

Strong launch pipeline ahead...

About the stock: Brigade Enterprises (BEL) is one of the leading property developers in South India. Its offerings include Grade-A commercial property, affordable to ultra-premium housing in real estate business and operational marquee hotel assets in the hospitality segment.

Q3FY22 Results: BEL's performance was a mixed bag.

- Brigade Enterprises reported sales volume of ~1.1 mn sq ft, reporting a decline of ~29% YoY, mainly due to delays in approvals for planned projects in Bengaluru. Presales were down ~26% YoY at ₹ 684 crore, with realisations up ~4% YoY at ₹ 6,281/sq ft
- On the financial front, reported revenues grew ~42.9% YoY to ₹ 921 crore on account of higher revenue recognition from real estate at ₹ 703 crore, up 30.6% YoY. Revenues from hospitality were up 105% YoY at ₹ 62.6 crore with rental revenues at ₹ 167.4 crore, up 22.6% YoY. EBITDA margins were up 493 bps YoY to 28%. PAT was at ₹ 78.4 crore

What should investors do? BEL's share price has grown ~4.4x over the past five years (from ~₹ 113 in January 2017 to ~₹ 506 levels in January 2022).

- We maintain our BUY rating on the company. Apart from robust residential sales volumes traction, we expect a recovery in commercial and rebound in retail/hospitality to provide the next leg of upsides

Target Price and Valuation: We value BEL at ₹ 600/share.

Key triggers for future price performance:

- Traction in sales momentum in the residential business with strong pipeline of 16.8 mn sq ft ongoing projects and ~2.4 mn sq ft upcoming projects over next 2 quarters & further ~6-7 mn sq ft launch pipeline by FY23 end
- Stable cash flows in office leasing portfolio with traction in leasing to pick up in near to medium term; normalisation in malls operation to add incremental growth
- Hospitality portfolio recovery led by reopening of economy

Alternate Stock Idea: Besides BEL, we like Mahindra Lifespace in real estate space.

- A play on residential expanding real estate portfolio
- BUY with a target price of ₹ 335



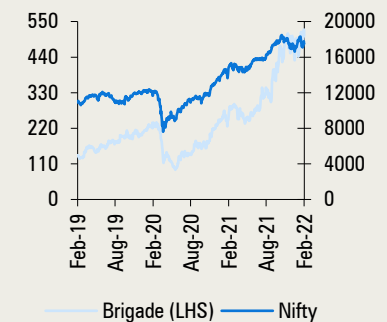
Particulars

Particulars	Amount (₹ crore)
Market Capitalization	11,625.7
Total Debt	4,299.6
Cash	559.4
EV	15,365.9
52 week H/L (₹)	540/ 233
Equity capital	229.6
Face value (₹)	10.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	48.0	44.1	44.0	43.9
DII	20.2	24.8	24.2	23.1
FII	11.8	12.9	13.1	13.9
Other	20.0	18.2	18.7	19.0

Price Chart



Key Risks

Key Risk: (i) Slowdown in residential real estate; (ii) Delay in lease offtake at commercial assets

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Key Financial Summary

(₹ crore)	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	FY24E	3 yr CAGR (FY21-24E)
Net Sales	2632.2	1950.0	3.1%	2878.1	3468.3	3849.5	25.4%
EBITDA	663.2	471.9	-1.1%	752.5	1135.6	1320.2	40.9%
EBITDA Margin(%)	25.2	24.2		26.1	32.7	34.3	
Net Profit	130.6	-46.3	PL	126.8	323.2	380.8	LP
EPS (₹)	6.2	-2.2		5.5	14.1	16.6	
P/E(x)	81.8	NM		91.7	36.0	30.5	
EV/EBITDA(x)	23.8	32.4		19.4	12.6	10.4	
RoE(%)	5.7	-2.0		4.3	10.2	11.4	
RoCE(%)	7.6	4.4		6.8	12.3	14.5	

Key business highlight and outlook

- Residential update:** BEL has achieved pre-sales of 1.1 mn sq ft (down 29% YoY, 17% QoQ) in the real estate business during Q3FY22, valued at ₹ 684.2 crore (down 26% YoY, 18% QoQ). Contribution from Hyderabad and Chennai locations continues to remain significant forming 27% (by volume), 36% (by value) of the overall sales. Average realisation improved 4% YoY to ₹ 6,281/sq ft. Additionally, the residential cash inflow for Q3FY22 was at ₹ 840 crore, mainly aided by healthy sales performance and pick-up in construction activities. As per the management, the bookings continue to remain strong with uptick in demand for completed and larger sized inventory, better affordability due to lower interest rate and right pricing/location of the projects. Going forward, the management endeavours to achieve healthy double digit sales growth
- New Launches:** Majority of developers have faced delays in approvals as the Karnataka High court directed local authorities not to collect ~80% of plan approval charges (due to this, local authorities stopped approving projects). These, in turn, impacted BEL's launches during Q3FY22. However, resolutions over the approval charges have been brought by the Karnataka government recently, thereby enabling developers like BEL to approve their plans and launch residential projects, going forward. Nevertheless, BEL had launched four residential and one commercial projects during H1FY22 viz. a) Brigade El Dorado – K Block, Bengaluru (0.62 mn sq ft), b) Brigade Xanadu Cluster 3 (0.77 mn sq ft), c) Brigade Gem (0.18 mn sq ft), d) Brigade Northridge Phase 2 (0.16 mn sq ft) and e) Brigade Utopia – Eden (commercial; 0.14 mn sq ft), taking total launches to 1.87 mn sq ft on YTD FY22 basis. Going forward, the company has a strong pipeline of 16.8 mn sq ft of ongoing projects. Out of these, 2.4 mn sq ft and 6-7 mn sq ft are likely to get launched by Q1FY23 and FY23E-end, respectively. The project pipeline is likely to aid sales volume, going ahead, along with continued traction in ongoing/completed projects and other new projects
- Commercial leasing & pipeline:** Commercial leasing segment remains stable for BEL and has achieved 99% collections (amount: ₹ 96 crore in Q3FY22). The company has renewed ~98.5% of total contracts, which were due during the quarter (offered no-discount in lease rents). Additionally, BEL has leased out ~0.4 mn sq ft during Q3FY22 with firms scouting for better workplaces with increasing employee strength and partial resumption of offices. Also, BEL is experiencing higher leasing enquiries and physical site inspections for larger and mid-sized spaces backed by increased momentum in finance, and IT and ITeS sector. As of now, the company has an active pipeline of ~0.8 mn sq ft. Going forward, the management expects ~90% of yet to transacted area (~2.45 mn sq ft) to get leased over the next three quarters. On the revenue side, Brigade Tech Gardens and WTC Chennai contributed by ₹ 76 crore and ₹ 84 crore, respectively, during 9MFY22
- Retail segment:** The retail vertical has achieved 100% sales consumption recovery over Q3FY20 for like-to-like brands. Further, multiplexes across its malls have achieved higher level of occupancies during November-December 2021 due to relaxation in Covid-19 guidelines and new movie releases. Additionally, the overall mall portfolio has witnessed good traction on the leasing front wherein 23 units measuring ~0.1 mn sq ft are currently under fit-out. These are likely to be operational by Q1FY23, thereby growing consumption levels further. Also, the Covid-19 related relief for 85% of its retailers are no longer required and ended by December 31, 2021 with a pick-up in consumptions. With these, total leasing portfolio rentals in FY22 are likely to reach ~70-75% of pre-Covid levels (rentals were impacted in H1FY22 due to lockdown-like scenarios) before getting normalised in FY23. The cash inflow for Q3FY22 from the segment was at ₹ 38 crore
- Hospitality:** BEL witnessed a significant demand revival during Q3FY22 with a good mix of leisure travellers, banquet events and corporate travel business. Thus, occupancy improved to 59% in Q3FY22 (vs. 45%, 23% in Q2FY22, Q1FY22). Noticeably, corporate travel accounted for 25% of room night sales. The international business continues to remain subdued and will continue to be so until international travel resumes fully. Also, its average room rent (ARR) remains benign at ~70% of pre-Covid levels (up 6.5% QoQ), thereby, keeping gross operating profit at lower level (at ₹ 16.7 crore in Q3FY22). Going forward, while restriction during January 2022 due to Omicron variant had impacted its overall hospitality business, the management expects a decent improvement

with increased vaccination coverage and up-tick in air travel. ARRs, however, are likely to remain benign over the next few quarters

- **Land bank:** BEL has a total land bank of 344 acres mainly spread across Bengaluru (233 acres), Chennai (49 acres), Kochi (18 acres), Mysore (15 acres) and Thiruvananthapuram (14 acres) having developable potential of 37.9 mn sq ft. Most of the properties in the land banks are developable with receipt of sanctions and approvals. Additionally, the company is currently in advanced stages of discussion/due-diligence phase and are likely to add properties having developable area of 15 mn sq ft in Hyderabad (1-5 msf), Chennai (4-6 msf) and Bangalore. The total requirement of ₹ 500+ crore would be funded from recently raised QIP amount, internal accruals and rest via debt
- **Pricing outlook:** BEL undertook ~6% price hike during 9MFY22 in its residential business with increase in input prices. Additionally, the company is contemplating more hikes with construction costs inching up even further
- **Debt:** Net outstanding debt on the consolidated basis at the end of Q3FY22 was at ₹ 2,790.2 crore vs. ₹ 2,960.6 crore at Q2FY22-end (BEL's share: ₹ 1,856.5 crore at Q3FY22-end vs. ₹ 2,028.7 crore at Q2FY22-end). Real estate division debt has reduced to ₹ 292.9 crore (down ₹ 52.2 crore QoQ) aided by higher sales and decent operating cash flows generated in Q3FY22. Additionally, hospitality, and leasing segments debt was at ₹ 598.9 crore and ₹ 3,210 crore, respectively, with cash balance at ₹ 1,311.6 crore. The company's average cost of debt has also reduced to 7.81% (down 11 bps QoQ)
- **QIP:** BEL raised ₹ 500 crore through a QIP during June 2021, which was expected to be utilised for a) capex: acquisition of land or land developmental rights for residential business, b) investments in subsidiaries and associates, and c) working capital requirements and repayment of debt. Till December, 2021, the company had utilised ₹ 136.5 crore. The management expects balance amount to get utilised for acquiring new land, which is under due-diligence currently

The volume trajectory witnessed a speed breaker in Q3FY22 due to delay in approvals but robust launch pipeline along with strong end user demand and IT sector tailwind remain. Retail and hospitality recovery is on track. BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets (and likely operational assets in near term) and recent QIP. We maintain BUY with an SoTP based target price of ₹ 600/share.

Exhibit 1: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (Chg %)	Q2FY22	QoQ (Chg %)	Comments
Income from Operation	921.0	770.0	644.6	42.9	752.7	22.4	
Other Income	12.2	24.0	9.0	34.9	23.4	-48.0	
Total Operating Cost	378.1	392.2	276.5	36.7	376.2	0.5	
Employee cost	54.5	52.0	39.9	36.6	49.5	10.1	
Other expenditure	117.6	110.0	65.4	80.0	108.7	8.2	
EBITDA	257.5	203.8	148.4	73.5	190.4	35.3	
EBITDA Margin (%)	28.0	26.5	23.0	493 bps	25.3	267 bps	
Depreciation	87.1	89.0	59.1	47.3	88.1	-1.2	
Interest	108.2	114.0	85.6	26.4	112.8	-4.1	
PBT	74.4	24.8	12.7	483.7	12.9	478.2	
Total Tax	28.7	7.4	-5.2	NM	11.5	149.0	
Pat after Minority Interest	78.4	34.4	-16.1	NM	12.0	551.4	

Key Metrics

Sales Volume (in lakh sq ft)	10.9	16.6	15.3	-28.9	13.1	-17.0
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21		FY22E		FY23E			FY24E		Comments
	Old	New	Old	New	Old	New	Old	New		
Revenue	1,950.0	2,678.1	2,878.1	7.5	3,268.3	3,468.3	6.1	3,849.5	Realign estimates post Q3	
EBITDA	471.9	708.5	752.5	6.2	1,091.6	1,135.6	4.0	1,320.2		
EBITDA Margin (%)	24.2	26.5	26.1	-31 bps	32.8	32.7	-2 bps	34.3		
PAT	-46.3	26.5	126.8		319.4	323.2	1.2	380.8		
EPS (₹)	-2.2	1.2	5.5		13.9	14.1	1.2	16.6		

Source: Company, ICICI Direct Research

Company Analysis

Exhibit 3: Consolidated cash flows

Particulars	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Operating Activities					
Total Collection	681.9	1118.4	717.2	936.9	1095.1
Direct Cost/Construction Cost	-267.6	-445.2	-348.8	-371.2	-415.5
LO Payment	-52.4	-61.8	-61.9	-93.9	-98.2
Employee And Admin Expense	-63.5	-69.2	-73.8	-105.9	-83.1
Sales & Marketing Expense	-18.1	-45.0	-22.2	-30.2	-45.5
Statutory Payments	-29.6	-91.8	-52.2	-121.0	-104.7
Other Payments	-0.9	-3.3	-2.5	-1.3	-7.3
Net Cash Flow From Operating Activities(A)	249.8	402.1	155.8	213.4	340.8
Investment Activities					
Cash from Investment Activities	101.1	183.0	161.7	265.0	173.7
Construction Cost-(CWIP/Capex Projects)	-135.7	-127.2	-63.8	-58.8	-73.2
Investments in Land/JD/JV/TDR	11.2	-24.3	-1.0	-19.0	-19.2
Other Investments (FD&Mutual fund)	-126.3	-325.1	-683.2	-212.4	-330.4
Net Cash Flow From Investment Activities(B)	-149.7	-293.6	-586.3	-25.2	-249.1
Financing Activities					
Debt Drawdown	149.8	878.9	291.3	657.7	253.7
Proceeds from QIP/ESOP	25.0	36.3	500.8	3.7	4.2
Dividend Payment					
Debt Payment	-184.1	-858.5	-348.3	-776.6	-293.6
Interest Payment	-98.2	-97.4	-87.8	-83.1	-77.9
Investment by PE	1.0	35.0	25.0	50.0	0.0
Net Cash Flow from Financing Activities (C)	-106.5	-5.7	381.0	-173.5	-113.6
Net Cash Flows for the Period(A+B+C)	-6.4	102.8	-49.5	14.7	-21.9

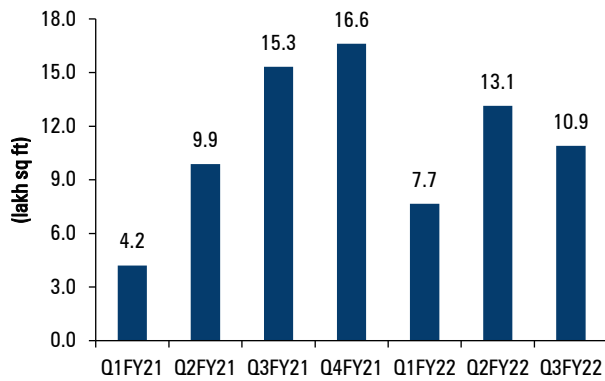
Source: Company, ICICI Direct Research

Exhibit 4: Consolidated debt profile

Particular	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Real Estate	608.4	497.3	466.8	345.1	292.9
Hospitality					
GOP Securitised	425.7	458.7	468.6	501.5	489.9
Capex	148.1	127.1	88.9	108.5	109.0
Leasing					
Securitised Lease Rental	1719.3	2105.2	2244.1	2356.4	2375.2
Capex	1397.6	1111.3	952.3	816.1	834.8
Less:Liquid Investments	485.2	726.0	1173.2	1167.0	1311.6
Net Debt	3813.9	3573.6	3047.5	2960.6	2790.2
Less:SPV partners's share of Debt	866.0	918.9	930.0	931.9	933.7
Exposure of BEL	2947.9	2654.7	2117.5	2028.7	1856.5
Cost of Debt	9.00%	8.40%	8.14%	7.92%	7.81%
Credit Rating	ICRA"A"	ICRA"A"	ICRA"A+"	ICRA"A+"	ICRA"A+"
	CRISIL"A"	CRISIL"A"	CRISIL"A"	CRISIL"A+"	CRISIL"A+"

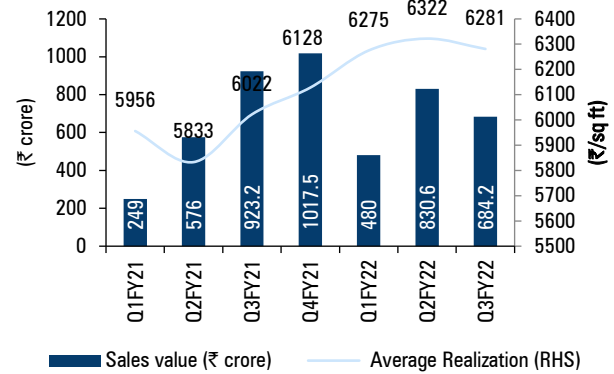
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly sales volume trend



Source: Company, ICICI Direct Research

Exhibit 6: Quarterly sales value & realisation trend



Source: Company, ICICI Direct Research

Exhibit 7: Consolidated synopsis of real estate projects as of Q3FY22

Particulars	Ongoing BEL Projects	Ongoing SPV Projects	Stock Sales	Total
(in msf)				
Total super built-up area of projects on sale basis	15.66	1.11	1.37	18.14
Less: LO Share	4.41	0.00	0.00	4.41
Co share of saleable area	11.25	1.11	1.37	13.73
Sold till date	7.30	0.68	0.00	7.98
To be sold	3.95	0.43	1.37	5.75
(in ₹ crore)				
From Sold units	4126.8	569.9	737.0	5433.7
From Unsold Units	2391.6	359.5	709.0	3460.1
Estimated Receipts	6518.4	929.4	1446.0	8893.8
Collection Till Date on Sold Units	2187.2	273.1	458.3	2918.6
Balance collection for the projects (From Sold Units)	1939.6	296.8	278.7	2515.1
Balance collection for the projects (Sold and Unsold units)-A	4331.2	656.3	987.7	5975.2
Estimated Total cost to be spent	5148.4	669.1	488.6	6306.1
Cost incurred till date	2049.7	445.7	488.6	2984.0
Balance Cost to be incurred to finish the project- B	3098.7	223.4	0.0	3322.1
Gross Operating Cash Flows (A-B)	1232.5	432.9	987.7	2653.1
Present Borrowings – C	116.8	6.7	169.4	292.9
Net Operating Cash Flows projected (A-B-C)	1115.7	426.2	818.3	2360.2

Source: Company, ICICI Direct Research

Valuation & Outlook

The volume trajectory witnessed a speed breaker in Q3FY22 due to delay in approvals but robust launch pipeline along with strong end user demand and IT sector tailwind remain. Retail and hospitality recovery is on track. BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets (and likely operational assets in near term) and recent QIP. We maintain BUY with an SoTP based target price of ₹ 600/share.

Exhibit 8: Valuation				
Project	Value	NAV Multiple	NAV/share	Remarks
Residential Total	3541	1.0	154	We have considered completed ongoing and lined up launch as well as development value of land bank over next 5-6 years
Leasing Portfolio Total	7967	1.0	347	We have considered cap rate of 8% and discount rate of 10%
Hospitality Portfolio	2026	1.0	88	20x FY23E EV/EBITDA
Total Gross Asset Valuation	12423		589	
Less: Net Debt	2029		88	We have considered Brigade effective net debt
Total	10394		501	
Add: 20% Premium for Growth	2079		100	
Target Valuation	12473		601	
Rounded-off target			600	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
₹ crore	FY21	FY22E	FY23E	FY24E
Net Sales	1,950.0	2,878.1	3,468.3	3,849.5
Other Income	60.4	72.5	76.1	79.9
Total revenues	2,010.4	2,950.6	3,544.5	3,929.5
Cost of Materials Sold	1,053.0	1,520.9	1,635.1	1,757.0
Employee Cost	150.9	200.0	210.0	231.0
Other Expenditure	274.2	404.7	487.7	541.3
Total Operating Expenditure	1,478.0	2,125.6	2,332.8	2,529.4
EBITDA	471.9	752.5	1,135.6	1,320.2
Interest	346.8	438.7	380.0	380.0
Depreciation	236.9	346.7	356.9	361.9
PBT	(127.7)	18.7	474.8	658.2
Tax	(28.7)	4.7	119.7	165.9
Reported PAT	(99.0)	14.0	355.2	492.4
Minority Interests	(50.1)	(110.0)	35.0	115.0
Profit for the company	(46.3)	126.8	323.2	380.8
EPS (₹)	(2.2)	5.5	14.1	16.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
₹ crore	FY21	FY22E	FY23E	FY24E
Profit before Tax	(128)	19	475	658
Depreciation	237	347	357	362
Interest paid	347	439	380	380
CF before wc changes	443	839	1,097	1,202
Net Increase in CA	(874)	(801)	(207)	(417)
Net Increase in CL	1,768	767	(70)	496
Net CF from op. activities	1,449	674	705	1,087
Purchase of Fixed Assets	(635)	(50)	(50)	(50)
(Purchase)/Sale of Inv.	(17)	-	-	-
Net CF from inv. activities	(538)	52	32	37
Equity Raised	-	500	-	-
Proceeds from Borrowing	(222)	(200)	(300)	-
Interest Paid	(347)	(439)	(380)	(380)
Dividend Paid	-	(127)	(81)	(95)
Net CF from fin. activities	(569)	(265)	(761)	(475)
Net Cash flow	342	460	(23)	649
Opening Cash	305	559	1,020	996
Closing Cash	559	1,020	996	1,645

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
₹ crore	FY21	FY22E	FY23E	FY24E
Equity Capital	211	230	230	230
Reserves & Surplus	2,252	2,734	2,976	3,262
Networth	2,348	2,958	3,165	3,336
Total Debt	4,300	4,100	3,800	3,800
Deferred Tax Liability	7	7	7	7
Source of Funds	6,769	7,069	7,012	7,297
Gross Block	5,867	5,917	5,967	6,017
Less: Accumulated Dep	893	1,240	1,597	1,959
Net Block	4,997	4,677	4,370	4,058
Capital WIP	495	495	495	495
Total Fixed Assets	5,492	5,172	4,865	4,553
Investments	89	89	89	89
Inventories	5,902	6,210	6,432	6,738
Trade Receivables	527	738	731	778
Loans & Advances	361	505	501	533
Cash & Bank Balances	559	1,020	996	1,645
Other Current Assets	349	488	483	514
Total Current Assets	8,013	9,400	9,579	10,672
Trade Payable	577	632	626	666
Provisions	9	9	9	9
Other Current Liabilities	6,465	7,177	7,113	7,568
Total Current Liabilities	7,051	7,817	7,747	8,243
Net Current Assets	962	1,582	1,832	2,429
Application of Funds	6,769	7,069	7,012	7,297

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per Share Data				
Reported EPS	(2.2)	5.5	14.1	16.6
Cash EPS	9.0	20.6	29.6	32.3
BVPS	111.3	128.8	137.8	145.3
Operating Ratios				
EBITDA / Net Sales	24.2	26.1	32.7	34.3
PAT / Net Sales	(2.4)	4.4	9.3	9.9
Return Ratios				
RoE	(2.0)	4.3	10.2	11.4
RoCE	4.4	6.8	12.3	14.5
RoIC	16.8	31.3	66.5	89.7
Valuation Ratios				
EV / EBITDA	32.4	19.4	12.6	10.4
P/E	(230.5)	NM	36.0	30.5
EV / Net Sales	7.8	5.1	4.1	3.6
Market Cap / Sales	6.0	4.0	3.4	3.0
Price to Book Value	4.5	3.9	3.7	3.5
Turnover Ratios				
Asset turnover	0.3	0.4	0.5	0.5
Gross Block Turnover	1.4	2.3	3.6	3.8
Solvency Ratios				
Net Debt / Equity	1.6	1.0	0.9	0.6
Current Ratio	1.0	1.0	1.1	1.0
Quick Ratio	0.2	0.2	0.2	0.2

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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