) for commercial project for sale stood low at 19% as of March 2024. Nonetheless, the favourable location of the project, current construction progress and the Brigade Group's established track record in leasing commercial real estate projects mitigate the market risk to an extent.

Exposure to refinancing risk – Any significant delays in achieving leasing tie-ups or inability to tie-up leases at adequate rental rates for the ongoing commercial project, could adversely impact the company's cash flow position and its ability to refinance the construction loan availed for this project. Nonetheless, it has sufficient time to achieve adequate leasing tie-ups for refinancing the bullet repayment for the CF loan falling due in December 2025, as the project is expected to be ready by December 2024. The DCCO has been extended by seven months i.e., from May 2024 to December 2024, with the approval of the lenders. Further, surplus collections from the office segment for sale may be utilised towards prepayment of the loan.

Exposure to geographical and asset concentration risks – The company is exposed to high geographical and asset concentration risks inherent in special purpose vehicles (SPVs), as a sole ongoing commercial project is being constructed in Bengaluru.

Liquidity position

For the rated entity (BIPPL): Adequate

On a standalone basis, BIPPL’s liquidity profile is adequate. As on March 31, 2024, the remaining project cost of Rs. 210 crore for the ongoing commercial project is expected to be met from Rs. 125 crore of undrawn CF loan and the remaining from promoter funds. The CF loan availed for the project has a bullet repayment in December 2025, whereas the project is likely to be ready by December 2024. This should provide adequate time for achieving lease tie-ups and subsequent refinancing of this CF loan by a lease rental discounting (LRD) facility.

For the guarantor (BEL): Strong

The company’s liquidity profile is strong, with cash and liquid investments of Rs. 2,073 crore as on March 31, 2024 (including encumbered cash of Rs. 183 crore towards DSRA). The liquidity is supported by undrawn bank debt levels (including undrawn LRD debt) of around Rs. 1,380 crore. The cash generation from the residential segment is expected to remain strong. Further, company has concluded fund raising through QIP for Rs. 1,500 crore in September 2024. BEL’s consolidated debt repayments in FY2025 and FY2026 are likely to be ~Rs. 720 crore and ~Rs. 710 crore, respectively, which can be comfortably met from its cash flow from operations.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of strong leasing tie-ups at adequate rental rates, along with commencement of rentals and healthy collections from the office segment for sale resulting in significant improvement in debt coverage metrics, while maintaining comfortable leverage metrics, on a sustained basis, along with improvement in credit profile of the guarantor, BEL.

Negative factors – Any inability to tie-up leases at adequate rental rates and/or weakening in sales velocity and collections from the office segment for sale or increase in indebtedness impacting the company’s debt protection metrics could result in a rating downgrade. Additionally, deterioration in the credit profile of the guarantor, BEL, or the weakening of business linkages of the company with the guarantor could also put pressure on the ratings.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Realty- Lease Rental Discounting (LRD) Realty- Commercial/Residential/Retail |
| Parent/Group support | Parent company: Brigade Enterprises Limited (BEL) ICRA expects the parent, BEL, to provide timely financial support to the company, for funding any shortfall, given their close financial linkages, the company’s strategic importance for the parent and the parent’s reputation sensitivity to default. Moreover, BEL has provided an irrevocable and unconditional corporate guarantee to the rated bank facility of BIPPL. Link to the last rating rationale of the guarantor |
| Consolidation/Standalone | The ratings are based on the standalone operational and financial profile of the company. |

About the company

In December 2017, BEL through its wholly-owned subsidiary, BIPPL, acquired land admeasuring 12.95 acre at Yeswanthpur, North Bengaluru from SABMiller India. It started construction of the commercial office project—Brigade Twin Towers—in FY2020. The commercial office project—Twin Towers will be completed by December 2024. The land for the project is owned by the special purpose vehicle (SPV), and the civil construction for development of ~1.21 msf of commercial office space is in progress at present. The leasable area and saleable area will be 0.66 msf and 0.55 msf respectively. The total project cost (including land) for ~1.21 msf is Rs. 895 crore, which is to be funded by debt to equity ratio of 54%:46%.

Key financial indicators (audited)

| | FY2022 | FY2023 | FY2024 |
|--|--------|--------|--------|
| Operating income | 0.0 | 0.0 | 0.0 |
| PAT | -0.1 | -0.3 | -0.6 |
| OPBDIT/OI | 0.0 | 0.0 | 0.0 |
| PAT/OI | 0.0 | 0.0 | 0.0 |
| Total outside liabilities/Tangible net worth (times) | 0.5 | 1.1 | n.m |
| Total debt/OPBDIT (times) | n.m | n.m | n.m |
| Interest coverage (times) | n.m | n.m | n.m |

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; n.m: not material, Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Current (FY2025) | | | Chronology of rating history for the past 3 years | | | | | | | |
|----------------------------------|------------------|--------------------------|-----------------------|---|-----------------------|-------------|-------------------------|-------------|-------------------------|-------------|-----------------------|
| | Type | FY2025 | | FY2024 | | FY2023 | | | | FY2022 | |
| | | Amount Rated (Rs. crore) | Oct 16,2024 | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| Long term-term loan-fund based | Long Term | 490.00 | [ICRA]A+(CE) (Stable) | 09-OCT-2023 | [ICRA]A+(CE) (Stable) | 10-JAN-2023 | [ICRA]A+(CE) (Positive) | 22-NOV-2022 | [ICRA]A+(CE) (Positive) | 06-AUG-2021 | [ICRA]A+(CE) (Stable) |
| Capex LC (sublimit of term loan) | Long Term | | | | | | | 22-NOV-2022 | [ICRA]A+(CE) (Positive) | 06-AUG-2021 | [ICRA]A+(CE) (Stable) |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|----------------------------------|----------------------|
| Long-term Fund-based – Term loan | 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 | Term loans | FY2020 | - | FY2026 | 490.00 | [[ICRA]A+(CE)(Stable) |

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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