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Key rating assessment  
factors

## ACRA upgrades “Brusnika. Stroitelstvo i development” LLC to A-(RU), outlook Stable, and its bond to A-(RU)

The credit rating of [“Brusnika. Stroitelstvo i development” LLC](#) (hereinafter, the Company, or the Group) has been upgraded to reflect the increased qualitative assessments of the Company's leverage and liquidity driven by diversification of the pool of lenders, as well as increased assessment of the geographical diversification, in view of higher share of premium regions, including Moscow and the Moscow Region, in the Company's revenues expected in the next three years.

The credit rating is based on the strong business profile, very strong geographic diversification, very high profitability, very low leverage, very high coverage, and strong liquidity. Medium market position, medium business size and below medium cash flow assessments hold back the Company's rating.

The Company has been a residential and infrastructure developer since 2004. Currently, it has multiple development projects in Tyumen, Novosibirsk, Ekaterinburg, Surgut, the Moscow Region, and Kurgan. In the nearest future, the Company is expected to finalize its projects in Moscow and enter the market of Omsk. The floor area of projects under construction is 900,000 sq. m. The Company ranked 20<sup>th</sup> among Russian developers in terms of projects completed and under construction.

**The industry risk is assessed as very high** due to a pronounced cyclical nature of the sector, high amount of overdue debt, and substantial number of companies that have defaulted in the last five years. The industry the Company belongs to is a very strong factor limiting the credit rating.

**The strong business profile** is based on very high project diversification, very high assessment of project terms and conditions and their execution time (the sales process is very well aligned with the construction progress; the Company has had no delayed housing delivery in the last three years). The Company is on the list of systemically important enterprises of Russia. It ranks first in the Unified Register of Developers in terms of consumer characteristics of residential projects. The Company was first in Russia to successfully pass the BREEAM certification and obtain the Excellent rating in the residential category.

The Company has been effective in managing its construction deadlines and costs due to well-organized general contractor and engineering oversight procedures, deep IT integration, and in-house architectural and design functions. The Company benefits from the developed and diversified sales channels, as well as its fast-expanding online sales platform.

**High corporate governance assessment.** In ACRA's opinion, the Company is successful in consistently implementing its strategy that should help to strengthen its competitive advantage substantially. The Company's strategy includes an increase in the share of regional markets and a growth in the annual sales up to 600,000 sq. m. ACRA notes that in 2020, the corporate management structure and practices of the Company improved, and the Company increased its financial transparency.

**Very high profitability and coverage, and very low leverage.** ACRA estimates the weighted average FFO margin before net interest payments and taxes for 2018-2023 at 21.5%. The very high margin (as compared to industry peers) reflects the high operating efficiency of the Company. In its leverage calculations, ACRA adjusted the total debt by the amount of debt raised in a project finance transaction and fully secured by buyers' funds kept in escrow accounts (but no more than by the amount of project finance debt). The weighted average ratio of net debt to FFO before net interest payments for 2018-2023 is estimated at 0.55x. In 2020, the Company significantly reduced its dependence on the key lender (Sberbank), whose share in the total corporate debt went down to 21%, which, coupled with the comfortable debt repayment

schedule, improved the qualitative assessment of the debt. The weighted average FFO before net interest payments to net interest payments ratio adjusted for interest payments under the project finance debt for 2018-2023 is estimated at 9.8x.

**Strong liquidity, below medium cash flow assessment.** The liquidity factor assessment reflects the comfortable debt repayment schedule for the next three years and factors in the fairly high volume of cash held in the Company's accounts and the availability of undrawn credit lines. The qualitative assessment of liquidity improved due to a decline in the Company's dependence on the single lender. To assess FCF margin of developers, ACRA adjusts their free cash flow by the amount of expenses funded by project finance transactions and escrow accounts. This way, ACRA estimates the weighted average adjusted FCF margin at -1.8% in 2018-2023, which, according to ACRA's methodology, indicates the very low cash flow assessment. The FCF margin is conditioned by the fact that by the end of 2020, 100% of projects migrated to the escrow framework, as well as investments into the land portfolio and the start of the dividend policy. The Agency is of the opinion that dividend payouts amid very low leverage, very high coverage and strong liquidity does not pose a threat to the Company's credit quality, and therefore ACRA adjusted the cash flow factor assessment one notch up to 'below medium' in accordance with the methodology.

### Key assumptions

- Meeting construction and sales schedules;
- ACRA took into account both projects under construction and projects expected to be commissioned in accordance with the current construction plan of the Company.

### Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

#### A positive rating action may be prompted by:

- The Company's current construction portfolio going up to 2 mln sq. m.

#### A negative rating action may be prompted by:

- The weighted average net debt to FFO before net interest payments ratio adjusted for project finance debt exceeding 1x, and the weighted average FFO before net interest payments to net interest payments ratio adjusted for interest payments under project finance debt declining below 8x;
- The prices in the primary residential real estate markets where the Company is present declining by more than 15% in the forecast period.

### Rating components

**Standalone creditworthiness assessment (SCA):** a-

**Adjustments:** none.

### Issue ratings

[Uncertified exchange-traded interest-bearing non-convertible bonds subject to a centralized title registration issued by “Brusnika. Stroitelstvo i development” LLC, series 001P-01, ISIN RU000A101HU5](#), maturity date: March 9, 2023, issue volume: RUB 4 bln — **A-(RU)**.

**Rationale.** The credit rating of the above bond has been upgraded from BBB+(RU) to A-(RU) to reflect the upgrade in the issuer's credit rating. The issue represents senior unsecured debt of the Company. Due to the absence of either structural or contractual subordination of the issue, ACRA regards the issue as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. According to the ACRA methodology, the recovery rate for unsecured debt qualifies for Category I. Therefore, the issue credit rating is equal to the credit rating of the Company (A-(RU)).

### Regulatory disclosure

The credit ratings were assigned to “Brusnika. Stroitelstvo i development” LLC and the bond (RU000A101HU5) issued by “Brusnika. Stroitelstvo i development” LLC under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations under the National Scale for the Russian Federation](#), [Methodology for Analyzing Member Company Relationships Within Corporate Groups](#) and the [Key Concepts Used](#)

[by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#). The [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation](#) was also applied to assign the credit rating to the above bond issue.

The credit ratings assigned to “Brusnika. Stroitelstvo i development” LLC and its bond (RU000A101HU5) were first published by ACRA on March 3, 2020 and March 12, 2020, respectively. The credit rating of “Brusnika. Stroitelstvo i development” LLC and its outlook and the credit rating of the bond (RU000A101HU5) issued by “Brusnika. Stroitelstvo i development” LLC are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on the data provided by “Brusnika. Stroitelstvo i development” LLC, information from publicly available sources, as well as ACRA’s own databases. The credit ratings are solicited, and “Brusnika. Stroitelstvo i development” LLC participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by “Brusnika. Stroitelstvo i development” LLC in its financial statements have been discovered.

ACRA provided no additional services to “Brusnika. Stroitelstvo i development” LLC. No conflicts of interest were discovered in the course of the rating process.

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