September 20, 2019 Revised

Brigade Enterprises Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based - Term Loan	2,286.00	2,615.94	[ICRA]A(Stable); Reaffirmed
Long-term Fund-based - CC/OD	0.00	60.00	[ICRA]A(Stable); Reaffirmed
Long-term Unallocated Limits	584.00	189.06	[ICRA]A(Stable); Reaffirmed
Short-term Non-fund Based	60.00	65.00	[ICRA]A1; Reaffirmed
Total	**2,930.00**	**2,930.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to factor in Brigade Enterprises Limited's (BEL's) established position in the Bangalore real estate market and its diversified presence across residential, commercial and hospitality segments. The ratings take into account the improvement in pre-sales volumes in the residential segment in the last four quarters, aided by the launch of new projects in favourable locations. The ratings continue to draw comfort from BEL's commercial real estate portfolio with a leasable area of 3.3 million square feet (mn sqft) that generates a stable rental income. Around 40% of BEL's consolidated debt profile as of June 2019 was in the form of rental securitisation loans. The Group's hospitality projects (a mix of mature and newly-commissioned assets) provide additional diversification and support the growth prospects. Stabilisation of operations in the recently-commissioned hospitality assets would further boost BEL's cash flows in FY2020. Moreover, BEL is expected to close certain stake dilution transactions in identified projects/SPVs in FY2020. If these transactions are concluded, the proceeds will reduce the funding requirements towards the ongoing capital expenditure (capex) projects.

The ratings are, however, constrained by the company's increasing debt levels, primarily on account of the capex for its commercial projects, Brigade Tech Gardens (BTG) in Bengaluru and World Trade Centre (WTC) in Chennai, which are under construction. Moreover, the collection levels moderated in Q1 FY2020, necessitating a greater reliance on external funds. On a consolidated basis, BEL's debt levels increased to Rs. 3,474 crore as of June 2019 from Rs. 2,903 crore as of June 2018. Given the funding requirements arising from the ongoing and planned capex projects, BEL's debt levels are expected to increase further in the near to medium term, unless the stake dilution transactions materialise and the collections ramp up adequately in the residential segment. The ratings factor in the high leverage levels and the modest debt coverage metrics for the hospitality division, due to the ramp-up phase of newer hotels and the exposure to inherent cyclicality in the sector. The ratings are also constrained by the concentration of BEL's operations in the Bangalore market as well as sensitivity to a decline in property prices, slowdown in economy, and decrease in housing demand.

The Stable outlook reflects ICRA's expectation that the Group's strong track record and healthy annuity income portfolio (which will almost double, post commercialisation of BTG and WTC) will support its operational and financial risk profile in the near to medium term.

Key rating drivers

Credit strengths

Established position in Bangalore real estate market - BEL is a leading real estate developer in Bangalore. It has completed and delivered a total area of more than 66 mn sqft, comprising over 250 real estate and hospitality projects.

Diversified revenue portfolio with presence in residential, commercial and hospitality segments - BEL generates revenue primarily from three segments - sale of residential and commercial real estate projects, lease income from owned commercial property (office and retail), and income from hospitality projects. In FY2019, BEL derived around 79% of its revenues from real estate operations (including sale of commercial property), 10% from hospitality assets and 11% from its leasing segment.

Stable cash flows from commercial leasing segment - BEL's commercial real estate portfolio, with a leasable area of 3.3 mn sqft, generates a stable lease income with annualised rental potential of close to Rs. 275 crore. Around 40% of BEL's consolidated debt profile as of June 2019 was in the form of rental securitisation loans. Further, 22% of the debt profile was in the form of construction finance for the ongoing capex projects with more than 5.0 mn sqft of leasable area. Timely completion of development and leasing in these projects and conversion into self-liquidating rental discounting loans can further improve the maturity profile of BEL's loan book.

Healthy uptick in pre-sales volumes in residential segment - The pre-sales in residential and commercial segments improved to 0.96 mn sqft in Q4 FY2019, taking the overall pre-sales in FY2019 to 2.96 mn sqft, witnessing a growth of 89% on a YoY basis. In Q1 FY2020, it improved further to 1.13 mn sqft, witnessing a growth of 165% on a YoY basis. The pre-sales were supported by sales in the recently-launched projects such as Utopia, El Dorado, Orchards, Beuna Vista, Woods and Bricklane. With the launch volume expected to improve, the pre-sales are expected to remain stable going forward.

Credit challenges

Sizeable ongoing and planned capex - Given the sizeable funding requirements arising from the ongoing and planned capex, BEL's debt levels are expected to increase further in the near to medium term. The bulk of the capex outflow will be on account of two commercial real estate projects, BTG and WTC, with a total leasable area of around 5.0 mn sqft. BEL is expected to close certain stake dilution transactions in identified projects/SPVs in FY2020. If these transactions are concluded, the proceeds will reduce the debt-funding requirements towards the projects.

Moderation in coverage indicators for hospitality segment in FY2019 - The coverage indicators for the hospitality segment weakened in FY2019 as the newly-commissioned hotels are yet to reach optimal occupancy levels. Going forward, the coverage indicators are expected to remain moderate with an increase in debt levels to fund the capex being undertaken. Nonetheless, the impact is expected to be mitigated to some extent by improving profitability in the newly-commissioned hotels.

High concentration on Bangalore real estate market - Though BEL's revenue mix is moderately diversified among the various segments it operates in, it is mainly focussed on the Bangalore real estate market. The Bangalore projects represent around 90% of the ongoing residential development (by area), exposing the company to adverse movements in the regional real estate market. Moreover, out of the total land bank of 413 acres as of March 2019, 65% is located in the city.

Liquidity position: Adequate

The company's liquidity profile remains **adequate**, supported by undrawn bank lines of Rs. 1,386 crore and cash and liquid investments worth Rs. 343 crore as on June 30, 2019. These are expected to support its capex requirement in the commercial leasing segments and funding gaps, if any, in the residential development projects. Inflow from warrants issued in FY2020 (aggregating to Rs. 115 crore, of which Rs. 29 crore was received in August 2019) will be an additional source of fund for the company. Moreover, BEL is expected to close certain stake dilution transactions in identified projects/SPVs in FY2020. This, if materialised, will reduce the funding requirements towards the ongoing capex projects. These include stake sale in Brigade Hotel Ventures Limited and stake dilution in Brigade Twin Towers (upcoming commercial leasing project).

Rating sensitivities

Positive triggers - ICRA could upgrade BEL's ratings if the company is able to sustain its pre-sales volume in the residential segment, and achieve a significant ramp-up in operating revenues on the back of timely commercialisation and leasing at higher rates in its commercial portfolio (primarily, BTG, Bengaluru and WTC, Chennai). The net debt to rental ratio reducing to 4.5 times on a sustained basis for the leasing segment could lead to an upgrade of BEL's ratings. The company's ability to reduce its leverage over the near to medium term, through inflows from stake dilution in identified projects/SPVs, will also be a positive.

Negative triggers - Negative pressure on BEL's ratings could arise in case there is a delay in leasing tie-ups in the ongoing and upcoming commercial projects, leading to a slower-than-expected ramp-up in rentals and a lower-than-expected cash cover. The net debt to rental (forward 12-months) ratio increasing above 6.0 times for the leasing segment could lead to a downgrade of BEL's ratings. The ratings could also be downgraded in case of weakness in pre-sales in the residential segment, or higher-than-expected debt levels owing to increased land investments, or weaker operational cash flows than estimated.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Real Estate Entities Rating Methodology for Entities in the Hotel Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of BEL and its subsidiaries given the close business, financial and managerial linkages among them.

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 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 13.41 mn sqft (BEL's share - 10.65 mn sqft) of real estate projects (by saleable area), 5.64 mn sqft (BEL's share - 3.01 mn sqft) of leasing development and two hospitality projects with a total of 310 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.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,897.2	2,972.8
PAT (Rs. crore)	131.4	280.1
OPBDIT/ OI (%)	29.2%	26.6%
RoCE (%)	13.4%	17.8%
Total Debt/ TNW (times)	1.4	1.6
Total Debt/ OPBDIT (times)	6.1	4.8
Interest Coverage (times)	2.1	2.8

Source: Company, ICRA; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE: Return on Capital Employed; OI: Operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding# (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017	
					20-September 2019	03-September 2018	03-October2017	31-May 2017	10-March 2017	05-October 2016
1	Term Loans	Long Term	2,615.94	1,615.94	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)
2	Overdraft	Long Term	60.00	-	[ICRA]A (Stable)	-	-	-	-	-
3	Unallocated Limits	Long Term	189.06	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-
4	Letter of Credit/ Bank Guarantee	Short Term	65.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

 # As on July 31, 2019

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
-	Term Loans	FY2013-FY2020 @	-	FY2030&	2,615.94	[ICRA]A(Stable)
-	Overdraft	-	-	-	60.00	[ICRA]A(Stable)
-	Unallocated Limits	-	-	-	189.06	[ICRA]A(Stable)
-	Letter of Credit/ Bank Guarantee	-	-	-	65.00	[ICRA]A1

@ Represents loans sanctioned between FY2013 and FY2020
& Represents the farthest maturity date among the various maturity dates for different term loans
Source: Brigade Enterprises Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Brigade Enterprises Limited (Holding Company)	**-**	**Full Consolidation**
Subsidiary Companies		
BCV Developers Private Limited	50.01%	Full Consolidation
Brigade Properties Private Limited	51%	Full Consolidation
Brookefields Real Estates and Projects Private Limited	100%	Full Consolidation
Perungudi Real Estates Private Limited	51%	Full Consolidation
SRP Prosperita Hotel Ventures Limited	50.01%	Full Consolidation
Orion Property Management Services Limited	100%	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, LLP	95%	Full Consolidation
Brigade (Gujarat) Projects Private Limited	100%	Full Consolidation
Mysore Projects Private Limited	100%	Full Consolidation
Brigade Innovations, LLP	99.80%	Full Consolidation
Brigade Hotel Ventures Limited	100%	Full Consolidation
Augusta Club Private Limited	100%	Full Consolidation

Source: FY2019 Audited financial statement

Corrigendum

The document dated September 20, 2019, has been corrected with revision as detailed below:

- RoCE figure has been updated under the 'Key financial indicators' section on page 4.

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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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