March 18, 2022

Bhartiya Urban Private Limited: Rating assigned for enhanced limits; Ratings reaffirmed for existing limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	1,220.00	1,368.45	[ICRA]BBB(Stable) assigned to enhanced limits; ratings reaffirmed for existing limits
Total	**1,220.00**	**1,368.45**	

**Instrument details are provided in Annexure-1*

Rationale

The rating of Bhartiya Urban Private Limited (BUPL) factors in the successful completion and commencement of operations of the retail mall and hotel, providing improved revenue visibility. Adequate lease tie-up in the retail mall will support refinancing of a significant portion of the construction debt outstanding with a lease rental discounting (LRD) loan. Further, the extension of debt repayment moratorium till December 2022 for the residential cum retail construction finance loans, supports the near-term liquidity profile and provides cushion to the company to ramp up operations in the retail mall. Moreover, the continued strong saleability demonstrated in the new phase launched in Nikoo series in FY2022, lends good visibility for cash flows in the near-to-medium term. 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 also notes the financial flexibility arising from value of BUPL's investment in its 100% subsidiary, Milestone Buildcon Private Limited (MBPL), including the additional debt raising potential based on current leasing position.

The rating, however, remains constrained by the risks associated with timely stabilisation of operations in the hotel and retail mall, where the commencement of operations had been impacted by the Covid-19 pandemic. The ramp-up in operations could be adversely impacted by the ongoing Covid-19 pandemic; significant delays in rent stabilization in the retail mall or subdued occupancy and ARR levels in the hotel may adversely impact the financial profile of BUPL. The rating is also restricted by the muted sales and collection momentum of the high value luxury residential development in the project ("branded residences"). Though the scale of the branded residences compared to the overall ongoing development is small, due to its high-ticket size the company's future cash flow needs are dependent on timely sales and inflows from this phase. Continued weak sales momentum in this segment could increase debt refinancing dependence. The rating also considers the risks associated with the presence of the company's projects in a single location and resultant exposure to the performance of the north Bangalore real estate micro-market in particular.

The stable outlook on the rating reflects ICRA's expectations that BUPL will maintain its credit profile backed by demonstrated strong project execution capabilities and healthy saleability in Nikoo phases, augmented by the overall social infrastructure offerings in the township.

Key rating drivers and their description

Credit strengths

Continued healthy sales velocity in Nikoo phases – The company continues to witness healthy sales velocity in the Nikoo residential apartment development, as observed by the strong sales response received for the recently launched Nikoo-IV phase. As on September 2021, the company has achieved close to 100% and 98% of sales booking status respectively, in the earlier two phases of the Nikoo phases. The strong saleability demonstrated in the new phase launched in Nikoo series in FY2022, lends good visibility for cash flows in the near-to-medium term.

Favourable location and benefits from integrated nature of development – The project is favourably located in north Bengaluru, supported by its 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 micro market 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), support its market prospects.

Demonstrated strong project execution capabilities – Over the years, the company has already constructed and delivered Nikoo-I and several blocks of Nikoo-II. The remaining blocks in Nikoo-II are currently nearing handover stage. Construction works for branded residences is also in advanced stages, with expected completion in Q1FY2023. Further, in the recent past, the company has successfully completed the development of the retail mall, hotel and school phases of the township.

Improved cash flow visibility owing to completion of retail mall – Adequate lease tie-up and commencement of operations in the retail mall, leads to improved visibility towards availing of LRD loan required to refinance a significant portion of the construction debt outstanding. The extension of debt repayment moratorium till December 2022 for the residential cum retail construction finance loans, supports the near-term liquidity profile and provides cushion to the company to ramp up operations in the retail mall. Further, the surpluses expected from the ongoing and upcoming residential phases of the project, are expected to remain adequate to pay down the balance construction debt repayment obligations. ICRA also notes the financial flexibility arising from value of BUPL's investment in its 100% subsidiary, Milestone Buildcon Private Limited (MBPL), including the additional debt raising potential based on current leasing position.

Credit challenges

Risks associated with timely stabilisation of hotel and retail operations - Commencement of operations in the hotel and retail mall had been impacted by the Covid-19 pandemic. The ramp-up in operations could be adversely impacted by the ongoing Covid-19 pandemic; significant delays in rent stabilization in the retail mall or subdued occupancy and ARR levels in the hotel may adversely impact the financial profile of BUPL.

Muted sales momentum in branded residences – Though the scale of the branded residencies compared to the overall ongoing development is small, due to its high-ticket size the company's future cash flow needs are dependent on timely inflows from this phase. Over the past couple of years, sales in branded residencies have remained modest. Given the luxury nature of the project, sales momentum is expected to remain slow during the intermediate development stage and would pick-up once the project reaches near completion stage. With expected completion in Q1FY2023, sales from this phase is expected to witness significant traction from Q2FY2023 onwards. However, ability to timely liquidate the significant inventory remains a key monitorable.

Risks associated with dependence on single location and large future development – While the ratings factor in BUPL's development plans of 8.4 million sq. ft. currently, the project still has substantial future development potential. The risk is heightened considering the geographical concentration of a large supply which results in absorption risk. Although the company has fairly phased out the project till date and proposes to phase out the future planned development as well, timing of its launches as well as its funding will remain crucial for the company's credit profile. Owing to the dependence on single location, BUPL is exposed to the performance of the north Bangalore real-estate micro market.

Liquidity position: Adequate

BUPL's operational cash inflows are expected to improve over the next 12 months, with completion of Nikoo-II and Branded Residences and strong bookings achieved in the recently launched Nikoo-IV phase. Adequate lease tie-up in the retail mall will also support refinancing of a significant portion of the construction debt outstanding with a lease rental discounting (LRD) loan. Overall such sources of inflows are expected to remain adequate to meet the funding requirements of the company. The extension of debt repayment moratorium till December 2022 for the residential cum retail construction finance loans, supports the near-term liquidity profile. Further, substantial financial flexibility arising from liquidity available in MBPL, provides comfort towards meeting any short-term cashflow mismatch.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of timely execution and better-than-expected sales performance in the residential segment, especially branded residences, resulting in improved cash flows. Further, faster than expected ramp-up in retail mall and hotel operations and timely tie-up of LRD loan against the retail development, thereby reducing the debt outstanding against the residential development, could lead to improvement in ratings.

Negative factors – Negative pressure on BUPL's rating could arise if, cash flow from operations is lower than expected, either because of subdued sales or any significant delay in completion of the residential phases. Moreover, any significant delays in rent commencement or lower than expected rent rates for the mall, thereby impacting the company's ability to avail adequate LRD loan to meet the refinancing needs of the project, would put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Hotel Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of BUPL.

About the company

Bhartiya Urban Private Limited (BUPL), erstwhile Bhartiya City Developers Private Limited, holds a 123-acre land parcel on Thannisandra Road in North Bengaluru (located at a distance of 25 km from Bangalore International Airport) on which it is developing an integrated township project under the name – "Bhartiya City". The project has a total development potential of over 17 million sq. ft. comprising residential apartments, branded residences, IT SEZ, commercial and retail space, upscale hotel, school and hospital. The project is being developed in a phased manner, with work in progress at present on residential, branded residences, IT SEZ (under a subsidiary), retail and hotel projects involving development of 11.3 million sq. ft. area.

About 37% stake in BUPL is held by the Bhartiya Group's flagship company – Bhartiya International Limited (BIL)[1], while the balance stake is held by BIL's promoters and their associates.

[1] ICRA has [ICRA]BBB(Stable)/[ICRA]A2 ratings outstanding for BIL's bank facilities. For further details, please refer to ICRA's website – www.icra.in

Key financial indicators (audited)

BUPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	157.9	388.6
PAT (Rs. crore)	-7.2	-8.5
OPBDIT/OI (%)	28.0%	25.0%
PAT/OI (%)	-4.6%	-2.2%
Total Outside Liabilities/Tangible Net Worth (times)	14.8	16.7
Total Debt/OPBDIT (times)	22.9	12.7
Interest Coverage (times)	0.8	1.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Note: Amount in Rs. crore;
Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					18-Mar-2022	02-Feb-2022	10-Nov-2020	01-Jul-2019	10-May-2018
1	Term Loans	Long Term	1368.45	1204.1	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Unallocated	Long Term	0.0	--	-	-	-	-	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan-I	Sep-2018	NA	Sep-2025	425.00	[ICRA]BBB (Stable)
NA	Term Loan-II	Oct-2018	NA	Dec-2024	425.00	[ICRA]BBB (Stable)
NA	Term Loan-III	Sep-2018	NA	Sep-2032	320.00	[ICRA]BBB (Stable)
NA	Term Loan-IV	May-2020	NA	May-2028	50.00	[ICRA]BBB (Stable)
NA	Term Loan-V	July-2021	NA	July-2027	53.45	[ICRA]BBB (Stable)
NA	Term Loan-VI	Sep-2021	NA	Jun-2024	95.00	[ICRA]BBB (Stable)

Source: *Company*

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

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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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.

For more information, visit www.icra.in

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