

July 17, 2020

Brigade Infrastructure and Power Private Limited (BIPPL): [ICRA]A(CE) (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	750.0	[ICRA]A(CE) (Stable); assigned
Capex LC (Sub-limit of Term Loan)	(100.0)	[ICRA]A(CE) (Stable); assigned
Total	750.0	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement **[ICRA]BBB+**

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 above rating is based on the strength of the corporate guarantee provided by Brigade Enterprises Limited (BEL), the holding company of Brigade Infrastructure and Power Private Limited (BIPPL), for the rated term loan programme. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, BEL.

Adequacy of credit enhancement

The rating of BIPPL takes into account the corporate guarantee provided by BEL to the borrowing programme of BIPPL. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenure of the rated instrument. Given these attributes, the guarantee provided by BEL is adequately strong to result 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 was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

1. Promoter's contribution/margin for the project should be always at or above 44%. Fixed Asset Coverage Ratio (FACR) of 1.66 to be maintained
2. The parent company, Brigade Enterprises Limited (BEL), to furnish an undertaking that in case of cost overrun, the difference amount will be made good by BEL.
3. BEL has to furnish an 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 rating derives comfort from the irrevocable and unconditional corporate guarantee extended by BEL. The rated instrument does not involve a structured payment mechanism.

Favourable location of project – The project is located on the north-western part of the Bangalore city, along the Bangalore Pune Highway (NH-4) in Yeshwanthpur Industrial Suburb, which is an emerging location for commercial office space.

Established track record of Group in real estate sector - BIPPL is part of the Brigade Group, which is an established player in the Bangalore real estate market.

Credit challenges

High execution risk - The Twin Tower project involves development of 2.07 million square feet (mn sqft) of leasable office space. The project was launched in FY2020 and its construction is expected to be concluded over the next three-four years. Given the nascent stage of the project as on date, the company is exposed to significant execution risks.

No pre-leasing as on date – The absence of pre-leasing tie-ups as on date increases the market risks of the project. Notwithstanding the Group's track record in commercial real estate development and leasing, the company is exposed to risks arising due to any decline in demand trends in the market.

Exposure to refinancing risk - Any delay in construction or lower-than-expected leasing could adversely impact the company's cash flow position and its ability to refinance the construction loan. The refinancing risk is mitigated to some extent by the long tenure (five years) of the loan and the low debt-to-equity ratio (1.3:1).

Liquidity position: Adequate

The liquidity position of the company is expected to be driven by the liquidity profile of the guarantor. At the standalone level, BIPPL's liquidity is adequate as the debt finance closure is in place and a significant portion of the equity funding has already been brought in to fund the land cost. The pending costs on the project will be met through a mix of drawdown of the sanctioned term loan and additional equity infusion. The construction finance loan, of Rs. 750.0 crore, will be refinanced with a lease rental discounting (LRD) loan post commercialisation of the entire building. At the group level, BEL's liquidity is adequate, supported by undrawn bank lines of around Rs. 1,250 crore and cash and liquid investments worth Rs. 437 crore as on March 31, 2020.

Rating sensitivities

The rating assigned to the borrowing facilities of BIPPL would remain sensitive to any movement in the rating or outlook of the guarantor, BEL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	The rating assigned to BIPPL factors in the high likelihood of its parent, BEL (rated [ICRA]A(Stable)), extending financial support to it because of close business linkages between them. Moreover, BEL has provided corporate guarantee to the borrowing programme of BIPPL. Link to the last rating rationale of the guarantor
Consolidation/Standalone	ICRA has evaluated the standalone operational and financial profile of BIPPL. In addition, the rating derives strength from the corporate guarantee provided by BEL for the borrowings of BIPPL.

About the company

In December 2017, Brigade Enterprises Limited, through its wholly owned subsidiary, Brigade Infrastructure and Power Private Limited (BIPPL), had acquired land admeasuring 12.95 acre at Yeshwanthpur, North Bangalore from SABMiller India. BIPPL started construction of the commercial office project—Brigade Twin Towers—in FY2020 and is planning to complete both phases of the project by FY2024. The land for the project is owned by the SPV, and the civil construction for development of the first phase of 1.27 mn sqft of commercial office space is in progress at present. The leasable area will be enhanced to 2.07 mn sqft upon receipt of necessary approvals. The total project cost (including land) is Rs. 1336 crore, which is to be part funded by a term loan of Rs. 750 crore.

About the guarantor

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 66 mn sqft, comprising over 250 residential, commercial and hospitality projects. BEL has established itself as one of the major diversified real estate developers in Bangalore. At present, it is developing 15.62 mn sqft (BEL's share – 12.26 mn sqft) of real estate projects (by saleable area), 5.55 mn sqft (BEL's share – 2.86 mn sqft) of leasing development and two hospitality projects with a total of 285 keys. Though BEL's operations are mainly concentrated in Bangalore, it is developing few projects in other cities such as Mysore, Kochi, Mangalore, GIFT City and Chennai.

BIPPL's key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	-	-
PAT (Rs. crore)	0.2	-0.2
OPBDIT/OI (%)	-	-
PAT/OI (%)	-	-
Total Outside Liabilities/Tangible Net Worth (times)-		-
Total Debt/OPBDIT (times)	n.m.	n.m.
Interest coverage (times)	n.m.	n.m.

n.m.: not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Instrument	Current Rating (FY2021)		Amount Outstanding (Rs. crore) as of March 2020	Date & Rating 17-July-20	Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)			Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
Term Loan	Long Term	750.0	Nil	[ICRA]A(CE) (Stable)	-	-	-
Capex LC (Sub-limit of Term Loan)	Long Term	(100.0)	Nil	[ICRA]A(CE) (Stable)	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2020	-	FY2026	750.0	[ICRA]A(CE) (Stable)
NA	Capex LC (Sub-limit of Term Loan)	-	-	-	(100.0)	[ICRA]A(CE) (Stable)

Source: BIPPL

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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