

Strong sales volume growth...

Key highlight of Brigade Enterprises' (BEL) Q3FY21 result was life-time high sales volume of ~1.5 million square feet (msf) worth ₹ 923 crore, up 42% and 55% YoY, respectively, driven by strong traction of newly launched project in Hyderabad along with ongoing projects. On the financial numbers, reported revenues grew 16.7% YoY to ₹ 644.8 crore, on account of strong revenue recognition in the residential segment. Reported EBITDA margins were down 520 bps YoY to 23%. BEL reported a loss of ₹ 16.1 crore.

Strong residential volumes growth; healthy launch pipeline

The company indicated that one-third of volumes and ~₹ 330 crore worth of sales value (~35.7% of value) were from new project *Brigade Citadel*, Hyderabad (total saleable area of 0.75 msf) launched in Q3FY21. The company attributed its residential sales recovery to its right pricing/location, demand for completed and larger sized inventory as well as buyers' preference towards organised players. The company also guided for a robust traction ahead. Going ahead, BEL has a launch pipeline of 3.4 msf (BEL's share: 2.4 msf), which should aid sales volume ahead along with continued traction in ongoing projects (~16 msf). We bake in sales volume of 4.2 msf in FY21E and 4.5 msf in both FY22E and FY23E.

Commercial segment stable; malls, hotels on recovery path

Overall lease rental at ₹ 84.5 crore, was down 10.6% YoY, largely impacted by malls (collected 45% of rentals given waivers). Tenant occupancy at malls is ~81-82% and consumption at 70% of pre-Covid levels. The company expects mall tenancy to get full by H1FY22 end. Footfalls are likely to gain further momentum with end of season sales and multiplexes/entertainment zone reopening. Commercial leasing segment for offices remains stable for BEL and has achieved 99% collections. During Q3, it leased ~1.75 lakh square feet. 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. The active leasing pipeline is ~1 msf and BEL expects to close 0.25 msf leasing in Q4FY21, with remainder in H1FY22. The hotels occupancy rose from 15% in Q2 to 27% in Q3FY21 (~40-50% in January 2021), with positive EBITDA of ₹ 2.9 crore (vs. losses of ₹ 6.5 crore in Q2).

Valuation & Outlook

The strong recovery in the residential segment aided the overall cash generation and debt reduction by ~₹ 141 crore in residential segment while commercial leasing pick-up could be gradual, going ahead. Furthermore, full reopening of the economy is likely to boost retail and hospitality segment in FY22. BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets (and likely operational assets in FY22). We maintain **BUY** with an SoTP target price of ₹ 320/share (₹ 240/share earlier).

Key Financial Summary

(₹ crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	2972.8	2632.2	2026.8	3148.2	3489.8	9.9%
EBITDA	789.7	663.2	533.2	1071.7	1228.0	22.8%
EBITDA Margin(%)	26.6	25.2	26.3	34.0	35.2	
Net Profit	239.9	130.6	-47.5	199.7	247.7	23.8%
EPS (₹)	11.7	6.4	-2.3	9.8	12.1	
P/E(x)	23.0	42.3	NM	27.7	22.3	
EV/EBITDA(x)	11.4	13.7	17.9	7.8	6.5	
RoE(%)	11.1	5.7	-2.1	8.4	9.8	
RoCE(%)	11.8	8.4	3.7	11.2	13.1	

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	5,524.5
Total Debt	3,785.5
Cash	222.2
EV	9,087.7
52 week H/L (₹)	281/ 90
Equity capital	204.4
Face value (₹)	10.0

Key Highlights

- Key highlight of Brigade Enterprises' (BEL) Q3FY21 result was life-time high sales volume of ~1.5 million se feet (msf) worth ₹ 923 crore, up 42% and 55% YoY, respectively
- Maintain BUY with revised target price of ₹ 320/share

Key risks to our call

- Delay in pickup of office leasing and hospitality
- Any weakness in southern India real estate markets

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (Chg %)	Q2FY21	QoQ (Chg %)	Comments
Income from Operation	644.6	420.0	552.3	16.7	310.8	107.4	Higher revenue recognition in residential led to beat at topline level
Other Income	9.0	12.0	16.4	-44.9	11.3	-20.1	
Total Operating Cost	276.5	220.0	239.8	15.3	187.2	47.8	
Employee cost	39.9	30.0	56.4	-29.2	26.9	48.6	
Other expenditure	65.4	70.0	100.7	-35.1	55.9	16.9	
EBITDA	148.4	140.0	155.6	-4.6	87.4	69.9	
EBITDA Margin (%)	23.0	33.3	28.2	-515 bps	28.1	-508 bps	
Depreciation	59.1	56.2	50.1	18.1	56.2	5.3	
Interest	85.6	84.0	86.3	-0.8	82.1	4.2	
PBT	12.7	11.9	35.6	-64.2	-39.7	-132.1	
Total Tax	-5.2	-3.5	-4.9	6.3	-8.6	-39.3	
Pat after Minority Interest	-16.1	29.9	49.4	-132.6	-17.1	-5.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20	FY21E	FY22E		FY23E	Comments
			Old	New	% Change	
Revenue	2,632.2	2,026.8	3,192.2	3,148.2	-1.4	3,489.8 Realign estimates post M9FY21
EBITDA	663.2	533.2	1,082.4	1,071.7	-1.0	1,228.0
EBITDA Margin (%)	25.2	26.3	33.9	34.0	14 bps	35.2
PAT	130.6	-47.5	175.0	199.7	14.1	247.7
EPS (₹)	6.4	-2.3	8.6	9.8	14.1	12.1

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY20	FY21	FY22E		FY23E	Comments
			New	Earlier	New	
Volume sold in msf	4.3	4.2	4.5	3.9	4.5	Raise our volume estimates given faster recovery

Source: Company, ICICI Direct Research

Other highlights

- Residential:** BEL's residential business has regained strong momentum during Q3 and achieved residential pre-sales of ~1.5 mn sq ft (msf), up 51% YoY. Residential sales value improved 71% YoY to ₹ 879 crore. BEL indicated that one-third of volumes and ~₹ 330 crore worth of sales value (~37.5% of value) were from new project *Brigade Citadel*, Hyderabad (total saleable area of 0.75 msf) launched in Q3FY21. The company attributed its residential sales recovery to its right pricing/location, demand for completed and larger sized inventory as well as buyers' preference towards organised players. The company also guided for robust traction ahead. It has a launch pipeline of 3.4 msf (BEL's share: 2.4 msf), which should aid sales volume ahead along with continued traction in ongoing/completed projects and other new projects
- Office & mall portfolio:** Overall lease rental at ₹ 84.5 crore was down 10.6% YoY, largely impacted by malls (collected 45% of rentals given the waivers), The tenant occupancy at malls is ~81-82% and consumption at 70% of pre-Covid levels. The company expects tenancy to get full by H1FY22 end. Footfalls are likely to gain further momentum with end of season sales and multiplexes/entertainment zone reopening. Commercial leasing segment for offices remains stable for BEL and has achieved 99% collections. During the quarter, it leased 1.75 lakh square feet. 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. The active leasing pipeline is ~1 msf. BEL expects to close 0.25 msf leasing in Q4FY21, with the remainder in H1FY22
- Hospitality business:** Hospitality revenues at ₹ 30.5 crore were down 68% YoY. Hotels occupancy rose from 15% in Q2 to 27% in Q3FY21 (~40-50% in January 2021), with positive EBITDA of ₹ 2.9 crore (losses of ₹ 6.5 crore in Q2). As per the management, occupancies are improving on an MoM basis with further recovery expected with better traction in F&B and the banquet businesses. Holiday Inn Express & Suites, Bengaluru OMR started operations with 129 keys and has achieved 26% occupancy

Other highlights

- Net outstanding debt at the end of Q3 was at ₹ 3,814 crore vs. ₹ 3828 crore in Q2 (BEL's share: ₹ 2,948 crore vs. ₹ 2891 crore in Q2). Collections from residential sales was ~₹ 517.3 crore in Q3 vs. ~₹ 400.4 crore in Q2, an increase of 29% QoQ. Given the strong operating cash flows of ₹ 250 crore, it repaid residential debt of ₹ 141 crore in Q3. Average cost of debt for the company has reduced to 9% (down 23 bps QoQ) during Q2FY21.

Company Analysis

Exhibit 4: Consolidated cash flows

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Operating Activities					
Total Collection	736.2	718.4	375.7	535.9	681.9
Direct Cost/Construction Cost	-369.8	-303.7	-185.9	-214.5	-267.6
LO Payment	-34.1	-49.5	-35.8	-35.3	-52.4
Employee And Admin Expense	-85.1	-65.3	-37.0	-52.4	-63.5
Sales & Marketing Expense	-27.3	-34.7	-10.7	-20.0	-18.1
Statutory Payments	-52.0	-55.3	-23.8	-25.5	-29.6
Other Payments	-0.1	-1.1	-0.3	-5.3	-0.9
Net Cash Flow From Operating Activities(A)	167.8	208.8	82.2	182.9	249.8
Investment Activities					
Cash from Investment Activities	37.6	40.9	49.9	103.9	101.1
Construction Cost-(CWIP/Capex Projects)	-201.6	-190.7	-119.2	-137.9	-135.7
Investments in Land/JD/JV/TDR	31	-0.1	-7.0	-165.5	11.2
Other Investments (FD&Mutual fund)	-20.9	-75.5	-139.2	-108.8	-126.3
Net Cash Flow From Investment Activities(B)	-153.9	-225.4	-215.5	-308.3	-149.7
Financing Activities					
Debt Drawdown	213.2	367.4	343.2	443.8	149.8
Proceeds from QIP/ESOP	0.2	0.3		26.9	25.0
Dividend Payment	0	-25.3			
Debt Payment	-96.7	-222.4	-242.2	-241.9	-184.1
Interest Payment	-93.6	-94.8	-55.8	-119.8	-98.2
Investment by PE	15	15		50.0	1.0
Net Cash Flow from Financing Activities (C)	38.1	40.2	45.2	159.1	-106.5
Net Cash Flows for the Period(A+B+C)	52.0	23.6	-88.1	33.7	-6.4

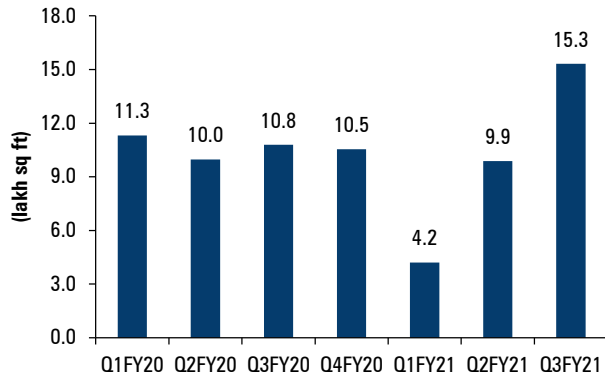
Source: Company, ICICI Direct Research

Exhibit 5: Consolidated debt profile

Particular	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Real Estate	697.5	691.9	691.5	749.5	608.4
Hospitality					
GOP Securitised	417.3	417.2	420.6	430.2	425.7
Capex	121.4	121.9	122.6	127.3	148.1
Leasing					
Securitised Lease Rental	1241.7	1267.7	1521.3	1701.1	1719.3
Capex	1338.3	1456.9	1338.1	1333.0	1397.6
Less:Liquid Investments	398.0	437.4	461.3	513.3	485.2
Net Debt	3418.2	3518.2	3624.0	3827.8	3813.9
Less:SPV partners's share of Debt	633.7	684.1	749.9	836.7	866.0
Exposure of BEL	2784.5	2831.1	2874.1	2991.1	2947.9
Cost of Debt	9.73%	9.57%	9.56%	9.23%	9.00%
Credit Rating	CRISIL"A"	CRISIL"A"	CRISIL"A"	CRISIL"A"	CRISIL"A"
	ICRA"A"	ICRA"A"	ICRA"A"	ICRA"A"	ICRA"A"

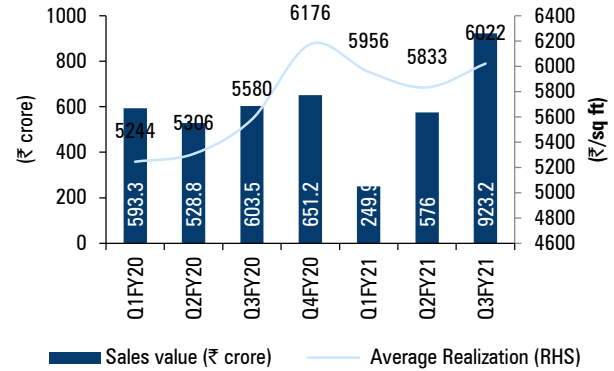
Source: Company, ICICI Direct Research

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 Q3FY21

Particulars	Ongoing BEL Projects	Ongoing SPV Projects	Stock Sales	Total
(in msf)				
Total super built-up area of projects on sale basis	13.57	2.39	1.20	17.16
Less: LO Share	3.64	0.00	0.00	3.64
Co share of saleable area	9.93	2.39	1.20	13.52
Sold till date	5.96	1.06	0.00	7.02
To be sold	3.97	1.33	1.20	6.50
(in ₹ crore)				
From Sold units	5538.8	1582.1	1067.0	8187.9
From Unsold Units	3259.5	636.7	436.6	4332.8
Estimated Receipts	2279.3	945.4	1503.6	4728.3
Collection Till Date on Sold Units	1462.5	360.1	239.7	2062.3
Balance collection for the projects (From Sold Units)	1797.0	276.6	196.9	2270.5
Balance collection for the projects (Sold and Unsold units)-A	4076.3	1222.0	827.5	6125.8
Estimated Total cost to be spent	4328.1	1274.9	397.1	6000.1
Cost incurred till date	1582.9	909.4	397.1	2889.4
Balance Cost to be incurred to finish the project- B	2745.2	365.5	0.0	3110.7
Gross Operating Cash Flows (A-B)	1331.1	856.5	827.5	3015.1
Present Borrowings – C	220.2	184.1	204.1	608.4
Net Operating Cash Flows projected (A-B-C)	1110.9	672.4	623.4	2406.7

Source: Company, ICICI Direct Research

Valuation & Outlook

The strong recovery in the residential segment aided the overall cash generation while commercial leasing pickup could be gradual, going ahead. Furthermore, reopening of the economy is likely to boost retail and hospitality segment in FY22E. BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets (and likely operational assets in FY22). We maintain **BUY** with an SoTP target price of ₹ 320/share (₹ 240/share earlier).

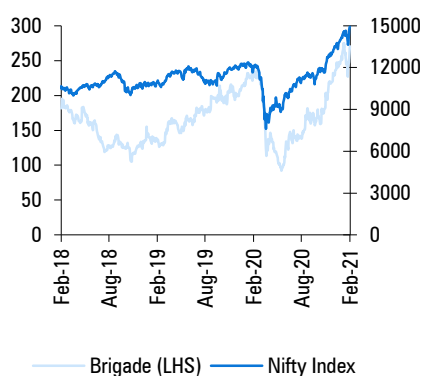
Our target price upward revision is largely on account of lowering the cap rate for commercial properties (from 9% to 8%) and accelerated sales volume assumptions for the residential segment.

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	1192	1.0	58	18	
New Launches	7.1	282	1.0	14	4	We have discounted cash flow at 13% discount rate while land bank is valued at 1x amount invested.
Land Bank	29.3	896	1.0	44	14	
Total	46.8	2483	1.0	122	38	
Leasing Portfolio						
Completed	2.6	3383	1.0	166	52	
Ongoing	6.3	2648	1.0	130	41	We have considered cap rate of 8% and discount rate of 13%
Total	8.9	6031	1.0	295	92	
Hospitality Portfolio						
	No. of Keys					
Hospitality Portfolio	1788	956	1.0	47	15	10x FY23E EV/EBITDA
Total Gross Asset Valuation		9470		463	145	
Less: Net Debt		2948		144	45	We have considered Brigade effective net debt
Target Valuation		6523		319	100	
Rounded-off target				320		

Source: Company, ICICI Direct Research

Exhibit 10: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
₹ crore	FY20	FY21E	FY22E	FY23E
Net Sales	2,632.2	2,026.8	3,148.2	3,489.8
Other Income	49.4	46.9	49.3	51.7
Total revenues	2,681.6	2,073.7	3,197.5	3,541.5
Cost of Materials Sold	1,315.4	929.9	1,315.1	1,431.7
Employee Cost	216.0	226.8	238.1	250.0
Other Expenditure	437.5	336.9	523.3	580.1
Total Operating Expenditure	1,968.9	1,493.6	2,076.6	2,261.8
EBITDA	663.2	533.2	1,071.7	1,228.0
Interest	340.3	345.5	382.1	424.5
Depreciation	192.0	327.6	377.6	392.6
PBT	159.8	(93.0)	361.2	462.5
Tax	47.4	(27.9)	122.8	157.3
Reported PAT	112.4	(65.1)	238.4	305.3
Minority Interests	(16.6)	(15.6)	40.9	59.9
Profit for the company	130.6	(47.5)	199.7	247.7
EPS (₹)	6.4	(2.3)	9.8	12.1

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
₹ crore	FY20	FY21E	FY22E	FY23E
Equity Capital	204	204	204	204
Reserves & Surplus	2,243	2,213	2,362	2,571
Networth	2,281	2,267	2,376	2,524
Total Debt	3,911	4,495	4,245	4,245
Deferred Tax Liability	10	10	10	10
Source of Funds	6,368	6,923	6,822	7,030
Gross Block	2,758	4,365	4,415	4,465
Less: Accumulated Dep	661	988	1,366	1,758
Net Block	2,988	3,377	3,049	2,707
Capital WIP	2,089	554	554	554
Total Fixed Assets	5,077	3,931	3,604	3,261
Investments	72	72	72	72
Inventories	5,209	5,372	5,462	5,860
Trade Receivables	431	421	538	567
Loans & Advances	295	421	538	567
Cash & Bank Balances	305	417	1,389	1,756
Other Current Assets	330	632	806	851
Total Current Assets	6,967	7,538	9,082	9,971
Trade Payable	500	487	622	656
Provisions	11	7	9	10
Other Current Liabilities	5,389	4,277	5,457	5,760
Total Current Liabilities	5,900	4,771	6,088	6,425
Net Current Assets	1,067	2,767	2,995	3,545
Application of Funds	6,368	6,922	6,822	7,030

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
₹ crore	FY20	FY21E	FY22E	FY23E
Profit before Tax	160	(93)	361	463
Depreciation	192	328	378	393
Interest paid	340	345	382	425
CF before wc changes	661	551	1,033	1,170
Net Increase in CA	(90)	(582)	(497)	(502)
Net Increase in CL	774	(1,129)	1,317	338
Net CF from op. activities	1,214	(1,009)	1,654	829
Purchase of Fixed Assets	(118)	(72)	(50)	(50)
(Purchase)/Sale of Inv.	26	-	-	-
Net CF from inv. activities	(43)	865	(1)	2
Proceeds from Borrowing	-	-	-	-
Interest Paid	(340)	(345)	(382)	(425)
Dividend Paid	(26)	18	(50)	(40)
Net CF from fin. activities	165	257	(682)	(464)
Net Cash flow	1,337	113	972	367
Opening Cash	222	305	417	1,389
Closing Cash	305	417	1,389	1,756

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	FY20	FY21E	FY22E	FY23E
Per Share Data				
Reported EPS	6.4	(2.3)	9.8	12.1
Cash EPS	15.8	13.7	28.3	31.3
BVPS	111.7	111.0	116.3	123.6
Operating Ratios				
EBITDA / Net Sales	25.2	26.3	34.0	35.2
PAT / Net Sales	5.0	(2.3)	6.3	7.1
Return Ratios				
RoE	5.7	(2.1)	8.4	9.8
RoCE	8.4	3.7	11.2	13.1
RoIC	57.7	8.9	47.2	54.0
Valuation Ratios				
EV / EBITDA	13.7	17.9	7.8	6.5
P/E	42.3	(116.3)	NM	22.3
EV / Net Sales	3.4	4.7	2.6	2.3
Market Cap / Sales	2.1	2.7	1.8	1.6
Price to Book Value	2.4	2.4	2.3	2.2
Turnover Ratios				
Asset turnover	0.4	0.3	0.5	0.5
Gross Block Turnover	6.8	4.8	6.7	6.7
Solvency Ratios				
Net Debt / Equity	1.5	1.8	1.2	1.0
Current Ratio	1.1	1.4	1.2	1.2
Quick Ratio	0.2	0.3	0.3	0.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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