

# Brigade Enterprises

Estimate change

TP change

Rating change



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Bloomberg	BRGD IN
Equity Shares (m)	204
M.Cap.(INRb)/(USD\$)	29 / 0.4
52-Week Range (INR)	255 / 91
1, 6, 12 Rel. Per (%)	34/-16/1
12M Avg Val (INR M)	35

## Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Net Sales	26.3	22.4	27.3
EBITDA	6.6	5.8	7.5
EBITDAM %	25.2	26.0	27.5
NP (INRb)	1.5	1.0	1.5
EPS (INR)	7.1	5.1	7.5
EPS Gr. (%)	(39)	(28)	47
BV/Sh. (INR)	112	115	121
<b>Ratios</b>			
Net D:E	1.6	1.2	1.2
RoE (%)	6.6	4.5	6.3
RoCE (%)	6.2	4.9	6.7
<b>Valuations</b>			
P/E (x)	19.9	27.8	19.0
P/BV (x)	1.3	1.2	1.2
EV/EBITDA (x)	9.8	10.0	7.8
EV/Sales (x)	2.5	2.6	2.1

## Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	46.8	46.8	46.8
DII	18.6	16.8	15.9
FII	11.9	12.8	12.5
Others	22.8	23.6	24.8

FII Includes depository receipts

**CMP: INR142**
**TP: INR195 (+37%)**
**Buy**

## Office and Residential remain steady; COVID-19 dents Hotels

- BRGD has shown continued strength in delivering strong pre-sales volumes of ~1msf in the Residential segment, even in these testing times, as well as in its Leasing portfolio. This makes the company one of the favored plays in the Real Estate space.
- Leasing remains the cornerstone of the business in the near to long term, while Residential is likely to bounce back in 2HFY21E. Accounting for near-term challenges in Residential and Hospitality, we reduce our TP to INR195. However, reiterate **Buy** on account of favorable risk-reward.

## Strong operational show amid COVID-19 crisis

- **Residential shows strength amid COVID-19 outbreak:** 4QFY20 pre-sales volume/value was up 10%/25% YoY to 1.05msf/INR6.5b. Average price realization (INR psf) was up 14% YoY to INR6,176. For FY20, pre-sales volume/value increased 44%/45% YoY to 4.26msf/INR23.8b.
- **Leasing remains steady:** Leasing revenue was up 22% YoY to INR1.05b, driven by incremental leasing of 0.21msf in 4QFY20. In FY20, BRGD leased 2.45msf of incremental office and retail space, with an est. rental yield of INR2.4b.
- **COVID-19 dents Hospitality:** Hospitality was among the worst-hit segments due to COVID-19 impacting both business and leisure travel. In 4QFY20, revenue from the Hospitality segment was down 9% YoY, with EBIT loss of INR4m. Management has guided for near-term challenges, with pickup expected in 2HFY21. For FY20, Hospitality revenue grew 8% YoY to INR3.3b.
- **Financial performance:** In 4QFY20, revenue / EBITDA / adj. PAT declined 16%/37%/70%, with EBITDA margin contraction at 710bp. For FY20, revenue / EBITDA / adj. PAT declined 12%/16%/40% YoY, with EBITDA margin contraction at 140bp.

## Key management commentary highlights

- A) ~95% of the World Trade Centre (WTC), Chennai is leased out; expect rental income to flow from 4QFY21. ~50% of Brigade Tech Gardens (BTG), Bangalore is pre-leased, and rentals have commenced from 4QFY20. B) BRGD has opted for a loan moratorium (from Apr'20 to Aug'20) on debt pertaining to the Retail and Hospitality segments. Debt under moratorium amounts to ~INR12b.

## Valuation and view

- Given the near-term challenges for the Residential and Hospitality segments, we lower our estimates by 15%/20% for pre-sales value/revenue for Residential/Hospitality. However, we expect momentum to continue in the medium term, driven by a robust line-up of launches across business segments, strong execution capabilities, and the right product mix. Maintain **Buy**, with TP of INR195.

## Consolidated - Quarterly Earnings Model

(INR m)

Y/E March	FY19				FY20E				FY19	FY20	FY20E	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
<b>Gross Sales</b>	<b>6,991</b>	<b>8,259</b>	<b>6,877</b>	<b>7,600</b>	<b>7,087</b>	<b>7,353</b>	<b>5,523</b>	<b>6,359</b>	<b>29,728</b>	<b>26,322</b>	<b>7,369</b>	-14%
YoY Change (%)	26.0	70.4	62.2	75.3	1.4	-11.0	-19.7	-16.3	56.7	-11.5	-3.0	
Total Expenditure	5,196	6,071	5,118	5,446	5,264	5,451	3,967	5,008	21,831	19,689	5,403	
<b>EBITDA</b>	<b>1,795</b>	<b>2,188</b>	<b>1,759</b>	<b>2,154</b>	<b>1,823</b>	<b>1,902</b>	<b>1,556</b>	<b>1,352</b>	<b>7,897</b>	<b>6,632</b>	<b>1,967</b>	-31%
Margins (%)	25.7	26.5	25.6	28.3	25.7	25.9	28.2	21.3	26.6	25.2	26.7	
Depreciation	317	339	320	425	383	473	501	563	1,400	1,920	557	
Interest	628	697	697	763	796	940	863	805	2,785	3,403	896	
Other Income	88	177	103	178	83	163	164	84	545	494	189	
<b>PBT before EO expense</b>	<b>938</b>	<b>1,329</b>	<b>845</b>	<b>1,144</b>	<b>727</b>	<b>653</b>	<b>356</b>	<b>67</b>	<b>4,257</b>	<b>1,803</b>	<b>703</b>	
Extra-Ord expense	0	0	0	0	0	0	0	205	0	205	0	
<b>PBT</b>	<b>938</b>	<b>1,329</b>	<b>845</b>	<b>1,144</b>	<b>727</b>	<b>653</b>	<b>356</b>	<b>-138</b>	<b>4,257</b>	<b>1,597</b>	<b>703</b>	
Tax	313	464	251	428	269	281	-49	-28	1,455	474	181	
Rate (%)	33.4	34.9	29.7	37.4	37.0	43.1	-13.7	NM	34.2	29.7	25.8	
MI & Profit/Loss of Asso. Cos.	-6	182	106	120	46	-2	-89	-137	402	-182	150	
<b>Reported PAT</b>	<b>631</b>	<b>683</b>	<b>489</b>	<b>597</b>	<b>412</b>	<b>374</b>	<b>493</b>	<b>27</b>	<b>2,399</b>	<b>1,306</b>	<b>371</b>	
<b>Adj PAT</b>	<b>631</b>	<b>683</b>	<b>489</b>	<b>597</b>	<b>412</b>	<b>374</b>	<b>493</b>	<b>182</b>	<b>2,399</b>	<b>1,461</b>	<b>371</b>	-51%
YoY Change (%)	100.6	67.1	0.1	138.8	-34.7	-45.3	0.9	-69.5	63.2	-39.1	-37.8	
Margins (%)	9.0	8.3	7.1	7.8	5.8	5.1	8.9	2.9	8.1	5.6	5.0	

E: MOSL Estimates

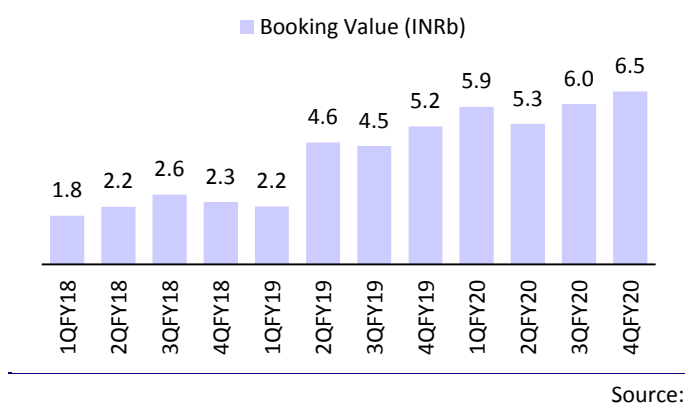


## Management commentary highlights

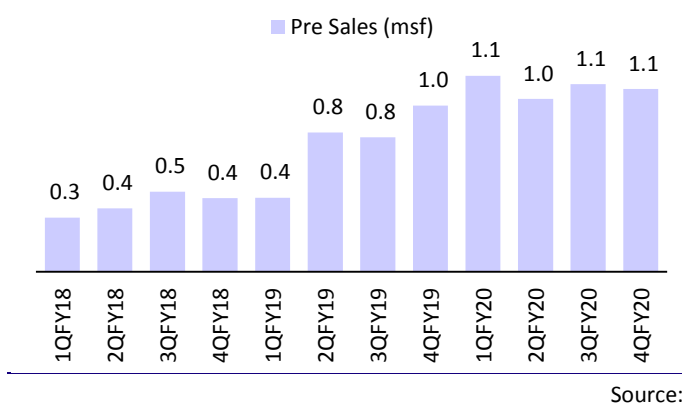
- **COVID-19 impact spans business segments:** Except for the Office segment, all the other segments were impacted by the COVID-19-led lockdown, with Hospitality hit the hardest.
- **Office segment:** Rent collection remained steady across operational assets, with 96%+ rent collection witnessed during the lockdown period. Thus far, there have been no rental re-negotiations with existing tenants on the downside. However, at the Brigade Tech Gardens, ~0.2msf of pre-leasing was canceled.
- **Residential segment:** The Residential segment maintained its 1msf quarterly run rate for 4QFY20, with 0.98msf of pre-sales volumes, up +9% YoY (ex. commercial sales). However, sales inquiries have dropped to 15%, 25%, and 35% of pre-COVID-19 levels for April, May, and June, respectively.
- **Retail segment:** BRGD waived 50% of the rent of its retail tenants for the period of the lockdown (April and May). All malls are now operational, with 60% of stores operational as well. Footfall is at ~20% of pre-COVID-19 levels. F&B outlets and multiplexes are yet to open up. Expect to see near-term pressure.
- **Hospitality segment:** This is one of the worst-hit segments. It is expected to revive only in 2HFY21 and be driven by domestic travel. Foreign travel is likely to remain subdued in the near term.
- **Cascading effect of WFH culture and social distancing on commercial real estate:** BRGD's management believes work from home (WFH) would become a reality for certain job profiles in the post-COVID-19 era. However, stringent social distancing norms in the wake of COVID-19 are expected to drive the average space per employee for a commercial tenant. Thus, the management does not foresee any significant impact on commercial real estate demand due to the COVID-19 crisis in the long run.
- **One-time impairment loss in 4QFY20:** The company has taken one-time impairment loss on the Holiday Inn Racecourse (~INR60m) and the Brigade Broadway (~INR145m).

## Key exhibits

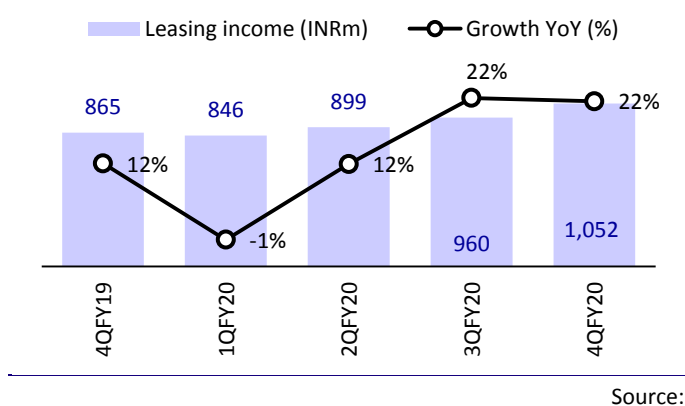
**Exhibit 1: Robust 25% growth in booking value in 4QFY20**



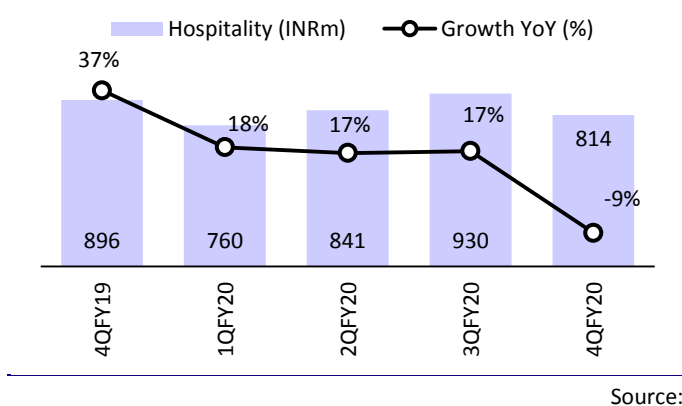
**Exhibit 2: Robust 10% growth in pre-sales volume in 4QFY20**



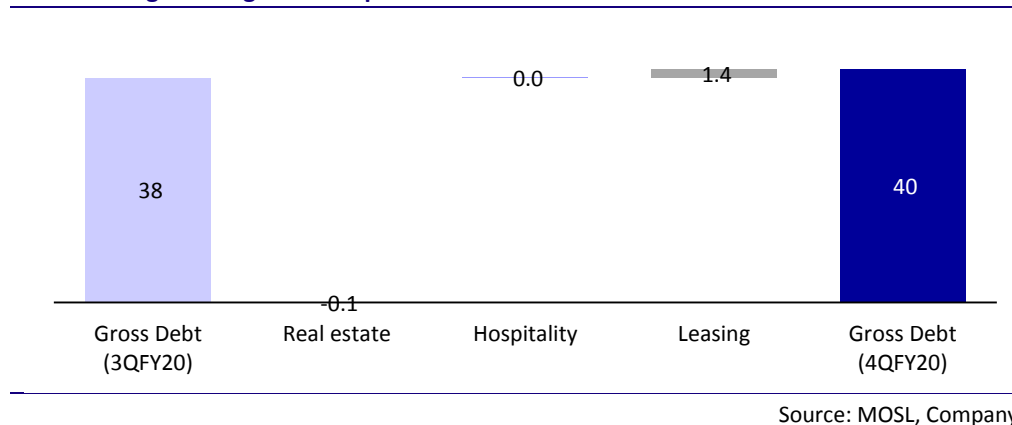
**Exhibit 3: Leasing income increased 22% in 4QFY20**



**Exhibit 4: Hospitality income declined -9% in 4QFY20**



**Exhibit 5: Segmental gross debt profile**



- Net debt increased by INR1b to INR35.2b in 4QFY20 (v/s INR34.2b in 3QFY20). However, this was largely allocated toward capex (~INR1.45b) for annuity assets, wherein the current lease income is sufficient to cover interest outgo from incremental debt.

## Valuation and view

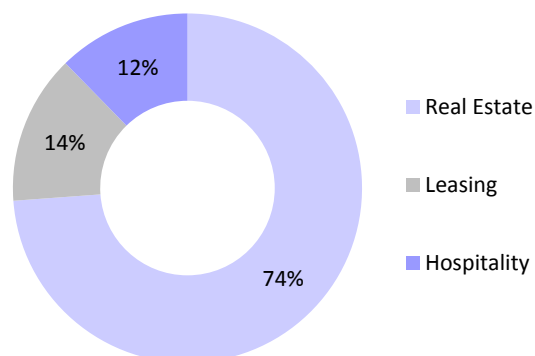
### Medium to long term outlook remains promising

- We expect pre-sales growth momentum to take a breather in FY21E on account of near-term challenges due to a subdued economic environment and the impact of countrywide lockdown on the business in 1HFY21E. Therefore, we reduce our pre-sales volume est. for FY21E by 20% to 3.4msf for the Residential segment. However, in our view, the company is likely to see continued momentum in 2HFY21E and beyond, led by: a) consolidation in the Residential segment, b) BRGD's favorable product mix in residential real estate, with substantial exposure to the mid-income and affordable housing segments (~90% of inventory below INR15m), and c) the company's sharp focus on southern markets, esp. Bengaluru – one of the most resilient residential RE markets. Thus, we expect pent-up demand to drive the pre-sales volume by 23% in FY22E.
- There have been no major cancellations in pre-leased commercial spaces (except 0.2msf in BTG) and no rental re-negotiations for the pre-leased and existing leased spaces of under-construction and operational assets, respectively, despite the COVID-19 disruption. This gives us confidence that commercial office spaces are expected to fare well going ahead. We expect the Leasing portfolio to post a revenue CAGR of 34% over FY20–22E, largely driven by the operationalization of new assets and increased occupancies.
- We see short- to medium-term challenges in the Hospitality business, weighed by restricted travel and tourism activity (both leisure and business travel) in FY21. We model 20% decline in the Hospitality business for FY21 on account of reduced occupancies and lower average room rentals (ARR).
- We expect continued momentum in the medium to long term, driven by a robust line-up of launches across business segments, strong execution capabilities, and the right product mix. Maintain **Buy**, with TP of INR195.

NAV Calculation	Method	Metrics	INR m	FY21	
				per share (INR)	%
Real Estate	NPV		15,515	76	23%
Leasing	DCF	DF-13%, Cap -9.5%	33,231	163	49%
Hospitality	EV/EBITDA	12x FY22E	11,458	56	17%
Land Bank Value		Amount paid for	7,883	39	12%
<b>Gross Asset Value</b>			<b>68,088</b>	<b>333</b>	<b>100%</b>
Less: Net Debt			28,311	139	42%
<b>Net Asset Value</b>			<b>39,777</b>	<b>195</b>	<b>58%</b>
<b>CMP</b>				<b>142</b>	
<b>Up/down</b>				<b>37%</b>	

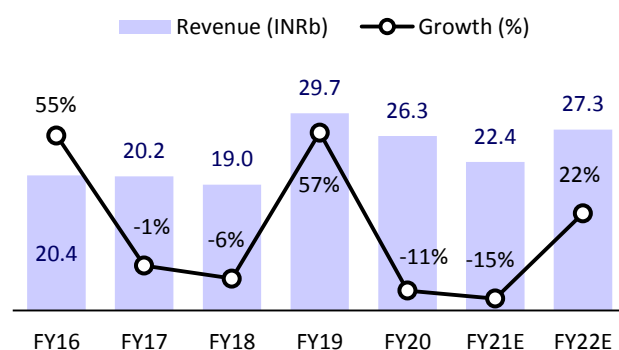
## Story in charts

**Exhibit 6: Segmental revenue mix (FY20)**



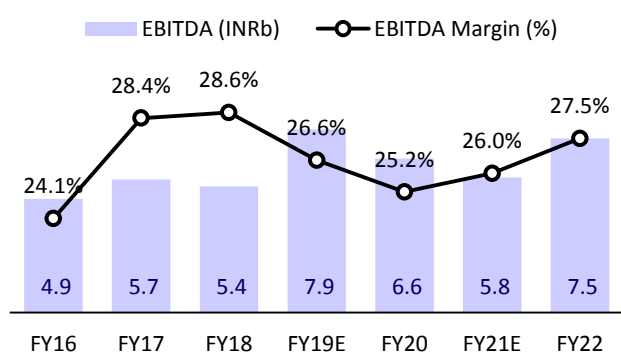
Source: MOFSL, Company

**Exhibit 7: Revenue to decline in FY20\*/FY21E\***



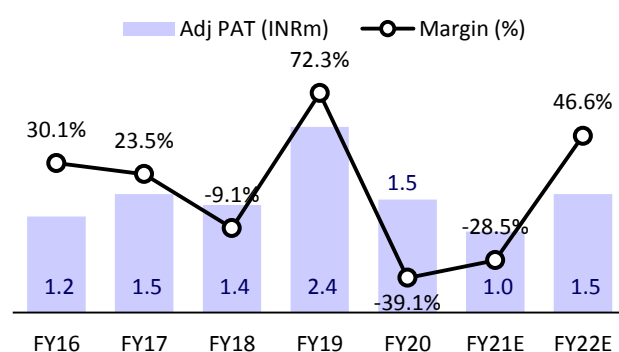
Source: MOFSL, Company

**Exhibit 8: Improving EBITDA margin trend**



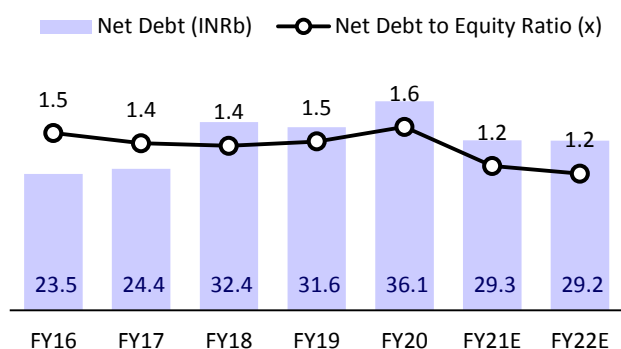
Source: MOFSL, Company

**Exhibit 9: Adj. PAT trend**



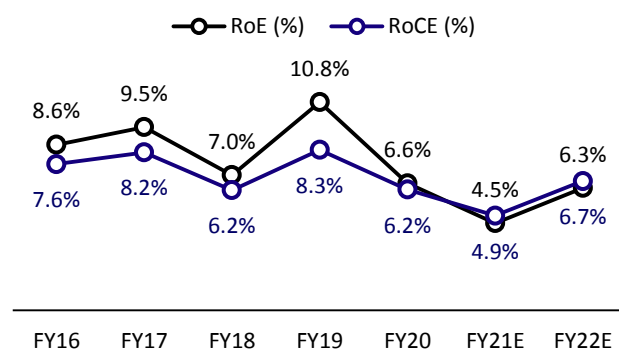
Source: MOFSL, Company

**Exhibit 10: Declining net debt to equity trend**



Source: MOFSL, Company

**Exhibit 11: ROE and ROCE trend**



Source: MOFSL, Company

\*Revenue growth shows decline on account of change in revenue recognition policy to Project completion method for residential development as per Ind-AS 115.

## Financials and valuations

### Consolidated - Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Total Income from Operations</b>	<b>20,379</b>	<b>20,241</b>	<b>18,972</b>	<b>29,728</b>	<b>26,322</b>	<b>22,394</b>	<b>27,280</b>
Change (%)	55.5	-0.7	-6.3	56.7	-11.5	-14.9	21.8
<b>Total Expenditure</b>	<b>15,478</b>	<b>14,498</b>	<b>13,543</b>	<b>21,831</b>	<b>19,689</b>	<b>16,571</b>	<b>19,778</b>
% of Sales	75.9	71.6	71.4	73.4	74.8	74.0	72.5
<b>EBITDA</b>	<b>4,902</b>	<b>5,744</b>	<b>5,429</b>	<b>7,897</b>	<b>6,632</b>	<b>5,822</b>	<b>7,502</b>
Margin (%)	24.1	28.4	28.6	26.6	25.2	26.0	27.5
Depreciation	1,059	1,226	1,377	1,400	1,920	2,469	3,051
<b>EBIT</b>	<b>3,842</b>	<b>4,518</b>	<b>4,053</b>	<b>6,497</b>	<b>4,712</b>	<b>3,353</b>	<b>4,451</b>
Int. and Finance Charges	1,990	2,465	2,594	2,785	3,403	2,783	3,361
Other Income	340	342	498	563	494	593	711
<b>PBT bef. EO Exp.</b>	<b>2,193</b>	<b>2,396</b>	<b>1,957</b>	<b>4,274</b>	<b>1,803</b>	<b>1,163</b>	<b>1,802</b>
EO Items	0	0	0	0	205	0	0
<b>PBT after EO Exp.</b>	<b>2,193</b>	<b>2,396</b>	<b>1,957</b>	<b>4,274</b>	<b>1,598</b>	<b>1,163</b>	<b>1,802</b>
Total Tax	802	732	628	1,455	474	293	453
Tax Rate (%)	36.6	30.5	32.1	34.0	29.6	25.2	25.2
Minority Interest	151	133	-63	420	-182	-174	-183
<b>Reported PAT</b>	<b>1,239</b>	<b>1,531</b>	<b>1,392</b>	<b>2,399</b>	<b>1,306</b>	<b>1,045</b>	<b>1,531</b>
<b>Adjusted PAT</b>	<b>1,239</b>	<b>1,531</b>	<b>1,392</b>	<b>2,399</b>	<b>1,461</b>	<b>1,045</b>	<b>1,531</b>
Change (%)	30.1	23.5	-9.1	72.3	-39.1	-28.5	46.6
Margin (%)	6.1	7.6	7.3	8.1	5.5	4.7	5.6

### Consolidated - Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	1,132	1,137	1,361	1,362	2,044	2,044	2,044
Total Reserves	14,246	15,813	21,510	20,332	20,768	21,541	22,774
<b>Net Worth</b>	<b>15,378</b>	<b>16,949</b>	<b>22,871</b>	<b>21,694</b>	<b>22,811</b>	<b>23,585</b>	<b>24,818</b>
Minority Interest	1,238	2,274	2,231	1,884	1,659	1,485	1,302
Total Loans	24,587	25,763	33,896	33,778	39,107	35,107	32,107
Deferred Tax Liabilities	619	619	259	0	0	0	0
<b>Capital Employed</b>	<b>41,822</b>	<b>45,606</b>	<b>59,257</b>	<b>57,357</b>	<b>63,577</b>	<b>60,177</b>	<b>58,227</b>
Gross Block	3,681	5,292	21,624	14,267	17,182	37,682	43,682
Less: Accum. Deprn.	323	798	3,619	5,019	6,939	9,408	12,459
<b>Net Fixed Assets</b>	<b>3,358</b>	<b>4,494</b>	<b>18,005</b>	<b>9,248</b>	<b>10,243</b>	<b>28,274</b>	<b>31,223</b>
Goodwill on Consolidation	43	43	43	43	43	43	43
Capital WIP	14,108	15,637	21,291	20,097	20,975	2,059	2,303
<b>Total Investments</b>	<b>9,940</b>	<b>10,310</b>	<b>2,359</b>	<b>14,452</b>	<b>20,414</b>	<b>20,414</b>	<b>20,414</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>32,516</b>	<b>33,016</b>	<b>36,400</b>	<b>64,158</b>	<b>70,935</b>	<b>66,656</b>	<b>61,315</b>
Inventory	23,067	22,639	21,795	48,161	52,094	47,926	45,530
Account Receivables	429	374	1,770	4,208	4,306	3,988	3,363
Cash and Bank Balance	1,089	1,363	1,466	2,222	3,049	5,784	2,873
Loans and Advances	7,931	8,640	11,370	9,567	11,486	8,957	9,548
<b>Curr. Liability &amp; Prov.</b>	<b>18,144</b>	<b>17,894</b>	<b>18,840</b>	<b>50,642</b>	<b>59,032</b>	<b>57,269</b>	<b>57,071</b>
Account Payables	4,243	5,161	5,356	6,081	5,005	4,313	5,148
Other Current Liabilities	13,704	12,585	13,204	44,464	53,922	52,844	51,787
Provisions	198	148	280	97	105	112	136
<b>Net Current Assets</b>	<b>14,372</b>	<b>15,123</b>	<b>17,559</b>	<b>13,516</b>	<b>11,903</b>	<b>9,387</b>	<b>4,244</b>
Misc Expenditure	0	0	0	0	0	0	0
<b>Appl. of Funds</b>	<b>41,822</b>	<b>45,606</b>	<b>59,257</b>	<b>57,357</b>	<b>63,577</b>	<b>60,177</b>	<b>58,227</b>

## Financials and valuations

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>6.1</b>	<b>7.5</b>	<b>6.8</b>	<b>11.7</b>	<b>7.1</b>	<b>5.1</b>	<b>7.5</b>
Cash EPS	11.2	13.5	13.5	18.6	16.5	17.2	22.4
BV/Share	75.2	82.9	111.9	106.1	111.6	115.4	121.4
DPS	1.1	1.4	1.7	1.3	1.0	1.1	1.2
Payout (%)	22.0	22.4	29.3	13.7	18.9	25.9	19.5
<b>Valuation (x)</b>							
P/E	23.4	19.0	20.8	12.1	19.9	27.8	19.0
Cash P/E	12.6	10.5	10.5	7.6	8.6	8.3	6.3
P/BV	1.9	1.7	1.3	1.3	1.3	1.2	1.2
EV/Sales	2.6	2.6	3.2	2.0	2.5	2.6	2.1
EV/EBITDA	10.7	9.3	11.3	7.7	9.8	10.0	7.8
Dividend Yield (%)	0.8	1.0	1.2	0.9	0.7	0.8	0.9
FCF per share	-27.9	1.4	-42.3	-6.5	23.5	45.0	14.9
<b>Return Ratios (%)</b>							
RoE	8.6	9.5	7.0	10.8	6.6	4.5	6.3
RoCE	7.6	8.2	6.2	8.3	6.2	4.9	6.7
RoIC	11.8	17.9	10.5	15.7	16.7	9.8	10.3
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	5.5	3.8	0.9	2.1	1.5	0.6	0.6
Asset Turnover (x)	0.5	0.4	0.3	0.5	0.4	0.4	0.5
Inventory (Days)	413	408	419	591	722	781	609
Debtor (Days)	8	7	34	52	60	65	45
Creditor (Days)	76	93	103	75	69	70	69
<b>Leverage Ratio (x)</b>							
Current Ratio	1.8	1.8	1.9	1.3	1.2	1.2	1.1
Interest Cover Ratio	1.9	1.8	1.6	2.3	1.4	1.2	1.3
Net Debt/Equity	1.5	1.4	1.4	1.5	1.6	1.2	1.2

### Consolidated - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>(INR m)</b>							
OP/(Loss) before Tax	2,193	2,408	1,957	4,274	1,803	1,163	1,802
Depreciation	1,059	1,226	1,377	1,400	1,920	2,469	3,051
Interest & Finance Charges	1,787	2,198	2,391	2,583	2,909	2,190	2,649
Direct Taxes Paid	0	0	-948	-1,117	-474	-293	-453
(Inc)/Dec in WC	-1,604	-1,890	-4,141	-2,363	2,440	5,251	2,232
<b>CF from Operations</b>	<b>3,436</b>	<b>3,941</b>	<b>635</b>	<b>4,777</b>	<b>8,599</b>	<b>10,781</b>	<b>9,281</b>
Others	-49	37	-148	-105	0	0	0
<b>CF from Operating incl EO</b>	<b>3,387</b>	<b>3,978</b>	<b>487</b>	<b>4,672</b>	<b>8,599</b>	<b>10,781</b>	<b>9,281</b>
(Inc)/Dec in FA	-9,084	-3,686	-9,140	-6,005	-3,792	-1,584	-6,244
<b>Free Cash Flow</b>	<b>-5,697</b>	<b>292</b>	<b>-8,652</b>	<b>-1,333</b>	<b>4,807</b>	<b>9,196</b>	<b>3,037</b>
(Pur)/Sale of Investments	-409	259	-1,751	1,601	-5,962	0	0
Others	59	808	189	40	494	593	711
<b>CF from Investments</b>	<b>-9,434</b>	<b>-2,619</b>	<b>-10,702</b>	<b>-4,364</b>	<b>-9,260</b>	<b>-991</b>	<b>-5,533</b>
Issue of Shares	22	26	4,936	5	1	0	0
Inc/(Dec) in Debt	9,068	1,240	8,002	3,925	5,329	-4,000	-3,000
Interest Paid	-2,239	-2,350	-2,232	-3,154	-3,403	-2,783	-3,361
Dividend Paid	-543	-1	-408	-328	-246	-271	-298
Others	0	0	19	-1	-192	0	0
<b>CF from Fin. Activity</b>	<b>6,307</b>	<b>-1,085</b>	<b>10,317</b>	<b>448</b>	<b>1,488</b>	<b>-7,054</b>	<b>-6,659</b>
<b>Inc/Dec of Cash</b>	<b>260</b>	<b>274</b>	<b>102</b>	<b>756</b>	<b>827</b>	<b>2,735</b>	<b>-2,911</b>
Opening Balance	829	1,089	1,363	1,466	2,222	3,049	5,784
<b>Closing Balance</b>	<b>1,089</b>	<b>1,363</b>	<b>1,466</b>	<b>2,222</b>	<b>3,049</b>	<b>5,784</b>	<b>2,873</b>

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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