

Brigade Enterprises (BRIENT)

CMP: ₹ 542

Target: ₹ 650 (20%)

Target Period: 12 months

May 28, 2023

BUY

Strong sales booking; healthy outlook 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.

Q4FY23 Results: BEL reported a strong performance.

- The company reported sales volume of 2.37 mn sq feet (residential sales volume 2.33 mn sq feet (msf), up 55% YoY), up 53% YoY driven by new launches of 2.8 msf. The sales value at ₹ 1489 crore was up 44.8% YoY driven by strong demand momentum. FY23 residential sales volume was ~6.1 msf worth ₹ 3907 crore, up ~31% and 32.4%, respectively.
- Reported revenues declined 10.6% YoY to ₹ 843 crore, with revenue recognition from real estate being lower at ₹ 572.8 crore, down 21% YoY. Revenues from hospitality (up ~102% YoY and 11% QoQ) were at ₹ 112 crore with occupancy at ~69% (68% in Q3), higher than pre Covid levels of ~62% with ARR now ~12% above pre-Covid levels at ₹ 6022
- EBITDA at ₹ 202 crore was muted YoY owing to lower revenues YoY. Reported EBITDA margins up 220 bps YoY to 24%, given the revenue mix. PAT was at ₹ 69.3 crore up 113% YoY, given lower interest costs

What should investors do? BEL's share price has grown at ~27% CAGR over the past five years (from ~₹ 163 in May, 2018 to ~₹ 542 levels currently).

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

Target Price and Valuation: We value BEL at ₹ 650/share.

Key triggers for future price performance:

- Sales momentum in residential business with strong pipeline of ~4 mn sq ft ongoing projects (unsold stock) and ~7.5 msf upcoming launches
- 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 ₹ 470

Key Financial Summary

(₹ crore)	FY20	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	2 yr CAGR (FY23-25E)
Net Sales	2632.2	1950.0	2998.8	3444.6	12.7%	4008.8	4762.4	17.6%
EBITDA	663.2	471.9	766.3	859.0	9.2%	1149.3	1372.9	26.4%
EBITDA Margin(%)	25.2	24.2	25.6	24.9		28.7	28.8	
Net Profit	130.6	-46.3	82.8	291.4	35.9%	327.6	411.8	18.9%
EPS (₹)	6.2	-2.2	3.6	12.6		14.2	17.8	
P/E(x)	87.6	NM	150.8	42.9		38.2	30.4	
EV/EBITDA(x)	25.1	35.6	20.7	18.1		13.7	12.0	
RoE(%)	5.7	-2.0	2.8	9.0		9.5	11.7	
RoCE(%)	7.6	4.1	6.2	8.5		11.3	13.0	

Source: Company, ICICI Direct Research



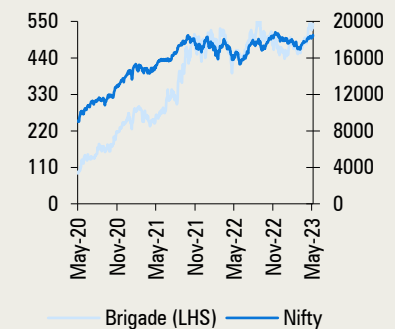
Particulars

Particulars	Amount (₹ crore)
Market Capitalization	12,507
Total Debt FY23	4,549
Cash FY23	1,478
EV	15,577
52 week H/L (₹)	585/ 426
Equity capital	230.7
Face value (₹)	10.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	43.9	43.8	43.8	43.8
DII	24.1	24.6	24.6	24.6
FII	13.3	13.4	14.2	14.3
Other	18.7	18.1	17.4	17.3

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 business highlight and outlook

- Residential update:** BEL has achieved healthy sales volume of 2.37 msf (residential sales volume 2.33 msf, up 55% YoY), up 53% YoY. Sales value at ₹ 1489 crore was up 44.8% YoY driven by strong demand momentum. Realisations were down ~5% YoY at ₹ 6284/sq ft (as the mix includes plot sales). The company said ~1 msf of plotted development projects launched during the year were fully sold out. New launches contributed ~60% of sales in Q4FY23 and ~40% for FY23. **While the management abstained from providing annual guidance, it endeavours to achieve 20% CAGR in sales volume over the next five years. We bake in sales value of ~₹ 4708 crore in FY24, up 15% YoY**
- Business development:** The company added ~8.7 msf of new land during the year with total revenue potential of ~₹ 5000 crore. The management further said they continue to be aggressive in pursuing land opportunities in its core markets
- New launches:** BEL launched six residential projects encompassing ~2.83 mn sq ft (Brigade share ~2.05 mn sq. ft) during the quarter, taking residential launches in FY23 to 5.27 mn sq. ft, (BEL share: 4.16 mn sq. ft. Most projects were launched in East and North Bangalore markets. The company has also launched two projects in South Bengaluru, which also did well. **Overall launch pipeline remains strong for BEL at 7.5 msf, for the next four quarters**
- Commercial leasing & pipeline:** The rental income was ₹ 187.6 crore, up ~4% YoY and EBITDA of ₹ 125.4 crore (up 3% YoY) in the quarter. **The company achieved gross leasing of 1.2 mn sq. ft in FY23 (0.2mn sq feet in Q4).** The company has an active pipeline of ~1.1 mn sq ft as of now with demand largely coming out from IT/ITeS, BFSI and automotive sectors. The company indicated that non-SEZ assets are fully leased out and vacant spaces remain in all three SEZs, i.e., Brigade Tech Garden, WTC Chennai, and GIFT City with *Desh Bill* delay coupled with US/Europe slowdown impacting delay. Furthermore, the construction of Brigade twin tower is likely get completed by March 2024 (capex incurred: ₹ 317 crore; balance: ₹ 283 crore). Expected monthly rental is ~₹ 75/sq feet
- Hospitality:** The revenues from hospitality (up ~102% YoY) were at ₹ 111.7 crore. The hospitality business saw improvement in room rates by ~15.6% QoQ to ₹ 7032/day while occupancy rates were sustained QoQ at 68%. **Also, the company is now in discussions to monetise part of its hotel portfolio at right time and correct valuations**
- Collection:** Collections across verticals remained healthy during Q4FY23 at ₹ 1463 crore mainly aided by healthy sales performance, pick-up in construction activities and increased leasing activities. Residential collection was at ₹ 983 crore, commercial sale (₹ 38 crore), commercial lease (₹ 161 crore), retail (₹ 53 crore), hospitality (₹ 145 crore) and others (₹ 83 crore)
- Land bank:** BEL has a total land bank of 448 acres as on Q4 mainly spread across Bengaluru (340 acres), having developable potential of 46.2 mn sq ft (Brigade share 35.5 mn sq ft). Most properties in the land banks are developable with receipt of sanctions and approvals. The company has paid ₹ 1261 crore towards land while balance payable is at ₹ 702 crore, to be paid over the next two financial years
- Debt:** Net outstanding debt on a consolidated basis at the end of Q4FY23 was at ₹ 2139 crore end (BEL's share: ₹ 1474 crore) vs. ₹ 1992 crore at Q3FY23. QoQ increase was due to land payment of ₹ 481 crore in Q4. Real estate division debt has reduced to ₹ 46.5 crore (down ₹ 30.5 crore QoQ) aided by higher sales and decent operating cash flows. Additionally, hospitality and leasing segments debt was at ₹ 547 crore and ₹ 3229 crore, respectively, with cash balance at ₹ 1690 crore. The company's average cost of debt was at 8.67% (up 21 bps QoQ)

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (Chg %)	Q3FY23	QoQ (Chg %)	Comments
Income from Operation	842.6	951.0	942.3	-10.6	820.3	2.7	Lower than expected topline on account of lower revenue recognition in residential segment
Other Income	29.5	15.0	22.4	31.8	38.3	-22.9	
Total Operating Cost	483.6	438.0	441.6	9.5	481.0	0.5	
Employee cost	70.9	63.0	62.3	13.8	70.8	0.1	
Other expenditure	155.6	150.0	151.0	3.0	151.4	2.7	
EBITDA	202.0	220.0	205.2	-1.6	207.9	-2.9	
EBITDA Margin (%)	24.0	23.1	21.8	220 bps	25.3	-137 bps	Margins aided by revenue mix
Depreciation	83.4	91.0	90.8	-8.2	78.1	6.7	
Interest	100.0	110.0	109.4	-8.6	118.4	-15.6	
PBT	48.1	34.0	27.4	75.8	49.7	-3.1	
Total Tax	2.1	20.0	19.2	NM	7.0	-70.7	
Pat after Minority Interest	69.3	40.0	32.5	113.3	56.9	21.7	

Key Metrics

Sales Volume (in lakh sq ft)	23.7	18.0	15.5	53.0	15.3	54.5
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23		FY24E		FY25E			Comments
	Old	New	Old	New	Old	New	% Change	
Revenue	3,444.6	4,008.8	4,008.8	0.0	4,785.0	4,762.4	-0.5	Realign estimates
EBITDA	859.0	1,200.3	1,149.3	-4.3	1,491.0	1,372.9	-7.9	
EBITDA Margin (%)	24.9	29.9	28.7	-127 bps	31.2	28.8	-233 bps	
PAT	291.4	330.9	327.6	-1.0	481.9	411.8	-14.5	
EPS (₹)	12.6	14.4	14.2	-1.0	21.0	17.8	-14.5	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY20	FY21	FY22	FY23	FY24E	FY25E
Volume sold in msf	4.3	4.6	4.7	6.3	6.8	7.1
Sales value (₹ crore)	2,377	2,767	3,023	4,107	4,708	5,151

Source: Company, ICICI Direct Research

Company Analysis

Exhibit 4: Consolidated cash flows

Particulars	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Operating Activities					
Total Collection	1333.5	1210.3	1422.0	1328.3	1463.2
Direct Cost/Construction Cost	-543.4	-486.0	-654.7	-616.7	-618.8
LO Payment	-121.8	-109.7	-132.4	-116.5	-131.4
Employee And Admin Expense	-93.8	-93.8	-109.3	-99.9	-116.4
Sales & Marketing Expense	-39.8	-33.4	-34.5	-36.2	-30.2
Statutory Payments	-106.6	-114.1	-124.9	-103.2	-127.7
Other Payments	-13.2	-3.9	-4.4	-5.9	-3.1
Net Cash Flow From Operating Activities(A)	414.9	369.4	361.8	349.9	435.6
Investment Activities					
Cash from Investment Activities	125.0	206.0	660.3	353.9	988.9
Construction Cost-(CWIP/Capex Projects)	-43.0	-80.8	-20.9	-58.3	-71.4
Investments in Land/JD/JV/TDR	-114.9	-83.3	-97.1	-47.9	-479.4
Other Investments (FD&Mutual fund)	-258.7	-295.2	-787.4	-416.9	-654.9
Net Cash Flow From Investment Activities(B)	-291.6	-304.3	-245.1	-169.2	-216.8
Financing Activities					
Debt Drawdown	202.9	88.2	103.3	57.2	117.8
Proceeds from QIP/ESOP	2.5	2.7	2.4	1.6	1.1
Dividend Payment					
Debt Payment	-151.8	-145.8	-168.1	-165.4	-190.4
Interest Payment	-83.6	-78.8	-76.2	-82.8	-90.5
Investment by PE	0.0	0.0	0.0	0.1	0.0
Net Cash Flow from Financing Activities (C)	-30.0	-133.7	-170.2	-189.3	-162.0
Net Cash Flows for the Period(A+B+C)	93.3	-68.6	-53.5	-8.6	56.8

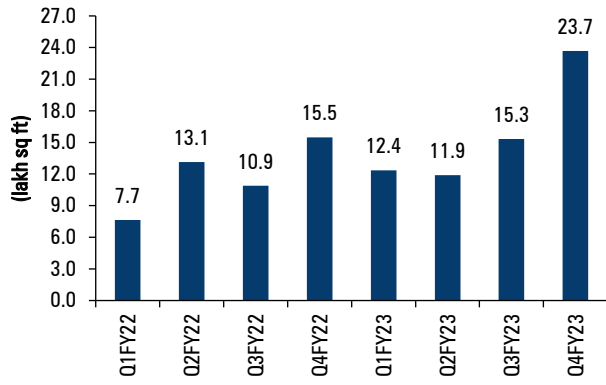
Source: Company, ICICI Direct Research

Exhibit 5: Consolidated debt profile

Particular	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Real Estate	271.8	213.3	153.7	77.0	46.5
Hospitality					
GOP Securitised	533.2	515.5	496.9	473.9	498.5
Capex	85.0	97.4	101.9	105.9	48.3
Leasing					
Securitised Lease Rental	2376.8	2383.2	2345.4	2823.6	2883.9
Capex	852.0	886.8	917.8	434.1	352.4
Less:Liquid Investments	1578.5	1689.1	1789.4	1922.8	1690.3
Net Debt	2540.3	2407.1	2226.3	1991.7	2139.3
Less:SPV partners's share of Debt	787.2	770.9	735.3	697.3	664.9
Exposure of BEL	1753.1	1636.2	1491.0	1294.4	1474.4
Cost of Debt	7.65%	7.75%	8.09%	8.46%	8.67%
Credit Rating	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"	ICRA"AA-" CRISIL"A+"

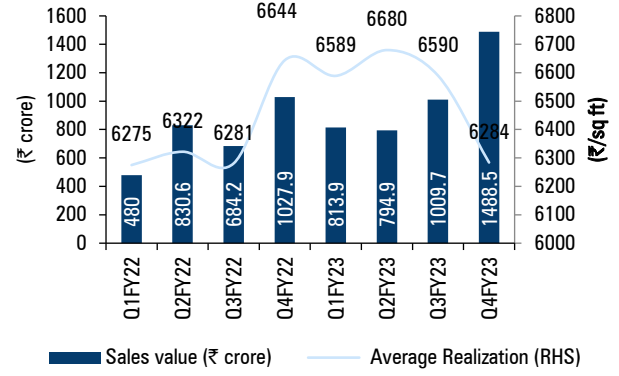
Source: Company, ICICI Direct Research

Exhibit 6: Quarterly sales volume trend



Source: Company, ICICI Direct Research

Exhibit 7: Quarterly sales value & realisation trend



Source: Company, ICICI Direct Research

Valuation & Outlook

The volume trajectory is relatively healthy while 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 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 ₹ 650/share.

Exhibit 8: Valuation

Project	Value	NAV Multiple	NAV/share	Remarks
Residential Total	6546	1.0	284	We have considered completed, ongoing and steady launch pipeline over next 5-6 years
Leasing Portfolio Total	7914	1.0	343	We have considered cap rate of 8%
Hospitality Portfolio	2636	1.0	114	20x FY24E EV/EBITDA
Total Gross Asset Valuation	17096		741	
Less: Net Debt (Brigade share)	1474		64	We have considered Brigade effective net debt
Less: Land dues payable	702		30	
Target Valuation	14919		647	
Rounded-off target			650	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement ₹ crore

₹ crore	FY22	FY23	FY24E	FY25E
Net Sales	2,998.8	3,444.6	4,008.8	4,762.4
Other Income	66.7	118.6	94.9	99.6
Total revenues	3,065.5	3,563.2	4,103.7	4,862.1
Cost of Materials Sold	1,584.2	1,762.9	1,919.2	2,298.3
Employee Cost	206.9	268.3	295.1	324.6
Other Expenditure	441.4	554.5	645.3	766.6
Total Operating Expenditure	2,232.5	2,585.6	2,859.6	3,389.5
EBITDA	766.3	859.0	1,149.3	1,372.9
Interest	443.6	434.2	451.1	470.1
Depreciation	350.5	314.6	312.3	367.1
PBT	(17.7)	273.9	480.7	635.3
Tax	49.7	55.8	124.5	164.5
Profit before MI	(67.5)	218.1	356.2	470.8
Minority Interests	(147.5)	(69.2)	33.2	63.9
PAT	82.8	291.4	327.6	411.8
EPS (₹)	3.6	12.6	14.2	17.8

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore

₹ crore	FY22	FY23	FY24E	FY25E
Profit before Tax	(18)	274	481	635
Depreciation	351	315	312	367
Interest paid	444	434	451	470
CF before wc changes	855	969	1,112	1,314
Net Increase in CA	(363)	(1,087)	(279)	(380)
Net Increase in CL	973	1,282	(207)	(332)
Net CF from op. activities	1,277	1,060	513	300
Purchase of Fixed Assets	(279)	(273)	(300)	(400)
(Purchase)/Sale of Inv.	(420)	447	-	-
Net CF from inv. activities	(455)	172	(196)	(300)
Equity Raised	-	-	-	-
Proceeds from Borrowing	90	(192)	200	200
Interest Paid	(444)	(434)	(451)	(470)
Dividend Paid	(83)	(73)	(82)	(288)
Net CF from fin. activities	(437)	(699)	(333)	(558)
Net Cash flow	385	533	(16)	(559)
Opening Cash	559	945	1,478	1,462
Closing Cash	945	1,478	1,462	903

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet ₹ crore

₹ crore	FY22	FY23	FY24E	FY25E
Equity Capital	230	231	231	231
Reserves & Surplus	2,647	2,913	3,159	3,282
Networth	2,910	3,245	3,458	3,517
Total Debt	4,833	4,549	4,749	4,949
Deferred Tax Liability	57	12	12	12
Source of Funds	7,767	7,704	8,150	8,474
Gross Block	6,116	6,189	6,289	7,339
Less: Accumulated Dep	1,231	1,545	1,858	2,225
Net Block	4,885	4,644	4,432	5,115
Capital WIP	541	740	940	290
Total Fixed Assets	5,425	5,384	5,372	5,405
Investments	509	62	62	62
Inventories	6,223	7,327	7,636	7,670
Trade Receivables	504	462	451	577
Loans & Advances	399	431	421	540
Cash & Bank Balances	945	1,478	1,462	903
Other Current Assets	376	368	360	461
Total Current Assets	8,899	10,567	10,818	10,777
Trade Payable	649	735	717	919
Provisions	8	11	11	11
Other Current Liabilities	6,733	7,928	7,738	7,204
Total Current Liabilities	7,391	8,673	8,466	8,134
Net Current Assets	1,508	1,894	2,352	2,643
Application of Funds	7,767	7,704	8,150	8,474

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios

	FY22	FY23	FY24E	FY25E
Per Share Data				
Reported EPS	3.6	12.6	14.2	17.8
Cash EPS	18.8	26.3	27.7	33.8
BVPS	126.4	140.6	149.9	152.4
Operating Ratios				
EBITDA / Net Sales	25.6	24.9	28.7	28.8
PAT / Net Sales	2.8	8.5	8.2	8.6
Return Ratios				
RoE	2.8	9.0	9.5	11.7
RoCE	6.2	8.5	11.3	13.0
Valuation Ratios				
EV / EBITDA	20.7	18.1	13.7	12.0
P/E	150.8	42.9	38.2	30.4
EV / Net Sales	5.3	4.5	3.9	3.5
Market Cap / Sales	4.2	3.6	3.1	2.6
Price to Book Value	4.3	3.9	3.6	3.6
Turnover Ratios				
Asset turnover	0.4	0.4	0.5	0.6
Gross Block Turnover	2.2	2.4	2.6	3.0
Solvency Ratios				
Net Debt / Equity	1.2	0.9	0.9	1.1
Current Ratio	1.0	1.0	1.0	1.1
Quick Ratio	0.2	0.1	0.1	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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