

Covid-19 to impact hospitality, retail asset...

Brigade Enterprises (BEL) reported a mixed performance as it reported better-than-expected sales volume but financial reported numbers were marred by one-time impairment loss in investment and hospitality segment on account of Covid-19. The company reported sales volume of 1.05 mn sq feet vs. 0.96 mn sq feet (msf) in Q4FY19, reporting healthy growth of 10% YoY. The presales value was up 25.3% YoY at ₹ 651.2 crore, as realisations were up 13.8% YoY at ₹ 6176/sq feet. Reported revenues de-grew 16.3% YoY to ₹ 635.9 crore, on account of weaker traction in hospitality and malls segment due to Covid-19 impact in the second half of March, 2020. The company provided for one-time impairment loss in investment and hospitality segment on account of Covid-19, of ₹ 20.5 crore. Consequently, reported PAT declined 95% YoY to ₹ 2.7 crore.

Commercial segment stable; retail to face Covid-19 impact

Commercial segment rental remained stable with new leasing at 0.3 msf (~2.45 msf in FY20) and rent collection at 96% in Q1FY21, so far. Furthermore, there has been no renegotiation for downwards revision in rent except for WTC Kochi. The company has termed work from home (WFH) as not a feasible long term solution. The footfall at mall is at 15-20% of pre-Covid level, as per the company. It has given 50% concession on rent during the lockdown period and lower minimum guarantee till September, 2020. Consequently, we bake in mall revenue decline of ~45% in FY21, followed by a recovery to normal levels in FY22.

Hospitality to face maximum impact

The company has opted for a loan moratorium for hospitality (loan of ~₹ 1200 crore) in which the impact of Covid-19 is steep and pronounced. It indicated that operational breakeven of hospitality assets is at 35-40% occupancy. Furthermore, BEL has stopped further progress in two of its four hospitality projects given the uncertainty, while hospitality stake sale, for now, is on hold. We expect hospitality EBITDA to shrink to ₹ 5 crore in FY21 vs. EBITDA of ₹ 89.9 crore in FY20, with some recovery in FY22E.

Valuation & Outlook

BEL has so far put up a strong performance across segments. However, we expect the impact on hospitality (likely to be a washout for at least a year with steep bottomline losses in FY21) and weak retail footfall in near term, to be a key area of concern. We also lower residential sales volumes estimates for FY21 to 2.2 msf vs. 4.3 msf, notwithstanding 5.3 msf projects launched in FY20 and further 2.7 msf in launch pipeline. Nonetheless, the company has comfortable debt-equity and sufficient liquidity from operational commercial assets to sustain the interim period pain. Hence, we maintain **BUY** on the stock with revised SoTP target price of ₹ 180/share.

Key Financial Summary

(₹ crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-21E)
Net Sales	1897.2	2972.8	2632.2	1970.7	3132.7	9.1%
EBITDA	554.5	789.7	663.2	542.5	1022.2	24.1%
EBITDA Margin(%)	29.2	26.6	25.2	27.5	32.6	
Net Profit	139.2	239.9	130.6	-30.8	139.0	3.2%
EPS (₹)	6.8	11.7	6.4	-1.5	6.8	
P/E(x)	21.9	12.7	23.4	-99.1	22.0	
EV/EBITDA(x)	10.9	8.3	9.9	11.4	4.2	
RoE(%)	6.1	11.1	5.7	-1.3	5.9	
RoCE(%)	8.1	11.8	8.4	3.3	10.5	

Source: Company, ICICI Direct Research; *Under Ind-As 115 which came into effect from April 1, 2018, BEL switched to project completion method from percentage completion method earlier. Consequently, it had to reverse revenues & PAT to the tune of ~₹ 2,300 crore & ~₹ 400 crore, respectively. A major portion of these revenues is getting booked in FY19E & FY20E. Hence, revenues from the residential business showed an optical decline in FY21E, causing overall optical decline in revenues and PAT in FY21E



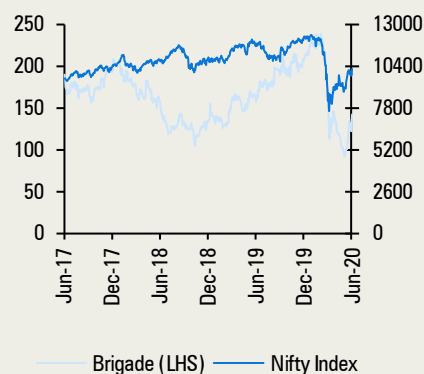
Particulars

Particulars	Amount (₹ crore)
Market Capitalization	3,062.0
Total Debt	3,785.5
Cash	222.2
EV	6,625.3
52 week H/L (₹)	255/ 91
Equity capital	204.4
Face value (₹)	10.0

Key Highlights

- Sales volumes grew 10% YoY to 1.05 msf in Q4FY20
- Maintain BUY with revised target price of ₹ 180/share

Price Chart



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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q3FY19	YoY (Chg %)	Q3FY20	QoQ (Chg %)	Comments
Income from Operation	635.9	636.5	760.0	-16.3	552.3	15.2	
Other Income	8.4	16.4	17.8	-52.7	16.4	-48.6	
Total Operating Cost	299.7	0.0	294.0	2.0	239.8	25.0	
Employee cost	45.6	57.3	49.8	-8.6	56.4	-19.2	
Other expenditure	115.8	98.7	103.4	12.0	100.7	15.0	
EBITDA	135.2	156.0	215.4	-37.3	155.6	-13.1	
EBITDA Margin (%)	21.3	24.5	28.3	-709 bps	28.2	-692 bps	
Depreciation	56.3	50.1	42.5	32.6	50.1	12.5	
Interest	80.5	86.2	76.3	5.6	86.3	-6.7	
PBT	6.7	36.0	114.4	-94.1	35.6	-81.1	
Total Tax	-2.8	12.3	42.8	-106.5	-4.9	-43.4	
Pat after Minority Interest	2.7	14.7	59.7	-95.5	49.4	-94.6	

Key Metrics

Sales Volume (in lakh sq ft)	10.5	9.7	9.6	10.0	10.8	-2.6
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY18	FY20	FY21E		FY22E	Comments	
			Old	New			% Change
Revenue	2,972.8	2,632.2	2,648.3	1,970.7	-25.6	3,132.7	Build in overall weakness across segments
EBITDA	789.7	663.2	869.5	542.5	-37.6	1,022.2	
EBITDA Margin (%)	26.6	25.2	32.8	27.5	-527 bps	32.6	
PAT	239.9	130.6	91.5	-30.8	NA	139.0	
EPS (₹)	11.7	6.4	4.5	-1.5	NA	6.8	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY19	FY20	FY21E		FY22E	Comments
			New	Earlier	New	
Volume sold in msf	3.0	4.3	2.2	4.1	3.7	

Source: Company, ICICI Direct Research

Other Highlights

- **Residential:** BEL achieved healthy sales volume growth of 10% YoY to 1.05 msf. The presales value was up 25.3% YoY at ₹ 651.2 crore, as realisations were up 13.8% YoY at ₹ 6176/sq feet. Sales volume for FY20 was at 4.3 msf (up 44% YoY) with sales value at ₹ 2,376.8 crore. The company has a strong pipeline of ongoing projects of 15.62 msf and upcoming 2.65 msf to be launched in FY21
- **Annuity portfolio: Stable category; malls to witness challenges in FY21:** The company's annuity portfolio (offices and malls) reported rental income of ₹ 104.4 crore (up ~30% YoY) with occupancy at 76% in Q4FY20. New area leased during the quarter was at 0.3 msf with total area pre-leased in FY20 at 2.45 msf. Furthermore, there has been no renegotiation for downwards revision in rent except for WTC Kochi. Exit rental from existing operational commercial area of 3.6 msf is expected to be ₹ 310.5 crore. The company has termed WFH as not a feasible long term solution. The footfall at mall is at 15-20% of pre-Covid level, as per the company. It has given 50% concession on rent, during lockdown period and lower minimum guarantee till September, 2020. Consequently, we bake in mall revenue decline of ~45% in FY21, followed by a recovery to normal levels in FY22
- **Hospitality business:** Hospitality division revenues were at ₹ 77.6 crore in Q4FY20. In FY20, average occupancy rate was at 61% vs. 62% in FY19. Currently, it has a portfolio with 1,345 keys across seven hotels. Grand Mercure - GIFT City started operations in Q4FY20 with 151 keys and Holiday Inn Express & Suites, Bengaluru OMR will start operations in Q2FY21 with 134 Keys. The company has opted for loan moratorium for hospitality (loan of ~₹ 1200 crore) in which the impact of Covid-19 is steep and pronounced. It indicated that operational breakeven of hospitality assets is at 35-40% occupancy. Furthermore, BEL has stopped further progress in two of its four hospitality projects given the uncertainty while hospitality stake sale, for now, is on hold. We expect hospitality EBITDA to shrink to ₹ 5 crore in FY21 vs. EBITDA of ₹ 89.9 crore in FY20, with some recovery in FY22E
- **Debt:** Net debt was at ₹ 3,518.2 crore (net D/E at 1.17x), up ~₹ 100 crore QoQ, while average cost of debt was at 9.57% as of Q4FY20

Company Analysis

Exhibit 4: Consolidated cash flows

Particulars	Q4FY19	FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Operating Activities						
Total Collection	618.5	2241.6	502.5	581.4	736.2	718.4
Direct Cost/Construction Cost	272.6	1152	-319.1	-285.8	-369.8	-303.7
LO Payment	20.7	60.8	-17.8	-27.4	-34.1	-49.5
Employee And Admin Expense	62.8	279.6	-66.8	-100.4	-85.1	-65.3
Sales & Marketing Expense	24.1	70.4	-17.2	-25.1	-27.3	-34.7
Statutory Payments	76.3	202	-51.7	-43.0	-52.0	-55.3
Other Payments	17.3	26.5	-2.1	-1.9	-0.1	-1.1
Net Cash Flow From Operating Activities (A)	144.7	450.3	27.8	97.8	167.8	208.8
Investment Activities						
Cash from Investment Activities	119.5	501.6	78.8	64	37.6	40.9
Construction Cost-(CWIP/Capex Projects)	156.2	532.7	-188.4	-181.1	-201.6	-190.7
Investments in Land/JD/JV/TDR	71.4	95.2	-2.1	-60.2	31	-0.1
Other Investments (FD&Mutual fund)	22.9	300.1	-89.8	-21	-20.9	-75.5
Net Cash Flow From Investment Activities (B)	-131	-426.4	-201.5	-198.3	-153.9	-225.4
Financing Activities						
Debt Draw down	288.2	1116.5	290.9	315.9	213.2	367.4
Proceeds from QIP/ESOP	0.2	0.8	0	29.7	0.2	0.3
Dividend Payment				-32.2	0	-25.3
Debt Payment	136	726.7	-173.5	-74.3	-96.7	-222.4
Interest Payment	79.2	300	-80.3	-94.1	-93.6	-94.8
Investment by PE			60	17	15	15
Net Cash Flow from Financing Activities (C)	73.2	59.7	97.1	162	38.1	40.2
Net Cash Flows for the Period (A +B +C)	86.9	83.6	-76.6	61.5	52.0	23.6

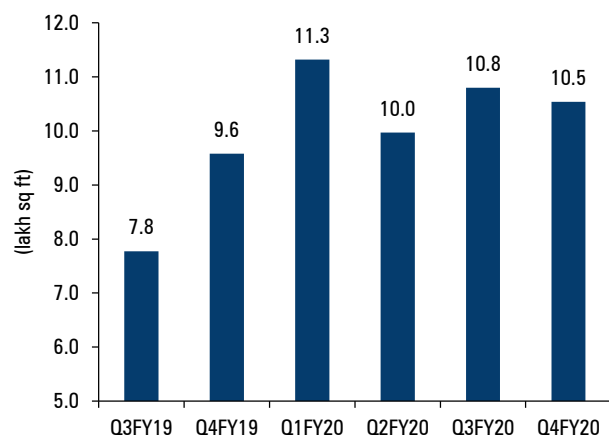
Source: Company, ICICI Direct Research

Exhibit 5: Consolidated debt profile

PARTICULARS	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Real Estate	684.9	680.7	714.0	697.5	691.9
Hospitality					
GOP Securitised	331.9	437.0	429.6	417.3	417.2
Capex	188.3	99.9	108.6	121.4	121.9
Leasing					
Securitised Lease Rental	1253.5	1241.4	1256.5	1241.7	1267.7
Capex	880.9	1015.3	1182.8	1338.3	1456.9
Less:Liquid Investments	384.4	342.5	348.9	398.0	437.4
Net Debt	2955.1	3131.9	3342.6	3418.2	3518.2
Less:SPV partners's share of Debt	484.8	508.4	567.9	633.7	684.1
Exposure of BEL	2470.3	2623.5	2774.7	2784.5	2831.1
Cost of Debt	9.63%	9.71%	9.73%	9.62%	9.57%
Credit Rating	CRISIL "A"	CRISIL "A"	CRISIL "A"	CRISIL "A"	CRISIL "A"
	ICRA "A"	ICRA "A"	ICRA "A"	ICRA "A"	ICRA "A"

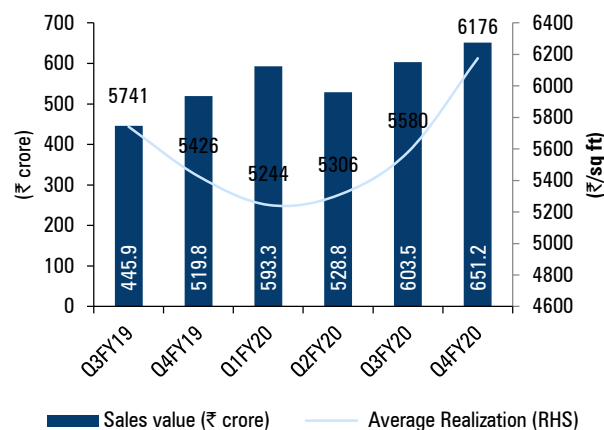
Source: Company, ICICI Direct Research

Exhibit 6: Quarterly sales volume trend



Source: Company, ICICI Direct Research

Exhibit 7: Quarterly sales value & realisation trend



Source: Company, ICICI Direct Research

Exhibit 8: Consolidated synopsis of real estate projects as of Q4FY20

Particulars	Ongoing BEL Projects	Ongoing SPV Projects	Stock Sales	Total
(in msf)				
Total super built-up area of projects on sale basis	13.23	2.39	1.15	16.77
Less: LO Share	3.36	0.00	0.00	3.36
Co share of saleable area	9.87	2.39	1.15	13.41
Sold till date	4.76	0.85	0.00	5.61
To be sold	5.11	1.54	1.15	7.80
(in ₹crore)				
From Sold units	2541.1	495.0	0.0	3036.1
From Unsold Units	2919.8	1088.2	581.0	4589.0
Estimated Receipts	5460.9	1583.2	581.0	7625.1
Collection Till Date on Sold Units	1131.4	305.0	0.0	1436.4
Balance collection for the projects (From Sold Units)	1409.7	190.0	0.0	1599.7
Balance collection for the projects (Sold and Unsold units)-A	4329.5	1278.2	581.0	6188.7
Estimated Total cost to be spent	4312.2	1223.5	328.1	5863.8
Cost incurred till date	1582.2	794.3	328.1	2704.6
Balance Cost to be incurred to finish the project- B	2730.0	429.2	0.0	3159.2
Gross Operating Cash Flows (A-B)	1599.5	849.0	581.0	3029.5
Present Borrowings – C	384.8	197.1	110.0	691.9
Net Operating Cash Flows projected (A-B-C)	1214.7	651.9	471.0	2337.6

Source: Company, ICICI Direct Research

Valuation & Outlook

BEL has, so far, demonstrated a strong performance across segments. However, we expect the impact on hospitality (likely to be a washout for at least a year with steep bottomline losses in FY21) and retail footfall in near term, be a key area of concern. We also lower residential sales volumes estimates for FY21 to 2.2 msf vs. 4.3 msf, notwithstanding 5.3 msf projects launched in FY20 and further 2.7 msf in launch pipeline. Nonetheless, the company has comfortable debt-equity and sufficient liquidity from operational commercial assets to sustain the interim period pain. Hence, we maintain **BUY** on the stock with a revised SoTP price of ₹ 180/share.

Exhibit 9: Valuation

Project	Area (msf)	Value	NAV Multiple	NAV/share	Contribution (%)	Remarks	
Residential/Commercial Sales							
Completed	1.0	113	1.0	6	3	We have discounted cash flow of Ongoing & New launches residential assets at 13%/14% discount rate while land bank is valued at 0.7x amount invested. New launches and under construction have been valued at 0.8x and 0.85x, respectively, given the uncertainty.	
Ongoing	9.4	1186	0.9	49	28		
New Launches	7.1	264	0.8	10	6		
Land Bank	33.1	552	1.0	27	13		
Total	50.6	2115	0.9	92	49		
Leasing Portfolio							
Completed	2.6	2777	1.0	136	65	We have considered cap rate of 9% and discount rate of 13% for operational assets and 14% for under construction assets. We value under construction assets at 0.8x NAV given uncertainty.	
Ongoing	6.3	1830	0.8	72	43		
Total	8.9	4607	0.8	208	108		
Hospitality Portfolio	No. of Keys	1788	393	1.0	19	9	8x FY 22E EV/EBITDA
Total Gross Asset Valuation		7116		319	166		
Less: FY 20 Net Debt		2831		139	66	We have considered Brigade effective net debt	
Target Valuation		4284		180	100		
Rounded-off target				180			

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
₹ crore	FY19	FY20	FY21E	FY22E
Net Sales	2,972.8	2,632.2	1,970.7	3,132.7
Other Income	54.5	49.4	51.9	54.5
Total revenues	3,027.3	2,681.6	2,022.6	3,187.2
Cost of Materials Sold	1,594.7	1,315.4	873.8	1,351.6
Employee Cost	187.9	216.0	226.8	238.1
Other Expenditure	400.5	437.5	327.6	520.7
Total Operating Expenditure	2,183.1	1,968.9	1,428.2	2,110.5
EBITDA	789.7	663.2	542.5	1,022.2
Interest	278.5	340.3	322.5	424.5
Depreciation	140.0	192.0	367.0	382.5
PBT	425.7	159.8	(95.2)	269.6
Tax	145.5	47.4	(32.4)	91.7
Reported PAT	280.1	112.4	(62.8)	177.9
Minority Interests	42.0	(16.6)	(30.2)	40.9
Profit for the company	239.9	130.6	(30.8)	139.0
EPS (₹)	11.7	6.4	(1.5)	6.8

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
₹ crore	FY19	FY20	FY21E	FY22E
Equity Capital	136.2	204.4	204.4	204.4
Reserves & Surplus	2,221.7	2,242.6	2,223.2	2,327.4
Net worth	2,169.4	2,281.1	2,291.9	2,355.2
Total Debt	3,785.5	3,910.7	4,495.4	4,245.4
Deferred Tax Liability	-	10.1	10.1	10.1
Source of Funds	6,143.3	6,367.8	6,933.1	6,787.3
Gross Block	2,728.2	2,758.2	4,365.1	4,415.1
Less: Accumulated Depreciation	468.5	660.5	1,027.5	1,410.1
Net Block	2,259.8	2,988.1	3,337.6	3,005.0
Capital WIP	2,001.3	2,089.1	554.2	554.2
Total Fixed Assets	4,261.1	5,077.2	3,891.8	3,559.3
Investments	97.7	72.1	72.1	72.1
Inventories	4,816.1	5,209.4	4,815.8	5,343.1
Trade Receivables	420.8	430.6	345.8	519.8
Loans & Advances	304.7	295.1	345.8	519.8
Cash & Bank Balances	222.2	304.9	482.2	1,389.7
Other Current Assets	246.1	330.1	518.8	779.7
Total Current Assets	6,322.7	6,966.8	6,733.3	8,890.0
Trade Payable	608.1	500.5	399.8	600.9
Provisions	9.7	10.5	5.9	8.8
Other Current Liabilities	4,038.81	5,389.06	3,510.54	5,276.37
Total Current Liabilities	4,656.6	5,900.1	3,916.2	5,886.1
Net Current Assets	1,666.2	1,066.8	2,817.1	3,003.8
Application of Funds	6,143.3	6,367.8	6,933.08	6,787.3

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
₹ crore	FY19	FY20	FY21E	FY22E
Profit before Tax	425.7	159.8	(95.2)	269.6
Depreciation	140.0	192.0	367.0	382.5
Interest paid	278.5	340.3	322.5	424.5
CF before w/c changes	813.5	660.9	574.5	983.2
Net Increase in CA	(804.8)	(89.6)	238.8	(1,136.1)
Net Increase in CL	568.5	774.3	(1,983.8)	1,969.9
Net CF from op. activities	465.4	1,214.3	(966.1)	1,612.3
Purchase of Fixed Assets	(628.5)	(117.8)	(72.0)	(50.0)
(Purchase)/Sale of Inv.	(237.3)	25.5	-	-
Net CF from inv. activities	(452.0)	(42.8)	869.9	4.5
Proceeds from Borrowing	1,128.6	-	-	-
Interest Paid	(315.4)	(340.3)	(322.5)	(424.5)
Dividend Paid	(32.8)	(26.1)	11.4	(34.7)
Net CF from fin. activities	44.8	165.2	273.6	(709.3)
Net Cash flow	58.3	1,336.6	177.3	907.5
Opening Cash	66.9	222.2	304.9	482.2
Closing Cash	222.2	304.9	482.2	1,389.7

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	FY19	FY20	FY21E	FY22E
Per Share Data				
Reported EPS	11.7	6.4	(1.5)	6.8
Cash EPS	18.6	15.8	16.5	25.5
BVPS	106.2	111.7	112.2	115.3
Operating Ratios				
EBITDA / Net Sales	26.6	25.2	27.5	32.6
PAT / Net Sales	8.1	5.0	(1.6)	4.4
Return Ratios				
RoE	11.1	5.7	(1.3)	5.9
RoCE	11.8	8.4	3.3	10.5
RoIC	27.5	57.7	7.7	43.4
Valuation Ratios				
EV / EBITDA	8.3	9.9	12.9	5.7
P/E	12.8	23.4	(99.4)	22.0
EV / Net Sales	2.2	2.5	3.6	1.9
Market Cap / Sales	1.0	1.2	1.6	1.0
Price to Book Value	1.4	1.3	1.3	1.3
Turnover Ratios				
Asset turnover	0.5	0.4	0.3	0.5
Gross Block Turnover	2.6	6.8	4.7	6.7
Solvency Ratios				
Net Debt / Equity	1.6	1.5	1.7	1.2
Current Ratio	1.2	1.1	1.5	1.2
Quick Ratio	0.2	0.2	0.3	0.3

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Real Estate & Building Material)

Sector / Company	CMP		Rating	M Cap		EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
	(₹)	TP(₹)		(₹Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	
Oberoi Realty (OBBEREA)	386	450	Buy	14,031	22.5	14.5	21.2	17.2	26.7	18.2	7.8	11.6	9.4	1.3	1.3	1.2	10.1	6.1	6.8	
The Phoenix Mills (PHOMIL)	604	740	Buy	9,262	27.5	20.0	16.3	22.0	30.1	37.0	11.3	11.5	12.2	2.2	2.0	1.8	10.7	7.9	6.1	
Brigade Enterprises (BRIE)	150	180	Buy	3,062	11.7	6.4	-1.5	12.8	23.5	NA	8.3	9.9	12.9	1.4	1.3	1.3	11.1	5.7	NM	
Kajaria Ceramics (KAJCEI)	390	420	Hold	6,199	14.2	16.1	16.0	27.4	24.2	24.4	12.1	12.7	12.0	1.9	1.9	1.9	14.4	14.5	13.0	

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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ANALYST CERTIFICATION

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