

Strong sales volume recovery...

Brigade Enterprises (BEL) reported a resilient operating performance with sales volumes almost back to pre-Covid levels. The company reported a sales volume of ~1 mn sq feet (msf), a decline of merely ~1% YoY. The pre-sales (sales value) were up 8.9% YoY at ₹ 576 crore, as realisations were up 9.9% YoY at ₹ 5833/sq feet (largely a function of project mix). Reported revenues de-grew 57.7% YoY to ₹ 310.8 crore, on account of low revenues recognition in residential segment and weaker traction in hospitality and malls segment due to Covid -19 impact. Reported EBITDA margins were up 224 bps YoY to 28.1%. BEL reported loss of ₹ 17.1 crore.

Strong residential recovery; healthy launch pipeline

The residential sales recovery was attributable to demand for completed and larger sized inventory as well as buyer's preference towards organised players. The company also witnessed continued robust traction in October, driven by festive demand and indicated that trajectory of ~1 msf quarterly sales volume can continue in H2 as well. We highlight that BEL did not launch any new project in Q2FY21 (1.9 msf launch in Q1FY21). Going ahead, it has a launch pipeline of 3.9 msf (BEL's share: 2.8 msf), which should aid sales volume ahead. We bake in sales volume of 3.5 msf, 3.9 msf in FY21E, FY22E, respectively.

Commercial segment stable; malls witnessing recovery...

Overall lease rental at ₹ 83.3 crore, was down 8% YoY, largely impacted by malls. One of the malls, Orion Gateway, also saw churn of 0.12 msf. Commercial leasing segment for offices remains stable for BEL and has achieved 99% collections. The company has also leased 0.04 msf of new office area in Brigade Tech Gardens, Phase - I and is currently witnessing higher traction in enquiries, and site inspections. On the new commercial property, it is yet to lease 1.6 msf and 0.3 msf in Brigade Tech Gardens (BTG) Phase 2 and WTC Chennai, respectively. BEL is in various stages of discussions to lease 1.4 msf area in these two assets. On the retail side, mall business recovered during end-Q2FY21 with tenant occupancy at ~65-70% and footfall at 30-35% of Q2FY20 levels. Footfalls are likely to gain further momentum with opening of resto-bars and multiplexes.

Valuation & Outlook

The residential segment has displayed a strong recovery and continued momentum is likely to aid overall cash generation. Reopening of economy is likely to boost retail and hospitality segment, albeit gradually. Nonetheless, BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets (and likely operational assets). Hence, we maintain **BUY** on the stock with SoTP target price of ₹ 240/share. Our target price upward revision is largely on account of removing the NAV discount.

Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1897.2	2972.8	2632.2	2103.1	3191.2	10.1%
EBITDA	554.5	789.7	663.2	567.2	1082.4	27.7%
EBITDA Margin(%)	29.2	26.6	25.2	27.0	33.9	
Net Profit	139.2	239.9	130.6	-4.7	175.5	15.9%
EPS (₹)	6.8	11.7	6.4	-0.2	8.6	
P/E(x)	30.1	17.5	32.1	NM	23.9	
EV/EBITDA(x)	13.0	9.7	11.6	13.4	6.3	
RoE(%)	6.1	11.1	5.7	-0.2	7.3	
RoCE(%)	8.1	11.8	8.4	4.2	11.3	

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 got booked in FY19 and FY20.



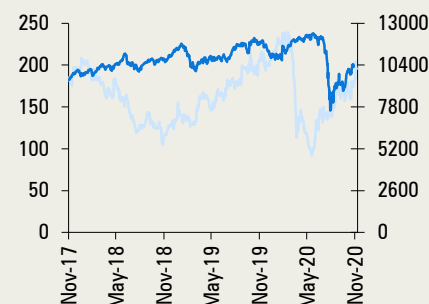
Particulars

Particulars	Amount (₹ crore)
Market Capitalization	4,181.4
Total Debt	3,785.5
Cash	222.2
EV	7,744.7
52 week H/L (₹)	255/ 91
Equity capital	204.4
Face value (₹)	10.0

Key Highlights

- Sales volumes at ~1 mn sq feet (msf), reported decline of merely ~1% YoY. The pre-sales (sales value) was up 8.9% YoY at ₹ 576 crore, as realisations were up 9.9% YoY at ₹ 5833/sq feet
- Maintain BUY with revised target price of ₹ 240/share

Price Chart



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Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (Chg %)	Q1FY21	QoQ (Chg %)	Comments
Income from Operation	310.8	330.0	735.3	-57.7	203.3	52.8	Lower revenue recognition in residential, and weak retail and hospitality led to decline in topline
Other Income	11.3	10.0	16.3	-30.9	10.5	7.6	
Total Operating Cost	187.2	132.0	232.0	-19.3	97.5	92.0	
Employee cost	26.9	40.0	55.9	-51.9	36.8	-27.0	
Other expenditure	55.9	50.0	117.1	-52.3	45.5	23.0	
EBITDA	87.4	84.9	190.2	-54.1	47.4	84.3	
EBITDA Margin (%)	28.1	25.7	25.9	224 bps	23.3	480 bps	
Depreciation	56.2	56.0	47.3	18.7	55.6	1.0	
Interest	82.1	92.0	94.0	-12.6	89.1	-7.8	
PBT	-39.7	-53.1	65.3	-160.7	-86.8	-54.3	
Total Tax	-8.6	-13.4	28.1	-130.4	-21.9	-60.9	
Pat after Minority Interest	-17.1	-28.7	37.4	-145.7	-52.7	-67.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY18	FY20	FY21E			FY22E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	2,972.8	2,632.2	1,970.7	2,103.1	6.7	3,132.7	3,191.2	1.9	Realign estimates post H1
EBITDA	789.7	663.2	542.5	567.2	4.5	1,022.2	1,082.4	5.9	
EBITDA Margin (%)	26.6	25.2	27.5	27.0	-53 bps	32.6	33.9	132 bps	
PAT	239.9	130.6	-30.8	-4.7	NA	139.0	175.5	26.3	
EPS (₹)	11.7	6.4	-1.5	-0.2	NA	6.8	8.6	26.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY19	FY20	FY21E		FY22E		Comments
			New	Earlier	New	Earlier	
Volume sold in msf	3.0	4.3	3.5	2.2	3.9	3.7	Raise our volume estimates given faster recovery

Source: Company, ICICI Direct Research

Other highlights

- Residential:** BEL's residential business regained momentum in Q2FY21 and achieved pre-sales of ~1 mn sq ft (msf). Sales value improved 9% YoY at ₹ 576 crore, as realisations were up ~10% YoY (at ₹ 5,833/ sq ft; largely a function of project mix). The strong sales continued during October 2020 largely supported by a) festive season, b) better project locations, c) competitive prices, and c) buyers' preference towards projects of organised players. Collections remained strong for the company at ₹ 400 crore in Q2FY21 (vis-à-vis ₹ 277 crore in Q1FY21) primary led by pick-up in constructions activities and improved sales. Going forward, issues related to labour (at 90% of pre-Covid levels) and raw material supply chain have been sorted out. With these, the company also have plans to launch 3.2 msf of residential in the coming quarters
- Office portfolio:** Leasing segment for offices remains stable for BEL and achieved 99% collections. The company also leased 0.04 msf of new office area in Brigade Tech Gardens, Phase – I and is currently witnessing higher traction in enquiries, and site inspections. As per the management, the company is in various stages of discussions for 1.4 msf area in Brigade Tech Gardens and World Trade Centre in Chennai. On the retail side, the mall business recovered during end-Q2FY21 with tenant occupancy at ~65-70% and footfall at 30-35% of Q2FY20 levels. Footfalls are likely to gain further momentum with opening of resto-bars and multiplexes. Additionally, the company has soft launched its mall in Bangalore in September 2020 and is getting good response
- Hospitality business:** The hospitality revenues at ₹ 17.8 crore were down 78% YoY. All of its eight hotels continued to operate during Q2FY21. However, occupancy remained muted at 15% (vis-à-vis 11% registered in Q1FY21) owing to Covid-19 travel restrictions in place. As per the management, the occupancies are improving on MoM basis. They expect further recovery with restoration of international travel and better traction in F&B and banquet businesses. Additionally, the company has launched Holiday Inn Express & Suites, Bengaluru OMR during October 2020. The occupancy has reached ~50% in November 2020 for a few properties which have turned GOP positive

Other highlights

- BEL has not offered any price discounts in residential portfolios. In contrast, the company has increased prices in some of its projects
- BEL has a land bank of 367 acres as on September 30, 2020 valued at ₹ 899 crore. Out of the total value, ₹ 712 crore is paid and balance ₹ 187 crore is still payable. The company is also under active discussion to finalise ~35 acres of land on JV basis in Bangalore
- Net outstanding debt at the end of September 2020 was at ₹ 3,828 crore vs. ₹ 3524 crore in Q1 (BEL's share: ₹ 2,991 crore vs. ₹ 2874 crore in Q1). The increase in debt was mainly due to land payment of ₹ 165.5 crore, largely for a 50-acre land parcel in Bengaluru near its project Utopia – Phase 1. Average cost of debt for the company has reduced to 9.2% (down 50 bps YoY) during Q2FY21.

Company Analysis

Exhibit 4: Consolidated cash flows

Particulars	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Operating Activities					
Total Collection	581.4	736.2	718.4	375.7	535.9
Direct Cost/Construction Cost	-285.8	-369.8	-303.7	-185.9	-214.5
LO Payment	-27.4	-34.1	-49.5	-35.8	-35.3
Employee And Admin Expense	-100.4	-85.1	-65.3	-37.0	-52.4
Sales & Marketing Expense	-25.1	-27.3	-34.7	-10.7	-20.0
Statutory Payments	-43.0	-52.0	-55.3	-23.8	-25.5
Other Payments	-1.9	-0.1	-1.1	-0.3	-5.3
Net Cash Flow From Operating Activities(A)	97.8	167.8	208.8	82.2	182.9
Investment Activities					
Cash from Investment Activities	64	37.6	40.9	49.9	103.9
Construction Cost-(CWIP/Capex Projects)	-181.1	-201.6	-190.7	-119.2	-137.9
Investments in Land/JD/JV/TDR	-60.2	31	-0.1	-7.0	-165.5
Other Investments (FD&Mutual fund)	-21	-20.9	-75.5	-139.2	-108.8
Net Cash Flow From Investment Activities(B)	-198.3	-153.9	-225.4	-215.5	-308.3
Financing Activities					
Debt Drawdown	315.9	213.2	367.4	343.2	443.8
Proceeds from QIP/ESOP	29.7	0.2	0.3		26.9
Dividend Payment	-32.2	0	-25.3		
Debt Payment	-74.3	-96.7	-222.4	-242.2	-241.9
Interest Payment	-94.1	-93.6	-94.8	-55.8	-119.8
Investment by PE	17	15	15		50.0
Net Cash Flow from Financing Activities (C)	162	38.1	40.2	45.2	159.1
Net Cash Flows for the Period(A+B+C)	61.5	52.0	23.6	-88.1	33.7

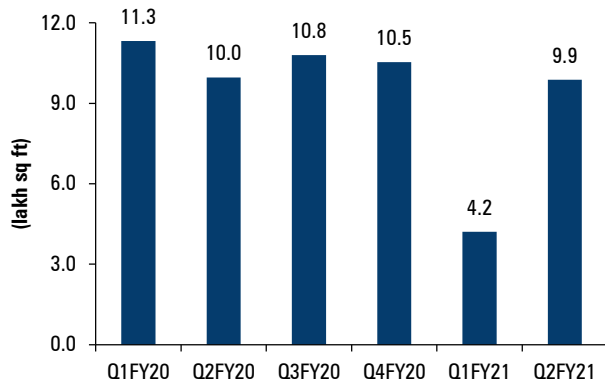
Source: Company, ICICI Direct Research

Exhibit 5: Consolidated debt profile

Particular	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Real Estate	714.0	697.5	691.9	691.5	749.5
Hospitality					
GOP Securitised	429.6	417.3	417.2	420.6	430.2
Capex	108.6	121.4	121.9	122.6	127.3
Leasing					
Securitised Lease Rental	1256.5	1241.7	1267.7	1521.3	1701.1
Capex	1182.8	1338.3	1456.9	1338.1	1333.0
Less:Liquid Investments	348.9	398.0	437.4	461.3	513.3
Net Debt	3342.6	3418.2	3518.2	3624.0	3827.8
Less:SPV partners's share of Debt	567.9	633.7	684.1	749.9	836.7
Exposure of BEL	2774.7	2784.5	2831.1	2874.1	2991.1
Cost of Debt	9.71%	9.73%	9.57%	9.56%	9.23%
Credit Rating	CRISIL"A"	CRISIL"A"	CRISIL"A"	CRISIL"A"	CRISIL"A"
	ICRA"A"	ICRA"A"	ICRA"A"	ICRA"A"	ICRA"A"

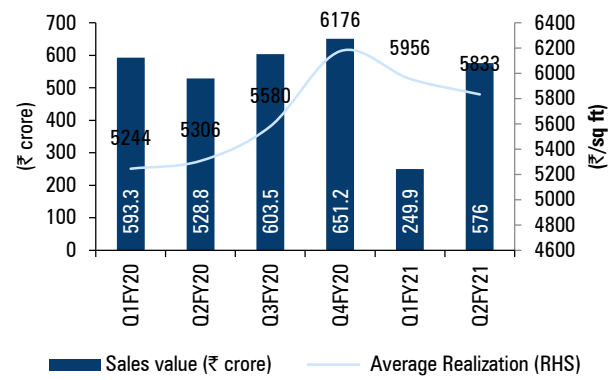
Source: Company, ICICI Direct Research

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 Q2FY21

Particulars	Ongoing BEL Projects	Ongoing SPV Projects	Stock Sales	Total
(in msf)				
Total super built-up area of projects on sale basis	13.54	2.39	1.11	17.04
Less: LO Share	3.36	0.00	0.00	3.36
Co share of saleable area	10.18	2.39	1.11	13.68
Sold till date	5.50	0.95	0.00	6.45
To be sold	4.69	1.44	1.11	7.24
(in ₹ crore)				
From Sold units	5625.0	1581.3	1027.6	8233.9
From Unsold Units	2995.2	563.3	463.6	4022.1
Estimated Receipts	2629.8	1018.0	1491.2	5139.0
Collection Till Date on Sold Units	1471.6	334.5	314.7	2120.8
Balance collection for the projects (From Sold Units)	1523.7	228.8	148.9	1901.4
Balance collection for the projects (Sold and Unsold units)-A	4153.5	1246.8	712.9	6113.2
Estimated Total cost to be spent	4349.0	1274.9	311.3	5935.2
Cost incurred till date	1733.4	873.9	311.3	2918.6
Balance Cost to be incurred to finish the project- B	2615.6	401.0	0.0	3016.6
Gross Operating Cash Flows (A-B)	1537.9	845.8	712.9	3096.6
Present Borrowings – C	385.9	196.1	167.5	749.5
Net Operating Cash Flows projected (A-B-C)	1152.0	649.7	545.4	2347.1

Source: Company, ICICI Direct Research

Valuation & Outlook

The residential segment has displayed a strong recovery and continued momentum is likely to aid the overall cash generation. Reopening of the economy is likely to boost retail and hospitality segment, albeit gradually. Nonetheless, BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets (and likely operational assets). Hence, we maintain **BUY** on the stock with SoTP target price of ₹ 240/share. Our target price upward revision is largely on account of removing the discount on NAV.

Exhibit 9: Valuation

Project	Area (msf)	Value	NAV Multiple	NAV/share	Contribution (%)	Remarks
Residential/Commercial Sales						
Completed	1.0	113	1.0	6	2	
Ongoing	9.4	1191	1.0	58	24	We have discounted cash flow of Ongoing & New launches residential assets at 13%/14% discount rate while land bank is valued at 1x amount invested.
New Launches	7.1	269	1.0	13	6	
Land Bank	33.1	712	1.0	35	15	
Total	50.6	2285	1.0	112	47	
Leasing Portfolio						
Completed	2.6	2731	1.0	134	56	We have considered cap rate of 9% and discount rate of 13% for operational assets and 14% for under construction assets.
Ongoing	6.3	1825	1.0	89	37	
Total	8.9	4556	1.0	223	93	
Hospitality Portfolio						
	No. of Keys					
Hospitality Portfolio	1788	870	1.0	43	18	15x FY22E EV/EBITDA
Total Gross Asset Valuation		7711		377	158	
Less: FY20 Net Debt		2831		139	58	We have considered Brigade effective net debt
Target Valuation		4880		239	100	
Rounded-off target				240		

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Net Sales	2,972.8	2,632.2	2,103.1	3,191.2
Other Income	54.5	49.4	46.9	49.3
Total revenues	3,027.3	2,681.6	2,150.0	3,240.5
Cost of Materials Sold	1,594.7	1,315.4	959.6	1,342.2
Employee Cost	187.9	216.0	226.8	238.1
Other Expenditure	400.5	437.5	349.6	530.5
Total Operating Expenditure	2,183.1	1,968.9	1,536.0	2,110.8
EBITDA	789.7	663.2	567.2	1,080.4
Interest	278.5	340.3	344.5	424.5
Depreciation	140.0	192.0	327.6	382.5
PBT	425.7	159.8	(58.0)	322.6
Tax	145.5	47.4	(17.4)	109.7
Reported PAT	280.1	112.4	(40.6)	212.9
Minority Interests	42.0	(16.6)	(33.8)	40.9
Profit for the company	239.9	130.6	(4.7)	174.2
EPS (₹)	11.7	6.4	(0.2)	8.5

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Equity Capital	136	204	204	204
Reserves & Surplus	2,222	2,243	2,240	2,370
Networth	2,169	2,281	2,312	2,402
Total Debt	3,785	3,911	4,495	4,245
Deferred Tax Liability	-	10	10	10
Source of Funds	6,143	6,368	6,950	6,830
Gross Block	2,728	2,758	4,365	4,415
Less: Accumulated Dep	468	661	988	1,371
Net Block	2,260	2,988	3,377	3,044
Capital WIP	2,001	2,089	554	554
Total Fixed Assets	4,261	5,077	3,931	3,599
Investments	98	72	72	72
Inventories	4,816	5,209	4,953	5,438
Trade Receivables	421	431	442	549
Loans & Advances	305	295	442	549
Cash & Bank Balances	222	305	1,014	1,510
Other Current Assets	246	330	663	824
Total Current Assets	6,323	6,967	7,802	9,228
Trade Payable	608	500	511	635
Provisions	10	11	8	9
Other Current Liabilities	4,039	5,389	4,489	5,577
Total Current Liabilities	4,657	5,900	5,008	6,221
Net Current Assets	1,666	1,067	2,794	3,007
Application of Funds	6,143	6,368	6,950	6,830

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Profit before Tax	426	160	(58)	323
Depreciation	140	192	328	383
Interest paid	279	340	344	425
CF before wc changes	813	661	603	1,042
Net Increase in CA	(805)	(90)	(235)	(860)
Net Increase in CL	568	774	(892)	1,213
Net CF from op. activities	465	1,214	(398)	1,215
Purchase of Fixed Assets	(629)	(118)	(72)	(50)
(Purchase)/Sale of Inv.	(237)	26	-	-
Net CF from inv. activities	(452)	(43)	865	(1)
Proceeds from Borrowing	1,129	-	-	-
Interest Paid	(315)	(340)	(344)	(425)
Dividend Paid	(33)	(26)	2	(44)
Net CF from fin. activities	45	165	242	(718)
Net Cash flow	58	1,337	709	496
Opening Cash	67	222	305	1,014
Closing Cash	222	305	1,014	1,510

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	FY19	FY20E	FY21E	FY22E
Per Share Data				
Reported EPS	11.7	6.4	(0.2)	8.6
Cash EPS	18.6	15.8	15.8	27.3
BVPS	106.2	111.7	113.2	117.6
Operating Ratios				
EBITDA / Net Sales	26.6	25.2	27.0	33.9
PAT / Net Sales	8.1	5.0	(0.2)	5.5
Return Ratios				
RoE	11.1	5.7	(0.2)	7.3
RoCE	11.8	8.4	4.2	11.3
RoC	27.5	57.7	13.8	51.6
Valuation Ratios				
EV / EBITDA	9.7	11.6	13.4	6.3
P/E	17.5	32.1	NM	23.9
EV / Net Sales	2.6	2.9	3.6	2.1
Market Cap / Sales	1.4	1.6	2.0	1.3
Price to Book Value	1.9	1.8	1.8	1.7
Turnover Ratios				
Asset turnover	0.5	0.4	0.3	0.5
Gross Block Turnover	2.6	6.8	5.0	6.8
Solvency Ratios				
Net Debt / Equity	1.6	1.5	1.5	1.1
Current Ratio	1.2	1.1	1.3	1.2
Quick Ratio	0.2	0.2	0.3	0.3

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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