June 30, 2023

Bhartiya Urban Private Limited: Rating upgraded to [ICRA]BBB + (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	1,368.45	1202.70	[ICRA]BBB+(Stable) upgrade from [ICRA]BBB(Stable)
Long-term – Fund-based – CC/OD	-	15.00	[ICRA]BBB+(Stable) upgrade from [ICRA]BBB(Stable)
Unallocated limits	-	150.75	[ICRA]BBB+(Stable) upgrade from [ICRA]BBB(Stable)
Total	**1,368.45**	**1368.45**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Bhartiya Urban Private Limited (BUPL) factors in the healthy expected operating performance of the residential segment in FY2024 with estimated sales area of 0.80-0.85 msf (0.45 msf in FY2023), sales value of around Rs. 600 crore (Rs. 304 crore in FY2023) and collections of around Rs. 500 crore (Rs. 407.3 crore in FY2023), supported by strong launch pipeline and steady demand. The rating upgrade notes the debt reduction by Rs. 260.8 crore to Rs. 1,281.19 crore as of March 2023 achieved by the company through proceeds received from stake sale in BUPL's subsidiary, Milestone Buildcon Private Limited (MBPL) to GIC, Singapore. BUPL has refinanced the high cost residential-cum-construction finance (CF) loan of the retail mall at favourable terms with lease rental discounting (LRD) loan of 12 years (Rs. 425 core) and a term loan of 3 years tenor (Rs. 280 crore) at lower interest rates. Going forward, ICRA expects the leverage measured by Total Debt/CFO to around 4.8-5 times as of March 2024 (above 16 times as of March 2023), driven by higher cash flow from operations and steady debt levels. The company's cash flow adequacy cover is healthy with receivables/ (pending construction cost + debt outstanding) of 71% as of March 2023 (31% as of December 2021). The rating continues to derive comfort from the favourable location and the benefits arising out of the integrated township nature of the project (comprising commercial spaces, retail, hotel, besides a school and proposed hospital in future phases), supporting its market prospects.

The rating, however, remains constrained by the company's exposure to the residual execution risk for the current ongoing project, Nikoo IV, where 35% of the project cost has been incurred as on March 2023. BUPL also plans to launch two more projects with 2.87 msf of saleable area in the next 3-4 months, exposing it to execution and market risks for these projects. Nonetheless, BUPL's strong track record of project execution and sales, having delivered around 6-7 mn sq ft of area till date provides comfort. While the hotel and mall operations have started ramping up after facing initial challenges posed by the Covid-19 pandemic, the same are yet to fully stabilise and reach optimal levels in terms of leasing and occupancy, which are the key monitorable. Hotel occupancy stood at 56% in FY2023 against 30% in FY2022 and the average room rental (ARR) increased to Rs. 8629 in FY2023 from Rs. 5,186 in FY2022. As on March 31, 2023, 53% of the retail mall was operational with another 16% under fitouts. The company is expected to improve the occupancy levels to 60-65% in FY2024 for hotel and achieve leasing of 75% for the retail mall. Further, the rating is constrained by the cyclicality risk inherent in the real estate business, geographical concentration risk with significant dependence on North Bengaluru micro market for its completed, ongoing as well as future projects.

The Stable outlook on the rating reflects ICRA's expectations that BUPL will maintain its credit profile backed by demonstrated strong project execution capabilities and healthy saleability in residential segment, augmented by the overall social infrastructure offerings in the township including the retail mall and hotel.

Key rating drivers and their description

Credit strengths

Healthy sales velocity in residential projects; expected to be sustained in FY2024 – The company sold 0.45 msf of residential area at a sales value of Rs. 304.2 crore and reported collections of Rs. 407.3 crore in FY2023. BUPL's high value luxury project, Branded Residences, witnessed steady sales progress, with 85% area sold as of March 2023 against 65% as of September 2021. It continues to maintain low completed inventory stock (0.1 msf as of FY2023), which coupled with robust pre-sales in majority of the projects, demonstrates healthy saleability. The company's cash flow adequacy cover is healthy with receivables/ (pending construction cost + debt outstanding) of 71% as on March 31, 2023 (31% as of December 2021). BUPL is expected to maintain the growth trajectory in FY2024 on the back of strong launch pipeline with estimated sales area of 0.80-0.85 msf at sales value of around Rs. 600 crore and collections of around Rs. 500 crore.

Reduction in debt levels and refinancing of high cost residential-cum-retail CF loan at favourable terms – The company's total debt declined by Rs. 260.8 crore to Rs. 1,281.2 crore as of March 2023. The rating factors in the refinancing of the high cost residential-cum-retail CF loan with short tenure, by LRD loan of 12 years (Rs. 425 crore) and a term loan of 3 years tenor (Rs. 280 crore) at lower interest rates. The company's leverage measured by total Debt/CFO as on March 31, 2023 remained elevated at above 16 times due to low CFO because of high project expenditure. However, it is expected to improve to 4.8-5 times as of March 2024, driven by higher CFO and steady debt levels.

Favourable location and benefits from integrated nature of development – The project is favourably located in North Bengaluru, supported by its proximity to the international airport and office hubs. Besides location, successful completion and handover of units achieved in the initial phases, focus on the mid-segment housing, which has witnessed steady demand in the micro market and the benefits arising out of the integrated township nature of the project (comprising commercial spaces, retail, hotel, besides a school and proposed hospital in future phases), support its market prospects.

Credit challenges

Risks associated with timely stabilisation of hotel and retail operations – The operations of hotel and retail mall were adversely impacted by the Covid-19 pandemic and are yet to fully stabilise and reach optimal levels in terms of leasing and occupancy, which are the key monitorables. The hotel occupancy stood at 56% in FY2023 against 30% in FY2022 and the ARR increased to Rs. 5,186 in FY2023 from Rs. 8,629 in FY2023. As on March 31, 2023, 53% of the retail mall was operational with another 16% under fitouts. The company is expected to improve the occupancy levels to 60-65% in FY2024 for hotel and achieve leasing for 75% of the area for the retail mall. ICRA notes that, as on date, the mall has achieved 71% leasing with another 4% area under fitout.

Exposure to execution and market risks for ongoing and proposed projects, geographical concentration risk – The company is currently developing Nikoo IV spanning 0.96 msf area where 97.5% area has been sold and 35% cost has been incurred as on March 31,2023. It is also planning to launch two more projects with 2.87 msf of saleable area within the next 3-4 months, which exposes it to execution and market risks. The company also faces geographical concentration as all the projects are located in North Bangalore. However, ICRA takes comfort from BUPL's track record of project execution and sales, having delivered around 6-7 mn sq ft of area till date.

Cyclicality inherent in real estate sector – The real estate sector is marked by volatile prices and a highly fragmented market structure because of a large number of regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors that in turn render the company's sales vulnerable to any downturn in demand.

Liquidity position: Adequate

BUPL's liquidity is adequate, supported by unencumbered cash balance of Rs. 170 crore as of March 2023 and steady expected operational cash flows on the back of healthy bookings achieved in branded residences and Nikoo-IV. The company's debt repayment obligations are likely to be met from cash flows from operations and available cash balances.

Rating sensitivities

Positive factors – The rating could be upgraded in case of significant and sustained growth in sales and collections in the company's residential portfolio and ramp-up in retail mall and hotel operations resulting in healthy growth in cash flows from operations, liquidity, and considerable reduction in debt levels. Specific credit metrics that could lead to an upgrade include Total debt/CFO remaining below 3.5 times on a consistent basis.

Negative factors – Any significant weakening in sales velocity and collections in the ongoing and new projects, sustained pressure on occupancy level of the mall and RevPAR of the hotel or considerable debt-funded investments in new projects resulting in deterioration in the leverage and coverage metrics, on a prolonged basis, could result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Hotel Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of BUPL, and its subsidiary given the close business, financial and managerial linkages among them. Refer Annexure II.

About the company

Bhartiya Urban Private Limited (BUPL) is the holding-cum-operating company for the Gurugram-based Bhartiya Group's real estate operations. BUPL holds ~123 acres land in Thannisandra Road, in North Bengaluru (located at a distance of ~25 kms. from Bangalore international Airport), where it is developing an integrated township project under the name – Bhartiya City, comprising residential apartments, IT SEZ, commercial and retail space and an upscale hotel.

Key financial indicators (audited)

BUPL Standalone	FY2022	FY2023*
Operating income	592.6	1132.8
PAT	-56.5	187.5
OPBDIT/OI	12.8%	14.9%
PAT/OI	-9.5%	16.5%
Total outside liabilities/Tangible net worth (times)	13.9	4.1
Total debt/OPBDIT (times)	20.02	7.27
Interest coverage (times)	0.6	1.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; Provisional financials, all ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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 as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					June 30, 2023	-	Mar 18, 2022 Feb 02, 2022	Nov 10, 2020
1	**Term loans**	Long term	1202.70	1082.07	**[ICRA]BBB+ (Stable)**	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Negative)**
2	**CC/OD**	Long term	15.00	-	**[ICRA]BBB+ (Stable)**	-	-	-
3	**Unallocated limits**	Long term	150.75	-	**[ICRA]BBB+ (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based – CC/OD	Simple
Long-term – Unallocated limits	NA

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 loan-I	Sep-2018	NA	Sep-2032	284.48	[ICRA]BBB+ (Stable)
NA	Term loan-II	May-2020	NA	May-2028	49.25	[ICRA]BBB+ (Stable)
NA	Term loan-III	July-2021	NA	July-2027	38.97	[ICRA]BBB+ (Stable)
NA	Term loan-IV	Dec-2022	NA	Jun-2024	90.00	[ICRA]BBB+ (Stable)
NA	Term loan-V	Feb-2023	NA	Jan-2026	273.30	[ICRA]BBB+ (Stable)
NA	Term loan-VI	Feb-2023	NA	Oct-2033	381.70	[ICRA]BBB+ (Stable)
NA	Term loan-VII	Apr-23	NA	Mar-26	85.00	[ICRA]BBB+ (Stable)
NA	CC/OD	Apr-23	NA	Mar-26	15.00	[ICRA]BBB+ (Stable)
NA	Unallocated limits	-	-	-	150.75	[ICRA]BBB+ (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

Name	Ownership	Consolidation Approach
Milecon IT Park 3B 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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