

BRIGADE ENTERPRISES

Muted quarter; sanguine outlook

India Equity Research | Real Estate

Brigade Enterprises' (BEL) Q4FY18 net profit of INR184mn stood below our INR478mn estimate due to: (a) fewer projects reaching revenue recognition stage; and (b) INR115mn one-off expense. New sales at INR2.3bn (up 7% YoY, down 10% QoQ) were impacted by cancellations due to delays in approvals of some projects which were booked in pre-RERA period. Despite a muted Q4FY18, we expect BEL's operations to strengthen going ahead, led by planned new launches (~11.6msf) over next few years. A strong Bengaluru market, strong office space leasing and steady traction in its leasing and hospitality portfolios are key positives. We maintain 'BUY' with a revised TP of INR346 (INR362 earlier).

Residential bookings subdued

Revenue of INR4.3bn (down 22% YoY, flat QoQ, our estimate INR5bn) was driven by POCM-based revenue recognition in ongoing projects. Profitability was impacted by INR115mn expense due to demerger of hospitality arm. **Operations:** New sales were impacted by ~70k sft cancellations due to delays in approvals (net sales at 0.43 msf); while commercial space booking was up (YoY and QoQ), residential sales declined. Collections at ~INR4.7bn improved (~INR4.2bn in Q3FY18). Hotel occupancy in FY18 declined YoY in Grand Mercure (71% vs. 73%) and Sheraton (77% vs. 81%).

Robust launch pipeline

BEL is developing ~19.4msf across residential, hospitality and leasing (office/retail) verticals. The company expects to launch ~11.6msf of new projects in FY19 (BEL's share ~8.5 msf); of this, ~3.3msf will be commercial projects and ~8.3msf residential (of this ~5msf will be under the affordable category). Management is targeting to lease out ~0.5msf of commercial space in the next few months, and launch multiple residential projects in Q2FY19. The company is witnessing good traction in affordable housing projects and in pre-lease of commercial projects.

Outlook and valuations: Attractive; maintain 'BUY'

Strong fundamentals in the Bengaluru market and preference for organised players post RERA should aid BEL's well-balanced portfolio. Key triggers for the stock will continue to be: (a) completion of annuity assets; (b) timely launch of planned projects, and (c) demand improvement in Bengaluru market (especially in affordable segment). We factor in faster completion trajectory of commercial assets and maintain 'BUY/SO' with a revised target price of INR346 (INR362 earlier).

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equal weight

MARKET DATA (R: BRIG.BO, B: BRGD IN)

CMP	: INR 246
Target Price	: INR 346
52-week range (INR)	: 325 / 231
Share in issue (mn)	: 136.1
M cap (INR bn/USD mn)	: 33 / 517
Avg. Daily Vol.BSE/NSE('000)	: 136.5

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	46.7	46.7	46.9
MF's, FI's & BK's	15.0	14.9	14.6
FII's	13.0	12.9	12.9
Others	25.2	25.5	25.7
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	(1.6)	1.3	(0.7)
3 months	(13.9)	2.2	(5.3)
12 months	(2.5)	12.1	10.8

Parvez Akhtar Qazi
 +91 22 4063 5405
 parvez.qazi@edelweissfin.com

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Financials

(INR mn)

Year to March	Q4FY18	Q4FY17	% Chg	Q3FY18	% Chg	FY18	FY19E	FY20E
Net revenues	4,335	5,537	(21.7)	4,239	2.3	18,972	22,854	25,146
EBITDA	1,348	1,981	(32.0)	1,593	(15.4)	5,545	6,641	7,232
Diluted EPS (INR)	1.4	6.5	(79.2)	3.6	(62.6)	10.3	12.6	14.3
Diluted P/E (x)						23.9	19.5	17.2
ROE (%)						6.1	7.0	7.4

Management Call Highlights

1. **Debt:** Gross debt increased by ~INR0.9bn sequentially to INR29.5bn; net gearing inched up to 89% (81% in Q3FY18). This debt could increase further as ~INR19bn of capex is committed to be incurred on commercial projects (~6msf under construction). However, this will be compensated by corresponding increase in leasing revenue (with higher EBITDA margin); this would boost EBITDA sufficiently to keep leverage levels at check.
2. **Revenue break-up:** Sales business contributed 68% to Q4FY18 revenues, while balance came from annuity (leasing/hospitality).
3. **Commercial projects:** The company has completed leasing of ~0.5msf at its various commercial projects for which documentation is in progress. BEL expects to lease out Phase 1 of Tech Garden (~1msf) in FY19 (20% already committed and documentation is in process). Also, 50k sft of Chennai WTC is at advanced stage of leasing. Management expects to complete and lease out these SEZ projects before FY20 end.
4. **Investor induction in hospitality business:** The company expects to induct a strategic partner in the hospitality business soon; this will help its expansion plans in the segment.
5. **Management guidance:** Management is targeting to liquidate a major portion of the ~INR10bn completed inventory by end of FY19 and launch multiple residential projects in Q2FY19. The company proposes to double its pre-sales in FY19 (~INR9bn in FY18).

Outlook and valuations: Sanguine prospects; maintain 'BUY'

Despite a muted quarter due to the decline in new bookings on account of project cancellations, BEL has a robust launch pipeline and is making good progress in its under-construction projects. We like BEL's diversified portfolio and expect steady ramp up in its new launches and pre-sales going ahead. This is likely to be driven by: (a) likely uptick in Bengaluru residential demand driven by strong office space leasing in past few years; (b) focus on affordable housing segment; and (c) preference for organised players post RERA.

We have revised our target price to INR346 (INR362 earlier) owing to following factors:

1. Our updated model reflects latest disclosures related to ongoing projects as well as future plans.
2. We have factored in higher debt due to faster roll out of commercial projects.

Consequently, our FY19E NAV is INR433/share (INR453 earlier), to which we apply 20% discount and arrive at our target price of INR346.

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	4,335	5,537	(21.7)	4,239	2.3	18,972	22,854	25,146
Direct Operating expenses	1,556	2,325	(33.1)	1,476	5.4	8,448	11,085	12,273
Staff costs	343	390	(12.0)	404	(15.0)	1,545	1,700	1,869
Other expenses	1,088	841	29.4	767	41.9	3,434	3,428	3,772
EBITDA	1,348	1,981	(32.0)	1,593	(15.4)	5,545	6,641	7,232
Depreciation	372	328	13.4	366	1.7	1,377	1,587	1,872
Interest	746	592	26.0	636	17.3	2,594	2,981	2,993
Other income	141	69	103.7	97	45.3	483	574	665
Profit before tax	256	1,130	(77.4)	688	(62.8)	1,942	2,647	3,032
Provision for taxes	102	305	(66.5)	237	(56.9)	628	926	1,061
Minority interest	26	(83)	(131.4)	33	(20.6)	(63)	60	80
Associate profit share	1	(2)	(168.8)	5	(77.6)	15	45	45
Reported profit	184	743	(75.2)	492	(62.6)	1,392	1,705	1,936
Diluted shares (mn)	136	114	19.7	136	-	136	136	136
Diluted EPS (INR)	1.4	6.5	(79.2)	3.6	(62.6)	10.3	12.6	14.3
Adjusted Diluted EPS	1.4	6.5	(79.2)	3.6	(62.6)	10.3	12.6	14.3

as a % of net revenues

Cost of construction	35.9	42.0		34.8		44.5	48.5	48.8
Employee cost	7.9	7.0		9.5		8.1	7.4	7.4
Other expenses	25.1	15.2		18.1		18.1	15.0	15.0
Total expenses	68.9	64.2		62.4		70.8	70.9	71.2
EBITDA	31.1	35.8		37.6		29.2	29.1	28.8
Depreciation	8.6	5.9		8.6		7.3	6.9	7.4
EBIT	22.5	29.8		28.9		22.0	22.1	21.3
Interest expenditure	17.2	10.7		15.0		13.7	13.0	11.9
Reported net profit	4.2	13.4		11.6		7.3	7.5	7.7
Tax rate	39.9	27.0		34.4		32.4	35.0	35.0

Company Description

Brigade Enterprises, established in 1986, is a South India based real estate developer focused on development of residential, commercial, retail, and hospitality projects. Its primary has been Bangalore with presence in other key markets such as Chennai, Hyderabad, Kochi, etc. It has an in-house, fully integrated property development team comprising engineers and architects who oversee the development of properties from inception to completion. Its land bank strategy includes outright purchase of land parcels as well as entering into joint development agreement (revenue / profit share) with land owners. Its product mix consists of premium residential apartments, mixed use developments and affordable homes.

Investment Theme

1. Strong portfolio of ongoing and planned development projects located in attractive south India property markets. Good sales momentum in these projects provides strong cash flow visibility and should translate into strong earnings scale-up
2. Steady ramp-up in rental assets should provide rising annuity income.
3. Strong portfolio of hospitality assets in key South India markets.
4. Attractive land bank for future development in major South India markets
5. Proxy to stable Bangalore physical market where residential demand / supply / pricing has remained largely stable while office space demand has been strong with little vacancy.
6. Attractive valuations

Key Risks

1. Slowdown in IT industry, leading to a general slowdown in new leases/sales in Bangalore.
2. Slow off take in upcoming rental assets.
3. Lower occupancy in hospitality assets.
4. Slower new launches and delays in execution in ongoing projects.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP (Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
Company				
Selling Price increase (%)	5	5	5	5
Construction Cost Increase (%)	5	5	5	5

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Income from operations	20,241	18,972	22,854	25,146
Direct costs	10,025	8,448	11,085	12,273
Employee costs	1,433	1,545	1,700	1,869
Other Expenses	3,040	3,434	3,428	3,772
Total operating expenses	14,498	13,427	16,213	17,914
EBITDA	5,744	5,545	6,641	7,232
Depreciation	1,226	1,377	1,587	1,872
EBIT	4,518	4,168	5,054	5,360
Less: Interest Expense	2,465	2,594	2,981	2,993
Add: Other income	342	483	574	665
Profit Before Tax	2,396	1,942	2,647	3,032
Less: Provision for Tax	732	628	926	1,061
Less: Minority Interest	141	(63)	60	80
Add: Exceptional items	-	(115)	-	-
Associate profit share	8	15	45	45
Reported Profit	1,531	1,392	1,705	1,936
Adjusted Profit	1,531	1,507	1,705	1,936
Shares o/s (mn)	114	136	136	136
Adjusted Basic EPS	13.5	10.3	12.6	14.3
Diluted shares o/s (mn)	114	136	136	136
Adjusted Diluted EPS	13.5	10.3	12.6	14.3
Adjusted Cash EPS	24.3	20.4	24.3	28.1
Dividend per share (DPS)	2.5	2.0	2.0	2.0
Dividend Payout Ratio (%)	22.4	23.6	19.2	17.0

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Staff costs	7.1	8.1	7.4	7.4
S G & A expenses	15.0	18.1	15.0	15.0
Operating expenses	71.6	70.8	70.9	71.2
Depreciation	6.1	7.3	6.9	7.4
EBITDA margins	28.4	29.2	29.1	28.8
Interest Expense	12.2	13.7	13.0	11.9
Reported net profit	7.6	7.3	7.5	7.7

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	(0.7)	(6.3)	20.5	10.0
EBITDA	17.2	(3.5)	19.8	8.9
PBT	9.9	(19.0)	36.3	14.6
Reported profit	24.4	(9.1)	22.5	13.5
EPS	23.6	(23.8)	22.5	13.5

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	1,137	1,361	1,356	1,356	
Reserves & Surplus	15,813	21,510	23,034	24,641	
Shareholders' funds	16,949	22,870	24,390	25,998	
Minority Interest	2,274	2,231	2,231	2,231	
Long term borrowings	18,171	28,781	28,000	29,000	
Def. Tax Liability (net)	619	259	259	259	
Sources of funds	38,013	54,141	54,880	57,488	
Gross Block	16,506	21,624	21,905	25,812	
Net Block	14,264	18,005	16,699	18,735	
Capital work in progress	15,553	21,207	23,797	22,964	
Total Fixed Assets	29,900	39,296	40,580	41,782	
Goodwill on consolidation	43	43	43	43	
Non current investments	540	546	546	546	
Other non current assets	2,882	4,342	4,342	4,342	
Current Investments	-	1,813	1,813	1,813	
Cash and Equivalents	1,363	1,466	1,756	2,108	
Inventories	22,639	21,795	20,938	21,237	
Trade receivables	374	1,753	1,143	1,509	
Loans & Advances	2,202	2,900	3,400	3,900	
Other current assets	3,556	4,058	4,323	4,661	
Total current assets	28,771	32,318	31,617	33,119	
Current liabilities	25,409	23,789	23,918	24,363	
Provisions	77	81	85	90	
Total Current liab	25,486	23,870	24,003	24,452	
Net Curr Assets-ex cash	3,284	8,448	7,614	8,666	
Uses of funds	38,013	54,141	54,880	57,488	
BVPS (INR)	149.1	168.6	179.8	191.7	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	1,531	1,392	1,705	1,936	
Add: Depreciation	1,226	1,377	1,587	1,872	
Interest (Net of Tax)	1,708	1,755	1,938	1,945	
Less: Changes in WC	(7,019)	5,164	(834)	1,053	
Operating cash flow	9,748	(2,755)	4,127	2,755	
Less: Capex	4,514	10,773	2,871	3,074	
Free Cash Flow	6,969	(11,413)	3,194	1,626	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Brigade Enterprises	517	19.5	17.2	1.4	1.3	7.2	7.7
Godrej Properties	2,557	47.9	36.2	5.1	4.4	13.0	13.0
Oberoi Realty	2,661	13.0	11.5	2.4	2.0	20.5	19.3
Sobha Limited	749	21.2	17.6	1.7	1.6	8.2	9.2
Sunteck Realty Limited	917	19.4	13.3	2.1	1.8	11.4	14.8
Median	-	19.5	17.2	2.1	1.8	11.4	13.0
AVERAGE	-	24.2	19.2	2.5	2.2	12.1	12.8

Source: Edelweiss research

Cash flow metrics					
Year to March	FY17	FY18	FY19E	FY20E	
Financing cash flow	817	4,485	(186)	(328)	
Investing cash flow	4,134	12,238	2,871	3,074	
Net cash Flow	6,432	(10,508)	1,071	(647)	
Capex	(4,457)	(10,773)	(2,871)	(3,074)	
Dividend paid	(342)	(328)	(328)	(328)	
Share issue/(buyback)	383	4,857	143	-	

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
EOP (ROE) (%)	9.0	6.1	7.0	7.4
ROACE (%)	16.0	11.1	13.1	13.7
ROAE (%)	9.5	7.0	7.2	7.7
Current Ratio	1.1	1.4	1.3	1.4
Gross Debt/EBITDA	3.2	5.2	4.2	4.0
Gross Debt/Equity	107.2	125.8	114.8	111.5
Net Debt/Equity	99.2	111.5	100.2	96.5

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	0.5	0.4	0.4	0.4
Fixed Asset Turnover	1.5	1.2	1.3	1.4
Equity Turnover	1.3	1.0	1.0	1.0

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	13.5	10.3	12.6	14.3
Y-o-Y growth (%)	23.6	(23.8)	22.5	13.5
Adjusted Cash EPS (INR)	24.3	20.4	24.3	28.1
Diluted P/E (x)	18.2	23.9	19.5	17.2
P/B (x)	1.6	1.5	1.4	1.3
Dividend Yield (%)	1.0	0.8	0.8	0.8

Additional Data

Directors Data

Mr M. R. Jaishankar	Chairman & Managing Director	Ms Githa Shankar	Wholetime Director
Mr M. R. Gurumurthy	Non-Executive Director	Mr P. V. Maiya	Independent Director
Mr M. R. Shivram	Non-Executive Director	Dr. Srinivasa Murthy	Independent Director
Mr. Aroon Raman	Independent Director	Mr. Bijou Kurien	Independent Director
Ms. Lakshmi Venkatachalam	Independent Director		

Auditors - M/s. S.R. Batliboi & Associates LLP

**as per last annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Nomura	3.95	Franklin Templeton India	3.83
ICICI Prudential	2.89	Kotak Funds	2.60
L&T Mutual Fund	2.51	Kotak Mahindra Life Insurance	1.66
Government Pension Fund Global	1.59	Sundaram Mutual Fund	1.44
Tata MF	1.24	Nordea Bank AB	1.03

**as per latest available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
05 Jun 2017	Vineet Verma	Sell	30000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Brigade Enterprises	BUY	SO	M	DLF	BUY	SP	H
Godrej Properties	HOLD	SP	L	Oberoi Realty	BUY	SP	L
Sobha Limited	BUY	SO	M	Sunteck Realty Limited	BUY	SO	H

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain
Head of Research
aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s):

Brigade Enterprises, DLF, Godrej Properties, Oberoi Realty, Sobha Limited, Sunteck Realty Limited

Recent Research

Date	Company	Title	Price (INR)	Recos
04-May-18	Godrej Properties	Targeting higher growth; <i>Result Update</i>	810	Hold
25-Apr-18	Oberoi Realty	Change in strategy to target higher growth; <i>Result Update</i>	569	Buy
21-Feb-18	DLF	A fresh start of sorts; <i>Result Update</i>	221	Buy

Distribution of Ratings / Market Cap

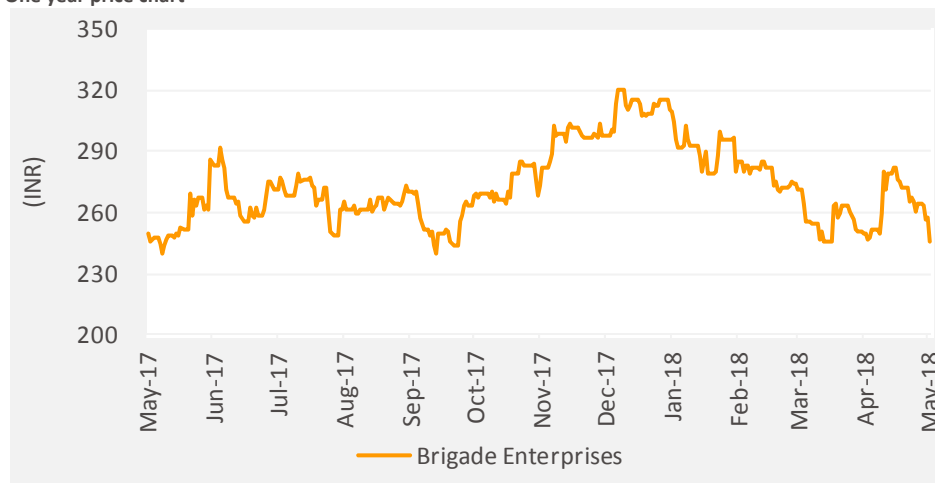
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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