

Brigade Enterprises (BRIENT)

CMP: ₹ 500

Target: ₹ 620 (24%)

Target Period: 12 months

BUY

November 15, 2022

Steady pre-sales; 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 the real estate business and operational marquee hotel assets in the hospitality segment.

Q2FY23 Results: BEL reported a steady performance.

- The sales value at ₹ 795 crore was stable (down 4% YoY) despite a high base, indicating sustainable demand. Realisations were up ~5.7% YoY at ₹ 6680/sq ft. The company reported sales volume of 11.9 lakh sq ft, down 9% YoY, which was on expected lines
- On financial reported numbers, revenues grew ~17% YoY to ₹ 879 crore, with revenue recognition from real estate at ₹ 631.5 crore, up 5.5% YoY. Revenues from hospitality (up ~122% YoY) were at ₹ 91.5 crore. Rental revenues at ₹ 188 crore, up ~39% YoY saw a robust recovery with new leasing of ~0.3 msf
- EBITDA at ₹ 216.4 crore, was up ~14% YoY. Reported EBITDA margins were down 70 bps YoY to 24.6%, given the revenue mix. The company reported PAT of ₹ 77.5 crore, up 5x YoY, led by better operating profit and also aided by lower depreciation & interest

What should investors do? BEL's share price has grown at ~22% CAGR over the past five years (from ~₹ 188 in November 2017 to ~₹ 500 levels in November 2022).

- We maintain our **BUY** rating. Apart from robust residential sales volumes traction (led by strong end user demand in its key markets), we expect a sustained recovery in commercial/hospitality to drive overall traction

Target Price and Valuation: We value BEL at ₹ 620/share.

Key triggers for future price performance:

- Traction in sales momentum in the residential business with strong pipeline of 17.8 mn sq ft ongoing projects and ~11.3 mn sq ft upcoming projects
- Stable cash flows in office leasing portfolio with traction in leasing picking up now; normalised 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 expanding residential real estate portfolio
- BUY with a target price of ₹ 475

Key Financial Summary

(₹ crore)	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales	1950.0	2998.8	8.2%	3470.5	3858.8	4786.9	16.9%
EBITDA	471.9	766.3	5.9%	1012.4	1187.8	1501.9	25.1%
EBITDA Margin(%)	24.2	25.6		29.2	30.8	31.4	
Net Profit	-46.3	82.8	2.5%	285.5	315.5	483.4	80.1%
EPS (₹)	-2.2	3.6		12.4	13.7	21.0	
P/E(x)	NM	139.1		40.3	36.5	23.8	
EV/EBITDA(x)	33.5	19.4		14.9	12.2	9.6	
RoE(%)	-2.0	2.8		9.0	9.4	14.3	
RoCE(%)	4.1	6.2		9.7	11.6	15.6	

Source: Company, ICICI Direct Research



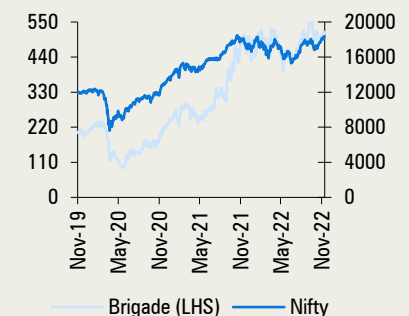
Particulars

Particulars	Amount (₹ crore)
Market Capitalization	11,513.0
Total Debt FY22	4,932.5
Cash FY22	559.4
EV	15,886.1
52 week H/L (₹)	585/ 376
Equity capital	230.3
Face value (₹)	10.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	43.9	43.9	43.9	43.8
DII	23.1	23.3	24.1	24.6
FII	13.9	13.6	13.3	13.4
Other	19.0	19.2	18.7	18.1

Price Chart



Key Risks

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

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Key business highlight and outlook

- Residential update:** BEL has achieved pre-sales of ~1.2 mn sq ft in the real estate business during Q2FY23, valued at ₹ 794.9 crore (down 4% YoY). Average realisation improved 6% YoY to ₹ 6,678/ sq ft. As per the management, the bookings continue to remain strong with uptick in demand for completed and larger sized inventory, better affordability, and right pricing/location of the projects, Further, consolidation towards larger established players continued with customers preferring organised players, in-turn, aiding BEL's residential business. **Going forward, the management endeavours to achieve 15-20% YoY of sales volume growth. Also, average realisation is likely to improve with better project mix and price hikes**
- New launches:** BEL has launched four projects during Q2FY23 in Bengaluru of ~1.5 msf which includes a) Brigade Atmosphere, Pearl Block (0.32 mn sq ft), b) Brigade Nanda Heights (0.18 mn sq ft), c) Brigade Eldorado, Emerald Block (0.56 mn sq ft), and d) Brigade Horizon (0.43 mn sq ft). Going forward, the company has a strong pipeline of 15.23 mn sq ft spread across residential (11.3 mn sq ft), plotted development (1.9 mn sq ft), and leasing segment (2 mn sq ft) targeted to launch over next one year. 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:** BEL leased out 0.55 mn sq ft during Q2FY23 (~50% BEL's share) taking occupancy to a two-year high. Additionally, the company achieved 99% collections during Q2FY23 indicating towards improvement in client paying capabilities and steady BEL's portfolio. While the management has indicated towards some slowdown in leasing activities in recent times, **the company has an active pipeline of ~1 mn sq ft as of now with demand largely coming out from IT/ITES, BFSI and automotive sectors. Also, BEL is expecting DESH bill to get catalyse the further growth in Tech Gardens and WTC Chennai. With these, the management expects bulk of hard option area (0.33 mn sq ft) and yet to transacted area (1.5 mn sq ft) to get leased by FY23-end.** Moreover, the construction of Brigade twin tower is likely get completed over by January 2024 (capex incurred: ₹ 241 crore; balance: ₹ 385.9 crore). On the revenue side, Brigade Tech Gardens, WTC Chennai contributed ₹ 36 crore, ₹ 32 crore, respectively, in Q2FY23
- Retail segment:** Retailer's sales consumption witnessed growth of 38% YoY during H1FY23 over pre-Covid levels. Fashion, food and beverage restaurants, and electronics remained the highest performing category. Further, multiplexes across its malls achieved higher level of occupancies with normalised operations and new movie releases (witnessed growth of 8% in sales consumption; surpassing pre Covid level). The improved traction in the retail space is likely to continue ahead
- Hospitality:** After the remarkable turnaround in Q1FY23, the company continued to witness a steady performance in Q2FY23 in the hospitality segment with average occupancy reaching 68% (vs. 71% in Q1FY23) backed by resumptions in leisure travellers, banquet events and corporate travel business. Average room rent (ARR) has improved to ₹ 5,650 (vs. ₹ 5,363 in Q1FY23). Overall, revenue from the segment improved 122% (to ₹ 91.4 crore) during Q2FY23 compared to Q2FY22. **The management has indicated towards continued momentum with conferences and domestic travel contributing majorly to the improved traction. Also, the company is contemplating monetising part of its hotel portfolio at the right time and correct valuations**
- Collection:** Collections across major verticals remained healthy during Q2FY23 at ₹1 422 crore, mainly aided by healthy sales performance, pick-up in construction activities and increased leasing activities. **Residential collection was at ₹ 987 crore, followed by commercial sale (₹ 49 crore), commercial lease (₹ 150 crore), retail (₹ 52 crore), hospitality (₹ 119 crore) and others (₹ 66 crore)**

- **Entry in newer segment:** BEL is expanding its business portfolio in the warehousing, logistics and data centres verticals in order to grab growing opportunities in the segment. For this purpose, the company has finalised a land located near the international airport at Bengaluru. The company is currently developing a master plan for the project and may take another three to four months for finalisation. Further, necessary approvals may take another 12-15 months. Thus, the project may commence during H2FY24. Overall, it will be mixed used development wherein residential units will be sold while offices and logistics space will be available on lease. Further, to scale up the business, the company is evaluating land parcels at Hoskote (Bengaluru) and Chennai locations
- **Land Bank:** BEL has a **total land bank of 496 acres as on September 30, 2022 mainly spread across Bengaluru (376 acres), Chennai (74 acres), Kochi (18 acres), Mysore (15 acres) and Hyderabad (10 acres) having developable potential of 47.7 mn sq ft.** Most of the properties in the land banks are developable with receipt of sanctions and approvals. **The company has paid ₹ 845.8 crore towards land while balance payable is at ₹ 1,014.6 crore (~₹ 600-700 crore likely to be paid during H2FY23). The total requirement would be funded via mix of internal accruals, QIP amount, and debt**
- **Debt:** Net outstanding debt on a consolidated basis at the end of Q2FY23 was at ₹ 2,226.3 crore vs. ₹ 2,406.5 crore at Q1FY23-end (BEL's share: ₹ 1,491 crore at Q2FY23-end vs. ₹ 1,635.6 crore at Q1FY23-end). **Real estate division debt has reduced to ₹ 153.7 crore (down ₹ 59.6 crore QoQ) aided by higher sales and decent operating cash flows generated in Q2FY23. Additionally, hospitality, and leasing segments debt was at ₹ 598.8 crore and ₹ 3,263.2 crore, respectively, with cash balance at ₹ 1,789.4 crore. The company's average cost of debt was at 8.09% (up 34 bps QoQ)**
- **QIP:** BEL has 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 September-end, the company has utilised ₹ 251.6 crore. The management expects the balance amount to get utilised for acquiring new land, which is under due-diligence currently
- **Pricing outlook:** BEL undertook ~5-8% price hike during April 2022 across its residential portfolio with increase in input prices. Future price hikes would largely depend on market conditions

The volume trajectory is relatively healthy 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. While a rising interest rate scenario can be a hurdle if it gets extended sharply and for a longer period, end user demand tailwind is strong We maintain BUY with an SoTP target price of ₹ 620/share.

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (Chg %)	Q1FY23	QoQ (Chg %)	Comments
Income from Operation	879.2	951.0	752.7	16.8	902.5	-2.6	
Other Income	33.0	15.0	23.4	40.7	17.8	85.2	
Total Operating Cost	456.7	438.0	376.2	21.4	412.3	10.7	
Employee cost	64.0	63.0	49.5	29.3	62.6	2.4	
Other expenditure	130.4	150.0	108.7	20.0	117.0	11.4	
EBITDA	216.4	220.0	190.4	13.7	232.7	-7.0	
EBITDA Margin (%)	24.6	23.1	25.3	-68 bps	25.8	-116 bps	
Depreciation	78.0	91.0	88.1	-11.5	75.1	3.9	
Interest	109.7	110.0	112.8	-2.8	106.1	3.4	
PBT	61.7	34.0	12.9	379.7	69.3	-11.0	
Total Tax	28.3	20.0	11.5	NM	18.4	53.6	
Pat after Minority Interest	77.5	40.0	12.0	544.1	78.0	-0.6	

Key Metrics

Sales Volume (in lakh sq ft)	11.9	12.0	13.1	-9.4	12.4	-3.6
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22		FY23E		FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	New		
Revenue	2,998.8	3,469.7	3,470.5	0.0	3,858.8	3,858.8	0.0	4,786.9	Realign estimates
EBITDA	766.3	1,012.4	1,012.4	0.0	1,196.9	1,187.8	-0.8	1,501.9	
EBITDA Margin (%)	25.6	29.1	29.2	2 bps	29.2	30.8	161 bps	31.4	
PAT	82.8	206.5	285.5	38.3	247.0	315.5	27.7	483.4	
EPS (₹)	3.6	9.0	12.4	38.3	10.7	13.7	27.7	21.0	

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	FY20	FY21	FY22	FY23E	FY24E	FY25E
Volume sold in msf	4.3	4.6	4.7	5.4	5.9	5.9
Sales value (₹ crore)	2,377	2,767	3,023	3,630	4,138	4,356

Source: Company, ICICI Direct Research

Company Analysis

Exhibit 4: Consolidated cash flows

Particulars	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Operating Activities					
Total Collection	936.9	1095.1	1333.5	1210.3	1422.0
Direct Cost/Construction Cost	-371.2	-415.5	-543.4	-486.0	-654.7
LO Payment	-93.9	-98.2	-121.8	-109.7	-132.4
Employee And Admin Expense	-105.9	-83.1	-93.8	-93.8	-109.3
Sales & Marketing Expense	-30.2	-45.5	-39.8	-33.4	-34.5
Statutory Payments	-121.0	-104.7	-106.6	-114.1	-124.9
Other Payments	-1.3	-7.3	-13.2	-3.9	-4.4
Net Cash Flow From Operating Activities(A)	213.4	340.8	414.9	369.4	361.8
Investment Activities					
Cash from Investment Activities	265.0	173.7	125.0	206.0	660.3
Construction Cost-(CWIP/Capex Projects)	-58.8	-73.2	-43.0	-80.8	-20.9
Investments in Land/JD/JV/TDR	-19.0	-19.2	-114.9	-83.3	-97.1
Other Investments (FD&Mutual fund)	-212.4	-330.4	-258.7	-295.2	-787.4
Net Cash Flow From Investment Activities(B)	-25.2	-249.1	-291.6	-304.3	-245.1
Financing Activities					
Debt Drawdown	657.7	253.7	202.9	88.2	103.3
Proceeds from QIP/ESOP	3.7	4.2	2.5	2.7	2.4
Dividend Payment					
Debt Payment	-776.6	-293.6	-151.8	-145.8	-168.1
Interest Payment	-83.1	-77.9	-83.6	-78.8	-76.2
Investment by PE	50.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities (C)	-173.5	-113.6	-30.0	-133.7	-170.2
Net Cash Flows for the Period(A+B+C)	14.7	-21.9	93.3	-68.6	-53.5

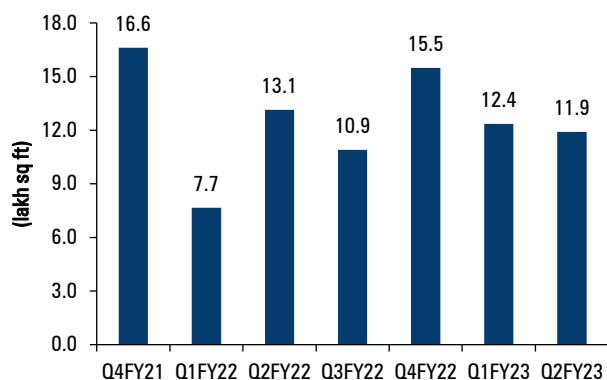
Source: Company, ICICI Direct Research

Exhibit 5: Consolidated debt profile

Particular	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Real Estate	345.1	292.9	271.8	213.3	153.7
Hospitality					
GOP Securitised	501.5	489.9	533.2	515.5	496.9
Capex	108.5	109.0	85.0	97.4	101.9
Leasing					
Securitized Lease Rental	2356.4	2375.2	2376.8	2383.2	2345.4
Capex	816.1	834.8	852.0	886.8	917.8
Less:Liquid Investments	1167.0	1311.6	1578.5	1689.1	1789.4
Net Debt	2960.6	2790.2	2540.3	2407.1	2226.3
Less:SPV partners's share of Debt	931.9	817.3	787.2	770.9	735.3
Exposure of BEL	2028.7	1972.9	1753.1	1636.2	1491.0
Cost of Debt	7.92%	7.81%	7.65%	7.75%	8.09%
Credit Rating	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"	ICRA"A+" CRISIL"A+"

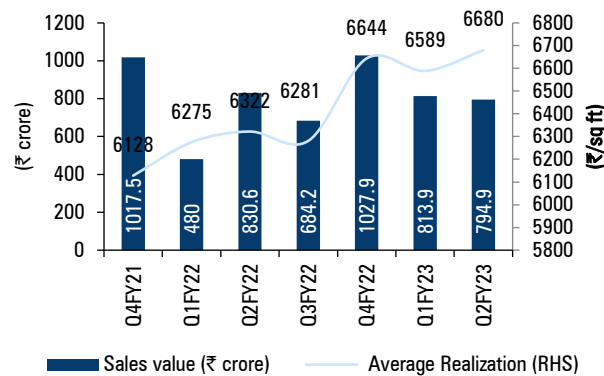
Source: Company, ICICI Direct Research

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 Q2FY23

Particulars	Ongoing BEL Projects	Ongoing SPV Projects	Stock Sales	Total
(in msf)				
Total super built-up area of projects on sale basis	15.98	1.79	0.80	18.57
Less: LO Share	4.15	0.00	0.00	4.15
Co share of saleable area	11.83	1.79	0.80	14.42
Sold till date	8.38	1.12	0.00	9.50
To be sold	3.45	0.67	0.80	4.92
(in ₹ crore)				
From Sold units	4985.0	919.6	990.2	6894.8
From Unsold Units	2097.7	376.6	572.3	3046.6
Estimated Receipts	7082.7	1296.2	1562.5	9941.4
Collection Till Date on Sold Units	3014.2	491.6	364.9	3870.7
Balance collection for the projects (From Sold Units)	1970.8	428.0	207.4	2606.2
Balance collection for the projects (Sold and Unsold units)-A	4068.5	804.6	625.3	5498.4
Estimated Total cost to be spent	5449.0	952.2	320.9	6722.1
Cost incurred till date	2604.6	615.0	320.9	3540.5
Balance Cost to be incurred to finish the project- B	2844.4	337.2	0.0	3181.6
Gross Operating Cash Flows (A-B)	1224.1	467.4	625.3	2316.8
Present Borrowings – C	32.2	8.8	112.7	153.7
Net Operating Cash Flows projected (A-B-C)	1191.9	458.6	512.6	2163.1

Source: Company, ICICI Direct Research

Valuation & Outlook

The volume trajectory is relatively healthy with strong end user demand while IT sector tailwinds remain. Retail and hospitality recovery is on track. BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets. While a rising interest rate scenario can be a hurdle if it gets extended sharply and for a longer period, end user demand tailwind is strong We maintain BUY with an SoTP target price of ₹ 620/share.

Exhibit 9: Valuation

Project	Value	NAV Multiple	NAV/share	Remarks
Residential Total	5944	1.0	258	We have considered completed, ongoing and steady launch pipeline over next 5-6 years
Leasing Portfolio Total	7967	1.0	346	We have considered cap rate of 8%
Hospitality Portfolio	2836	1.0	123	20x FY24E EV/EBITDA
Total Gross Asset Valuation	16748		727	
Less: Net Debt (Brigade share)	1491		65	We have considered Brigade effective net debt
Less: Land dues payable	1015		44	
Target Valuation	14242		619	
Rounded-off target			620	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
₹ crore	FY22	FY23E	FY24E	FY25E
Net Sales	2,998.8	3,470.5	3,858.8	4,786.9
Other Income	66.7	80.1	84.1	88.3
Total revenues	3,065.5	3,550.6	3,942.9	4,875.2
Cost of Materials Sold	1,584.2	1,730.1	1,864.1	2,317.6
Employee Cost	206.9	217.2	238.9	262.8
Other Expenditure	441.4	510.9	568.0	704.6
Total Operating Expenditure	2,232.5	2,458.2	2,671.1	3,285.0
EBITDA	766.3	1,012.4	1,187.8	1,501.9
Interest	443.6	444.2	430.6	430.6
Depreciation	350.5	340.2	347.5	350.5
PBT	(17.7)	326.4	493.8	809.1
Tax	49.7	91.4	128.4	210.4
Reported PAT	(67.5)	235.0	365.4	598.7
Minority Interests	(147.5)	(47.6)	53.2	118.9
Profit for the company	82.8	285.5	315.5	483.4
EPS (₹)	3.6	12.4	13.7	21.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
₹ crore	FY22	FY23E	FY24E	FY25E
Profit before Tax	(18)	326	494	809
Depreciation	351	340	347	350
Interest paid	444	444	431	431
CF before wc changes	855	1,075	1,131	1,387
Net Increase in CA	(363)	(62)	(381)	(1,311)
Net Increase in CL	973	(686)	429	1,117
Net CF from op. activities	1,277	277	1,025	816
Purchase of Fixed Assets	(279)	(50)	(50)	(50)
(Purchase)/Sale of Inv.	(420)	-	-	-
Net CF from inv. activities	(455)	36	41	38
Equity Raised	-	-	-	-
Proceeds from Borrowing	90	(300)	-	-
Interest Paid	(444)	(444)	(431)	(431)
Dividend Paid	(83)	(71)	(79)	(338)
Net CF from fin. activities	(437)	(816)	(509)	(769)
Net Cash flow	385	(502)	556	86
Opening Cash	559	945	442	998
Closing Cash	945	442	998	1,084

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
₹ crore	FY22	FY23E	FY24E	FY25E
Equity Capital	230	230	230	230
Reserves & Surplus	2,647	2,862	3,098	3,243
Networth	2,910	3,172	3,355	3,381
Total Debt	4,833	4,533	4,533	4,533
Deferred Tax Liability	57	57	57	57
Source of Funds	7,767	7,681	7,918	8,063
Gross Block	6,116	6,166	6,216	6,266
Less: Accumulated Dep	1,231	1,571	1,918	2,269
Net Block	4,885	4,595	4,297	3,997
Capital WIP	541	541	541	541
Total Fixed Assets	5,425	5,135	4,838	4,537
Investments	509	509	509	509
Inventories	6,223	6,404	6,711	7,553
Trade Receivables	504	457	487	671
Loans & Advances	399	362	385	531
Cash & Bank Balances	945	442	998	1,084
Other Current Assets	376	341	363	501
Total Current Assets	8,899	8,417	9,380	10,942
Trade Payable	649	589	626	864
Provisions	8	8	8	8
Other Current Liabilities	6,733	6,107	6,499	7,377
Total Current Liabilities	7,391	6,704	7,133	8,250
Net Current Assets	1,508	1,712	2,246	2,692
Application of Funds	7,767	7,681	7,918	8,063

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	FY22	FY23E	FY24E	FY25E
Per Share Data				
Reported EPS	3.6	12.4	13.7	21.0
Cash EPS	18.8	27.2	28.8	36.2
BVPS	126.4	137.7	145.7	146.8
Operating Ratios				
EBITDA / Net Sales	25.6	29.2	30.8	31.4
PAT / Net Sales	2.8	8.2	8.2	10.1
Return Ratios				
RoE	2.8	9.0	9.4	14.3
RoCE	6.2	9.7	11.6	15.6
RoIC	27.9	36.6	46.7	53.8
Valuation Ratios				
EV / EBITDA	19.4	14.9	12.2	9.6
P/E	139.1	NM	36.5	23.8
EV / Net Sales	5.0	4.3	3.8	3.0
Market Cap / Sales	3.8	3.3	3.0	2.4
Price to Book Value	4.0	3.6	3.4	3.4
Turnover Ratios				
Asset turnover	0.4	0.4	0.5	0.6
Gross Block Turnover	2.2	3.2	3.4	4.1
Solvency Ratios				
Net Debt / Equity	1.2	1.1	0.9	0.9
Current Ratio	1.0	1.1	1.1	1.1
Quick Ratio	0.2	0.2	0.2	0.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours 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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