

# Brigade Enterprises

23 June 2020

Reuters: BRIG.NS; Bloomberg: BRGD IN

## Strong leasing momentum

In a webinar organized by Nirmal Bang, Mr. Atul Goyal, CFO of Brigade Enterprises (BEL) gave insights about 4QFY20 results and also discussed his views on the performance of different segments in which the company operates. Certain key highlights from the webinar are as follows:

**Retail Segment:** Mr. Goyal mentioned that the areas where malls are permitted to begin operations, 60%-70% of the tenants have started their operations. Movie theatres have not yet begun operations and F&B is not operational at 100% capacity. The management hinted at low customer confidence in the F&B segment. Current footfalls in the malls consist of only serious buyers. The management on their earnings conference call had mentioned that walk-ins and sales stand at ~15% and ~20%, respectively compared to the pre lockdown levels.

BEL has granted 50% exemption to its tenants in respect of lease rents for the period of lockdown. The balance 50% rent will be recovered over a period of 3-4 months. Going forward, depending upon the footfall the company will decide on the revenue sharing agreements.

**Commercial Segment:** Mr. Goyal mentioned that the commercial segment is not as severely affected as the hospitality and retail segments. The company was able to collect ~95% of the rentals for the months of April 2020 and May 2020. The company has not opted for moratorium in respect of the debt of the commercial segment.

While the management on the earnings conference call had mentioned that no new enquiry was received for new leasing or sale during the months of April 2020 and May 2020, Mr. Goyal highlighted the strong pre leasing in respect of WTC Chennai (2mn sq. ft.) and Brigade Tech Gardens (3mn sq. ft.). WTC Chennai is 95% leased with ~0.8mn sq. ft. leased to Amazon, which is looking to add more space. Phase 1 of Brigade Tech Garden (~1.5mn sq. ft.) has also witnessed strong leasing demand. However, the handover of the two projects has been delayed due to COVID-19. The management expected to complete the handover by July 2020 and expects the cash flows to begin from January 2021 - post the rent free fit out period.

**Hospitality Segment:** Mr. Goyal reiterated the consensus view by highlighting that 1QFY21 is a grim quarter for the hospitality segment. While the major guests of 5 star hotels comprise international guests, in the absence of international travel and lack of customer confidence in the F&B segment, he expects the hospitality segment to take ~1-1.5 years to recover to its earlier levels.

He also mentioned that the company had suffered revenue losses in the hospitality segment in 4QFY20 due to cancellations amid the COVID-19 outbreak. Revenue for the hospitality segment was down 12% QoQ and 9% YoY in 4QFY20.

**Residential Segment:** Mr. Goyal highlighted that the company is receiving a lot of interest from the customers in respect of the residential segment. He mentioned that majority of their client base belongs to IT/ITeS industries and since there are no major job losses or pay cuts in that segment, demand has not slowed down much for BEL. He is of the view that apart from the reduction in home loan rates there are many green shoots visible for the residential segment of BEL. He expects the sales to normalize in 2-3 months.

Mr. Goyal is of the view that the real estate prices in Bengaluru market were already at realistic levels and with the rising cement and steel costs, there is not much scope for reduction in prices. Residential realizations for 4QFY20 increased 11% YoY to Rs5,968/sq. ft. Mr. Goyal highlighted that realization is a function of the product mix. Rise in realization is due to lower sales of low value affordable housing inventory. Collections for April 2020 and May 2020 stood at 30%-40% and 60%, respectively. Mr. Goyal highlighted that with the banks now starting to disburse loans post the relaxations in lockdown, the collections are expected to rise.

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	18,972	29,728	26,322	22,318	28,184
YoY (%)	(6.3)	56.7	(11.5)	(15.2)	26.3
EBITDA	5,545	7,897	6,632	4,442	6,704
EBITDA (%)	29.2	26.6	25.2	19.9	23.8
PAT	1,314	2,801	1,124	-576	1,444
YOY(%)	-21.1	113.3	-59.9	NA	NA
Adjusted PAT	1,392	2,399	1,306	-395	1,625
YOY(%)	(9.1)	72.3	(45.6)	NA	NA
EPS (Rs)	6.8	11.7	6.4	-1.9	8.0
RoE (%)	6.09	11.06	5.72	-1.76	6.83
EV/EBITDA (x)	11.63	8.52	10.25	15.83	9.74
P/E (x)	21.44	12.44	22.85	NA	18.36

Source: Company, Nirmal Bang Institutional Equities Research

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**BUY**
**Sector:** Real Estate

**CMP:** Rs146

**Target Price:** Rs175

**Upside:** 20%

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### Key Data

Current Shares O/S (mn)	204.4
Mkt Cap (Rsbn/US\$m)	29.9/393
52 Wk H / L (Rs)	255/91
Daily Vol. (3M NSE Avg.)	328,512

### Price Performance (%)

	1 M	6 M	1 Yr
Brigade Enterprises	55.7	(32.1)	(12.6)
Nifty Index	14.1	(15.9)	(12.1)

Source: Bloomberg

**EBITDA margin takes a dip; high other expenses:** In 4QFY20, EBITDA margin declined by 709bps YoY to 21.3%, primarily because of revenue declining by 16% YoY to Rs6,359mn and rise in other expenses. The revenue decline was due to decline in real estate revenue by 22% YoY and decline in hospitality revenue by 9% YoY, primarily due to cancellations in March 2020. The reason for the rise in expenses in 4QFY20 is attributable to higher CSR expenses incurred by the company towards COVID-19. Also the company has recognized certain payments to landlords at margin of 5%.

Mr. Goyal expects EBITDA margin to be at normal levels going forward.

**Retain Buy rating with a target price of Rs175:** 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 retained Buy rating with a TP of Rs175 based on September FY22E NAV.

## Financials

### Exhibit 1: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
<b>Net sales</b>	<b>18,972</b>	<b>29,728</b>	<b>26,322</b>	<b>22,318</b>	<b>28,184</b>
Growth YoY (%)	(6.3)	56.7	(11.5)	(15.2)	26.3
COGS	8,448	15,947	13,154	11,145	14,411
Operating costs	4,979	5,884	6,535	6,731	7,068
<b>EBITDA</b>	<b>5,545</b>	<b>7,897</b>	<b>6,632</b>	<b>4,442</b>	<b>6,704</b>
<b>EBITDA growth (%)</b>	<b>(3.5)</b>	<b>42.4</b>	<b>(16.0)</b>	<b>(33.0)</b>	<b>50.9</b>
<b>EBITDA margin (%)</b>	<b>29.2</b>	<b>26.6</b>	<b>25.2</b>	<b>19.9</b>	<b>23.8</b>
Depreciation	1,377	1,400	1,920	2,102	2,102
<b>EBIT</b>	<b>4,168</b>	<b>6,497</b>	<b>4,712</b>	<b>2,339</b>	<b>4,602</b>
<b>EBIT (%)</b>	<b>22.0</b>	<b>21.9</b>	<b>17.9</b>	<b>10.5</b>	<b>16.3</b>
Net interest expenses	2,594	2,785	3,403	3,590	3,160
Other income	483	545	494	481	487
<b>Earnings before tax</b>	<b>1,942</b>	<b>4,257</b>	<b>1,598</b>	<b>(770)</b>	<b>1,930</b>
Tax- total	628	1,455	474	(194)	486
Rate of tax (%)	32.4	34.2	29.6	25.2	25.2
<b>Net profit</b>	<b>1,314</b>	<b>2,801</b>	<b>1,124</b>	<b>(576)</b>	<b>1,444</b>
Share of profits	15	18	16	15	15
MI	(63)	420	(166)	(166)	(166)
<b>Adjusted PAT</b>	<b>1,392</b>	<b>2,399</b>	<b>1,306</b>	<b>(395)</b>	<b>1,625</b>
<b>EPS Fully Diluted</b>	<b>6.8</b>	<b>11.7</b>	<b>6.4</b>	<b>(1.9)</b>	<b>8.0</b>
<b>EPS Growth (%)</b>	<b>(9.1)</b>	<b>72.3</b>	<b>(45.6)</b>	<b>NA</b>	<b>NA</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	1,361	1,362	2,044	2,044	2,044
Reserves and surplus	21,510	20,332	20,768	20,373	21,767
<b>Net worth</b>	<b>22,870</b>	<b>21,694</b>	<b>22,811</b>	<b>22,417</b>	<b>23,810</b>
Loans	33,897	37,855	39,556	41,722	36,722
Minority interest	2,231	1,884	1,659	1,659	1,659
Provisions	14	17	18	18	18
Deferred tax liability	381	-	101	101	101
Other non-current liabilities	1,711	1,669	2,369	2,369	2,369
<b>Total capital employed</b>	<b>61,104</b>	<b>63,119</b>	<b>66,513</b>	<b>68,284</b>	<b>64,678</b>
Net fixed assets	29,462	29,345	31,217	33,310	34,627
Investment property	9,835	13,475	19,693	14,983	13,880
Investments	2,359	977	721	757	795
Loans	99	180	2,951	3,010	3,070
Other non-current assets	7,264	6,927	5,235	5,339	5,446
Goodwill	43	43	43	43	43
<b>Total non-current assets</b>	<b>49,061</b>	<b>50,947</b>	<b>59,860</b>	<b>57,442</b>	<b>57,861</b>
Inventories	21,795	48,161	52,094	56,855	53,836
Debtors	1,770	4,208	4,306	4,905	5,033
Cash and bank balance	1,466	2,222	3,049	2,912	2,924
Others	4,128	2,461	3,301	3,466	3,639
<b>Total current assets</b>	<b>29,158</b>	<b>57,052</b>	<b>62,750</b>	<b>68,138</b>	<b>65,433</b>
Trade Payables	5,265	6,081	5,005	5,511	5,464
Other liabilities	11,783	38,719	51,004	51,695	53,061
Provisions	67	80	88	89	91
<b>Total current liabilities</b>	<b>17,115</b>	<b>44,880</b>	<b>56,096</b>	<b>57,296</b>	<b>58,616</b>
<b>Net current assets</b>	<b>12,043</b>	<b>12,172</b>	<b>6,653</b>	<b>10,842</b>	<b>6,817</b>
<b>Total capital employed</b>	<b>61,104</b>	<b>63,119</b>	<b>66,513</b>	<b>68,284</b>	<b>64,678</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 2: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Profit after tax	1,392	2,399	1,306	(395)	1,625
Depreciation	1,377	1,400	1,920	2,102	2,102
Other income	(483)	(545)	(494)	(481)	(487)
Working capital changes	(775)	628	6,345	(4,325)	4,035
<b>Operating cash flow</b>	<b>1,511</b>	<b>3,882</b>	<b>9,078</b>	<b>(3,099)</b>	<b>7,275</b>
Capital expenditure	(10,407)	(1,284)	(4,054)	(6,090)	(6,314)
<b>Net Cash After Capex</b>	<b>(8,897)</b>	<b>2,599</b>	<b>5,024</b>	<b>(9,189)</b>	<b>962</b>
Equity	4,936	9	682	0	0
Debt	8,134	3,958	1,701	2166	-5000
Others	606	(4,570)	1,200	3,440	4,445
Dividends	(408)	(328)	(186)	-	(231)
<b>Cash flow from financing</b>	<b>13,268</b>	<b>(932)</b>	<b>3,397</b>	<b>5,605</b>	<b>(786)</b>
<b>Total cash generation</b>	<b>102</b>	<b>756</b>	<b>827</b>	<b>(137)</b>	<b>12</b>
Opening cash balance	1,363	1,466	2,222	3,049	2,912
<b>Closing cash &amp; bank Bal</b>	<b>1,466</b>	<b>2,222</b>	<b>3,049</b>	<b>2,912</b>	<b>2,924</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Key ratios

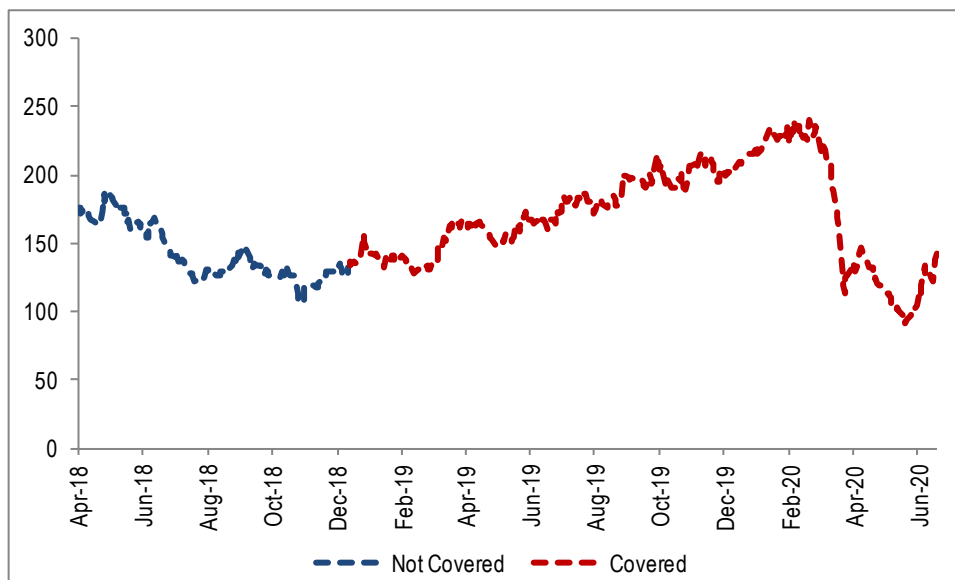
Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
<b>Profitability and return ratios</b>					
EBITDA margin (%)	29.2	26.6	25.2	19.9	23.8
EBIT margin (%)	22.0	21.9	17.9	10.5	16.3
Net profit margin (%)	7.3	8.1	5.0	-1.8	5.8
RoE(%)	6.1	11.1	5.7	-1.8	6.8
RoCE (%)	6.8	10.3	7.1	3.4	7.1
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	34	52	60	80	65
Inventory (days)	942	1102	1446	1862	1364
Payables (days)	211	98	106	218	171
Current ratio (x)	1.7	1.3	1.1	1.2	1.1
<b>Valuation ratios</b>					
EV/sales (x)	3.4	2.3	2.6	3.2	2.3
EV/EBITDA (x)	11.6	8.5	10.3	15.8	9.7
P/E (x)	21.4	12.4	22.9	NA	18.4
P/BV (x)	1.3	1.4	1.3	1.3	1.3

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
7 February 2020	Buy	240	276
27 March 2020	Buy	132	170
22 June 2020	Buy	142	175
23 June 2020	Buy	146	175

## Rating track graph



**DISCLOSURES**

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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