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Annual report analysis
and TP revision

Real Estate

Target price: Rs595

Target price revision

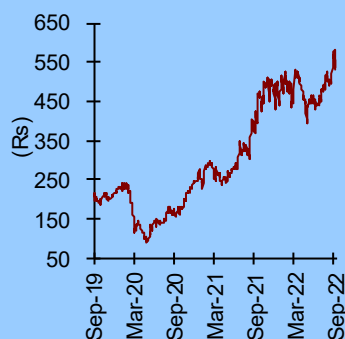
Rs595 from Rs573

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	43.9	43.9	43.9
Institutional investors	37.8	37.5	38.0
MFs and other	21.9	22.1	22.9
FIs/Banks/Ins	1.3	1.2	1.2
FIIIs	14.6	14.2	13.9
Others	18.3	18.6	18.1

Source: NSE

Price chart



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INDIA

ICICI Securities

Brigade Enterprises

Southern comfort

BUY

Maintained

Rs490

FY22 was another challenging year for Brigade Enterprises' (BRGD) with Covid impacting the leasing and hospitality segments in H1FY22. However, the company clocked a resilient performance with FY22 residential sales of 4.7msf worth Rs30.2bn (up 9% YoY in value terms) and also reduced its share of net debt by Rs9.0bn YoY to Rs17.5bn as of Mar'22 aided by a QIP fund raise of Rs5.0bn in Q1FY22. The company's liquidity position is comfortable and we expect BRGD's share of rental NOI to grow at 20% CAGR over FY22-25E to Rs6.8bn along with continued traction in residential sales and revival in hotels. We reiterate our BUY rating with a revised target price of Rs595/share (earlier Rs573) as we roll forward to Mar'24 NAV. Key risks are prolonged weakness in office leasing and slowdown in residential demand.

- **Residential sales to see continued traction:** While company has ~8msf of new launches lined up in FY23, Q1FY23 saw launches of just 0.51msf across two projects in Bengaluru. With another 9.5msf of residential launches lined up mainly in Bengaluru and one project each in Hyderabad and Chennai (7.6msf of apartments and 1.9msf of plots), over remainder of FY23 and H1FY24, we model for sales bookings of Rs36.5bn in FY23E (company guidance is for 20% FY23E volume growth and sales value of ~Rs40bn), Rs43.4bn in FY24E and Rs51.1bn in FY25E. Launch of the Chennai luxury project at Mount Road in H2FY23/FY24E remains a key monitorable.
- **Strong rental NOI CAGR of 20% over FY22-25E:** During the year, the company witnessed demand revival in the leasing vertical and leased ~1msf with an active pipeline of ~1msf. Office space renewals stood at ~0.5mn sft at 14% escalation. Retail revenue increased by 64% during FY22 over FY21. Hence, the company achieved FY22 rental NOI of Rs3.9bn vs. Rs2.9bn in FY21. The company's focus remains on incremental leasing and it is targeting to lease out vacant space of 1.7msf across assets by Mar'23. We expect BRGD to clock 20% rental NOI CAGR over FY22-25E to Rs6.8bn owing to incremental rentals from Tech Gardens, Bengaluru and Brigade Twin Towers office project becoming fully operational in FY25E.
- **Hotels segment seeing strong recovery:** BRGD's hotel revenue increased by 58% YoY in FY22 to Rs1.8bn owing to waning of Covid impact. Post the Omicron wave in Q4FY22, the company saw ARR's across its hotel portfolio recover to pre-Covid (Q1FY20) levels of Rs5,363 in Q1FY23 with portfolio occupancy of 71% (1,200bps higher than pre-Covid) leading to Q1FY23 hotel EBITDA of Rs291mn at an EBITDA margin of 32%. We expect BRGD's hotel business to clock an EBITDA of Rs1.0bn in FY23E and Rs1.2bn in FY24E vs. Rs0.9bn in FY20.

Market Cap	Rs113bn/US\$1.3bn	Year to Mar	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	BRIG.BO/BRGD IN	Revenue (Rs bn)	30.0	34.0	39.9	45.7
Shares Outstanding (mn)	230.6	Rec. Net Income (Rs bn)	0.8	1.5	2.7	3.9
52-week Range (Rs)	585/385	EPS (Rs)	3.6	6.5	11.6	17.1
Free Float (%)	56.1	% Chg YoY	(264.2)	80.9	77.3	48.1
FII (%)	13.9	P/E (x)	135.8	75.1	42.3	28.6
Daily Volume (US\$'000)	1,938	P/B (x)	3.9	3.8	3.6	3.3
Absolute Return 3m (%)	11.9	EV/E (x)	19.8	16.9	14.1	11.9
Absolute Return 12m (%)	17.3	Dividend yield (%)	0.6	0.7	0.7	0.7
Sensex Return 3m (%)	8.7	RoCE (%)	7.5	9.7	12.1	14.3
Sensex Return 12m (%)	(3.6)	RoE (%)	3.0	5.1	8.7	11.9

Please refer to important disclosures at the end of this report

Key Excerpts from FY22 Annual Report

Excerpts from the comments by Mr. M.R. Jaishankar, the Chairman & Managing Director of Brigade Enterprises from the FY22 annual report:

“The financial year 2021-22 has been fairly a good year for the real estate sector. Residential real estate which was recovering well after multiple virus variants and lockdowns is being hit by a huge jump in construction costs – to give just one example, the price of construction steel has shockingly gone up by 80% since February 2022. **Furthermore, the cost of several other inputs that go into construction has also gone up. This is bound to have an impact of at least a 10% increase in selling prices in the markets of South India. Added to this, the general inflation is on the rise and has breached 7% already, resulting in the hardening of bank interest rates, which means home loan rates will start inching up.**”

“The residential real estate business across markets performed well during the year with strong end-user demand. We had surpassed all our yearly performances till date with the highest ever sales value as well as collections. We achieved an all-time high, new bookings of 4.72msf with a total value of Rs30.2bn. Total collections from the residential business for the year aggregated to Rs31.5bn. Our Office business has remained stable with close to 99% collection and about 1msf leased during the year. Hospitality business was impacted because of restrictions due to the third wave of COVID-19 but showcased a sharp revival in Average Room Revenues post that. The Occupancies during the year has been consistently going up. The retail vertical achieved higher retailer sales consumption over pre-COVID levels by more than 100% for like-to-like trading units and consistent traction on the leasing front with new rental greater than 20% of the pre-COVID levels on an average.”

“Brigade has done fairly well in FY22 in all the four SBUs we operate in – Residential, Office, Retail and Hospitality – in spite of the challenges, and not being able to launch many new projects. We are hoping and working towards a brighter FY23.”

Excerpts from the Management Discussion and Analysis (MDA) section of the FY22 annual report:

Real Estate Development:

“In FY22, we surpassed the highest ever sales record of 4.6msf of FY21, with net new bookings of 4.7msf after cancellations, valued at Rs30.2bn, up 9% over the previous year in value terms. The total collections stood at Rs31.5bn. During FY22, we launched 3.65msf in the residential space. The average realisation increased by 7% over FY21 to Rs6,411/psf. Our real estate business recorded our highest ever new bookings by value in Q4FY22 at Rs10.3bn translating to 1.5msf. The residential business also registered our best performance in collection in Q4FY22 at upwards of Rs10.0bn.”

“Our best-performing projects in Bengaluru were Brigade Cornerstone Utopia and Brigade Eldorado while our projects in Hyderabad and Chennai continued to be significant value and volume drivers. Overall, we are positive about the outlook for the residential business. This is supported by our continuing focus on land acquisition in

our key markets of Bengaluru, Chennai and Hyderabad. The Company has a robust pipeline of ongoing projects of ~17.4msf. Its upcoming project pipeline of 8.3msf includes key projects in Bengaluru and Hyderabad.”

Lease Rental:

“During the year, we witnessed demand revival in the leasing vertical and leased ~1 msf with an active pipeline of ~1msf. Office space renewals stood at ~0.5msf at 14% escalation. Retailer sales consumption surpassed the pre-COVID levels post mid-February FY22 with F&B and multiplexes performing well due to big box office releases. Retail revenue increased by 64% during FY22 over FY21. The total leasable area during FY22 was 8.70msf out of which 6.22msf was leased out. There is a hard option for 0.37msf and 2.11msf is yet to be transacted. The lease rental business segment posted revenue of Rs5,965mn, amounting to 19% of the total revenues. EBITDA for the year was Rs4,013mn with an EBITDA margin of 67%.”

“Our office business remained stable with close to 99% collection. We transacted about 1msf during FY22 and have an existing pipeline of over 1mn sft across all properties. Brigade Tech Gardens and World Trade Center, Chennai, our market developments, were the most sought-after business addresses. We also witnessed robust transactions in Brigade International Financial Centre, Gift City, Gujarat with 80% occupancy. In the office segment, we expect to launch about 2msf in a commercial lease-and-for-sale project.”

“The retail vertical achieved higher retail sales consumption over pre-COVID levels by more than 100% for like-to-like trading units. Rental collections have also increased and crossed pre-COVID levels. There was a recovery for multiplexes due to big box office releases. We are also seeing consistent traction on the leasing front with new rentals greater than 20% of the pre-COVID levels on an average.”

Hospitality:

“Performance of our hospitality business was impacted by state-wide restrictions due to the third wave of COVID-19 in January and mid-February 2022. Post that, the portfolio showcased an impressive revival witnessing a sharp recovery in occupancies, ARR, F&B revenue, banquet events (both corporate and social), leisure and group travel. Occupancy reached 64% and ARR touched 78% of pre-COVID levels during Month of March 2022. The segment saw a positive trend with the restart of international flights, an uptick in corporate movement and the rescheduling of mega-events. This is mainly due to the increase in corporate booking and MICE (meetings, incentives, conferences and exhibitions).”

“Portfolio ARR increased by 18% in FY22 as compared to FY21. During Q4FY22, ARR stood at 72% of pre-COVID levels and portfolio occupancy witnessed encouraging growth reaching 94% of pre-COVID levels. Going forward, we expect the hospitality business to show consistent improvement. The revenue from the hospitality segment was Rs1,792mn, amounting to 6% of total revenue. EBITDA for the year was Rs227mn with an EBITDA margin of 13%. Hospitality EBITDA increased by 305% to Rs227mn in FY22 as compared to FY21.”

FY18-21 were peak years for annuity asset capex

In FY19, BRGD had to reverse past accounting profits on residential projects to comply with INDAS 115 project completion accounting leading to erosion in net worth and higher current assets and current liabilities.

In FY21, BRGD incurred fresh capex of Rs5.2bn in FY21 to finish the Phase 2 of Tech Gardens in Bengaluru and the World Trade Centre in Chennai. BRGD has incurred overall capex of Rs24.2bn over FY18-21 towards construction of these two assets (Tech Gardens and WTC Chennai) spread over 5msf of gross leasable area (49% share in both projects held by GIC Singapore). In FY22, the company has incurred capex of Rs2.4bn towards finishing its office assets and started construction on its Twin Towers office project in Bengaluru which has a total estimated capex of Rs6.0bn.

Table 1: BRGD Consolidated Balance Sheet FY18-22

	FY18	FY19*	FY20	FY21	FY22	FY22 chg YoY	Comments
Sources of Capital:							
Equity Share Capital	1,357	1,362	2,044	2,109	2,303	194	Owing to QIP in Q1FY22
Reserves & Surplus	21,540	20,332	20,480	21,368	26,797	5,429	Adjustment for profits less dividends and QIP proceeds of Rs5.0bn less share capital adjustment
Warrants	-	-	287	-	-	-	
Net Worth	22,897	21,694	22,811	23,477	29,099	5,622	
Minority Interest	2,347	1,884	1,659	1,156	(323)	(1,479)	
Gross Debt	30,003	33,778	39,107	42,996	48,327	5,331	Capex on Tech Gardens, Bengaluru and WTC, Chennai office assets and Twin Towers, Bengaluru
Deferred Taxes	619	(1,141)	(1,374)	(2,155)	(2,641)	(486)	
Total Sources of Capital	55,867	56,216	62,204	65,473	74,462	8,989	
Assets:							
Total current assets	30,804	60,099	65,700	76,981	84,187	7,206	Accounting adjustment under INDAS 115 project completion accounting and new launches of JDA projects and land purchases
Of which cash and cash equivalents	4,152	2,223	3,049	5,594	9,448	3,854	Cash and liquid investments as of March 2022
Total current liabilities and provisions	19,029	48,592	55,868	69,714	73,060	3,346	Accounting adjustment under INDAS 115 project completion accounting
Net current assets	11,775	11,507	9,832	7,268	11,127	3,859	
Investments & Goodwill	4,498	3,175	3,776	3,100	8,920	5,820	
Net fixed assets	8,171	9,248	10,243	10,122	9,407	(715)	
Capital WIP	21,207	20,097	20,975	4,949	5,407	458	
Investment Properties	9,835	13,475	19,693	40,034	39,602	(432)	
Total Assets	55,867	56,216	62,204	65,473	74,462	8,989	

Source: Company, I-Sec Research, FY19 onwards transition to INDAS115 project completion. Hence, FY19 balance sheet is restated

Key Income Statement/Balance Sheet Adjustments for FY22:

- During the year ended March 31, 2021, an impairment loss of Rs75mn was recognised in the statement of profit and loss, which represents the write-down value of certain investment properties in the leasing segment to the recoverable amount. The impairment charge arose in the leasing segment Cash Generating Unit ('CGU') due to vacant leased space coupled with the economic conditions due to Covid-19 pandemic.
- Investment Properties as of March 31, 2022 stood at Rs39.6bn consisting largely of Tech Gardens, Bengaluru and World Trade Centre, Chennai assets which were completed during FY21-22. **As per the fair value based on valuations performed by an independent valuer, the fair value of investment properties as of March 31, 2022 is Rs87.9bn of which Rs66.9bn is for office properties and Rs21.0bn for retail properties (gross value).**

FY22 net debt reduces further in another Covid impacted year

BRGD has embarked on an aggressive capex plan from FY17 onwards largely in the annuity business with construction of 5msf of office assets spread across Tech Gardens, Bengaluru (3.0msf) and World Trade Centre, Chennai (2msf). Along expected lines, the debt in the annuity business rose from Rs9.6bn in FY17 to Rs32.2bn in FY21. At the same time, the residential segment debt significantly reduced from a peak of Rs9.2bn in FY17 to Rs5.0bn in FY21.

In FY22, BRGD's overall cash flows remained healthy as it generated Rs11.3bn of operating cash surplus owing to strong residential sales and rental income. BRGD incurred capex of Rs2.4bn in FY22 towards completion of Tech Gardens, Bengaluru and World Trade Centre, Chennai office projects and other annuity/hospitality projects. The company also incurred Rs1.5bn of spend towards land payments. In Q1FY22, the company raised Rs5.0bn through the QIP route as a risk mitigation strategy during the second Covid wave but an improvement in performance across business in the remainder of FY22 has ensured a strong balance sheet position heading into FY23E.

In FY22, BRGD's share of overall net debt levels declined by Rs9.0bn to Rs17.5bn of which residential debt declined by Rs2.3bn YoY while leasing asset debt remained flat YoY. The QIP fund raise of Rs5bn during FY22 has put in a position to deploy further capital for growth. Accordingly, the company's residential debt is expected to rise in FY23E as company is expected to incur Rs9bn on fresh land investment in FY23 towards Mount Road, Chennai mixed-use project and KIADB industrial land in Bengaluru.

Table 2: BRGD Consolidated Segment Wise Debt FY17-22

Segment (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	Comments
Real Estate Development	9,221	7,918	6,849	6,919	4,973	2,718	Residential debt levels have reduced further in FY22. This is expected to rise in FY23E as company is expected to incur Rs9bn on fresh land investment in FY23 towards Mount Road, Chennai mixed-use project and KIADB industrial land in Bengaluru.
Hospitality Total:	3,001	4,347	5,202	5,391	5,858	6,182	
GOP Securitised	NA	3,376	3,319	4,172	4,587	5,332	Holiday Inn Express Suites, Bengaluru became operational in FY21
Capex	NA	971	1,883	1,219	1,271	850	
Leasing Total:	9,550	17,265	21,344	27,246	32,165	32,288	
GOP Securitised	NA	12,332	12,535	12,677	21,052	23,768	
Capex	NA	4,933	8,809	14,569	11,113	8,520	Residual debt on unleased portion of Tech Gardens, Bengaluru and Twin Towers, Bengaluru office project
Total Consolidated Debt	21,772	29,530	33,395	39,556	42,996	41,188	
Less: Cash and cash equivalents	2,240	3,758	3,844	4,374	7,260	15,785	
Consolidated Net Debt	19,532	25,772	29,551	35,182	35,736	25,403	
Less: SPV partner's share of debt*	NA	3,014	4,848	6,871	9,189	7,872	
BRGD share of Net Debt	19,532	22,758	24,703	28,311	26,547	17,531	
Cost of Debt (%)	10.38%	9.21%	9.63%	9.57%	8.40%	7.65%	Lowered cost of debt by 75bps YoY

Source: Company, I-Sec Research, *BRGD has 51% stake in Tech Gardens/WTC Chennai, balance held by GIC Singapore

Table 3: BRGD Direct Format Cash Flows FY16-22

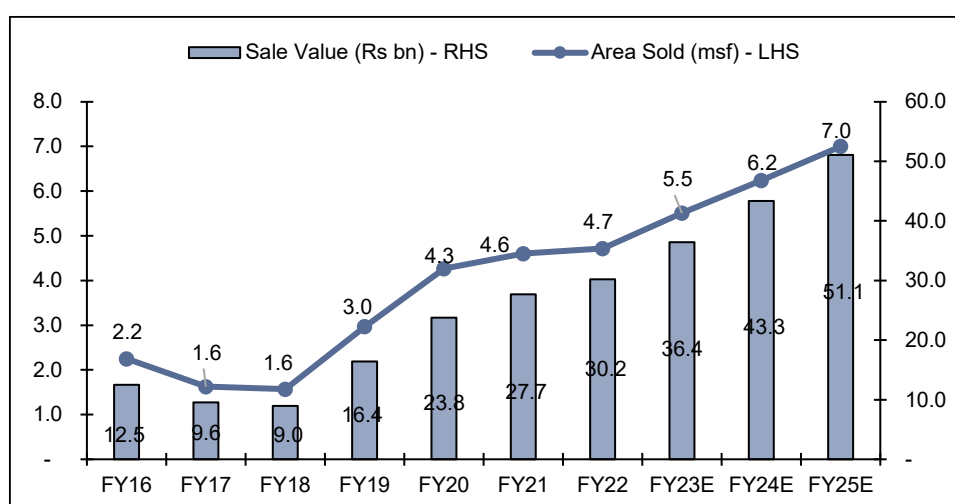
Direct Format Cash Flow (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Operating Activities:							
Total Collections	19,526	20,844	17,922	22,416	25,385	27,119	40,827
Direct Cost/Construction Cost	(11,392)	(11,027)	(10,004)	(11,520)	(12,784)	(11,132)	(16,789)
Land Owner Payments	(415)	(816)	(445)	(608)	(1,288)	(1,853)	(3,758)
Employee & Admin Expenses	(1,514)	(1,859)	(2,596)	(2,796)	(3,176)	(2,221)	(3,566)
Sales & Marketing Expenses	(926)	(935)	(876)	(703)	(1,043)	(938)	(1,377)
Statutory Payments	(1,374)	(1,579)	(2,393)	(2,020)	(2,020)	(1,707)	(3,845)
Other Payments	(382)	-	(20)	(265)	(52)	(98)	(243)
Net Cash Flow from Operating Activities...(A)	3,523	4,628	1,588	4,504	5,022	9,170	11,249
Investment Activities:							
Cash from Investment Activities (FD & MF)	2,082	946	4,081	5,017	2,213	4,379	7,254
Construction Cost (CWIP/Capex Projects)	(2,085)	(3,094)	(6,017)	(5,327)	(7,618)	(5,200)	(2,388)
Investment in Land /TDR/JV	(6,957)	(1,486)	(4,355)	(952)	(314)	(1,856)	(1,541)
Other Investments (FD & Mutual Fund)	(1,788)	(671)	(5,802)	(3,001)	(2,072)	(6,994)	(14,847)
Net Cash Flow from Investment Activities...(B)	(8,748)	(4,305)	(12,093)	(4,263)	(7,791)	(9,671)	(11,522)
Financing Activities:							
Debt Drawdown	14,521	10,198	20,125	11,165	11,874	18,157	14,056
Investment by PE	-	-	400	10	1,070	860	750
Proceeds from ESOP/QIP	3,152	79	5,019	8	302	882	5,112
Dividend Payment	(450)	-	(358)	(319)	(575)	-	(252)
Debt Repayment	(9,921)	(8,658)	(12,659)	(7,267)	(5,669)	(15,267)	(15,703)
Interest Payment	(1,646)	(2,114)	(2,502)	(3,000)	(3,628)	(3,712)	(3,324)
Net Cash Flow from Financing Activities...C	5,656	(495)	10,025	597	3,374	920	639
Net Cash Flows for the Period...(A)+(B)+(C)	431	(172)	(480)	838	605	419	366

Source: Company, I-Sec Research

Residential segment to see continued traction

In FY22, the company surpassed its highest ever sales record of 4.6mn sft of FY21, with net new bookings of 4.7mn sft after cancellations, valued at Rs30.2bn, up 9% over the previous year in value terms. The total collections stood at Rs31.5bn. During FY22, the company launched 3.65mn sft in the residential space. The average realisation increased by 7% over FY21 to Rs6,411/psf. The company's real estate business recorded its highest ever new bookings by value in Q4FY22 at Rs10.3bn translating to 1.5mn sft. The residential business also registered its best performance in collections in Q4FY22 at upwards of Rs10.0bn. The company's best-performing projects in Bengaluru were Brigade Cornerstone Utopia and Brigade Eldorado while its projects in Hyderabad and Chennai continued to be significant value and volume drivers.

Chart 1: BRGD residential sales to continue to see momentum over FY22-25E



Source: Company, I-Sec Research estimates

While company has ~8msf of new launches lined up in FY23, Q1FY23 saw launches of just 0.51msf across two projects in Bengaluru. With another 9.5msf of residential launches lined up mainly in Bengaluru and one project each in Hyderabad and Chennai (7.6msf of apartments and 1.9msf of plots), over remainder of FY23 and H1FY24, we model for sales bookings of Rs36.5bn in FY23E (company guidance is for 20% FY23E volume growth and sales value of ~Rs40bn), Rs43.4bn in FY24E and Rs51.1bn in FY25E. Launch of the Chennai luxury project at Mount Road in H2FY23/FY24E remains a key monitorable.

Strong rental NOI CAGR of 20% over FY22-25E

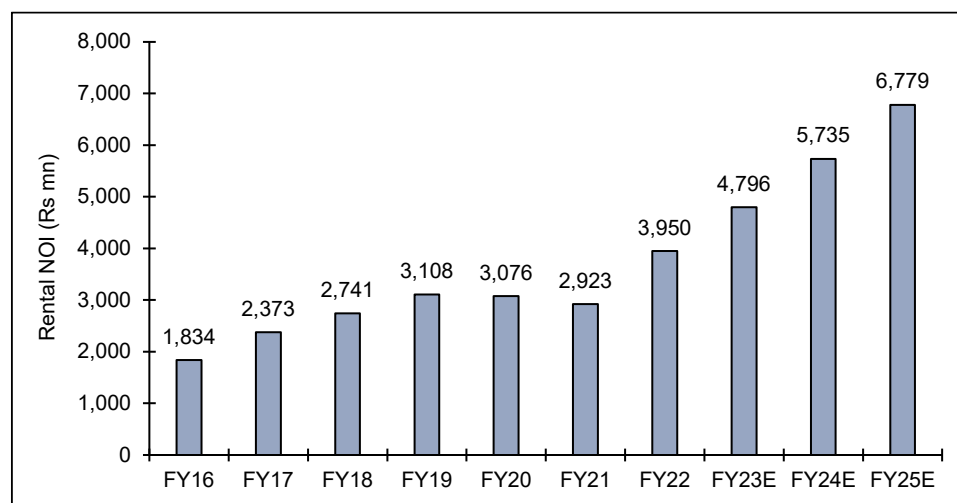
During the year, the company witnessed demand revival in the leasing vertical and leased ~1msf with an active pipeline of ~1msf. Office space renewals stood at ~0.5mn sft at 14% escalation. Retailer sales consumption surpassed the pre-COVID levels post mid-February FY22 with F&B and multiplexes performing well due to big box office releases. Retail revenue increased by 64% during FY22 over FY21. The total leasable area during FY22 was 8.70msf out of which 6.22sf was leased out. There is a hard option for 0.37mn sft and 2.11msf is yet to be transacted.

Hence, the company achieved FY22 rental NOI of Rs3.9bn vs. Rs2.9bn in FY21 primarily owing to revival in mall consumption and rentals, retention of existing office tenants and incremental lease rentals from Tech Gardens, Bengaluru and World Trade Centre, Chennai assets.

The company leased 0.4msf in Q1FY23 (0.27msf in Tech Gardens, Bengaluru) and focus remains on incremental leasing (1.0msf of new leasing achieved in FY22 with exit rental NOI of Rs5.0bn) with an additional 1.0msf of leasing pipeline. The company is targeting to lease out vacant space of 1.7msf across assets by Mar'23. Further, consumption across the company's malls witnessed a 35% same-store growth over pre-Covid levels led by fashion, Food & Beverages and electronics.

We expect BRGD to clock 20% rental NOI CAGR over FY22-25E to Rs6.8bn owing to incremental rentals from Tech Gardens, Bengaluru and Brigade Twin Towers office project becoming fully operational in FY25E.

Chart 2: BRGD to clock 20% rental NOI CAGR over FY22-25E



Source: Company, I-Sec Research estimates

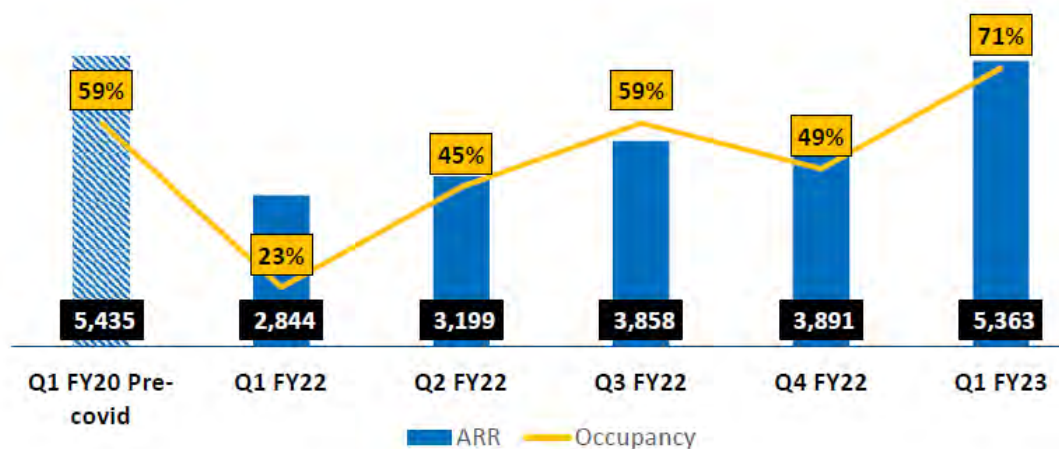
Table 4: BRGD rental assets status as of June 2022

<div> <div> <div>Retail</div> <div>1.17</div> <div>0.14</div> </div> <div> <div>Office</div> <div>5.43</div> <div>0.37</div> <div>1.57</div> </div> </div> <div> <div>Area in Mn sqft</div> <div> <div>Leased Out</div> <div>Hard Option</div> <div>To Be Transacted</div> </div> </div>				
Particulars	Leasable Area	Leased	Hard Option	To be transacted
Brigade Tech Gardens	3.00	1.85	0.20	0.95
WTC Chennai	2.01	1.47	0.06	0.48
WTC Bengaluru	0.62	0.62	-	-
Brigade Opus	0.30	0.26	-	0.04
Brigade Bhuwalka Icon	0.19	0.19	-	-
WTC Kochi	0.77	0.62	0.11	0.04
Brigade Financial Center, Gift City	0.27	0.24	-	0.03
Brigade Southfield	0.15	0.15	-	-
Orion Gateway	0.83	0.77	-	0.06
Orion Uptown	0.27	0.22	-	0.05
Orion Avenue (BEL Share)	0.15	0.12	-	0.03
Brigade Vantage, Chennai	0.06	0.06	-	-
Others	0.06	0.03	-	0.03
Total	8.68	6.60	0.37	1.71

Source: Company data, I-Sec research, BRGD has 51% share in Tech Gardens and WTC, Chennai

Hotels to see full-fledged recovery in FY23E

Performance of the company's hospitality business was impacted by state-wide restrictions due to the third wave of COVID-19 in January and mid-February 2022. Post that, the portfolio showcased an impressive revival witnessing a sharp recovery in occupancies, ARR, F&B revenue, banquet events (both corporate and social), leisure and group travel. Occupancy reached 64% and ARR touched 78% of pre-COVID levels during the month of March 2022. The segment saw a positive trend with the restart of international flights, an uptick in corporate movement and the rescheduling of mega-events. Hence, the company's portfolio ARR increased by 18% in FY22 as compared to FY21. During Q4FY22, ARR stood at 72% of pre-COVID levels and portfolio occupancy witnessed encouraging growth reaching 94% of pre-COVID levels.

Table 5: BRGD hotel segment performance showing consistent improvement

Source: Company data, I-Sec research

The company saw ARR across its hotel portfolio recover to pre-Covid (Q1FY20) levels of Rs5,363 in Q1FY23 with portfolio occupancy of 71% (1,200bps higher than pre-Covid) leading to Q1FY23 hotel EBITDA of Rs291mn at an EBITDA margin of 32%. We expect BRGD's hotel business to clock an EBITDA of Rs1.0bn in FY23E and Rs1.2bn in FY24E vs. Rs0.9bn in FY20 (adjusted for company's share in Chennai hotel).

Valuations & views

- We retain our BUY rating with a revised target price of Rs595/share (earlier Rs573) as we roll forward to 1x FY24E NAV at a WACC of 11.9%.
- We model for residential sales bookings of Rs36.5bn in FY23E, Rs43.4bn in FY24E and Rs51.1bn in FY25E driven by a launch pipeline of 8msf in FY23E and ~10msf of new land bank additions over the same period.
- We expect BRGD to clock rental NOI CAGR of 20% over FY22-25E to Rs6.8bn led up lease-up of vacant space in Tech Gardens, Bengaluru and Brigade Twin Towers office project becoming fully operational in FY25E.
- In the hotels segment, the company saw ARR across its hotel portfolio recover to pre-Covid (Q1FY20) levels of Rs5,363 in Q1FY23 with portfolio occupancy of 71% (1,200bps higher than pre-Covid) leading to Q1FY23 hotel EBITDA of Rs291mn at an EBITDA margin of 32%. We expect BRGD's hotel business to clock an EBITDA of Rs1.0bn in FY23E and Rs1.2bn in FY24E vs. Rs0.9bn in FY20.
- Key risks to our call are prolonged weakness in office leasing and slowdown in residential demand in South India.

Table 6: Key historical numbers and forward assumptions

Year ending March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Development Properties							
Area sold (msf)	2.97	4.27	4.60	4.72	5.51	6.24	7.00
Average Realisation (Rs/psf)	5,542	5,573	6,012	6,409	6,615	6,946	7,293
Sale Value (Rs mn)	16,439	23,768	27,667	30,227	36,449	43,341	51,051
Rental NOI – BRGD share (Rs mn)	2,723	3,097	2,945	3,950	4,796	5,735	6,779

Source: Company data, I-Sec research estimates

Table 7: BRGD SoTP valuation

Segment	BRGD FY24E GAV (Rs mn)	Rs/share	% of GAV
Development properties	56,515	246	34.8
Rental assets @ 8% cap rate	81,729	356	50.3
Hotel assets – 20x FY25E EV/EBITDA	19,232	84	11.8
Land Bank	5,000	22	3.1
Total GAV	162,475	708	100.0
Less: FY24 Net Debt (BRGD economic share) *	24,436	106	
Less: Outstanding land payments	1,500	7	
FY24E NAV	136,539	595	

Source: I-Sec research estimates, adjusted for GIC share of debt estimated at Rs9.4bn in Tech Gardens and WTC, Chennai as of March 2024

Table 8: BRGD - Sensitivity of Target Price to Cap Rate/WACC

Target Price	595	WACC (%)				
		9%	10%	11%	12%	13%
	6%	718	689	666	647	631
	7%	689	662	640	622	607
	8%	662	637	616	599	584
Cap Rate (%)	9%	636	612	593	577	563
	10%	612	590	571	556	543
	11%	589	568	550	536	523

Source: I-Sec research estimates

Summary financials (consolidated)

Table 9: Earnings Statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Net Sales	29,988	33,970	39,909	45,695
Operating Expenses	22,324	25,076	29,180	32,932
EBITDA	7,664	8,894	10,729	12,763
% margins	26%	26%	27%	28%
Depreciation & Amortisation	3,505	3,385	3,692	3,846
Interest expenses	4,436	4,213	4,121	4,211
Other Income	667	701	736	772
Exceptional items	(567)	-	-	-
PBT	(177)	1,998	3,652	5,478
Less: Taxes	497	599	1,096	1,644
PAT before	(674)	1,398	2,556	3,835
Minority/Associate				
Minority/Associate share	1,502	100	100	100
Net Income (Reported)	828	1,498	2,656	3,935

Source: Company data I-Sec research

Table 10: Balance Sheet
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Assets				
Total Current Assets	84,187	86,263	92,822	1,00,948
of which cash & cash eqv.	9,448	7,979	7,560	8,046
Total Current Liabilities & Provisions	73,060	76,466	78,246	80,162
Net Current Assets	11,127	9,797	14,575	20,785
Goodwill/Investments	8,920	8,951	8,982	9,013
Net Fixed Assets	49,008	45,461	41,769	37,922
Capital WIP	5,407	7,807	9,307	10,807
Total Assets	74,462	72,016	74,632	78,527
Liabilities				
Borrowings	48,327	45,287	46,287	47,287
Equity Share Capital	2,303	2,303	2,303	2,303
Reserves & Surplus*	26,797	27,489	29,205	32,200
Warrants	-	-	-	-
Net Worth	29,099	29,792	31,508	34,503
Minority Interest	-	-	-	-
Deferred Taxes	(2,641)	(2,641)	(2,641)	(2,641)
Total Liabilities	74,462	72,016	74,632	78,527

Source: Company data I-Sec research

Table 11: Cashflow Statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT	(177)	1,998	3,652	5,478
Depreciation	3,505	3,385	3,692	3,846
Non-Cash Adjustments	(1,855)	(3,910)	(34)	(34)
Working Capital Changes	4,047	(136)	(5,194)	(5,721)
Taxes Paid	(497)	(599)	(1,096)	(1,644)
Operating Cashflow	5,023	737	1,021	1,926
Capital Commitments	(2,084)	(2,400)	(1,500)	(1,500)
Free Cashflow	2,939	(1,663)	(479)	426
Other investing cashflow	(4,036)	-	-	-
Cashflow from Investing Activities	(6,120)	(2,400)	(1,500)	(1,500)
Issue of Share Capital	5,031	-	-	-
Inc (Dec) in Borrowings	(731)	1,000	1,000	1,000
Dividend paid	(276)	(806)	(940)	(940)
Cashflow from Financing activities	4,025	194	60	60
Chg. in Cash & Bank balances	2,928	(1,468)	(419)	486

Source: Company data I-Sec research

Table 12: Key Ratios
(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (Rs)				
EPS	3.6	6.5	11.6	17.1
Cash EPS	18.8	21.2	27.6	33.8
Dividend per share (DPS)	3.0	3.5	3.5	3.5
Book Value per share (BV)	126.4	129.4	136.8	149.8
Growth (%)				
Net Sales	53.8	13.3	17.5	14.5
EBITDA	62.4	16.1	20.6	19.0
PAT	(278.8)	80.9	77.3	48.1
Valuation Ratios (x)				
P/E	135.8	75.1	42.3	28.6
P/BV	3.9	3.8	3.6	3.3
EV / EBITDA	19.8	16.9	14.1	11.9
Dividend Yield	0.6	0.7	0.7	0.7
Operating Ratios				
Debt/EBITDA (x)	6.3	5.1	4.3	3.7
Net D/E	1.3	1.3	1.2	1.1
Return Ratios (%)				
RoE	3.0	5.1	8.7	11.9
RoCE	7.5	9.7	12.1	14.3
EBITDA Margins	25.6	26.2	26.9	27.9
Net Income Margins	2.8	4.4	6.7	8.6

Source: Company data I-Sec research

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