

Brigade Enterprises

24 December 2019

Reuters: BRIG.NS; Bloomberg: BRGD IN

Strong growth in annuity portfolio

We recently had a call with the CFO of Brigade Enterprises (BEL). The key takeaways include:

1. Continuous focus on timely completion, expansion of commercial portfolio and adding 3.88mn sq. ft. of commercial assets by FY22E, thereby nearly doubling the existing annuity portfolio to 7.38mn sq. ft.
2. Focus on affordable and mid-income housing segment based on the current demand.
3. Plans to sell partial stake in hospitality business to PE player to partially monetize hospitality assets, which is expected to be completed in 4QFY20.
4. Subscription of convertible debentures by promoters is expected to improve balance sheet health and increases our comfort on the stock.

We remain optimistic on the company. Our optimism is driven by (1) Strong visible growth in annuity portfolio (2) Stable housing sales albeit at lower price (3) Monetization of hospitality assets and subscription of convertible debentures will help in reducing pressure on balance sheet and support capex (4) Subscription of convertible debentures by promoters has added to our comfort (5) Net debt to equity at 1.6x:1 but supported by strong growth in annuity income (6) Attractive valuation.

We have retained Buy rating on BEL with a target price of Rs255 based on Sept FY22E NAV.

Commercial portfolio to increase to 7.38mn sq.ft by FY22E from 3.50mn sq. ft.: BEL currently has 3.50mn sq. ft. of operational commercial assets as on 1HFY20 with average rentals of Rs51/sq. ft. /month and average occupancy of 63%.

The company has 3 commercial projects under construction, aggregating to 3.88mn sq. ft. As per the company, the projects are expected to become operational by 1QFY22. The additional capex estimated to be incurred for the 3 projects by FY22E is Rs9,029mn. Out of the total commercial under construction assets, Brigade Tech Gardens - Phase 2 (1.73 mn sq. ft.) and WTC Chennai (2 mn sq. ft.) are expected to become operational by 4QFY20 and 1QFY21, respectively.

The management on the call informed that The Brigade Southfield, Bangalore (0.16 mn sq. ft.), which is expected to commence operations from 1QFY22, has already been completely leased out. The commitment for Brigade Tech Gardens Phase 1 is 0.7mn sq. ft. at Rs 55/sq. ft. /month and that for WTC Chennai is 0.8mn sq. ft. at an average rental rate of Rs 80/sq. ft. /month. Negotiations are ongoing for ~2.5mn sq. ft. (Refer Exhibit 1).

Apart from the above planned construction, the company's pipeline also includes ~2.6mn sq. ft. of Brigade Twin Towers to be constructed on the SAB Miller land parcel in Bangalore. Capex for the same is expected to be Rs7,500mn as per the company and the construction is expected to commence soon.

Stable retail portfolio of 1.03mn sq. ft; increase in hospitality portfolio: BEL currently has 1.03mn sq. ft. of operational retail assets as on 1HFY20 with average rentals of Rs70/sq. ft. /month and average occupancy of 97%. The company has one retail-cum-hotel project under construction with 0.27mn sq. ft. of retail space (Orion OMR Mall) and 131 hotel rooms (Holiday Inn Express OMR hotel). As per the company, the project is expected to become operational by 2QFY21.

The company has currently 1,194 rooms under operation under different brands. The company plans to add 441 rooms (3 hotels) by FY21. (Refer Exhibit 6)

The additional capex for the under construction retail mall and 3 hotels is estimated to be Rs1,675mn, to be incurred by FY22E. (Refer Exhibit 2 and 6).

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	18,972	29,728	29,150	34,576	37,968
YoY (%)	(6.3)	56.7	11.7	18.6	9.8
EBITDA	5,545	7,897	6,834	9,072	10,188
EBITDA (%)	29.2	26.6	23.4	26.2	26.8
PAT	1,314	2,801	2,254	3,309	3,244
YoY (%)	(21.1)	113.3	(19.5)	46.8	(2.0)
Adjusted PAT	1,392	2,399	1,849	2,904	2,839
YoY (%)	(9.1)	72.3	(22.9)	57.1	(2.2)
EPS (Rs)	6.8	11.8	9.1	14.2	13.9
RoE (%)	6.1	11.1	7.9	11.3	10.1
EV/EBITDA (x)	14.2	10.3	12.4	9.4	9.0
P/E (x)	31.6	18.3	23.8	15.1	15.5

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Real Estate

CMP: Rs216

Target Price: Rs255

Upside: 18%

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Key Data

Current Shares O/S (mn)	204.3
Mkt Cap (Rsbn/US\$m)	44.0/618.2
52 Wk H / L (Rs)	224/125
Daily Vol. (3M NSE Avg.)	151,223

Price Performance (%)

	1 M	6 M	1 Yr
Brigade Enterprises	7.5	28.9	55.9
Nifty Index	2.9	4.8	15.0

Source: Bloomberg

Continuous focus on mid-income and affordable housing: The company on the call mentioned that it will focus more towards mid-income and affordable housing as it does not expect any further decline in the realizations in this segment. However, the company said that it expects the luxury residential market to show decline for some time going forward. During 1HFY20, the company has launched 0.90mn sq. ft. of residential projects (Refer Exhibit 3). The company has 21.9mn sq. ft. (BEL's Share) of developable area under the residential segment. (Refer Exhibit 4). The company has upcoming residential launches of 3.87mn sq. ft. (BEL's Share) (Refer Exhibit 5).

Stake sale in Hospitality SPV to PE player expected to be completed in 4QFY20: The management on call highlighted its intentions to sell a partial stake in the Hospitality assets to a PE player. The Hospitality segment currently has 1,194 keys spread across 6 hotels and 4 cities. There are currently 3 hotels with 441 keys under construction, which are expected to become operational by FY21. Additional capex to be incurred on 2 hotels at GIFT City and Mysore is expected to be Rs798mn. (Refer Exhibit 6).

Monetization of the assets through a partial sale is expected to generate cash inflow, which is expected to help in capex / debt reduction.

Promoters increasing stake through subscription of Convertible Debentures has increased our comfort on the stock: On 15th July 2019, the Board of Directors approved issue of 4.275mn convertible warrants of Rs10 each at Rs269 per share to Promoter Group and Promoter Entity. The warrants are convertible in equity shares in the ratio of 1:1 within a period of 18 months from date of allotment of warrants.

During 2QFY20, the company received Rs287.5mn from warrant holders, being initial 25% of the consideration. [4.275mn warrants (x) Rs269 (x) 25%]. The balance 75% consideration shall be collected at the time of issue of equity shares on exercise of options by the warrant holders within a period of 18 months from date of allotment of warrants. The management expects the exercise of options at the end of 18 months only.

On 14th August 2019, the company announced a bonus issue in the ratio of 1:2, which was also approved by the shareholders in the AGM. In line with the bonus issue, the Board of Directors has also issued 2.1375mn additional convertible warrants to the existing warrant holders.

Retain Buy rating on BEL with a target price of Rs255: Our optimism is driven by BEL's attractive valuation, which is supported by steady residential sales despite a weak environment, a strong portfolio of operational rental assets (which reduces the risk associated with the residential segment) and a planned increase in commercial and retail properties over the next five to seven years. We have altered our estimates but have retained our Buy rating with a TP of Rs255 based on September FY22E NAV.

Exhibit 1: Operational and Under Construction Commercial Assets

Particulars	BEL Economic Interest	Location	Leasable Area (mn sq. ft.)	Rent p.a. (in Mn)	BEL Economic Interest	Rate/sq. ft./month (expected)	Estimated Cost (in Mn)	Cost Incurred (in Mn)	Balance CAPEX (in Mn)	Estimated date of commencement
Under Construction										
Brigade Tech Gardens - Phase 2	51%	Bangalore	1.73	2,235	1,140	55	11,300	6,726	4,574	Q4FY20
Brigade Southfield	100%	Bangalore	0.16	105	105	55	1,144	467	677	Q1FY22
WTC Chennai	51%	Chennai	2.00	1,920	980	80	8,000	4,222	3,778	Q1FY21
Total/Average			3.88	4,260	2,225	63	20,444	11,415	9,029	
Operational										
Particulars	BEL Economic Interest	Location	Leasable Area (mn sq. ft.)	Rent p.a. (in Mn)	BEL Economic Interest	Rate/sq. ft./month (calculated)	Estimated Cost (in Mn)	Cost Incurred (in Mn)	Balance CAPEX (in Mn)	H1FY20 Occupancy
WTC @ Bangalore	100%	Bangalore	0.63	800	800	106	-	-	-	100.0%
Brigade Bhuwalka Icon	100%	Bangalore	0.19	95	95	42	-	-	-	100.0%
Brigade Opus	100%	Bangalore	0.30	290	290	80	-	-	-	73.4%
Brigade Broadway	100%	Bangalore	0.03	15	15	50	-	-	-	0.0%
Others	100%	Bangalore	0.03	20	20	51	-	-	-	100.0%
Brigade Tech Gardens Phase 1	100%	Bangalore	1.27	-	-	-	-	-	-	58.1%
Brigade Financial Centre @ Gift City	100%	GIFT City	0.29	130	130	37	-	-	-	9.0%
WTC @ Kochi	100%	Kochi	0.77	370	370	40	-	-	-	60.4%
Total/Average			3.50	1,720	1,720	51	-	-	-	62.6%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Operational and Under Construction Retail Assets

Particulars	BEL Economic Interest	Location	Leasable Area (mn sq. ft.)	Rent p.a. (in Mn)	BEL Economic Interest	Rate/sq. ft./month (expected)	Estimated Cost (in Mn)	Cost Incurred (in Mn)	Balance CAPEX (in Mn)	Estimated date of commencement
Under Construction										
Orion OMR Mall	100%	Bangalore	0.27	150	150	46	1,935	1,058	877	Q2FY21
Operational										
Particulars	BEL Economic Interest	Location	Leasable Area (mn sq. ft.)	Rent p.a. (in Mn)	BEL Economic Interest	Rate/sq. ft./month (calculated)	Estimated Cost (in Mn)	Cost Incurred (in Mn)	Balance CAPEX (in Mn)	H1FY20 Occupancy
Orion Mall @ Brigade Gateway	100%	Bangalore	0.83	1,125	1,125	113	-	-	-	100.0%
Orion East Mall	100%	Bangalore	0.15	70	70	39	-	-	-	91.2%
Brigade Vantage @ Chennai	100%	Chennai	0.06	40	40	58	-	-	-	100.0%
Total/Average			1.03	1,235	1,235	70	-	-	-	97.1%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Residential Projects launched in 1HFY20

Particulars	Location	Project Area (mn sq. ft.)	Quarter Launched
Brigade Topaz	Mysore	0.12	Q1FY20
Brigade El Dorado	Bangalore	0.52	Q1FY20
Brigade Orchards Kino	Bangalore	0.26	Q2FY20
Total		0.90	

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Total Developable Area details

Product	Project Area SFT in Mn	BEL Share SFT in Mn
Residential	30.0	21.9
Commercial-Sale	1.0	0.6
Commercial-Lease	8.5	7.9
Hotel	0.4	0.4
Total	39.9	30.8

Source: Company, Nirmal Bang Institutional Equities Research

Location	Project Area SFT in Mn	BEL Share SFT in Mn
Bangalore	30.0	23.9
Chennai	5.1	2.8
Hyderabad	1.7	1.1
Kochi	0.1	0.1
GIFT	0.3	0.3
Thiruvananthapuram	2.2	2.2
Mysore	0.5	0.4
Total	39.9	30.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Upcoming Residential Launches Details

Particulars	Location	Project Area (mn sq. ft.)	Quarter Launched
Brigade Topaz	Mysore	0.12	Q1FY20
Brigade El Dorado	Bangalore	0.52	Q1FY20
Brigade Orchards Kino	Bangalore	0.26	Q2FY20
Total		0.90	

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Upcoming Hotels Details

Particulars	Grand Mercure (GIFT City)	IBIS Styles (Mysore)	Holiday Inn Express (OMR)*	Total
No of Keys	159	151	131	441
Estimated Costs	1,160	730	-	1,890
Incurred	914	178	-	1,092
Balance CAPEX	246	552	-	798
Estimated Date of Commencement	Q3FY20	Q1FY21	Q2FY21	

Source: Company, Nirmal Bang Institutional Equities Research

*CAPEX is included with the Orion OMR Mall CAPEX (Refer Exhibit 2)

Consolidated financials

Exhibit 7: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	18,972	29,728	29,150	34,576	37,968
Growth YoY (%)	(6.3)	56.7	11.7	18.6	9.8
COGS	8,448	15,947	15,514	18,010	19,705
Operating costs	4,979	5,884	6,802	7,495	8,075
EBITDA	5,545	7,897	6,834	9,072	10,188
EBITDA growth (%)	(3.5)	42.4	(21.3)	32.7	12.3
EBITDA margin (%)	29.2	26.6	23.4	26.2	26.8
Depreciation	1,377	1,400	1,891	2,749	3,528
EBIT	4,168	6,497	4,943	6,322	6,661
EBIT (%)	22.0	21.9	17.0	18.3	17.5
Net interest expenses	2,594	2,785	2,795	2,862	3,264
Other income	483	545	926	1,094	1,149
Earnings before tax	1,942	4,257	3,074	4,554	4,546
Tax- total	628	1,455	774	1,146	1,144
Rate of tax (%)	32.4	34.2	25.2	25.2	25.2
Net profit	1,314	2,801	2,300	3,407	3,401
Share of profits	15	18	15	15	15
MI	(63.2)	419.9	420	420	420
Adjusted PAT	1,392	2,399	1,849	2,904	2,839
EPS Fully Diluted	6.8	11.8	9.1	14.2	13.9
EPS Growth (%)	(9.1)	72.3	(22.9)	57.1	(2.2)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	1,361	1,362	2,041	2,041	2,041
Reserves and surplus	21,510	20,332	21,245	23,752	26,203
Net worth	22,870	21,694	23,286	25,793	28,244
Loans	33,897	37,855	41,722	42,722	48,722
Minority interest	2,231	1,884	1,884	1,884	1,884
Provisions	14	17	17	17	17
Deferred tax liability	381	-	-	-	-
Other non-current liabilities	1,711	1,669	1,669	1,669	1,669
Total capital employed	61,104	63,119	68,578	72,085	80,535
Net fixed assets	29,462	29,345	32,592	34,026	41,221
Investment property	9,835	13,475	12,580	11,685	10,790
Land advance	2,260	957	2,260	2,260	2,260
Investments	2,359	977	2,359	2,359	2,359
Loans	99	180	180	180	180
Other non-current assets	5,004	5,970	5,070	5,070	5,070
Goodwill	43	43	43	43	43
Total non-current assets	49,061	50,947	55,085	55,623	61,923
Inventories	21,795	48,161	49,818	53,087	56,625
Unbilled revenues	2,180	11	10	12	12
Debtors	1,770	4,208	4,126	4,895	5,375
Cash and bank balance	1,466	2,222	2,715	3,289	3,155
Others	1,948	2,449	2,572	2,700	2,835
Total current assets	29,158	57,052	59,241	63,982	68,003
Current liabilities	17,048	44,800	45,680	47,453	49,323
Provisions	67	80	67	67	67
Total current liabilities	17,115	44,880	45,748	47,521	49,390
Net current assets	12,043	12,172	13,493	16,462	18,613
Total capital employed	61,104	63,119	68,578	72,085	80,535

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Profit after tax	1,392	2,399	1,849	2,904	2,839
Depreciation	1,377	1,400	1,891	2,749	3,528
Other income	(483)	(545)	(864)	(962)	(939)
Working capital changes	(775)	628	(829)	(2,394)	(2,285)
Operating cash flow	1,511	3,882	2,047	2,298	3,143
Capital expenditure	(10,407)	(1,284)	(4,038)	(3,288)	(9,828)
Net Cash After Capex	(8,897)	2,599	(1,991)	(990)	(6,685)
Equity	4,936	9	679	-	-
Debt	8,134	3,958	3,867	1,000	1,000
Others	606	(4,570)	1,068	962	939
Dividends	(408)	(328)	(253)	(397)	(389)
Cash flow from financing	13,268	(931)	(15,534)	1786	832
Total cash generation	102	756	492	575	(134)
Opening cash balance	1,363	1466	2,222	2,715	3,289
Closing cash & bank Bal	1,466	2,222	2,715	3,289	3,155

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

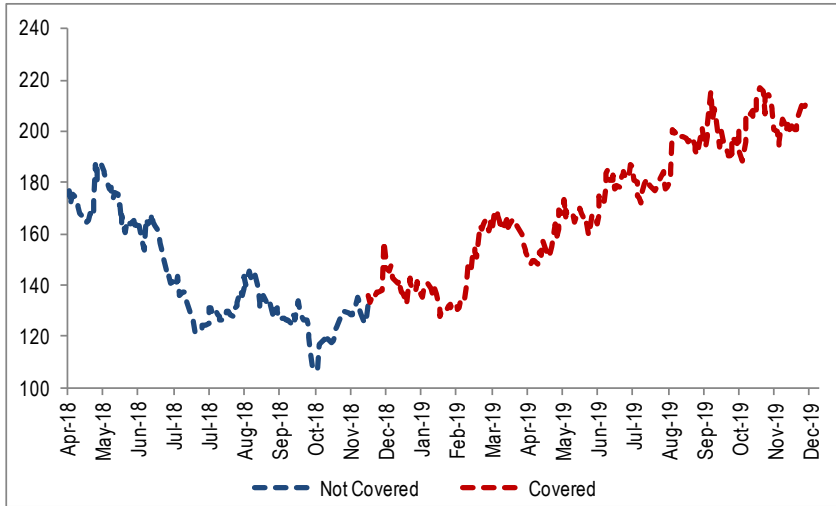
Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Profitability and return ratios					
EBITDA margin (%)	29.2	26.6	23.4	26.2	26.8
EBIT margin (%)	22.0	21.9	17.0	18.3	17.5
Net profit margin (%)	7.3	8.1	6.3	8.4	7.5
RoE(%)	6.1	11.1	7.9	11.3	10.1
RoCE (%)	6.8	10.3	7.2	8.8	8.3
Working capital & liquidity ratios					
Receivables (days)	34	52	52	52	52
Inventory (days)	942	1,102	1,172	1,076	1,049
Payables (days)	211	98	200	194	197
Current ratio (x)	1.7	1.3	1.3	1.3	1.4
Valuation ratios					
EV/sales (x)	4.1	2.7	2.9	2.5	2.4
EV/EBITDA (x)	14.2	10.3	12.4	9.4	9.0
P/E (x)	31.6	18.3	23.8	15.1	15.5
P/BV (x)	1.9	2.0	1.9	1.7	1.6

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 December 2018	Buy	200	290
7 February 2019	Buy	206	290
9 May 2019	Buy	227	290
19 August 2019	Buy	273	319
4 October 2019	Buy	206	255
8 November 2019	Buy	207	255
24 December 2016	Buy	216	255

Rating track graph



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SELL < -5%

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