

March 06, 2020

Bharti Realty Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action ¹
Commercial Paper	450.00	450.00	[ICRA]A1+; Reaffirmed
Total	450.00	450.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at Bharti Realty Limited's ratings, ICRA has taken a consolidated view of Bharti Realty Limited and its subsidiaries (hereinafter referred to as BRL), given the close business, financial and managerial linkages among them.

The reaffirmation of the rating takes into consideration the status of BRL as a part of the Bharti Group (flagship company, Bharti Airtel Limited, rated at [ICRA]AA- (Stable) and [ICRA]A1+). In the past year, post restructuring within the realty arm of the Bharti Group, BRL, in addition to housing key properties, has become the holding company for the real estate entities, and is now 100% held by the promoters of the Bharti Group – i.e. – The Mittal family. This restructuring, together with the demonstrated track record of financial support received from the promoters and the shared brand name with the Bharti Group emphasizes the continued strategic importance of BRL to the Group and its promoters. BRL, along with its subsidiaries, has an established track record of around 16 years in the real estate sector, particularly in the commercial segment in the National Capital Region (NCR). The consolidated entity has demonstrated strong project execution and leasing capabilities through completion of 18 commercial properties spread across more than five million square feet (msf), with most properties being fully leased or sold out. A further development of around 0.7 msf in Gurugram, being taken up under BRL's well-received "Worldmark" brand, has been completed and has received partial occupancy certificate (OC). OC for the balance area is awaited. Most properties are well located and have Grade A specifications, which enhances their marketability, leading to a reputed tenant profile. ICRA also notes that a material part of the leased area is occupied by Bharti Group companies, which supports lease continuity and reduces counter-party risks, although customer concentration risks remain high. The annuity income from the leased properties has been moderately leveraged thus far, although overall debt levels remain significant. The overall debt mix has also witnessed a change, with a large portion of promoter funds and short-term debt having been replaced by long-term lease rental backed debt, in line with ICRA's expectations. Earlier, construction of the commercial portfolio was largely financed by short-term loans and group company/promoter funds. Based on the current total external debt and expected annualised gross rental inflows for FY2021, the debt/rental ratio would stand at 5.9 times. Cash flow covers on the external debt are expected to remain adequate. The rating also draws comfort from the strong financial flexibility of the entity, with further potential existing for long-term financing against lease rentals, along with availability of undrawn, sanctioned credit limits and cash and liquid balances. ICRA continues to expect that BRL will service any debt obligations arising from the rated commercial paper programme from long-term debt raised on the back of its lease rental potential.

The rating also factors in BRL's exposure to market risks for the upcoming/unleased properties, although steady demand witnessed for commercial space at present mitigates the risks to some extent. ICRA further notes that BRL has won a bid for development rights for a commercial property on 4.5 lakh square meters of land owned by Delhi International Airport

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications
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Limited (DIAL), and has invested about Rs. 450 crore, primarily in the form of refundable security deposits, in the project thus far, funded by a mix of debt and equity. 40% of the equity has been infused by a Singapore-based investor. At present, however, the project remains at a nascent stage and is thus exposed to execution risks. With a significant financial outlay expected towards the project over the medium term, funding risks also exist. ICRA will continue to monitor the developments in this regard.

Overall, the movement in borrowing levels and extent of ramp up in occupancy in upcoming/unleased properties would be key rating sensitivities. The extent and mode of funding of future capital expenditure for upcoming projects and the impact of the same on the overall risk profile of BRL would also remain critical. Additionally, any weakening in the overall position of the Bharti Group will remain a key rating monitorable.

Key rating drivers and their description

Credit strengths

Status of BRL as a part of the Bharti Group – BRL is a part of the Bharti Group. The flagship company of the Group, Bharti Airtel Limited (rated at [ICRA]AA (Stable) and [ICRA]A1+), is one of India's leading integrated telecommunication service providers. BRL has benefitted from the brand name that it shares with the Group, and has regularly received financial support from the promoters, which emphasizes its strategic importance to the Group and its promoters. Moreover, in the past year, post restructuring within the realty arm of the Bharti Group, BRL, in addition to housing key properties, has become the holding company for the real estate entities, and is now 100% held by the promoters of the Bharti Group – i.e. – The Mittal family.

Established real-estate developer with a track record of around 16 years and demonstrated strong project execution and leasing capabilities – Established in 2003, BRL has been engaged in the business of real estate development and leasing for the past 16 years. It, along with its subsidiaries, has completed 18 commercial properties spread across more than five million square feet (msf) on a pan-India basis, although the major part of the portfolio is concentrated in the NCR region. A further development of around 0.7 msf in Gurugram, being taken up under BRL's well-received "Worldmark" brand, has been completed and has received partial occupancy certificate (OC). OC for the balance area is awaited.

Most assets are favourably located with high occupancy and reputed tenant profile; substantial leasing to group companies supports lease continuity and reduces counter-party risks – Most of BRL's properties are well located and have Grade A specifications, which enhances their marketability, leading to near-full leasing in most of the properties. Astra Towers, located in Kolkata, and built on an inventory sale model, was entirely sold in the past year.

The properties have attracted reputed tenants from diverse sectors including marquee commercial and retail clients. A substantial part of the total leased area is occupied by Bharti Group companies, which supports lease continuity and reduces counter-party risks, although customer concentration risks remain high.

Strong financial flexibility, with potential for raising further long-term financing against lease rentals, along with availability of undrawn credit limits and cash and liquid balances - Based on the current total external debt and expected annualised gross rental inflows for FY2021, assuming adequate ramp up of leasing in the upcoming Worldmark, Gurugram, the debt/rental ratio would stand at 5.9 times. Cash flow covers on the external debt are expected to remain adequate. Strong financial flexibility is present, with further potential existing for long-term financing against lease rentals, along with availability of undrawn, sanctioned credit limits and cash and liquid balances.

ICRA continues to expect that BRL will service any debt obligations arising from the rated commercial paper programme from long-term debt raised on the back of its lease rental potential.

Credit challenges

Exposure to market risks for unleased inventory in existing and upcoming projects – BRL and its subsidiaries remain exposed to market risks for the unleased inventory in the upcoming Worldmark, Gurugram. The project has a leasable area of around 0.7 msf, and is expected to be completed in near term. The company also remains exposed to market risks for the unleased inventory in completed properties.

Exposure to risks for upcoming projects - ICRA notes that BRL has won a bid for development rights for a commercial property on 4.5 lakh square meters of land owned by Delhi International Airport Limited (DIAL) and has invested about Rs. 450 crore, primarily in the form of refundable security deposits, in the project thus far, funded by a mix of debt and equity. 40% of the equity has been infused by a Singapore-based investor. At present, however, the project remains at a nascent stage and is thus exposed to execution risks. With a significant financial outlay expected towards the project over the medium term, funding risks also exist. ICRA will continue to monitor the developments in this regard.

Overall debt levels remain high, with loans raised to fund project construction - The annuity income from the leased properties has been moderately leveraged thus far, although overall debt levels remain significant. The overall debt mix has also witnessed a change, with a large portion of promoter funds and short-term debt having been replaced by long-term lease rental backed debt, in line with ICRA's expectations. Earlier, construction of the commercial portfolio was largely financed by short-term loans and group company/promoter funds.

Liquidity Position: Strong

The entity's liquidity profile is supported by stable lease rental generation, along with availability of cash and liquid balances. Cash flow covers on external debt are expected to remain adequate. Going forward, movement in borrowing levels and extent of ramp up in occupancy in upcoming/unleased properties would be key rating monitorables. The extent and mode of funding of future capital expenditure for upcoming projects and the impact of the same on the overall risk profile of BRL would also remain critical.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – The rating could be revised downwards in case a material fall in occupancy or rental levels or a rise in operating expenses substantially weakens cash accruals and coverage indicators. Any significant increase in overall debt levels, attributable to future capital expenditure for upcoming projects, land investment etc. would also remain a key rating monitorable. Specific metrics include total external debt/rental increasing to above 6.5x. Additionally, any weakening in the overall position of the Bharti Group will remain a key rating monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	<p>Group: Bharti Group</p> <p>BRL holds high strategic importance for the Bharti Group (flagship company, Bharti Airtel Limited, rated at [ICRA]AA- (Stable) and [ICRA]A1+) and its promoters, as demonstrated by the common name that they share, as well as the regular financial support extended by the promoters. Post restructuring of the realty arm over the past year, the promoters now hold 100% of BRL. ICRA expects the financial support from the promoters to continue going forward as well, if required.</p>
Consolidation / Standalone	Consolidated with subsidiaries of BRL

About the company:

Bharti Realty Limited (BRL), together with its subsidiaries, operates as a real estate development company with a focus on commercial projects. The company was incorporated in 2003 and is based in Gurgaon, India. Together with its subsidiaries, BRL currently has around 18 completed commercial projects, spread over around 5 mn sq ft. Some of the key properties include Bharti Crescent, New Delhi; Airtel Centre, Gurgaon and Worldmark 1, 2 and 3, New Delhi.

In FY2019, on a consolidated basis, BRL reported a net profit of Rs. 40.56 crore on an operating income of Rs. 452.68 crore compared to a net loss of Rs. 20.26 crore on an operating income of Rs. 404.75 crore in the previous year.

Key financial indicators (consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	404.75	452.68
PAT (Rs. crore)	-20.21	40.56
OPBDIT/OI (%)	62.68%	74.75%
RoCE (%)	6.16%	7.09%
Total Outside Liabilities/Tangible Net Worth (times)	14.74	16.50
Total Debt/OPBDIT (times)	11.38	12.77
Interest Coverage (times)	1.48	2.02
DSCR	0.60	0.65

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years:

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					06-March-2020	28-Mar-2019	-	-
1	Commercial Paper	Short Term	450.0	Nil	[ICRA]A1+	[ICRA]A1+	-	-

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	Commercial Paper*	NA	NA	NA	450.00	[ICRA]A1+

*Not placed

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rajarhat IT Park Limited	100%	Full Consolidation
Oak Infrastructure Developers Limited	100%	Full Consolidation
Aspen Buildtech Limited	100%	Full Consolidation
Conifer Projects Limited	100%	Full Consolidation
Beech Projects Limited*	100%	Full Consolidation
Angelica Developers Limited	100%	Full Consolidation
Arnon Builders & Developers Limited	100%	Full Consolidation
Nile Tech Limited	100%	Full Consolidation
Bharti Land Limited	100%	Full Consolidation
Pomor Realty Limited	100%	Full Consolidation
Triskhi Realty Limited	100%	Full Consolidation
Pamir Developers Limited	60%	Full Consolidation
Populus Realty Limited	60%	Full Consolidation
Zagros Developers Limited	60%	Full Consolidation
Vinta Realty Limited	60%	Full Consolidation
Alborz Developers Limited	60%	Full Consolidation

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