

Brigade Gujarat Projects Private Limited

August 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	81.00	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to the bank facilities of Brigade Gujarat Projects Private Limited (BGP) continues to factor in its strong operational, financial and managerial linkages with Brigade Enterprises Limited (BEL). BEL is the flagship company of the Brigade group, which is one of the leading real estate developers based out of South India, having a presence in all verticals, viz, residential, commercial, retail, and hospitality. BEL has a long operational track record of close to four decades and has created its strong brand image in the regions it operates in, on the back of its execution track record.

BEL, in order to build a commercial space in Gujarat International Finance Tec-City (GIFT City), incorporated a separate special purpose vehicle (SPV) in the form of BGP, as the entities in the area operate under different regulatory regimes. BGP's leasing has seen moderation to 74% as on March 31, 2023, as against 92% as on December 31, 2022, as certain letters of intent (LoI) could not be converted into final lease agreements. However, the company was able to lease out around 0.3 lakh sq ft (lsf) during Q1, resulting in around 82% of occupancy as on July 2023. BGP is yet to draw the rated lease rental discounting (LRD) of ₹81 crore and the drawal of the same will be linked to the leasing progress, thereby maintaining satisfactory debt coverage indicators. Nevertheless, these leases are inherently exposed to renewal risk along with the susceptibility of cash flows to rising interest rates. The continuance of the strong linkages of BEL with BGP will be a key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Trigger for improvement in rating may arise upon improvement in the credit profile of BEL marked by an improvement in the leasing progress of the commercial and retail segments, positive cash flow generation in the hospitality segment, and sustained sales velocity in the residential division.

Negative factors

- Deterioration in the credit profile of BEL or weakening of managerial and financial linkages between BEL and BGPPL could arise negative pressure on the rating.
- Significant decline in the occupancy or deterioration in the liquidity of BGP may also impact the rating.

Analytical approach

Standalone and factoring in the strong support that BGP receives from BEL in terms of operations with common management and treasury.

Outlook: Stable

The 'Stable' outlook reflects the expectations of CARE Ratings of the stable flow of rentals to the company from tenants over the lease tenor, which will help the company in maintaining satisfactory coverage indicators.

Detailed description of the key rating drivers

Key strengths

Continuing strong credit profile of BEL

Residential: BEL has around 15.51 million sq ft (msf) of ongoing projects and unsold inventory from completed projects, with around 11.47 msf sold as on March 31, 2023. BEL has reported the highest-ever sales in area sold in the residential segment of 6.08 msf in FY23 when compared to 4.64 msf in FY22 on account of improved sales velocity and also reported the highest-ever collections of ₹3,884 crore. With improved sales velocity and collections, BEL was able to repay the majority of the residential debt, resulting into an outstanding debt of ₹47 crore as on March 31, 2023, against ₹272 crore as on March 31, 2022. BEL's unsold inventory levels stood at eight months as on March 31, 2023, as the company launched around 5.27 msf of residential projects including plotted development during FY23 and has a strong residential pipeline of 6.1 msf of BEL's share.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Commercial: BEL was able to lease out around 1.09 msf in commercial leasing and was able to achieve 85% leasing in the total leasable area of 7.39 msf.

Retail: The occupancy levels have improved and stood at 95% in FY23 against 88% in FY22, resulting in improved collections, showing improvement when compared to the pre-COVID-19 levels.

Hospitality: The opening up of business travel and tourism has resulted in an improvement in occupancy levels from 44% in FY22 to around 69% in FY23, which was around 7% higher than the FY20 levels (pre-COVID-19). With improved occupancy levels, the segment was able to turnaround and reported a total revenue of around ₹394 crore with earnings before interest, taxes, depreciation, and amortisation (EBIDTA) of ₹118 crore for FY23, resulting in a total debt (TD)-to-EBIDTA of 4.65x.

Consolidated debt: The reduction in net debt, as on March 2023, is on account of the improved collections in the residential segment with continued improvement in leasing in commercial and retail and a turnaround in the hospitality segment. As on March 31, 2023, the net debt levels stood at ₹2,139 crore as against ₹2,540 crore as on March 31, 2022.

CARE Ratings Limited (CARE Ratings) expects BEL to continue to maintain its strong credit profile on the back of its strong brand recall, aiding residential sales, with a gradual improvement in the leasing progress and a recovery in the hospitality segment.

Operational, financial, and managerial support from the Brigade group

The project has been launched under the Brigade International Finance Centre (BIFC), thereby enjoying the established brand name of the Brigade group. Maintaining of strong linkages between BGP and BEL will be a key rating monitorable. The entire leasing and marketing of the project is carried out by the Brigade group. The Brigade group intends to give continuous management, operational, and financial support to BGP and remain committed to infusing funds in BGP to meet any cash flow mismatches to ensure BGP honours its debt commitment in a timely manner.

Healthy occupancy of BIFC, although moderate

While the occupancy remains healthy, there is a moderation in leasing to 74% as on March 31, 2023, as against 92% as on December 31, 2022, as certain LoIs could not be converted into final lease agreements due to a delay in the necessary approvals from the GIFT city authorities in relation to the foreign exchange remittance. However, the company was able to lease out around 0.3 lsf during Q1, resulting in 82% of the occupancy as on June 30, 2023. As such, the company is yet to draw the rated LRD loan and the management has articulated that the disbursement will be linked to leasing progress, thereby maintaining satisfactory debt coverage indicators.

Key weaknesses

Vulnerability to cash flows to decline in occupancy and rise in interest rates

Although the lease deeds are signed for a longer tenor, the same has to be renewed after regular intervals, which may lead to the re-negotiation of rentals. The maturity of the rated debt falls in September 2034, by which almost all leases would expire. Furthermore, the interest rate is floating and any rise in the same may lead to cash flow mismatches. However, it is expected that with the gradual development of GIFT City, the demand for commercial space in the area will remain intact. Moreover, the debt of BGP is of a small magnitude and any temporary cash flow mismatch can be funded out of the strong liquidity position of BEL.

Liquidity: Adequate

The company's liquidity is marked by healthy occupancy levels, which will generate rentals with a sufficient cushion over and above the debt repayments. BGP has also maintained a one month debt service reserve account (DSRA). The company's liquidity is also supplemented by it being part of the Brigade group, which provides financial flexibility. BEL, at a consolidated level, had cash and equivalents of ₹1,690 crore as on March 31, 2023.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Factoring Linkages Parent Sub JV Group](#)

[Rating methodology for Debt backed by lease rentals](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Residential, Commercial Projects

BGP is a wholly owned subsidiary of BEL, which is the flagship company of the Brigade group. The special purpose vehicle (SPV) was incorporated to undertake construction and leasing of the commercial property BIFC with a leasable area of 3.14 Isf in the GIFT special economic zone (SEZ), Gandhinagar. The project was completed in September 2018, well ahead of the commercial operation date (COD) of May 2019.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	3.84	8.57
PBILDT	1.01	3.77
PAT	-8.12	-6.93
Overall gearing (times)	NM	NM
Interest coverage (times)	0.18	0.39

A: Audited; NM: Not meaningful. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	-	September 2034	81.00	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (12-Aug-21)	1)CARE A- ; Stable (25-Mar-21)
2	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	81.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Dec-22)	-	-

LT: Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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