

Brigade Enterprises (BRIENT)

CMP: ₹ 507

Target: ₹ 595 (17%)

Target Period: 12 months

BUY

August 4, 2022

Strong launch pipeline ahead...

About the stock: Brigade Enterprises (BEL) is one of the leading property developers in South India. Its offerings include Grade-A commercial property, affordable to ultra-premium housing in real estate business and operational marquee hotel assets in hospitality segment.

Q1FY23 Results: BEL reported a strong performance.

- The sales value at ₹ 814 crore was up ~70% YoY. Realisations were up ~5% YoY at ₹ 6589/sq ft. The company reported sales volume of 1.24 mn sq feet (msf), up 61% YoY. Modest launch of ~0.5 msf vs. 1.9 msf in Q4 led to QoQ volume dip by 20%
- On financial reported numbers, reported revenues grew ~135.8% YoY to ₹ 902 crore, with revenue recognition from real estate at ₹ 655 crore, up 155% YoY. Revenues from hospitality (up by 3x YoY) were at ₹ 89.9 crore as blended portfolio occupancy at ~71% were higher than pre Covid levels of ~59% with ARR now back to pre-Covid levels. Rental revenues at ₹ 175.4 crore, up 57% YoY, saw robust recovery with new leasing of 0.41 msf
- Reported EBITDA margins were down 325 bps YoY to 25.8% (up 400 bps QoQ) given the revenue mix. The company reported PAT of ₹ 78 crore vs. loss in base quarter

What should investors do? BEL's share price has grown at ~23% CAGR over the past five years (from ~₹ 179 in August 2017 to ~₹ 507 levels in August 2022).

- We maintain our **BUY** rating on the company. Apart from robust residential sales volumes traction (led by strong end user demand in its key markets), we expect recovery in commercial to drive overall traction

Target Price and Valuation: We value BEL at ₹ 595/share.

Key triggers for future price performance:

- Traction in sales momentum in the residential business with strong pipeline of 17 mn sq ft in ongoing projects and ~9.5 mn sq ft in upcoming projects
- Stable cash flows in office leasing portfolio with traction in leasing picking up now; normalised 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 ₹ 475

Key Financial Summary

(₹ crore)	FY20	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	2632.2	1950.0	2998.8	8.2%	3469.7	3858.8	13.4%
EBITDA	663.2	471.9	766.3	5.9%	1012.4	1196.9	25.0%
EBITDA Margin(%)	25.2	24.2	25.6		29.2	31.0	
Net Profit	130.6	-46.3	82.8	2.5%	206.5	247.0	72.7%
EPS (₹)	6.2	-2.2	3.6		9.0	10.7	
P/E(x)	81.8	NM	140.9		56.5	47.2	
EV/EBITDA(x)	23.8	33.8	19.6		15.4	12.6	
RoE(%)	5.7	-2.0	2.8		6.8	7.9	
RoCE(%)	7.6	4.1	6.2		9.5	11.7	



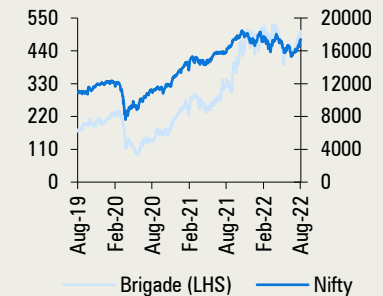
Particulars

Particulars	Amount (₹ crore)
Market Capitalization	11,662.7
Total Debt	4,932.5
Cash	559.4
EV	16,035.8
52 week H/L (₹)	555/ 292
Equity capital	230.3
Face value (₹)	10.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	44.0	43.9	43.9	43.9
DII	24.2	23.1	23.3	24.1
FII	13.1	13.9	13.6	13.3
Other	18.7	19.0	19.2	18.7

Price Chart



Key Risks

Key Risk: (i) Slowdown in residential real estate; (ii) Slower lease offtake at commercial assets

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Key business highlight and outlook

- Residential update:** BEL has achieved pre-sales of 1.24 mn sq ft (up 61% YoY) in the real estate business during Q1FY23, valued at ₹ 813.9 crore (up 70% YoY). Average realisation improved 5% YoY to ₹ 6,589/ sq ft. **Further, residential cash inflow for Q1FY23 was at ₹ 861 crore, mainly aided by healthy sales performance and pick-up in construction activities.** As per the management, bookings continue to remain strong with uptick in demand for completed and larger sized inventory, better affordability and right pricing/location of the projects, Further, consolidation towards larger established players continued with customers preferring organised players, in turn aiding BEL's residential business. **Going forward, the management endeavours to achieve 20-25% YoY of sales volume growth. Further, average realisation is likely to improve with better project mix and price hikes**
- New Launches:** BEL has launched two projects during Q1FY23 in Bengaluru which includes a) Residential project: Brigade El Dorado - Iridium Block (0.34 mn sq ft) and b) Plotted development: Neem Groove @ Brigade Orchards (0.17 mn sq ft). Additionally, the company has launched new projects encompassing 1.5 mn sq ft during July 2022 across four sites (namely Brigade horizon, Pearl at Brigade Atmosphere, Brigade Nanda Heights and new tower at Brigade El Dorado) during "15th edition of Brigade showcase" expo event. Going forward, the company has a strong pipeline of 17 mn sq ft of ongoing projects. 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:** BEL has leased out 0.4 mn sq ft during Q1FY23 (vs 0.5 mn sq ft in Q4FY22) taking occupancy at two-years high largely aided by firms scouting for better workplaces with increasing employee strength, and resumption of offices. Highest contributions to the leasing space were Brigade Tech Gardens (Bengaluru) and Gift City (Gujarat). Additionally, the company has achieved 99% collections during Q1FY23 indicating towards improvement in client paying capabilities and steady BEL's portfolio. Further, the company is experiencing higher leasing enquiries and physical site inspections for larger and mid-sized spaces backed by increased momentum in automotive, pharma, BFSI and IT and ITes sector. **As of now, the company have an active pipeline of ~1 mn sq ft. Going forward, the management expects majority of hard option area (0.4 mn sq ft) and yet to transacted area (1.7 mn sq ft) to get leased by FY23-end. On revenue side, Brigade Tech Gardens and WTC Chennai contributed by ₹ 27 crore and ₹ 29 crore, respectively, during Q1FY23**
- Retail Segment:** Retailer' sales consumption witnessed growth of 35% YoY over pre-Covid levels. Fashion, food and beverage restaurants and electronics remained highest performing category. Further, multiplexes across its malls achieved higher level of occupancies with normalised operations and new movie releases (aided multiplex business to grow 33% on YoY basis). Also, **overall mall portfolio has witnessed good traction on leasing front and the company has leased 112,000 sq ft during Q1FY23.** The improved traction in the retail space is likely to continue ahead
- Hospitality:** After the benign show from hospitality segment in Q4FY22 due to third wave of Covid-19, the division has witnessed remarkable turnaround in Q1FY23 with **average occupancy reaching 71% (vs 49% in Q4FY22) backed by resumptions in leisure travellers, banquet events and corporate travel business. Average room rent (ARR) has improved to nearly pre-Covid levels and stood at ₹ 5,363 (vs ₹ 3,891, ₹ 5,435 during Q1FY23, Q1FY20 – pre Covid). Overall, revenue from the segment improved 33% (to ₹ 90.7 crore) as compared with Q1FY20.** The management has indicated towards continued momentum during July 2022 with conferences and domestic travels contributing majorly to the improved traction. Also, the company is contemplating to monetize part of its hotel portfolio at right time and correct valuations
- Update on older hotels under consideration:** BEL had some hotels under consideration/constructions during FY20 but arrival of Covid-19 pandemic has put the thoughts on the back foot. **With strong revival in demand, the company is likely to revive some of those properties,** which includes a) Mysore: structure is ready; plans to restart the construction work from

October 2022, b) Bengaluru (near airport): on hold but have necessary approvals in-place, may commence construction activities over next six to nine months, and c) Chennai: under construction; decision on service/regular apartment to be taken soon

- **Entry in newer segment:** BEL is expanding its business portfolio in the warehousing, logistics and data centres verticals in order to grab growing opportunities in the segment. For this purpose, the company has finalised a land located near International Airport, Bengaluru. The company is currently developing master plan for the project and may take another three to four months for finalisation. Further, necessary approvals may take another 12-15 months. Thus, the project may commence during H2FY24. Overall, it will be mixed used development wherein residential units will be sold while offices and logistics space will be available on lease. Further, to scale up the business, the company is evaluating land parcels at Hoskote (Bengaluru) and Chennai locations
- **Land Bank:** BEL has added 75 acres of land mainly at Bengaluru location, taking total land bank to 492 acres mostly spread across Bengaluru (367 acres), Chennai (79 acres), Kochi (18 acres), Mysore (15 acres) and Hyderabad (10 acres) having developable potential of 46.7 mn sq ft. Most of the properties in the land banks are developable with receipt of sanctions and approvals. The company has paid ₹ 762 crore towards land while balance payable is at ₹ 1,089.2 crore (most of the amount is payable in FY23). The total requirement would be funded via mix of internal accruals, QIP amount, and debt
- **Update on JDAs:** The company has finalised 2 mn sq ft of area on JDA basis each at Chennai and Bengaluru locations. Additionally, 4 mn sq ft area is under advanced stage of due diligence at Chennai location and expects positive outcome by October 2022. Further, the company expects 5 mn sq ft area to get signed under JDA by FY23E
- **Debt:** Net outstanding debt on the consolidated basis at the end of Q1FY23 was at ₹ 2,406.4 crore vs. ₹ 2,540.3 crore at FY22-end (BEL's share: ₹ 1,635.5 crore at Q1FY23-end vs. ₹ 1,753.1 crore at FY22-end). **Real estate division debt has reduced to ₹ 213.3 crore (down ₹ 58.5 crore QoQ) aided by higher sales and decent operating cash flows generated in Q1FY23.** Additionally, hospitality, and leasing segments debt was at ₹ 612.4 crore and ₹ 3,269.8 crore, respectively, with cash balance at ₹ 1,689.1 crore. The company's average cost of debt was at 7.75% (up 10 bps QoQ)
- **QIP:** BEL has raised ₹ 500 crore through a QIP during June 2021, which was expected to be utilised for a) capex: acquisition of land or land developmental rights for residential business, b) investments in subsidiaries and associates, and c) working capital requirements and repayment of debt. **Till June 2022-end, the company has utilised ₹ 251.6 crore. The management expects balance amount to get utilised for payment towards acquiring new land**
- **Pricing outlook:** BEL undertook ~5-8% price hike during April 2022 across its residential portfolio with increase in input prices. Demand was subdued during initial period of price hike but improved during later period (including for new launches)

The volume trajectory is relatively healthy with strong end user demand and IT sector tailwind remain. Retail and hospitality recovery is on track. BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets. While rising interest rate scenario can be a hurdle if it extends sharply and for longer period, end user demand tailwind is strong We maintain BUY with SoTP target price of ₹ 595/share.

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (Chg %)	Q4FY22	QoQ (Chg %)	Comments
Income from Operation	902.5	951.0	382.8	135.8	942.3	-4.2	
Other Income	17.8	15.0	8.7	103.8	22.4	-20.6	
Total Operating Cost	412.3	438.0	235.9	74.8	441.6	-6.6	
Employee cost	62.6	63.0	40.6	54.3	62.3	0.5	
Other expenditure	117.0	150.0	64.1	82.6	151.0	-22.5	
EBITDA	232.7	220.0	111.3	109.1	205.2	13.4	
EBITDA Margin (%)	25.8	23.1	29.1	-329 bps	21.8	401 bps	
Depreciation	75.1	91.0	84.5	-11.2	90.8	-17.3	
Interest	106.1	110.0	113.2	-6.2	109.4	-3.0	
PBT	69.3	34.0	-77.7	-189.2	27.4	152.9	
Total Tax	18.4	20.0	-11.7	NM	19.2	-3.7	
Pat after Minority Interest	78.0	40.0	-40.8	-291.1	32.5	140.1	

Key Metrics

Sales Volume (in lakh sq ft)	12.4	15.0	7.7	61.4	15.5	-20.2
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21	FY22	FY23E			FY24E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	1,950.0	2,998.8	3,468.3	3,469.7	0.0	3,844.8	3,858.8	0.4	Realign estimates
EBITDA	471.9	766.3	1,011.0	1,012.4	0.1	1,182.9	1,196.9	1.2	
EBITDA Margin (%)	24.2	25.6	29.1	29.2	3 bps	30.8	31.0	25 bps	
PAT	-46.3	82.8	174.6	206.5	18.2	234.4	247.0	5.4	
EPS (₹)	-2.2	3.6	7.6	9.0	18.2	10.2	10.7	5.4	

Source: Company, ICICI Direct Research

Company Analysis

Exhibit 3: Consolidated cash flows

Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Operating Activities					
Total Collection	717.2	936.9	1095.1	1333.5	1210.3
Direct Cost/Construction Cost	-348.8	-371.2	-415.5	-543.4	-486.0
LO Payment	-61.9	-93.9	-98.2	-121.8	-109.7
Employee And Admin Expense	-73.8	-105.9	-83.1	-93.8	-93.8
Sales & Marketing Expense	-22.2	-30.2	-45.5	-39.8	-33.4
Statutory Payments	-52.2	-121.0	-104.7	-106.6	-114.1
Other Payments	-2.5	-1.3	-7.3	-13.2	-3.9
Net Cash Flow From Operating Activities(A)	155.8	213.4	340.8	414.9	369.4
Investment Activities					
Cash from Investment Activities	161.7	265.0	173.7	125.0	206.0
Construction Cost-(CWIP/Capex Projects)	-63.8	-58.8	-73.2	-43.0	-80.8
Investments in Land/JD/JV/TDR	-1.0	-19.0	-19.2	-114.9	-83.3
Other Investments (FD&Mutual fund)	-683.2	-212.4	-330.4	-258.7	-295.2
Net Cash Flow From Investment Activities(B)	-586.3	-25.2	-249.1	-291.6	-304.3
Financing Activities					
Debt Drawdown	291.3	657.7	253.7	202.9	88.2
Proceeds from QIP/ESOP	500.8	3.7	4.2	2.5	2.7
Dividend Payment					
Debt Payment	-348.3	-776.6	-293.6	-151.8	-145.8
Interest Payment	-87.8	-83.1	-77.9	-83.6	-78.8
Investment by PE	25.0	50.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities (C)	381.0	-173.5	-113.6	-30.0	-133.7
Net Cash Flows for the Period(A+B+C)	-49.5	14.7	-21.9	93.3	-68.6

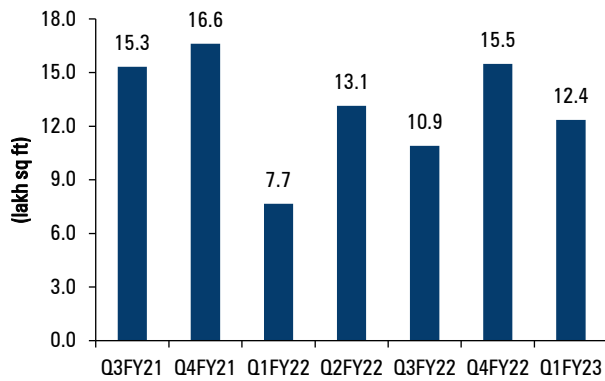
Source: Company, ICICI Direct Research

Exhibit 4: Consolidated debt profile

Particular	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Real Estate	466.8	345.1	292.9	271.8	213.3
Hospitality					
GOP Securitized	468.6	501.5	489.9	533.2	515.5
Capex	88.9	108.5	109.0	85.0	97.4
Leasing					
Securitized Lease Rental	2244.1	2356.4	2375.2	2376.8	2383.2
Capex	952.3	816.1	834.8	852.0	886.8
Less:Liquid Investments	1173.2	1167.0	1311.6	1578.5	1689.1
Net Debt	3047.5	2960.6	2790.2	2540.3	2407.1
Less:SPV partners's share of Debt	930.0	931.9	817.3	787.2	770.9
Exposure of BEL	2117.5	2028.7	1972.9	1753.1	1636.2
Cost of Debt	8.14%	7.92%	7.81%	7.65%	7.75%
Credit Rating	ICRA"A+" CRISIL"A"	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"

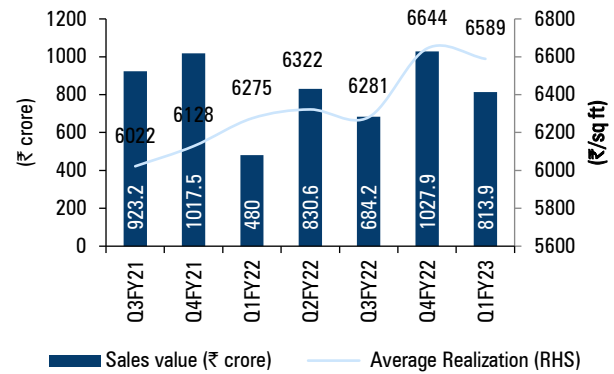
Source: Company, ICICI Direct Research

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 Q1FY23

Particulars	Ongoing BEL Projects	Ongoing SPV Projects	Stock Sales	Total
(in msf)				
Total super built-up area of projects on sale basis	15.24	1.79	1.01	18.04
Less: LO Share	4.14	0.00	0.00	4.14
Co share of saleable area	11.10	1.79	1.01	13.90
Sold till date	7.95	0.99	0.00	8.94
To be sold	3.15	0.80	1.01	4.96
(in ₹ crore)				
From Sold units	4693.5	817.8	793.0	6304.3
From Unsold Units	1957.6	473.0	526.0	2956.6
Estimated Receipts	6651.1	1290.8	1319.0	9260.9
Collection Till Date on Sold Units	2654.4	450.9	481.3	3586.6
Balance collection for the projects (From Sold Units)	2039.1	366.9	311.7	2717.7
Balance collection for the projects (Sold and Unsold units)-A	3996.7	839.9	837.7	5674.3
Estimated Total cost to be spent	5154.0	953.1	391.6	6498.7
Cost incurred till date	2277.8	579.9	391.6	3249.3
Balance Cost to be incurred to finish the project- B	2876.2	373.2	0.0	3249.4
Gross Operating Cash Flows (A-B)	1120.5	466.7	837.7	2424.9
Present Borrowings – C	63.2	9.2	140.9	213.3
Net Operating Cash Flows projected (A-B-C)	1057.3	457.5	696.8	2211.6

Source: Company, ICICI Direct Research

Valuation & Outlook

The volume trajectory is relatively healthy with strong end user demand and IT sector tailwind remain. Retail and hospitality recovery is on track. BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets. While rising interest rate scenario can be a hurdle if it extends sharply and for longer period, end user demand tailwind is strong We maintain BUY with SoTP target price of ₹ 595/share.

Exhibit 8: Valuation

Project	Value	NAV Multiple	NAV/share	Remarks
Residential Total	5917	1.0	257	We have considered completed, ongoing and steady launch pipeline over next 5-6 years
Leasing Portfolio Total	7967	1.0	346	We have considered cap rate of 8%
Hospitality Portfolio	2576	1.0	112	20x FY24E EV/EBITDA
Total Gross Asset Valuation	16461		715	
Less: Net Debt (Brigade share)	1636		71	We have considered Brigade effective net debt
Less: Land dues payable	1089		47	
Target Valuation	13735		597	
Rounded-off target			595	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Net Sales	1,950.0	2,998.8	3,469.7	3,858.8
Other Income	60.4	66.7	73.4	77.1
Total revenues	2,010.4	3,065.5	3,543.2	3,935.9
Cost of Materials Sold	1,053.0	1,584.2	1,729.4	1,855.0
Employee Cost	150.9	206.9	217.2	238.9
Other Expenditure	274.2	441.4	510.8	568.0
Total Operating Expenditure	1,478.0	2,232.5	2,457.4	2,662.0
EBITDA	471.9	766.3	1,012.4	1,196.9
Interest	346.8	443.6	430.6	407.9
Depreciation	236.9	350.5	363.3	367.8
PBT	(127.7)	(17.7)	291.8	498.2
Tax	(28.7)	49.7	75.9	139.5
Reported PAT	(99.0)	(67.5)	216.0	358.7
Minority Interests	(50.1)	(147.5)	12.4	115.0
Profit for the company	(46.3)	82.8	206.5	247.0
EPS (₹)	(2.2)	3.6	9.0	10.7

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Profit before Tax	(128)	(18)	292	498
Depreciation	237	351	363	368
Interest paid	347	444	431	408
CF before wc changes	443	855	997	1,079
Net Increase in CA	(874)	(363)	(354)	(381)
Net Increase in CL	1,136	973	(686)	429
Net CF from op. activities	816	1,277	(78)	961
Purchase of Fixed Assets	(650)	(284)	(50)	(50)
(Purchase)/Sale of Inv.	(17)	(420)	-	-
Net CF from inv. activities	(553)	(455)	29	34
Equity Raised	-	-	-	-
Proceeds from Borrowing	343	90	(300)	-
Interest Paid	(347)	(444)	(431)	(408)
Dividend Paid	-	(83)	(52)	(62)
Net CF from fin. activities	(4)	(437)	(782)	(470)
Net Cash flow	259	385	(831)	525
Opening Cash	305	559	945	114
Closing Cash	559	945	114	639

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Equity Capital	211	230	230	230
Reserves & Surplus	2,252	2,647	2,802	2,988
Networth	2,348	2,910	3,052	3,123
Total Debt	4,933	4,833	4,533	4,533
Deferred Tax Liability	7	57	57	57
Source of Funds	7,402	7,767	7,622	7,807
Gross Block	5,882	6,120	6,170	6,220
Less: Accumulated Dep	885	1,235	1,599	1,966
Net Block	4,997	4,885	4,571	4,254
Capital WIP	495	541	541	541
Total Fixed Assets	5,492	5,425	5,112	4,794
Investments	89	509	509	509
Inventories	5,902	6,223	6,696	7,003
Trade Receivables	527	504	457	487
Loans & Advances	361	399	362	385
Cash & Bank Balances	559	945	114	639
Other Current Assets	349	376	341	363
Total Current Assets	8,013	8,899	8,380	9,312
Trade Payable	577	649	589	626
Provisions	9	8	8	8
Other Current Liabilities	5,832	6,733	6,107	6,499
Total Current Liabilities	6,418	7,391	6,704	7,133
Net Current Assets	1,595	1,508	1,676	2,179
Application of Funds	7,402	7,767	7,622	7,807

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data				
Reported EPS	(2.2)	3.6	9.0	10.7
Cash EPS	9.0	18.8	24.7	26.7
BVPS	111.3	126.4	132.6	135.6
Operating Ratios				
EBITDA / Net Sales	24.2	25.6	29.2	31.0
PAT / Net Sales	(2.4)	2.8	6.0	6.4
Return Ratios				
RoE	(2.0)	2.8	6.8	7.9
RoCE	4.1	6.2	9.5	11.7
RoIC	11.6	27.9	31.1	41.2
Valuation Ratios				
EV / EBITDA	33.8	19.6	15.4	12.6
P/E	(230.6)	NM	56.5	47.2
EV / Net Sales	8.2	5.0	4.5	3.9
Market Cap / Sales	6.0	3.9	3.4	3.0
Price to Book Value	4.6	4.0	3.8	3.7
Turnover Ratios				
Asset turnover	0.3	0.4	0.5	0.5
Gross Block Turnover	1.4	2.1	3.1	3.3
Solvency Ratios				
Net Debt / Equity	1.8	1.2	1.3	1.1
Current Ratio	1.1	1.0	1.2	1.2
Quick Ratio	0.2	0.2	0.2	0.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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