May 19, 2023

# Brigade Enterprises Limited: Ratings upgraded, outlook on long-term rating revised to Stable from Positive; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term Fund-based – Term loan** | 1,836.00 | 2080.00 | [ICRA]AA- (Stable); Rating upgraded from [ICRA]A+ (Positive); with outlook revised to Stable from Positive; Assigned for enhanced amount |
| **Long-term Fund-based – CC/OD** | 90.00 | 90.00 | [ICRA]AA- (Stable); Rating upgraded from [ICRA]A+ (Positive); with outlook revised to Stable from Positive |
| **Long-term Unallocated limits** | 274.00 | 330.00 | [ICRA]AA- (Stable); Rating upgraded from [ICRA]A+ (Positive); with outlook revised to Stable from Positive; Assigned for enhanced amount |
| **Short-term Non-fund based sublimit of CC/OD** | (40.00) | (40.00) | [ICRA]A1+ upgraded from [ICRA]A1 |
| **Total** | **2,200.00** | **2,500.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating upgrade factors in Brigade Enterprises Limited's (BEL) strong operating performance in FY2023, marked by healthy growth in cash flows and significant reduction in leverage in the real estate segment[1], which is expected to sustain in FY2024, supported by healthy end-user demand and good affordability. The company sold 3.96 million square feet (msf) of area and reported sales of Rs. 2,618.5 crore in 9M FY2023, a YoY growth of 25% and 31%, respectively. The collections from the real estate segment remained strong at Rs. 2,852 crore in 9M FY2023 (YoY growth of 32%) and are estimated to grow by 23% YoY in FY2023 and 12% YoY in FY2024. Aided by healthy cash inflows, the debt in the real estate segment has reduced to Rs. 77 crore as of December 2022 from Rs. 272 crore as of March 2022. The receivables from the sold area in the completed and ongoing projects has improved to 88% of the pending cost and the debt outstanding as of December 2022 against 71% as of March 2022. The trend of market consolidation in the real estate market and BEL's strong project pipeline is expected to support the growth momentum.

The ratings factor in the improvement in operational metrics of the leasing and hospitality segment. The leasing progress in the Group's completed office properties improved to 81% as of December 2022 against 69% as of March 2022, while for retail, it increased to 93% as of December 2022 against 89% as of March 2022. Further, improved average room rate (ARR) and occupancy in hospitality segment resulted in RevPAR of Rs. 3,930 in 9M FY2023 from Rs. 1,570 in FY2022 and Rs. 2,871 in FY2020. Both the segments are expected to surpass the pre-Covid level of earnings in FY2023. The performance is likely to be sustained in FY2024 with estimated occupancy level of 85% for office segment and 94% for retail segment, while the RevPAR for hospitality segment is projected to be Rs. 4,060 in FY2024. The company's leverage is anticipated to remain comfortable with total debt[2]/cash flow from operations (CFO) of ~2.4 times in FY2023 and 3.0 times in FY2024. Around 87% of the total debt for FY2023 and FY2024 is expected to be lease rental discounting (LRD) debt, which is self-liquidating. The ratings continue to factor in BEL's established position in the Bangalore real estate market and its diversified presence across residential,

[1] *Real estate segment includes residential and commercial projects on sale model.*
[2] *Total expected debt for FY2023 includes debt of Rs. 47 crore in residential segment, Rs. 3,260 crore in commercial leasing segment and Rs. 522 crore in hospitality segment.*

commercial and hospitality segments. It is likely to invest around ~Rs. 1,000-1,200 crore over the next 3-4 years towards land acquisition.

The ratings are, however, constrained by the exposure to execution and market risks arising from the company's large expansion plans (estimated launch pipeline of 9-10 msf per annum for the next three years). It is exposed to market risk for the vacant area of 1.41 msf of commercial office space segment, as of December 2022. Nonetheless, ICRA notes that with the incremental leasing tie-ups in 9M FY2023, the leverage and coverage ratios in the office leasing segment have improved and most of these properties are better placed to refinance their construction loan into longer tenure LRD loans, which reduces the cash flow mismatches in the near to medium term. The strong cash flow in residential segment and increase in occupancy in leasing segment are likely to aid an improvement in ROCE. The ratings are constrained by the cyclicality risk inherent in the real estate business, geographical concentration risk with significant dependence on Bengaluru micro-market for its completed, ongoing as well as future projects. The ratings also note the vulnerability of the hospitality and retail leasing operations to external shocks such as the Covid-19 pandemic.

The Stable outlook on the rating reflects ICRA's belief that the Group will continue to benefit from its established brand as well as strong operating track record, low leverage, and strong financial flexibility.

## Key rating drivers and their description

### Credit strengths

**Established position in real estate market with diversification across segments** – BEL is one of the leading real estate developers in South India. It has completed and delivered a total area of more than 72 msf, comprising over 255 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 is developing 17.79 msf (BEL's share – 12.65 msf) of real estate projects (by saleable area), 1.3 msf of leasing development and 0.11 msf of hospitality project as on December 31, 2022. The diversification in the revenues and cash flows allows the Group to offset the challenges associated with the cyclicality in these sectors to some extent. BEL has a good brand equity, which supports the saleability of its residential real estate projects.

**Continued healthy performance in residential real estate segment** – BEL achieved pre-sales of 4.0 msf in 9M FY2023 against 3.16 msf in 9M FY2022 and 4.7 msf in FY2022. The company's pre-sales are dominated by residential real estate segment which accounted for 94% of total sold area in 9M FY2023. BEL witnessed healthy saleability translating to high cash flows across its ongoing project portfolio, including the new launches of 2.4 msf in 9M FY2023. The collections in the real estate segment increased by 32% YoY to Rs. 2,852 crore in 9M FY2023. The company's real estate segment is expected to grow further, aided by a robust launch pipeline and investments in new land bank, while maintaining low leverage metrics. The good saleability in the ongoing projects has translated into high visibility on cash flows. The receivables from the sold area in the completed and ongoing projects covered 88% of the pending cost and the debt outstanding as of December 2022, improved from 71% as of March 2022. Healthy cash flows from the residential real estate projects have enabled significant reduction in external debt in real estate segment to Rs. 77 crore as on December 31, 2022.

**Improvement in operational metrics of leasing and hospitality segment** – The leasing progress in the Group's completed office properties improved to 81% in December 2022 against 69% in March 2022, while for retail, the occupancy increased to 93% in December 2022 against 89% in March 2022. Further, improved ARR and occupancy in hospitality segment resulted in RevPAR of Rs. 3,930 in 9M FY2023 from Rs. 1,570 in FY2022 and Rs. 2,871 in FY2020. Both the segments are likely to surpass the pre-Covid level of earnings in FY2023. The performance is expected to be sustained in FY2024 with estimated occupancy level of 85% for office segment and 94% for retail segment, while the RevPAR for hospitality segment is projected to be Rs. 4,060.

## Credit challenges

**High dependence on Bengaluru real estate market** – BEL's dependence on the Bengaluru real estate market remains high (more than 75% of total residential sales and 73% of leasing segment income in 9M FY2023), which exposes it to any region-specific downturn in demand. While it plans to launch multiple projects in various cities outside Bengaluru, the extent of scale up in these territories and their contribution to the consolidated sales mix will remain a key monitorable.

**Exposure to execution and market risks** – BEL has significant plans of expanding its ongoing portfolio to maintain the growth momentum and strengthen its market presence. The company plans to launch 9 msf in FY2024, exposing it to execution and market risks. However, ICRA takes comfort from BEL's track record of project execution and sales. It is further exposed to market risk for the vacant area of 1.41 msf of commercial office space segment.

**Cyclicality inherent in real estate sector** – The company is vulnerable to the inherent risks of the real estate sector, such as susceptibility to declining property prices, a slowdown in economy and reduction in housing demand. The hospitality and leasing segments are exposed to risks arising from the cyclicality in the sector and vulnerability to exogenous shocks such as the Covid-19 pandemic, which could impact the cash flows.

## Environmental and social risks

The real estate segment is exposed to risks of increasing environmental norms impacting operating costs, including higher cost of compliance with pollution control regulations. Environmental clearances are required for commencement of projects and lack of timely approvals can affect its business operations. Impact of changing environmental regulations on licences taken for property development could create credit risks.

In terms of social risks, the trend post-pandemic has been favourable to residential real estate developers as demand for quality home with good social infrastructure has increased. Further, rapid urbanisation and a high proportion of workforce population (aged 25-44 years) will support long-term demand for the real estate sector in India.

## Liquidity position: Strong

The company's liquidity profile is strong with cash and liquid investments worth Rs. 1,922.8 crore as on December 31, 2022 (including encumbered cash of Rs. 133 crore towards DSRA). The liquidity is supported by undrawn bank debt levels of around Rs. 1,406 crore, including undrawn LRD debt. The cash generation from the residential segment is expected to remain strong. It is estimated to invest around Rs. 1,000 crore in FY2024 towards land acquisitions and the same is likely to be funded primarily by internal accruals.

## Rating sensitivities

**Positive factors** – The ratings may be upgraded if the company is able to significantly improve its sales and collections along with geographical diversification in the residential segment, while maintaining low leverage. Deleveraging in both leasing and hospitality segment along with maintaining the Total Debt to CFO[3] ratio below 2.25 times, on a sustained basis, at the consolidated level, could trigger a rating upgrade.

**Negative factors** – Any significant weakening of sales velocity and collections in the residential segment and/or any increase in vacancy in the leasing portfolio and/or considerable debt-funded investments in new projects resulting in weakening of

*[3] Total debt includes construction finance debt for residential, commercial and hospitality segments and LRD loan for commercial and hospitality segments. Cash flow from operations includes collection from residential and commercial projects, leasing income and hospitality income net off construction and direct cost attributable to the segments.*

leverage metrics or liquidity position, on a sustained basis, may lead to a rating downgrade. Specific trigger which may result in a rating downgrade, includes Total Debt to CFO at consolidated level remaining above 3.75 times on a consistent basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Real Estate Entities<br>Rating approach - Lease rental discounting (LRD)<br>Rating approach - Hotels |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of BEL and its subsidiaries given the close business, financial and managerial linkages among them Refer-Annexure II. |

## About the company

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 72 msf, comprising over 255 residential, commercial and hospitality projects. The company has established itself as one of the major diversified real estate developers in Bengaluru. It is developing 17.8 msf (BEL's share – 12.65 msf) of real estate projects (by saleable area) as on December 31, 2022, 1.3 msf of leasing development and 0.11 msf of hospitality project. Though BEL's operations are concentrated in Bengaluru, it is developing projects in Chennai, which is emerging as the second largest market for the company and a few other projects in Hyderabad, Mysore, Kochi, and GIFT City.

### Key financial indicators (audited) - Consolidated

| Consolidated | FY2021 | FY2022 | H1 FY2023 |
|---|---|---|---|
| **Operating income (Rs. crore)** | 1950 | 2999 | 1,782 |
| **PAT (Rs. crore)** | -99.0 | -67.5 | 116 |
| **OPBDIT/OI (%)** | 24.2 | 25.6 | 25.0 |
| **PAT/OI (%)** | -5.1 | -2.2 | 6.2 |
| **Total outside liabilities/Tangible net worth (times)** | 4.5 | 4.2 | 4.2 |
| **Total debt/OPBDIT (times)** | 8.5 | 6.4 | 8.9 |
| **Interest coverage (times)** | 1.4 | 1.7 | 2.1 |

*Source: Company; All ratios as per ICRA's calculations, PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

## 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 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding # (Rs. crore) | Date & Rating in | Date & Rating in FY2023 | | Date & Rating in FY2022 | | Date & Rating in FY2021 |
| | | | | | 19-May-23 | 31-Mar-23 | 18-Nov-22 | 03-Dec-21 | 02-Aug-21 | 18-Dec-20 |
| 1 | **Term loans** | Long Term | 2080 | 1440 | [ICRA]AA- (Stable) | [ICRA]A+ (Positive) | [ICRA]A+ (Positive) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Stable) |
| 2 | **Cash Credit (CC)/Overdraft (OD)** | Long Term | 90 | 26.7 | [ICRA]AA- (Stable) | [ICRA]A+ (Positive) | [ICRA]A+ (Positive) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Stable) |
| 3 | **Unallocated limits** | Long Term | 330 | - | [ICRA]AA- (Stable) | [ICRA]A+ (Positive) | [ICRA]A+ (Positive) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Stable) |
| 4 | **Interchangeable LC / BG -sub limit of CC/OD*** | Short Term | (40) | - | [ICRA]A1+ | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 |
| 5 | **WCTL*** | Short Term | - | - | - | - | - | [ICRA]A1 | [ICRA]A1 | - |

*# as on December 31, 2022; * - Letter of credit / bank guarantee .*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term – Term loan** | Simple |
| **Long-term – CC/OD** | Simple |
| **Short-term Non-fund based sublimit of CC/OD – interchangeable** | Very simple |
| **Long-term – Unallocated** | Not Applicable |

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 / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Term loans** | FY2013-FY2022 [@] | - | FY2036[&] | 2,080.00 | [ICRA]AA-(Stable) |
| **NA** | **Overdraft** | | | | 90.00 | [ICRA]AA-(Stable) |
| **NA** | **Unallocated limits** | | | | 330.00 | [ICRA]AA-(Stable) |
| **NA** | **Letter of credit/ Bank guarantee** | | | | (40.00) | [ICRA]A1+ |

*[@] Represents loans sanctioned between FY2013 and FY2022*

*[&] Represents the farthest maturity date among the various maturity dates for different term loans*

*Source: Brigade Enterprises Limited*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure II: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| **Brigade Enterprises Limited (Holding Company)** | - | **Full Consolidation** |
| **BCV Developers Private Limited** | 50.01% | Full Consolidation |
| **Brigade Properties Private Limited** | 51% | Full Consolidation |
| **Perungudi Real Estates Private Limited** | 51% | Full Consolidation |
| **SRP Prosperita Hotel Ventures Limited** | 50.01% | Full Consolidation |
| **Brigade Hospitality Services Limited** | 100% | Full Consolidation |
| **WTC Trades and Projects Private Limited** | 100% | Full Consolidation |
| **Brigade Tetrarch Private Limited** | 100% | Full Consolidation |
| **Brigade Estates and Projects Private Limited** | 100% | Full Consolidation |
| **Brigade Infrastructure and Power Private Limited** | 100% | Full Consolidation |
| **Celebrations Private Limited** | 100% | Full Consolidation |
| **Brigade (Gujarat) Projects Private Limited** | 100% | Full Consolidation |
| **Mysore Projects Private Limited** | 100% | Full Consolidation |
| **Brigade Innovations, LLP** | 95.38% | Full Consolidation |
| **Brigade Hotel Ventures Limited** | 100% | Full Consolidation |
| **Augusta Club Private Limited** | 100% | Full Consolidation |
| **Brigade Flexible Office Spaces Private Limited** | 100% | Full Consolidation |
| **Tetrarch Developers Limited** | 100% | Full Consolidation |
| **Venusta Ventures Private Limited** | 100% | Full Consolidation |
| **Zoiros Projects Private Limited** | 100% | Full Consolidation |
| **Vibrancy Real Estate Private Limited** | 100% | Full Consolidation |
| **Propel Capital Ventures LLP** | 99% | Full Consolidation |
| **BCV Real Estates Private Limited** | 100% | Full Consolidation |
| **Tandem Allied Services Private Limited** | 100% | Full Consolidation |
| **Tetrarch Real Estates 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.

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## ICRA Limited

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