April 10, 2024

Bhartiya Urban Private Limited: Rating reaffirmed; outlook revised to Positive; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	1202.70	1288.00	[ICRA]BBB+ reaffirmed; outlook revised to Positive from Stable
Long-term – Fund-based – CC/OD	15.00	00.00	-
Unallocated limits	150.75	00.00	-
Total	**1368.45**	**1288.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on the long-term rating to Positive factors in the healthy operating performance of the residential segment of Bhartiya Urban Private Limited (BUPL) in FY2024, which is expected to be sustained in FY2025. The company has refinanced its high-cost debt against the retail mall and the hotel in January 2024. The new debt has a longer tenure and lower interest rate, which is likely to result in an improvement in the company's debt coverage metrics. In 9M FY2024, BUPL sold an area of 0.74 million square feet (msf) and reported pre-sales and collections of Rs. 742 crore and Rs. 187 crore, respectively. The cash flow adequacy for the ongoing residential projects stood healthy with receivables/ (pending construction cost + debt outstanding) of 76% as of December 2023. ICRA expects the pre-sales for the residential segment to be around Rs. 1,000 - 1,100 crore in FY2024 (PY: Rs. 304 crore) and grow by another 30%-35% in FY2025. Additionally, the collections are likely to remain healthy at Rs. 420 crore in FY2024 and increase to around Rs. 950 crore in FY2025, driven by adequate committed sales and a healthy launch pipeline of upcoming projects.

ICRA notes the steady improvement in the operating performance of hotel and mall segments in 9M FY2024. The hotel RevPAR increased by 3.4% to Rs. 4,995 in 9M FY2024 from Rs. 4,832 in FY2023. ICRA expects the RevPAR to remain at around Rs. 5,300 in FY2024 and increase further by 13-15% in FY2025. The operational occupancy for the retail mall increased to 77%[1] as of December 2023 from 53% as of March 2023. ICRA expects the operational occupancy to improve further to ~85% for the retail mall in FY2025. Consequently, the cash flow from operations is estimated to improve. 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. ICRA notes that BUPL's subsidiary, Milecon IT Park 3B Private Limited (MI3PL), is in the advanced stage of construction and has achieved pre-leasing tie-ups for 45% area, with a healthy leasing pipeline for another 50% of incremental area as of December 2023. BUPL has entered into an agreement with a global sovereign wealth fund, whereby MI3PL will be acquired by the latter once 85% of the area in the property is leased. Based on the current leasing progress, the transaction in likely to be completed by March 2025.

The rating, however, remains constrained by the high consolidated leverage, measured by gross debt/CFO, estimated at 8-8.5 times as of March 2024 (compared to above 16 times as of March 2023). However, it is expected to improve to ~5 times as of March 2025, driven by higher cash flow from operations and steady debt levels. The company remains exposed to execution risk for the current ongoing projects, Nikoo IV and Nikoo V-Phase 1, where 48% and 89% of the project cost was yet to be

1 Committed occupancy for retail mall is 83% as of December 2023

incurred as of December 2023. The company has significant plans to expand its ongoing residential portfolio with a future project pipeline of around 4.8 msf of residential area (BUPL's share), to be launched over the next 12 months. Additionally, it faces construction and market risk for the ongoing commercial office project under its subsidiary, Bhartiya City Residences Private Limited (BCRPL) of 0.85 msf of leasable area, wherein 66% of cost was yet to be incurred and no pre-leasing was in place as of December 2023. Nonetheless, BUPL's demonstrated track record of timely project execution, and ability to achieve healthy sales and leasing progress in its residential and commercial projects, respectively, provides comfort.

ICRA notes that while the hotel and mall operations witnessed a healthy ramp up in 9M FY2024, the same are yet to reach optimal levels. The company's mall rentals remain low in relation to the debt outstanding, resulting in modest debt coverage indicators for the retail mall. Therefore, a significant increase in rental income while maintaining strong occupancy levels remains critical for mall operations. Nonetheless, there is a fungibility of cash flows from the residential projects – Nikoo-IV (ongoing) and Leela branded residencies (completed), inflows from which can be utilised for meeting any debt servicing shortfall against the mall debt. The rating is also 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.

Key rating drivers and their description

Credit strengths

Healthy operating performance of residential projects – The company's ongoing projects witnessed strong sales response, with Nikoo IV achieving 99% sales progress, while Nikoo V-Phase 1, which was launched in November 2023, achieved 56% sales as of December 2023. In 9M FY2024, BUPL sold an area of 0.74 msf and reported pre-sales and collections of Rs. 742 crore and Rs. 187 crore, respectively. The cash flow adequacy for the ongoing residential projects stood healthy with receivables/ (pending construction cost + debt outstanding) of 76% as of December 2023. ICRA expects the pre-sales for the residential segment to be around Rs. 1,000-1,100 crore in FY2024 (PY: Rs. 304 crore) and grow by another 30-35% in FY2025. Additionally, the collections are likely to remain healthy at Rs. 420 crore in FY2024 and increase to around Rs. 950 crore in FY2025, driven by adequate committed sales and a healthy launch pipeline of the upcoming projects. Consequently, the cash flow from operations is estimated to improve.

Steady improvement in hotel and mall segment, refinancing with elongation of debt tenure under these segments – The operating performance of hotel and mall segments witnessed a steady improvement in 9M FY2024. The hotel RevPAR increased by 3.4% to Rs. 4,995 in 9M FY2024 from Rs. 4,832 in FY2023. ICRA expects RevPAR to remain at around Rs. 5,300 in FY2024 and increase further by 13-15% in FY2025. The operational occupancy for the retail mall increased to 77% as of December 2023 from 53% as of March 2023. ICRA expects the operational occupancy to improve further to ~85% for the retail mall in FY2025. Consequently, the cash flow from operations is estimated to improve. The company has refinanced its high-cost debt against the retail mall and the hotel in January 2024. The new debt has a longer tenure and lower interest rate, which is expected to result in an improvement in the company's debt coverage metrics.

Favourable location and benefits from integrated nature of development – The company's ongoing projects are favourably located in North Bengaluru, supported by their 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 micromarket, support the credit profile. Additionally, 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

Exposure to execution and market risks for ongoing and proposed projects, geographical concentration risk – The company faces execution risk for its ongoing projects, Nikoo IV and Nikoo V-Phase 1, where 48% and 89% of the project cost was yet to be incurred as of December 2023. The company also has significant plans to expand its ongoing residential portfolio with a future project pipeline of around 4.8 msf of residential area (BUPL's share), to be launched over the next 12 months. Additionally, it faces construction and market risk for the ongoing commercial office project under its subsidiary, Bhartiya City Residences Private Limited (BCRPL) of 0.85 msf of leasable area, wherein 66% of cost was yet to be incurred and no pre-leasing was in place as of December 2023. Nonetheless, BUPL's demonstrated track record of timely project execution, and ability to achieve healthy sales and leasing progress in its residential and commercial projects, respectively, provides comfort. The company faces geographical concentration risk with significant dependence on a single township currently and North Bengaluru micromarket for its completed, ongoing as well as future projects.

Elevated consolidated leverage and modest coverage indicators for mall segment – The consolidated leverage, measured by gross debt/CFO is estimated at 8-8.5 times as of March 2024 (compared to above 16 times as of March 2023). However, it is expected to improve to ~5 times as of March 2025, driven by higher cash flow from operations and steady debt levels. Out of the total debt of Rs. 1,203.5 crore of BUPL on a standalone basis, Rs. 565 crore is availed against the retail mall, as on January 31, 2024. The debt coverage indicators for the retail mall remain modest. Nonetheless, there is a fungibility of cash flows from the residential projects – Nikoo-IV and Leela branded residencies, inflows from which can be utilised for meeting any debt servicing shortfall against the mall debt.

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, which exposes the company's sales to any downturn in demand.

Liquidity position: Adequate

BUPL's liquidity is adequate, supported by unencumbered cash balance of Rs. 62.88 crore, as on December 31, 2023. The company's debt repayment obligations for the residential and hotel segments are expected to be comfortably met from cash flows from operations. The mall segment has high repayments in relation to its current rentals and the shortfall is likely to be met from cash flows available from the residential projects - Nikoo IV and branded residences. The CF loan with bullet repayment against the commercial project under MI3PL is expected to be refinanced with an LRD loan in July 2024. The bullet repayment for the construction finance loan against the commercial project in BCRPL, will majorly fall due for quarterly repayment from December 2026 to June 2027, which exposes the company to refinancing risk.

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 rentals 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 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 mall rentals 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 Realty – Commercial/Residential/Retail Realty - Lease Rental Discounting (LRD) Rating Methodology – Hotels
Parent/Group support	Not Applicable

Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of BUPL, and its subsidiaries 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- Consolidated	FY2022	FY2023	9M FY2024^
Operating income	592.6	1,139.3	387.1
PAT	-56.5	94.1	-30.1
OPBDIT/OI	12.8%	15.2%	29.5%
PAT/OI	-9.5%	8.3%	-7.8%
Total outside liabilities/Tangible net worth (times)	27.4	3.6	11.4
Total debt/OPBDIT (times)	20.0	12.1	13.2
Interest coverage (times)	0.6	0.9	1.0

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; ^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 (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on January 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
					Apr 10, 2024	Jun 30, 2023	-	Mar 18, 2022	Feb 02, 2022
1	**Term loans**	Long term	1288.00	1,175.15	**[ICRA]BBB+ (Positive)**	**[ICRA]BBB+ (Stable)**	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2	**CC/OD**	Long term	00.00	-	-	**[ICRA]BBB+ (Stable)**	-	-	-
3	**Unallocated limits**	Long term	00.00	-	-	**[ICRA]BBB+ (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 loan-I**	Jan-2024	NA	Jan-2039	565.00	[ICRA]BBB+ (Positive)
NA	**Term loan-II**	Jan-2024	NA	Sep -2032	284.00	[ICRA]BBB+ (Positive)
NA	**Term loan-III**	Jan-2024	NA	Jul-2027	39.00	[ICRA]BBB+ (Positive)
NA	**Term loan-IV**	Oct-2023	NA	Nov-2029	350.00	[ICRA]BBB+ (Positive)
NA	**Term loan-V**	May-2020	NA	Jun-2028	50.00	[ICRA]BBB+ (Positive)

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
Bhartiya City Residencies Private Limited	100%	Full consolidation

Source: Company

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About ICRA Limited:

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