

Brigade Enterprises

Estimate change

TP change

Rating change



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Bloomberg	BRGD IN
Equity Shares (m)	204
M.Cap.(INRb)/(USDb)	29 / 0.4
52-Week Range (INR)	255 / 91
1, 6, 12 Rel. Per (%)	34/-16/1
12M Avg Val (INR M)	35

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Net Sales	26.3	22.4	27.3
EBITDA	6.6	5.8	7.5
EBITDAM %	25.2	26.0	27.5
NP (INRb)	1.5	1.0	1.5
EPS (INR)	7.1	5.1	7.5
EPS Gr. (%)	(39)	(28)	47
BV/Sh. (INR)	112	115	121
Ratios			
Net D:E	1.6	1.2	1.2
RoE (%)	6.6	4.5	6.3
RoCE (%)	6.2	4.9	6.7
Valuations			
P/E (x)	19.9	27.8	19.0
P/BV (x)	1.3	1.2	1.2
EV/EBITDA (x)	9.8	10.0	7.8
EV/Sales (x)	2.5	2.6	2.1

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	46.8	46.8	46.8
DII	18.6	16.8	15.9
FII	11.9	12.8	12.5
Others	22.8	23.6	24.8

FII Includes depository receipts

CMP: INR142
TP: INR195 (+37%)
Buy

Office and Residential remain steady; COVID-19 dents Hotels

- BRGD has shown continued strength in delivering strong pre-sales volumes of ~1msf in the Residential segment, even in these testing times, as well as in its Leasing portfolio. This makes the company one of the favored plays in the Real Estate space.
- Leasing remains the cornerstone of the business in the near to long term, while Residential is likely to bounce back in 2HFY21E. Accounting for near-term challenges in Residential and Hospitality, we reduce our TP to INR195. However, reiterate **Buy** on account of favorable risk-reward.

Strong operational show amid COVID-19 crisis

- Residential shows strength amid COVID-19 outbreak:** 4QFY20 pre-sales volume/value was up 10%/25% YoY to 1.05msf/INR6.5b. Average price realization (INR psf) was up 14% YoY to INR6,176. For FY20, pre-sales volume/value increased 44%/45% YoY to 4.26msf/INR23.8b.
- Leasing remains steady:** Leasing revenue was up 22% YoY to INR1.05b, driven by incremental leasing of 0.21msf in 4QFY20. In FY20, BRGD leased 2.45msf of incremental office and retail space, with an est. rental yield of INR2.4b.
- COVID-19 dents Hospitality:** Hospitality was among the worst-hit segments due to COVID-19 impacting both business and leisure travel. In 4QFY20, revenue from the Hospitality segment was down 9% YoY, with EBIT loss of INR4m. Management has guided for near-term challenges, with pickup expected in 2HFY21. For FY20, Hospitality revenue grew 8% YoY to INR3.3b.
- Financial performance:** In 4QFY20, revenue / EBITDA / adj. PAT declined 16%/37%/70%, with EBITDA margin contraction at 710bp. For FY20, revenue / EBITDA / adj. PAT declined 12%/16%/40% YoY, with EBITDA margin contraction at 140bp.

Key management commentary highlights

- A) ~95% of the World Trade Centre (WTC), Chennai is leased out; expect rental income to flow from 4QFY21. ~50% of Brigade Tech Gardens (BTG), Bangalore is pre-leased, and rentals have commenced from 4QFY20. B) BRGD has opted for a loan moratorium (from Apr'20 to Aug'20) on debt pertaining to the Retail and Hospitality segments. Debt under moratorium amounts to ~INR12b.

Valuation and view

- Given the near-term challenges for the Residential and Hospitality segments, we lower our estimates by 15%/20% for pre-sales value/revenue for Residential/Hospitality. However, we expect momentum to continue in the medium term, driven by a robust line-up of launches across business segments, strong execution capabilities, and the right product mix. Maintain **Buy**, with TP of INR195.

Consolidated - Quarterly Earnings Model

(INR m)

Y/E March	FY19				FY20E				FY19	FY20	FY20E	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE		
Gross Sales	6,991	8,259	6,877	7,600	7,087	7,353	5,523	6,359	29,728	26,322	7,369	-14%
YoY Change (%)	26.0	70.4	62.2	75.3	1.4	-11.0	-19.7	-16.3	56.7	-11.5	-3.0	
Total Expenditure	5,196	6,071	5,118	5,446	5,264	5,451	3,967	5,008	21,831	19,689	5,403	
EBITDA	1,795	2,188	1,759	2,154	1,823	1,902	1,556	1,352	7,897	6,632	1,967	-31%
Margins (%)	25.7	26.5	25.6	28.3	25.7	25.9	28.2	21.3	26.6	25.2	26.7	
Depreciation	317	339	320	425	383	473	501	563	1,400	1,920	557	
Interest	628	697	697	763	796	940	863	805	2,785	3,403	896	
Other Income	88	177	103	178	83	163	164	84	545	494	189	
PBT before EO expense	938	1,329	845	1,144	727	653	356	67	4,257	1,803	703	
Extra-Ord expense	0	0	0	0	0	0	0	205	0	205	0	
PBT	938	1,329	845	1,144	727	653	356	-138	4,257	1,597	703	
Tax	313	464	251	428	269	281	-49	-28	1,455	474	181	
Rate (%)	33.4	34.9	29.7	37.4	37.0	43.1	-13.7	NM	34.2	29.7	25.8	
MI & Profit/Loss of Asso. Cos.	-6	182	106	120	46	-2	-89	-137	402	-182	150	
Reported PAT	631	683	489	597	412	374	493	27	2,399	1,306	371	
Adj PAT	631	683	489	597	412	374	493	182	2,399	1,461	371	-51%
YoY Change (%)	100.6	67.1	0.1	138.8	-34.7	-45.3	0.9	-69.5	63.2	-39.1	-37.8	
Margins (%)	9.0	8.3	7.1	7.8	5.8	5.1	8.9	2.9	8.1	5.6	5.0	

E: MOSL Estimates

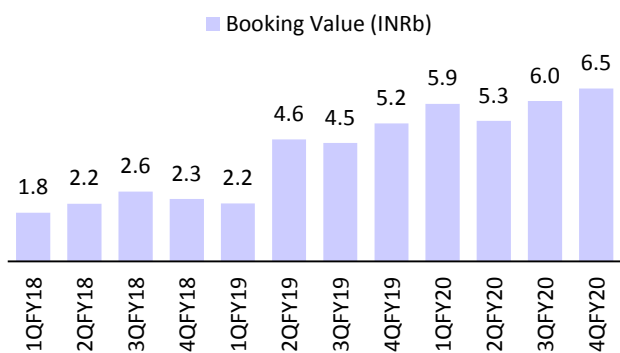


Management commentary highlights

- **COVID-19 impact spans business segments:** Except for the Office segment, all the other segments were impacted by the COVID-19-led lockdown, with Hospitality hit the hardest.
- **Office segment:** Rent collection remained steady across operational assets, with 96%+ rent collection witnessed during the lockdown period. Thus far, there have been no rental re-negotiations with existing tenants on the downside. However, at the Brigade Tech Gardens, ~0.2msf of pre-leasing was canceled.
- **Residential segment:** The Residential segment maintained its 1msf quarterly run rate for 4QFY20, with 0.98msf of pre-sales volumes, up +9% YoY (ex. commercial sales). However, sales inquiries have dropped to 15%, 25%, and 35% of pre-COVID-19 levels for April, May, and June, respectively.
- **Retail segment:** BRGD waived 50% of the rent of its retail tenants for the period of the lockdown (April and May). All malls are now operational, with 60% of stores operational as well. Footfall is at ~20% of pre-COVID-19 levels. F&B outlets and multiplexes are yet to open up. Expect to see near-term pressure.
- **Hospitality segment:** This is one of the worst-hit segments. It is expected to revive only in 2HFY21 and be driven by domestic travel. Foreign travel is likely to remain subdued in the near term.
- **Cascading effect of WFH culture and social distancing on commercial real estate:** BRGD's management believes work from home (WFH) would become a reality for certain job profiles in the post-COVID-19 era. However, stringent social distancing norms in the wake of COVID-19 are expected to drive the average space per employee for a commercial tenant. Thus, the management does not foresee any significant impact on commercial real estate demand due to the COVID-19 crisis in the long run.
- **One-time impairment loss in 4QFY20:** The company has taken one-time impairment loss on the Holiday Inn Racecourse (~INR60m) and the Brigade Broadway (~INR145m).

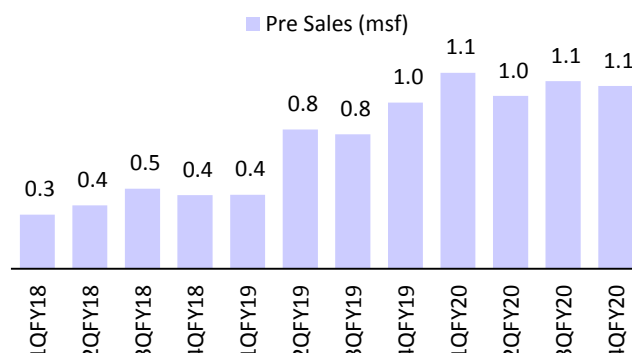
Key exhibits

Exhibit 1: Robust 25% growth in booking value in 4QFY20



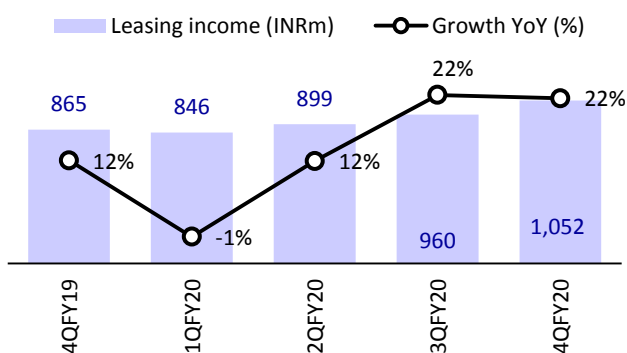
Source:

Exhibit 2: Robust 10% growth in pre-sales volume in 4QFY20



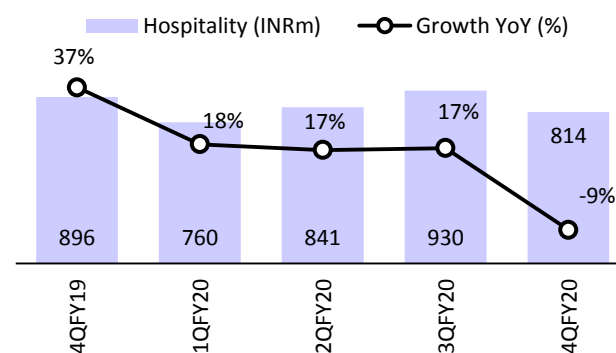
Source:

Exhibit 3: Leasing income increased 22% in 4QFY20



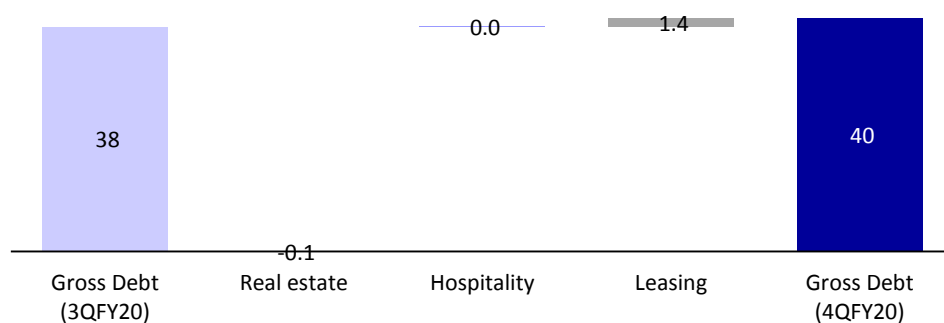
Source:

Exhibit 4: Hospitality income declined -9% in 4QFY20



Source:

Exhibit 5: Segmental gross debt profile



Source: MOSL, Company

- Net debt increased by INR1b to INR35.2b in 4QFY20 (v/s INR34.2b in 3QFY20). However, this was largely allocated toward capex (~INR1.45b) for annuity assets, wherein the current lease income is sufficient to cover interest outgo from incremental debt.

Valuation and view

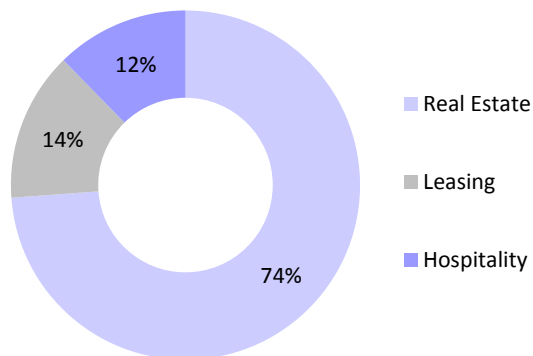
Medium to long term outlook remains promising

- We expect pre-sales growth momentum to take a breather in FY21E on account of near-term challenges due to a subdued economic environment and the impact of countrywide lockdown on the business in 1HFY21E. Therefore, we reduce our pre-sales volume est. for FY21E by 20% to 3.4msf for the Residential segment. However, in our view, the company is likely to see continued momentum in 2HFY21E and beyond, led by: a) consolidation in the Residential segment, b) BRGD's favorable product mix in residential real estate, with substantial exposure to the mid-income and affordable housing segments (~90% of inventory below INR15m), and c) the company's sharp focus on southern markets, esp. Bengaluru – one of the most resilient residential RE markets. Thus, we expect pent-up demand to drive the pre-sales volume by 23% in FY22E.
- There have been no major cancellations in pre-leased commercial spaces (except 0.2msf in BTG) and no rental re-negotiations for the pre-leased and existing leased spaces of under-construction and operational assets, respectively, despite the COVID-19 disruption. This gives us confidence that commercial office spaces are expected to fare well going ahead. We expect the Leasing portfolio to post a revenue CAGR of 34% over FY20–22E, largely driven by the operationalization of new assets and increased occupancies.
- We see short- to medium-term challenges in the Hospitality business, weighed by restricted travel and tourism activity (both leisure and business travel) in FY21. We model 20% decline in the Hospitality business for FY21 on account of reduced occupancies and lower average room rentals (ARR).
- We expect continued momentum in the medium to long term, driven by a robust line-up of launches across business segments, strong execution capabilities, and the right product mix. Maintain **Buy**, with TP of INR195.

NAV Calculation	Method	Metrics	INR m	FY21	
				per share (INR)	%
Real Estate	NPV		15,515	76	23%
Leasing	DCF	DF-13%, Cap -9.5%	33,231	163	49%
Hospitality	EV/EBITDA	12x FY22E	11,458	56	17%
Land Bank Value		Amount paid for	7,883	39	12%
Gross Asset Value			68,088	333	100%
Less: Net Debt			28,311	139	42%
Net Asset Value			39,777	195	58%
CMP				142	
Up/down				37%	

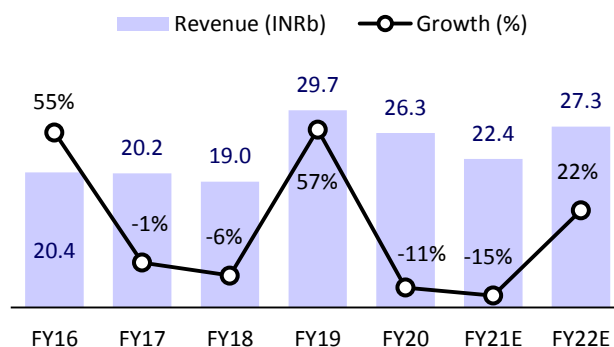
Story in charts

Exhibit 6: Segmental revenue mix (FY20)



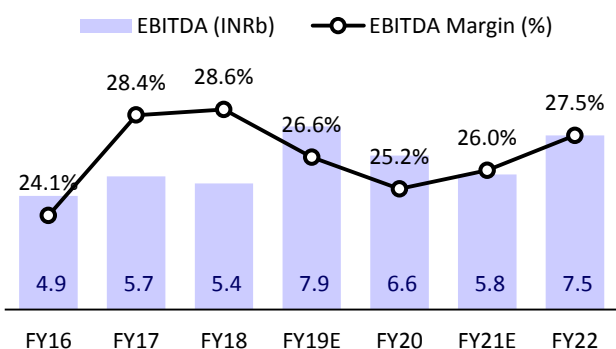
Source: MOFSL, Company

Exhibit 7: Revenue to decline in FY20*/FY21E*



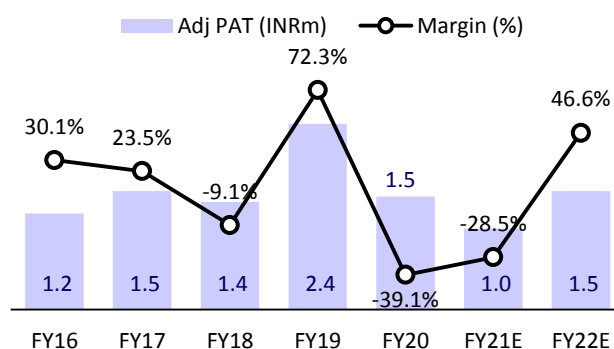
Source: MOFSL, Company

Exhibit 8: Improving EBITDA margin trend



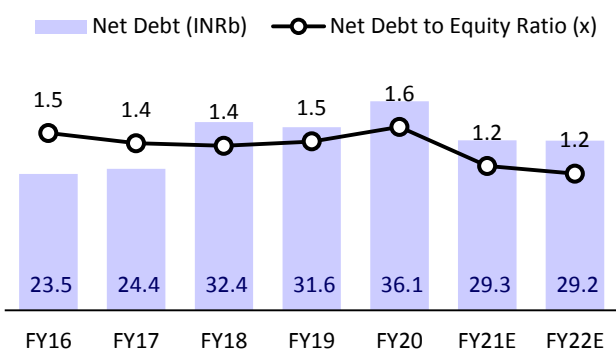
Source: MOFSL, Company

Exhibit 9: Adj. PAT trend



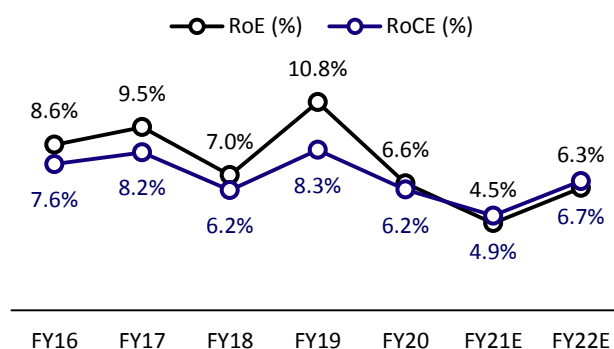
Source: MOFSL, Company

Exhibit 10: Declining net debt to equity trend



Source: MOFSL, Company

Exhibit 11: ROE and ROCE trend



Source: MOFSL, Company

*Revenue growth shows decline on account of change in revenue recognition policy to Project completion method for residential development as per Ind-AS 115.

Financials and valuations

Consolidated - Income Statement						(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	20,379	20,241	18,972	29,728	26,322	22,394	27,280
Change (%)	55.5	-0.7	-6.3	56.7	-11.5	-14.9	21.8
Total Expenditure	15,478	14,498	13,543	21,831	19,689	16,571	19,778
% of Sales	75.9	71.6	71.4	73.4	74.8	74.0	72.5
EBITDA	4,902	5,744	5,429	7,897	6,632	5,822	7,502
Margin (%)	24.1	28.4	28.6	26.6	25.2	26.0	27.5
Depreciation	1,059	1,226	1,377	1,400	1,920	2,469	3,051
EBIT	3,842	4,518	4,053	6,497	4,712	3,353	4,451
Int. and Finance Charges	1,990	2,465	2,594	2,785	3,403	2,783	3,361
Other Income	340	342	498	563	494	593	711
PBT bef. EO Exp.	2,193	2,396	1,957	4,274	1,803	1,163	1,802
EO Items	0	0	0	0	205	0	0
PBT after EO Exp.	2,193	2,396	1,957	4,274	1,598	1,163	1,802
Total Tax	802	732	628	1,455	474	293	453
Tax Rate (%)	36.6	30.5	32.1	34.0	29.6	25.2	25.2
Minority Interest	151	133	-63	420	-182	-174	-183
Reported PAT	1,239	1,531	1,392	2,399	1,306	1,045	1,531
Adjusted PAT	1,239	1,531	1,392	2,399	1,461	1,045	1,531
Change (%)	30.1	23.5	-9.1	72.3	-39.1	-28.5	46.6
Margin (%)	6.1	7.6	7.3	8.1	5.5	4.7	5.6

Consolidated - Balance Sheet						(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	1,132	1,137	1,361	1,362	2,044	2,044	2,044
Total Reserves	14,246	15,813	21,510	20,332	20,768	21,541	22,774
Net Worth	15,378	16,949	22,871	21,694	22,811	23,585	24,818
Minority Interest	1,238	2,274	2,231	1,884	1,659	1,485	1,302
Total Loans	24,587	25,763	33,896	33,778	39,107	35,107	32,107
Deferred Tax Liabilities	619	619	259	0	0	0	0
Capital Employed	41,822	45,606	59,257	57,357	63,577	60,177	58,227
Gross Block	3,681	5,292	21,624	14,267	17,182	37,682	43,682
Less: Accum. Deprn.	323	798	3,619	5,019	6,939	9,408	12,459
Net Fixed Assets	3,358	4,494	18,005	9,248	10,243	28,274	31,223
Goodwill on Consolidation	43	43	43	43	43	43	43
Capital WIP	14,108	15,637	21,291	20,097	20,975	2,059	2,303
Total Investments	9,940	10,310	2,359	14,452	20,414	20,414	20,414
Curr. Assets, Loans&Adv.	32,516	33,016	36,400	64,158	70,935	66,656	61,315
Inventory	23,067	22,639	21,795	48,161	52,094	47,926	45,530
Account Receivables	429	374	1,770	4,208	4,306	3,988	3,363
Cash and Bank Balance	1,089	1,363	1,466	2,222	3,049	5,784	2,873
Loans and Advances	7,931	8,640	11,370	9,567	11,486	8,957	9,548
Curr. Liability & Prov.	18,144	17,894	18,840	50,642	59,032	57,269	57,071
Account Payables	4,243	5,161	5,356	6,081	5,005	4,313	5,148
Other Current Liabilities	13,704	12,585	13,204	44,464	53,922	52,844	51,787
Provisions	198	148	280	97	105	112	136
Net Current Assets	14,372	15,123	17,559	13,516	11,903	9,387	4,244
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	41,822	45,606	59,257	57,357	63,577	60,177	58,227

Financials and valuations

Ratios							
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)							
EPS	6.1	7.5	6.8	11.7	7.1	5.1	7.5
Cash EPS	11.2	13.5	13.5	18.6	16.5	17.2	22.4
BV/Share	75.2	82.9	111.9	106.1	111.6	115.4	121.4
DPS	1.1	1.4	1.7	1.3	1.0	1.1	1.2
Payout (%)	22.0	22.4	29.3	13.7	18.9	25.9	19.5
Valuation (x)							
P/E	23.4	19.0	20.8	12.1	19.9	27.8	19.0
Cash P/E	12.6	10.5	10.5	7.6	8.6	8.3	6.3
P/BV	1.9	1.7	1.3	1.3	1.3	1.2	1.2
EV/Sales	2.6	2.6	3.2	2.0	2.5	2.6	2.1
EV/EBITDA	10.7	9.3	11.3	7.7	9.8	10.0	7.8
Dividend Yield (%)	0.8	1.0	1.2	0.9	0.7	0.8	0.9
FCF per share	-27.9	1.4	-42.3	-6.5	23.5	45.0	14.9
Return Ratios (%)							
RoE	8.6	9.5	7.0	10.8	6.6	4.5	6.3
RoCE	7.6	8.2	6.2	8.3	6.2	4.9	6.7
RoIC	11.8	17.9	10.5	15.7	16.7	9.8	10.3
Working Capital Ratios							
Fixed Asset Turnover (x)	5.5	3.8	0.9	2.1	1.5	0.6	0.6
Asset Turnover (x)	0.5	0.4	0.3	0.5	0.4	0.4	0.5
Inventory (Days)	413	408	419	591	722	781	609
Debtor (Days)	8	7	34	52	60	65	45
Creditor (Days)	76	93	103	75	69	70	69
Leverage Ratio (x)							
Current Ratio	1.8	1.8	1.9	1.3	1.2	1.2	1.1
Interest Cover Ratio	1.9	1.8	1.6	2.3	1.4	1.2	1.3
Net Debt/Equity	1.5	1.4	1.4	1.5	1.6	1.2	1.2

Consolidated - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
(INR m)							
OP/(Loss) before Tax	2,193	2,408	1,957	4,274	1,803	1,163	1,802
Depreciation	1,059	1,226	1,377	1,400	1,920	2,469	3,051
Interest & Finance Charges	1,787	2,198	2,391	2,583	2,909	2,190	2,649
Direct Taxes Paid	0	0	-948	-1,117	-474	-293	-453
(Inc)/Dec in WC	-1,604	-1,890	-4,141	-2,363	2,440	5,251	2,232
CF from Operations	3,436	3,941	635	4,777	8,599	10,781	9,281
Others	-49	37	-148	-105	0	0	0
CF from Operating incl EO	3,387	3,978	487	4,672	8,599	10,781	9,281
(Inc)/Dec in FA	-9,084	-3,686	-9,140	-6,005	-3,792	-1,584	-6,244
Free Cash Flow	-5,697	292	-8,652	-1,333	4,807	9,196	3,037
(Pur)/Sale of Investments	-409	259	-1,751	1,601	-5,962	0	0
Others	59	808	189	40	494	593	711
CF from Investments	-9,434	-2,619	-10,702	-4,364	-9,260	-991	-5,533
Issue of Shares	22	26	4,936	5	1	0	0
Inc/(Dec) in Debt	9,068	1,240	8,002	3,925	5,329	-4,000	-3,000
Interest Paid	-2,239	-2,350	-2,232	-3,154	-3,403	-2,783	-3,361
Dividend Paid	-543	-1	-408	-328	-246	-271	-298
Others	0	0	19	-1	-192	0	0
CF from Fin. Activity	6,307	-1,085	10,317	448	1,488	-7,054	-6,659
Inc/Dec of Cash	260	274	102	756	827	2,735	-2,911
Opening Balance	829	1,089	1,363	1,466	2,222	3,049	5,784
Closing Balance	1,089	1,363	1,466	2,222	3,049	5,784	2,873

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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