

Second wave impacts sales volume...

About the stock: Brigade Enterprises (BEL) is one of the leading property developers in South India. Distinguished reputation of developing Grade-A commercial property, wide budget range of products from affordable to ultra-premium housing in real estate business and operational marquee hotel assets in hospitality segment provide an edge to the company.

Q1FY22 Results: BEL's sales volumes were impacted by the second wave resulting in a QoQ decline.

- The company reported sales volume of 0.77 mn sq feet, strong growth of ~91% YoY and decline of 54% QoQ. Pre-sales (sales value) were up ~92% YoY (down 53% QoQ) at ₹ 480 crore, with realisations up 5% YoY at ₹ 6275/square feet (led by project mix and price hikes)
- On financial reported numbers, reported revenues grew 88.3% YoY to ₹ 383 crore, down 52% QoQ, on account of weak traction in hospitality (down 63% QoQ) and weak rental revenues at ₹ 112 crore, down 8% QoQ. Revenue recognition from real estate was at ₹ 259.5 crore. The company reported loss of ₹ 40.8 crore, impacted by higher depreciation & interest costs and one-off charge for stamp duty payable of ₹ 20.9 crore

What should investors do? BEL's share price has grown 3.2x over the past five years (from ~₹ 106 in August 2016 to ~₹ 334 levels in August 2021).

- We maintain our BUY rating on the company

Target Price and Valuation: We value BEL at ₹ 405/share.

Key triggers for future price performance:

- Pick-up in sales momentum in the residential business with strong pipeline of 18.1 mn sq ft ongoing projects and 1.9 mn sq ft upcoming projects
- Stable cash flows in office leasing portfolio with traction in leasing to pick up in medium term; normalisation in malls operation to add incremental growth
- Hospitality portfolio recovery led by reopening of economy

Alternate Stock Idea: Besides BEL, we like Mahindra Lifespace in real estate space

- A play on residential expanding real estate portfolio
- BUY with a target price of ₹ 940



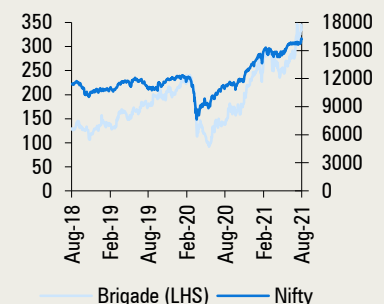
Particulars

Particulars	Amount (₹ crore)
Market Capitalization	7,667.0
Total Debt	4,299.6
Cash	559.4
EV	11,407.2
52 week H/L (₹)	358/ 136
Equity capital	229.6
Face value (₹)	10.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	47.3	47.8	48.0	44.1
DII	20.0	20.4	20.2	24.8
FII	11.4	11.7	11.8	12.9
Other	21.3	20.2	20.0	18.2

Price Chart



Key Risks

Key Risk: (i) Slowdown in residential real estate; (ii) Delay in lease offtake at Commercial Assets

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales	2972.8	2632.2	1950.0	3.1%	2744.7	3462.5	33.3%
EBITDA	789.7	663.2	471.9	-1.1%	723.1	1134.3	55.0%
EBITDA Margin(%)	26.6	25.2	24.2		26.3	32.8	
Net Profit	239.9	130.6	-46.3	PL	46.1	308.2	LP
EPS (₹)	11.4	6.2	-2.2		2.0	13.4	
P/E(x)	29.4	53.9	NM		166.2	24.9	
EV/EBITDA(x)	14.1	17.8	24.0		15.0	9.2	
RoE(%)	11.1	5.7	-2.0		1.6	10.1	
RoCE(%)	11.8	7.6	4.4		6.7	11.4	

Key business highlight and outlook

- Residential update:** BEL experienced a sharp jump in enquiries and bookings during July 2021 largely backed by gradual unlocking of economy. The residential cash inflow for Q1FY22 was at ₹ 531 crore, mainly aided by higher sales and pick-up in construction activities. The company has taken 2-3% price hike effective June 2021 in order to partially offset increase in input and commodity costs
- New Launches:** BEL has launched two residential projects in Q1FY22 viz a) Brigade El Dorado – K Block, Bengaluru (0.62 mn sq ft) and b) Brigade Xanadu Cluster 3 (0.77 mn sq ft). It has a strong pipeline of 18.1 mn sq ft ongoing projects and 1.9 mn sq ft upcoming projects, which includes a) Brigade Orchards – Goldspire Block, Brigade Millennium Annexe, Brigade Northridge Phase 2, Brigade Atmosphere Phase 2, Brigade Gem at Bangalore location and b) Brigade Residences at WTC Chennai – A3 Block at Chennai location). The project pipeline is likely to aid sales volume, going ahead, along with continued traction in ongoing/completed projects and other new projects
- Commercial leasing & pipeline:** The segment remained stable for BEL in Q1FY22 and has achieved 99% collections. Additionally, the company managed to lease out ~0.1 mn sq ft in Q1FY22. With increased momentum in IT and ITeS sector, the company is experiencing higher office leasing enquiries and have an active pipeline of ~1.5 mn sq ft spread across Brigade Tech Gardens (0.8, mn sq ft), WTC Chennai (0.5 mn sq ft), Brigade Financial Centre, Gift City (0.1 mn sq ft) and others (0.1 mn sq ft)
- Retail Segment:** Consumption was badly impacted by lockdown restrictions owing to the second wave of Covid-19 pandemic. The company is likely to follow the rental waivers formula similar to the method used in the last lockdown (based on different product/service categories – mix of minimum guaranteed rentals and achieved sales slab). With the reopening of malls in July 2021, consumption improved to 90% of pre-Covid levels currently. The management expects retail business to normalise by Q3FY22. Overall, the management expects its total leasing portfolio rentals to be ₹ 450+ crore in FY22
- Hospitality:** In the hospitality business, occupancy was benign at 23% (vs. 43% in Q4) due to travel restrictions and lockdowns caused by the second wave. However, pent-up travel demand and regained tourism enabled occupancy level to reach 42% in July 2021. Additionally, cost optimisation strategies have been implemented to improve margins even post future recovery
- Debt:** Net debt was at ₹ 3,048 crore vs. ₹ 3,574 crore in Q4 (BEL's share: ₹ 2,118 crore vs. ₹ 2,655 crore in Q4) aided by QIP proceeds. The company has repaid residential, hospitality gross debt to the tune of ₹ 31 crore, ₹ 28.3 crore, respectively in Q1. Average cost of debt for the company has reduced to 8.14% (down 26 bps QoQ)
- QIP:** BEL raised ₹ 500 crore through QIP during Q1FY22. Proceeds will be utilised for a) capex: acquisition of land or developmental rights for residential business, b) investments in subsidiaries and associates and c) working capital requirements and repayment of debt. The investments via QIP amount has potential to generate ₹ 3,000-4,000 crore, ₹ 15,000 crore of topline on land purchase, pure joint development basis, respectively

While Q1FY22 was a washout, sales momentum will recovery soon, driven by new launches and overall demand traction. We expect retail and hospitality segments to start recovering from H2FY22E onwards. BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets (and likely operational assets in FY22) and recent QIP. We maintain BUY with a revised SoTP target price of ₹ 405/share, as we ascribe 20% premium to NAV for growth.

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (Chg %)	Q4FY21	QoQ (Chg %)	Comments
Income from Operation	382.8	445.0	203.3	88.3	791.2	-51.6	
Other Income	8.7	15.0	10.5	-16.8	29.6	-70.5	
Total Operating Cost	235.9	264.8	97.5	142.0	343.5	-31.3	
Employee cost	40.6	45.0	36.8	10.2	47.3	-14.3	
Other expenditure	64.1	60.0	45.5	41.0	107.5	-40.4	
EBITDA	111.3	125.3	47.4	134.7	188.7	-41.1	
EBITDA Margin (%)	29.1	28.1	23.3	575 bps	23.9	521 bps	
Depreciation	84.5	66.0	55.6	52.1	66.1	27.9	
Interest	113.2	90.0	89.1	27.0	90.0	25.8	
PBT	-77.7	-15.8	-86.8	NM	62.3	PL	
Total Tax	-11.7	-3.9	-21.9	NM	7.0	PL	
Pat after Minority Interest	-40.8	3.7	-52.7	NM	39.6	PL	

Key Metrics

Sales Volume (in lakh sq ft)	7.7	14.1	4.2	81.7	16.6	-53.9
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20	FY21	FY22E			FY23E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	2,632.2	1,950.0	2,835.5	2,744.7	-3.2	3,462.5	3,462.5	0.0	Realign estimates post Q1
EBITDA	663.2	471.9	779.4	723.1	-7.2	1,134.3	1,134.3	0.0	
EBITDA Margin (%)	25.2	24.2	24.2	26.3	214 bps	32.8	32.8	0 bps	
PAT	130.6	-46.3	158.1	46.1	-70.8	339.9	308.2	-9.3	Increased depreciation and interest costs
EPS (₹)	6.2	-2.2	7.5	2.0		16.1	13.4		

Source: Company, ICICI Direct Research

Company Analysis

Exhibit 3: Consolidated cash flows

Particulars	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Operating Activities					
Total Collection	375.7	535.9	681.9	1118.4	717.2
Direct Cost/Construction Cost	-185.9	-214.5	-267.6	-445.2	-348.8
LO Payment	-35.8	-35.3	-52.4	-61.8	-61.9
Employee And Admin Expense	-37.0	-52.4	-63.5	-69.2	-73.8
Sales & Marketing Expense	-10.7	-20.0	-18.1	-45.0	-22.2
Statutory Payments	-23.8	-25.5	-29.6	-91.8	-52.2
Other Payments	-0.3	-5.3	-0.9	-3.3	-2.5
Net Cash Flow From Operating Activities(A)	82.2	182.9	249.8	402.1	155.8
Investment Activities					
Cash from Investment Activities	49.9	103.9	101.1	183.0	161.7
Construction Cost-(CWIP/Capex Projects)	-119.2	-137.9	-135.7	-127.2	-63.8
Investments in Land/JD/JV/TDR	-7.0	-165.5	11.2	-24.3	-1.0
Other Investments (FD&Mutual fund)	-139.2	-108.8	-126.3	-325.1	-683.2
Net Cash Flow From Investment Activities(B)	-215.5	-308.3	-149.7	-293.6	-586.3
Financing Activities					
Debt Drawdown	343.2	443.8	149.8	878.9	291.3
Proceeds from QIP/ESOP		26.9	25.0	36.3	500.8
Dividend Payment					
Debt Payment	-242.2	-241.9	-184.1	-858.5	-348.3
Interest Payment	-55.8	-119.8	-98.2	-97.4	-87.8
Investment by PE		50.0	1.0	35.0	25.0
Net Cash Flow from Financing Activities (C)	45.2	159.1	-106.5	-5.7	381.0
Net Cash Flows for the Period(A + B+ C)	-88.1	33.7	-6.4	102.8	-49.5

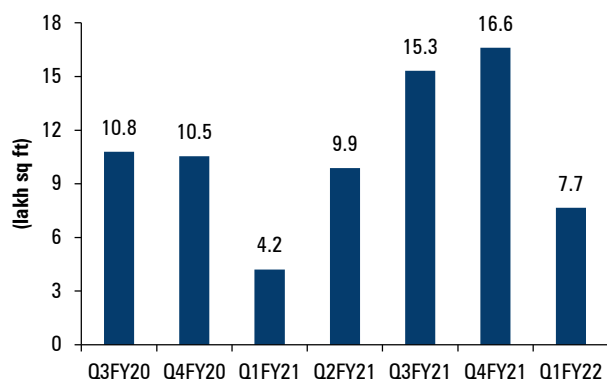
Source: Company, ICICI Direct Research

Exhibit 4: Consolidated debt profile

Particular	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Real Estate	691.5	749.5	608.4	497.3	466.8
Hospitality					
GOP Securitised	420.6	430.2	425.7	458.7	468.6
Capex	122.6	127.3	148.1	127.1	88.9
Leasing					
Securitised Lease Rental	1521.3	1701.1	1719.3	2105.2	2244.1
Capex	1338.1	1333.0	1397.6	1111.3	952.3
Less:Liquid Investments	461.3	513.3	485.2	726.0	1173.2
Net Debt	3624.0	3827.8	3813.9	3573.6	3047.5
Less:SPV partners's share of Debt	749.9	836.7	866.0	918.9	930.0
Exposure of BEL	2874.1	2991.1	2947.9	2654.7	2117.5
Cost of Debt	9.56%	9.23%	9.00%	8.40%	8.14%
Credit Rating	ICRA"A"	ICRA"A"	ICRA"A"	ICRA"A"	ICRA"A+"

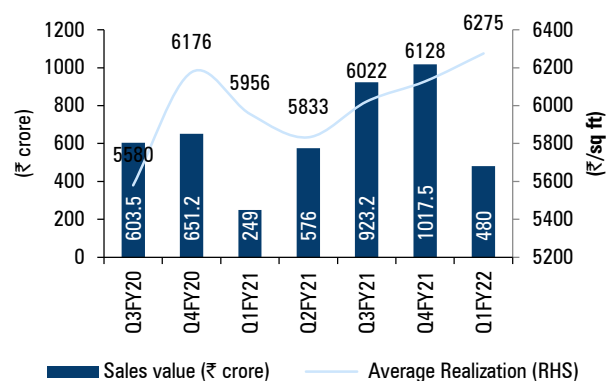
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly sales volume trend



Source: Company, ICICI Direct Research

Exhibit 6: Quarterly sales value & realisation trend



Source: Company, ICICI Direct Research

Exhibit 7: Consolidated synopsis of real estate projects as of Q1FY22

Particulars	Ongoing BEL Projects	Ongoing SPV Projects	Stock Sales	Total
(in msf)				
Total super built-up area of projects on sale basis	16.53	1.59	1.42	19.54
Less: LO Share	4.57	0.00	0.00	4.57
Co share of saleable area	11.96	1.59	1.42	14.97
Sold till date	6.52	0.89	0.00	7.41
To be sold	5.44	0.69	1.42	7.56
(in ₹ crore)				
From Sold units	3669.4	641.7	642.7	4953.8
From Unsold Units	3195.6	603.0	716.0	4514.6
Estimated Receipts	6865.0	1244.7	1358.7	9468.4
Collection Till Date on Sold Units	1912.4	324.3	410.8	2647.5
Balance collection for the projects (From Sold Units)	1757.0	317.4	231.9	2306.3
Balance collection for the projects (Sold and Unsold units)-A	4952.6	920.4	947.9	6820.9
Estimated Total cost to be spent	5393.6	985.8	492.3	6871.7
Cost incurred till date	1785.5	673.6	492.3	2951.4
Balance Cost to be incurred to finish the project- B	3608.1	312.2	0.0	3920.3
Gross Operating Cash Flows (A-B)	1344.5	608.2	947.9	2900.6
Present Borrowings – C	174.9	63.3	228.6	466.8
Net Operating Cash Flows projected (A-B-C)	1169.6	544.9	719.3	2433.8

Source: Company, ICICI Direct Research

Valuation & Outlook

We expect retail and hospitality segments to start recovering from H2FY22E onwards. BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets (and likely operational assets in FY22) and recent QIP. We maintain **BUY** with a revised SoTP target price of ₹ 405/share, as we ascribe 20% premium to NAV for growth.

Exhibit 8: Valuation

Project	Value	IV Multiple	NAV/share	Remarks
Residential/Commercial Sales				
Completed	113	1.0	5	
Ongoing	1192	1.0	52	
New Launches	282	1.0	12	We have discounted cash flow at 13% discount rate while land bank is valued at 1x cost
Land Bank	842	1.0	37	
Total	2429	1.0	106	
Leasing Portfolio				
Completed	3381	1.0	147	
Ongoing	2561	1.0	112	We have considered cap rate of 8% and discount rate of 13%
Total	5942	1.0	259	
Hospitality Portfolio	1519	1.0	66	15x FY23E EV/EBITDA
Total Gross Asset Valuation	9891		431	
Less: Net Debt	2118		92	We have considered Brigade effective net debt
Total	7774		339	
Add: 20% Premium for Growth	1555		68	
Target Valuation	9328		406	
Rounded-off target			405	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement				
₹ crore	FY20	FY21	FY22E	FY23E
Net Sales	2,632.2	1,950.0	2,744.7	3,462.5
Other Income	49.4	60.4	63.4	66.6
Total revenues	2,681.6	2,010.4	2,808.1	3,529.1
Cost of Materials Sold	1,315.4	1,053.0	1,435.6	1,631.3
Employee Cost	216.0	150.9	200.0	210.0
Other Expenditure	437.5	274.2	386.0	486.9
Total Operating Expenditure	1,968.9	1,478.0	2,021.6	2,328.2
EBITDA	663.2	471.9	723.1	1,134.3
Interest	340.3	346.8	408.5	387.0
Depreciation	192.0	236.9	310.2	359.2
PBT	159.8	(127.7)	46.9	454.7
Tax	47.4	(28.7)	11.8	114.6
Reported PAT	112.4	(99.0)	35.1	340.1
Minority Interests	(16.6)	(50.1)	(8.2)	35.0
Profit for the company	130.6	(46.3)	46.1	308.2
EPS (₹)	6.2	(2.2)	2.0	13.4

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
₹ crore	FY20	FY21	FY22E	FY23E
Profit before Tax	160	(128)	47	455
Depreciation	192	237	310	359
Interest paid	340	347	408	387
CF before wc changes	693	443	708	1,096
Net Increase in CA	(491)	(874)	(945)	(486)
Net Increase in CL	327	1,768	689	429
Net CF from op. activities	465	1,449	350	902
Purchase of Fixed Assets	(741)	(635)	(50)	(50)
(Purchase)/Sale of Inv.	(13)	(17)	-	-
Net CF from inv. activities	(703)	(538)	43	23
Proceeds from Borrowing	732	(222)	-	-
Interest Paid	(386)	(347)	(408)	(387)
Dividend Paid	(57)	-	(46)	(77)
Net CF from fin. activities	321	(569)	45	(464)
Net Cash flow	83	342	438	460
Opening Cash	222	305	559	998
Closing Cash	305	559	998	1,458

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
₹ crore	FY20	FY21	FY22E	FY23E
Equity Capital	204	211	230	230
Reserves & Surplus	2,243	2,252	2,734	2,965
Networth	2,281	2,348	2,856	3,052
Total Debt	4,522	4,300	4,300	4,300
Deferred Tax Liability	10	7	7	7
Source of Funds	6,979	6,769	7,269	7,501
Gross Block	3,638	5,867	5,917	5,967
Less: Accumulated Dep	656	893	1,204	1,563
Net Block	2,981	4,997	4,713	4,404
Capital WIP	2,089	495	495	495
Total Fixed Assets	5,070	5,492	5,208	4,899
Investments	72	89	89	89
Inventories	5,209	5,902	6,493	6,891
Trade Receivables	431	527	678	716
Loans & Advances	295	361	464	490
Cash & Bank Balances	305	559	998	1,458
Other Current Assets	330	349	448	473
Total Current Assets	6,967	8,013	9,486	10,455
Trade Payable	500	577	742	783
Provisions	11	9	9	9
Other Current Liabilities	4,771	6,465	6,989	7,376
Total Current Liabilities	5,282	7,051	7,740	8,169
Net Current Assets	1,685	962	1,746	2,286
Application of Funds	6,979	6,769	7,269	7,501

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	FY20	FY21	FY22E	FY23E
Per Share Data				
Reported EPS	6.2	(2.2)	2.0	13.4
Cash EPS	15.3	9.0	15.5	29.1
BVPS	108.2	111.3	124.4	132.9
Operating Ratios				
EBITDA / Net Sales	25.2	24.2	26.3	32.8
PAT / Net Sales	5.0	(2.4)	1.7	8.9
Return Ratios				
RoE	5.7	(2.0)	1.6	10.1
RoCE	7.6	4.4	6.7	11.4
RoIC	19.7	16.8	24.8	46.8
Valuation Ratios				
EV / EBITDA	17.8	24.0	15.0	9.2
P/E	53.9	NM	166.2	24.9
EV / Net Sales	4.5	5.8	4.0	3.0
Market Cap / Sales	2.9	3.9	2.8	2.2
Price to Book Value	3.1	3.0	2.7	2.5
Turnover Ratios				
Asset turnover	0.4	0.3	0.4	0.5
Gross Block Turnover	2.0	1.4	1.9	2.3
Solvency Ratios				
Net Debt / Equity	1.8	1.6	1.1	0.9
Current Ratio	1.2	1.0	1.0	1.0
Quick Ratio	0.2	0.2	0.2	0.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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