

Brigade Enterprises (BRIENT)

CMP: ₹ 485

Target: ₹ 620 (28%)

Target Period: 12 months

BUY

February 13, 2023

Strong pre-sales; robust 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.

Q3FY23 Results: BEL reported a strong performance.

- The sales value at ₹ 1010 crore was up 47.6% YoY driven by strong demand momentum. Realisations were up ~4.9% YoY at ₹ 6586/sq ft. The company reported sales volume of 15.3 lakh square feet, up 40.6% YoY
- On financial reported numbers, reported revenues declined 10.9% YoY to ₹ 820 crore, with revenue recognition from real estate being lower at ₹ 558.5 crore, down 21% YoY. Revenues from hospitality (up ~61% YoY) were at ₹ 106 crore, with improved average room rate, sustained occupancy and rental revenues at ₹ 199.5 crore, up ~19% YoY, seeing a robust recovery
- EBITDA at ₹ 207.9 crore, was down 19% YoY owing to lower revenues YoY. Reported EBITDA margins were down 270 bps YoY to 25.3%. The company reported a PAT of ₹ 56.9 crore

What should investors do? BEL's share price has grown at ~21% CAGR over the past five years (from ~₹ 190 in February, 2018 to ~₹ 485 levels currently).

- We maintain our **BUY** rating. Apart from robust residential sales volumes traction (led by strong end user demand in its key markets & new launches), we expect sustained recovery in commercial/hospitality to drive overall traction

Target Price and Valuation: We value BEL at ₹ 620/share.

Key triggers for future price performance:

- Traction in sales momentum in the residential business with strong pipeline of 17.8 mn sq ft ongoing projects and ~11 mn sq ft 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 expanding residential real estate portfolio
- BUY with a target price of ₹ 475



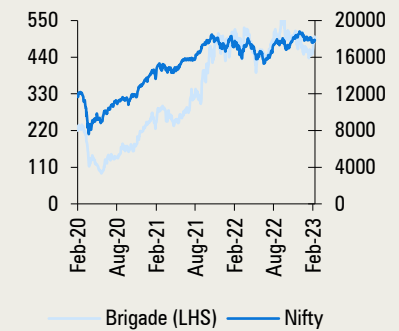
Particulars

Particulars	Amount (₹ crore)
Market Capitalization	11,160
Total Debt FY22	4,933
Cash FY22	559
EV	15,533
52 week H/L (₹)	585/ 376
Equity capital	230.3
Face value (₹)	10.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	43.9	43.9	43.8	43.8
DII	23.3	24.1	24.6	24.6
FII	13.6	13.3	13.4	14.2
Other	19.2	18.7	18.1	17.4

Price Chart



Key Risks

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

Research Analyst

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Key Financial Summary

(₹ crore)	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales	1950.0	2998.8	8.2%	3476.2	4008.8	4785.0	16.9%
EBITDA	471.9	766.3	5.9%	905.3	1200.3	1491.0	24.8%
EBITDA Margin(%)	24.2	25.6		26.0	29.9	31.2	
Net Profit	-46.3	82.8	2.5%	277.5	330.9	481.9	79.9%
EPS (₹)	-2.2	3.6		12.1	14.4	20.9	
P/E(x)	NM	134.7		40.2	33.7	23.1	
EV/EBITDA(x)	32.7	19.0		15.8	11.5	9.5	
RoE(%)	-2.0	2.8		8.7	9.7	14.1	
RoCE(%)	4.1	6.2		8.8	11.8	15.4	

Key business highlight and outlook

- Residential update:** BEL has achieved healthy ~ sales volume of 15.3 lakh sq ft, up 40.6% YoY, valued at ₹ 1010 crore, up 47.6% YoY, driven by strong demand momentum. Realisations were up ~4.9% YoY at ₹ 6586/sq ft but down 1% QoQ on account of plotted development in the mix. **Recall, the management endeavours to achieve 20% YoY of sales volume growth in FY23, which is largely achievable given the 9M momentum and strong launch pipeline ahead**
- New launches:** BEL launched one project of 0.44 mn sq ft (Brigade share ~0.18 mn sq. ft) during the quarter, taking launches in 9MFY23 to 2.44 mn sq ft, (BEL share: 1.92 mn sq, ft for 9MFY23). **Overall launch pipeline remains strong for BEL at ~11 mn sq. ft (BEL's share of 8.32 mn sq ft) for the next four quarters. The management is expecting launches of ~2.5 mn sq. ft in Q4FY23**
- Business development:** The company added one commercial property of ~0.33 mn sq ft (₹ 200 crore GDV) in Q3FY23, in addition to a residential property in Bengaluru (2 mn sq ft / ₹ 1500 GDV) and another land acquisition of 75 acres in Q1FY23 (for mixed use development)
- Commercial leasing & pipeline:** The rental income was ₹ 199.5 crore, up ~19% YoY and EBITDA of ₹ 138.5 crore (up 43% YoY) in the quarter. Occupancy for the rental asset portfolio improved sequentially to 83% in Q3FY23. **The company achieved gross leasing of 1 mn sq ft in 9MFY23 (0.43 mn sq feet in Q3). The company has an active pipeline of ~1 mn sq ft as of now with demand largely coming out from IT/ITeS, BFSI and automotive sectors. Also, the company is expecting DESH bill to catalyse the further growth in Tech Gardens and WTC Chennai. With these, the management expects majority of yet to transacted area (1.5 mn sq ft) to get leased by FY24-end.** Furthermore, construction of Brigade twin tower is likely to get completed by January 2024 (capex incurred: ₹ 291 crore; balance: ₹ 309 crore)
- Hospitality:** Revenues from hospitality (up ~61% YoY) were at ₹ 106 crore. The hospitality business saw an improvement in room rates by 8% QoQ to ₹ 6,081/day while occupancy rates were sustained at 68%. There were some one-off costs, which impacted EBITDA margins, at ~21% (31% in Q3FY23). **Also, the company is now in discussions to monetise part of its hotel portfolio**
- Collection:** Collections across major verticals remained healthy during Q3FY23 at ₹ 1328 crore mainly aided by a healthy sales performance, pick-up in construction activities and increased leasing activities. Residential collection was at ₹ 884 crore, followed by commercial sale (₹ 52 crore), commercial lease (₹ 137 crore), retail (₹ 56 crore), hospitality (₹ 126 crore) and others (₹ 73 crore)
- Land Bank:** BEL has total land bank of 478 acres as on Q3 mainly spread across Bengaluru (358 acres), Chennai (74 acres), Kochi (18 acres), Mysore (15 acres) and Hyderabad (10 acres) having developable potential of 47.6 mn sq ft (Brigade share 36.3 mn sq ft). Most properties in the land banks are developable with receipt of sanctions and approvals. The company has paid ₹ 881 crore towards land while balance payable is at ₹ 966.4 crore, to be paid over the next two financial years. The total requirement would be funded via a mix of internal accruals, QIP amount and debt
- Debt:** Net outstanding debt on a consolidated basis at the end of Q3FY23 was at ₹ 1,991.7 crore vs. ₹ 2,226.3 crore at Q2FY23-end (BEL's share: ₹ 1,294.4 crore at Q3FY23-end vs. ₹ 1,491 crore at Q2FY23-end). Real estate division debt has reduced to ₹ 77 crore (down ₹ 76.7 crore QoQ) aided by higher sales and decent operating cash flows generated in Q3FY23. Additionally, hospitality and leasing segments debt was at ₹ 579.8 crore and ₹ 3,257.7 crore, respectively, with cash balance at ₹ 1922.8 crore. The company's average cost of debt was at 8.46% (up 37 bps QoQ)

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (Chg %)	Q2FY23	QoQ (Chg %)	Comments
Income from Operation	820.3	951.0	921.0	-10.9	879.2	-6.7	
Other Income	38.3	15.0	12.2	214.9	33.0	16.3	
Total Operating Cost	481.0	438.0	378.1	27.2	456.7	5.3	
Employee cost	70.8	63.0	54.5	29.9	64.0	10.6	
Other expenditure	151.4	150.0	117.6	28.8	130.4	16.1	
EBITDA	207.9	220.0	257.5	-19.3	216.4	-3.9	
EBITDA Margin (%)	25.3	23.1	28.0	-261 bps	24.6	73 bps	
Depreciation	78.1	91.0	87.1	-10.3	78.0	0.2	
Interest	118.4	110.0	108.2	9.4	109.7	8.0	
PBT	49.7	34.0	74.4	-33.2	61.7	-19.5	
Total Tax	7.0	20.0	28.7	NM	28.3	-75.3	
Pat after Minority Interest	56.9	40.0	78.4	-27.4	77.5	-26.6	

Key Metrics

Sales Volume (in lakh sq ft)	15.3	13.0	10.9	40.6	11.9	28.8
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E		FY24E		FY25E			Comments
	Old	New	% Change	Old	New	% Change		
Revenue	3,476.2	3,858.8	4,008.8	3.9	4,786.9	4,785.0	0.0	Realign estimates
EBITDA	905.3	1,187.8	1,200.3	1.1	1,501.9	1,491.0	-0.7	
EBITDA Margin (%)	26.0	30.8	29.9	-84 bps	31.4	31.2	-21 bps	
PAT	277.5	315.5	330.9	4.9	483.4	481.9	-0.3	
EPS (₹)	12.1	13.7	14.4	4.9	21.0	20.9	-0.3	

Source: Company, ICICI Direct Research

Company Analysis

Exhibit 3: Consolidated cash flows

Particulars	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Operating Activities					
Total Collection	1095.1	1333.5	1210.3	1422.0	1328.3
Direct Cost/Construction Cost	-415.5	-543.4	-486.0	-654.7	-616.7
LO Payment	-98.2	-121.8	-109.7	-132.4	-116.5
Employee And Admin Expense	-83.1	-93.8	-93.8	-109.3	-99.9
Sales & Marketing Expense	-45.5	-39.8	-33.4	-34.5	-36.2
Statutory Payments	-104.7	-106.6	-114.1	-124.9	-103.2
Other Payments	-7.3	-13.2	-3.9	-4.4	-5.9
Net Cash Flow From Operating Activities(A)	340.8	414.9	369.4	361.8	349.9
Investment Activities					
Cash from Investment Activities	173.7	125.0	206.0	660.3	353.9
Construction Cost-(CWIP/Capex Projects)	-73.2	-43.0	-80.8	-20.9	-58.3
Investments in Land/JD/JV/TDR	-19.2	-114.9	-83.3	-97.1	-47.9
Other Investments (FD&Mutual fund)	-330.4	-258.7	-295.2	-787.4	-416.9
Net Cash Flow From Investment Activities(B)	-249.1	-291.6	-304.3	-245.1	-169.2
Financing Activities					
Debt Drawdown	253.7	202.9	88.2	103.3	57.2
Proceeds from QIP/ESOP	4.2	2.5	2.7	2.4	1.6
Dividend Payment					
Debt Payment	-293.6	-151.8	-145.8	-168.1	-165.4
Interest Payment	-77.9	-83.6	-78.8	-76.2	-82.8
Investment by PE	0.0	0.0	0.0	0.0	0.1
Net Cash Flow from Financing Activities (C)	-113.6	-30.0	-133.7	-170.2	-189.3
Net Cash Flows for the Period(A+B+C)	-21.9	93.3	-68.6	-53.5	-8.6

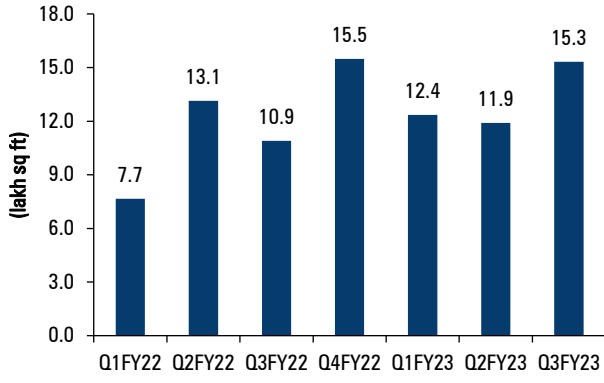
Source: Company, ICICI Direct Research

Exhibit 4: Consolidated debt profile

Particular	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Real Estate	292.9	271.8	213.3	153.7	77.0
Hospitality					
GOP Securitised	489.9	533.2	515.5	496.9	473.9
Capex	109.0	85.0	97.4	101.9	105.9
Leasing					
Securitised Lease Rental	2375.2	2376.8	2383.2	2345.4	2823.6
Capex	834.8	852.0	886.8	917.8	434.1
Less:Liquid Investments	1311.6	1578.5	1689.1	1789.4	1922.8
Net Debt	2790.2	2540.3	2407.1	2226.3	1991.7
Less:SPV partners's share of Debt	817.3	787.2	770.9	735.3	697.3
Exposure of BEL	1972.9	1753.1	1636.2	1491.0	1294.4
Cost of Debt	7.81%	7.65%	7.75%	8.09%	8.46%
Credit Rating	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"

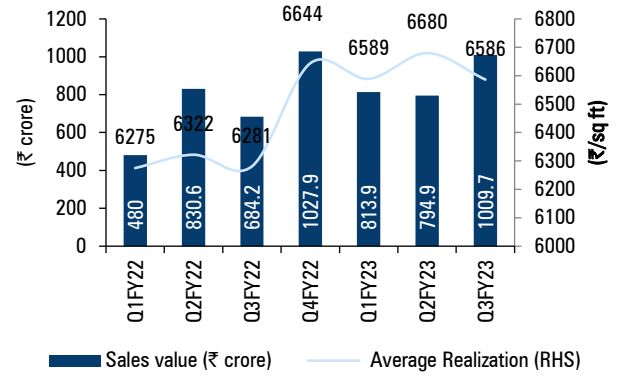
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly sales volume trend



Source: Company, ICICI Direct Research

Exhibit 6: Quarterly sales value & realisation trend



Source: Company, ICICI Direct Research

Valuation & Outlook

The volume trajectory is relatively healthy with strong end user demand and IT sector tailwind remaining. Retail and hospitality recovery is on track. BEL has a comfortable debt-equity and sufficient liquidity from operational commercial assets. While a rising interest rate scenario can be a hurdle if it extends sharply and for longer, end user demand tailwind is strong. Any monetisation of hospitality assets could provide addition deleveraging ahead. We maintain BUY with SoTP target price of ₹ 620/share.

Exhibit 7: Valuation

Project	Value	NAV Multiple	NAV/share	Remarks
Residential Total	5933	1.0	258	We have considered completed, ongoing and steady launch pipeline over next 5-6 years
Leasing Portfolio Total	7914	1.0	344	We have considered cap rate of 8%
Hospitality Portfolio	2636	1.0	114	20x FY24E EV/EBITDA
Total Gross Asset Valuation	16483		716	
Less: Net Debt (Brigade share)	1294		56	We have considered Brigade effective net debt
Less: Land dues payable	964		42	
Target Valuation	14224		618	
Rounded-off target			620	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
₹ crore	FY22	FY23E	FY24E	FY25E
Net Sales	2,998.8	3,476.2	4,008.8	4,785.0
Other Income	66.7	100.1	90.1	94.6
Total revenues	3,065.5	3,576.3	4,098.9	4,879.6
Cost of Materials Sold	1,584.2	1,842.0	1,979.5	2,326.8
Employee Cost	206.9	217.2	238.9	262.8
Other Expenditure	441.4	511.7	590.1	704.4
Total Operating Expenditure	2,232.5	2,570.9	2,808.6	3,294.0
EBITDA	766.3	905.3	1,200.3	1,491.0
Interest	443.6	444.2	430.6	430.6
Depreciation	350.5	318.5	347.5	350.5
PBT	(17.7)	261.0	512.3	804.5
Tax	49.7	73.1	133.2	209.2
Reported PAT	(67.5)	188.0	379.1	595.3
Minority Interests	(147.5)	(85.1)	53.2	118.9
Profit for the company	82.8	277.5	330.9	481.9
EPS (₹)	3.6	12.1	14.4	20.9

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
₹ crore	FY22	FY23E	FY24E	FY25E
Profit before Tax	(18)	261	512	805
Depreciation	351	318	347	350
Interest paid	444	444	431	431
CF before wc changes	855	1,004	1,142	1,378
Net Increase in CA	(363)	(185)	(351)	(1,218)
Net Increase in CL	973	(42)	268	628
Net CF from op. activities	1,277	707	910	442
Purchase of Fixed Assets	(279)	(50)	(50)	(50)
(Purchase)/Sale of Inv.	(420)	-	-	-
Net CF from inv. activities	(455)	56	47	45
Equity Raised	-	-	-	-
Proceeds from Borrowing	90	(300)	-	-
Interest Paid	(444)	(444)	(431)	(431)
Dividend Paid	(83)	(69)	(83)	(337)
Net CF from fin. activities	(437)	(814)	(513)	(768)
Net Cash flow	385	(51)	443	(281)
Opening Cash	559	945	894	1,337
Closing Cash	945	894	1,337	1,056

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
₹ crore	FY22	FY23E	FY24E	FY25E
Equity Capital	230	230	230	230
Reserves & Surplus	2,647	2,856	3,104	3,248
Networth	2,910	3,203	3,398	3,424
Total Debt	4,833	4,533	4,533	4,533
Deferred Tax Liability	57	57	57	57
Source of Funds	7,767	7,675	7,923	8,068
Gross Block	6,116	6,166	6,216	6,266
Less: Accumulated Dep	1,231	1,549	1,897	2,247
Net Block	4,885	4,616	4,319	4,018
Capital WIP	541	541	541	541
Total Fixed Assets	5,425	5,157	4,860	4,559
Investments	509	509	509	509
Inventories	6,223	6,415	6,720	7,554
Trade Receivables	504	501	520	671
Loans & Advances	399	396	411	531
Cash & Bank Balances	945	894	1,337	1,056
Other Current Assets	376	374	388	501
Total Current Assets	8,899	9,031	9,841	10,913
Trade Payable	649	645	669	864
Provisions	8	8	8	8
Other Current Liabilities	6,733	6,695	6,940	7,373
Total Current Liabilities	7,391	7,349	7,617	8,245
Net Current Assets	1,508	1,681	2,224	2,669
Application of Funds	7,767	7,672	7,917	8,061

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	FY22	FY23E	FY24E	FY25E
Per Share Data				
Reported EPS	3.6	12.1	14.4	20.9
Cash EPS	18.8	25.9	29.5	36.1
BVPS	126.4	139.1	147.6	148.7
Operating Ratios				
EBITDA / Net Sales	25.6	26.0	29.9	31.2
PAT / Net Sales	2.8	8.0	8.3	10.1
Return Ratios				
RoE	2.8	8.7	9.7	14.1
RoCE	6.2	8.8	11.8	15.4
RoIC	27.9	43.1	59.0	53.1
Valuation Ratios				
EV / EBITDA	19.0	15.8	11.5	9.5
P/E	134.8	NM	33.7	23.2
EV / Net Sales	4.8	4.1	3.5	3.0
Market Cap / Sales	3.7	3.2	2.8	2.3
Price to Book Value	3.8	3.5	3.3	3.3
Turnover Ratios				
Asset turnover	0.4	0.4	0.5	0.6
Gross Block Turnover	2.2	3.2	3.6	4.1
Solvency Ratios				
Net Debt / Equity	1.2	1.0	0.8	0.9
Current Ratio	1.0	1.0	1.1	1.1
Quick Ratio	0.2	0.2	0.2	0.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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