

# BRIGADE ENTERPRISES

## Mixed quarter; scale-up ahead

India Equity Research | Real Estate

Brigade Enterprises' (BEL) Q1FY18 net profit missed our estimate; new sales were slow due to RERA and GST uncertainty while balance sheet strengthened post QIP monies. We expect BEL's operations to improve driven by planned new launches and strong office space absorption in Bangalore, translating into enhanced residential demand. The company's rental asset portfolio is expected to expand and provide steady annuity income with periodic upticks. Affordable housing incentives and preference for organised players post RERA are potential tailwinds. Maintain 'BUY'.

### Q1FY18 miss; RERA & GST uncertainty impact new sales

Q1FY18 revenue was INR5.6bn (up 21% YoY, flat QoQ) driven by POCM-based revenue recognition in ongoing projects. Sales business contributed 75% while balance came from annuity business. EBITDA margin compressed 280bps YoY/13ppt QoQ to 23% due to unfavourable product mix and QIP fees. Net profit stood at INR317mn (up 56% YoY, down 57% QoQ) versus our estimate of INR557mn. In Q1FY18, BEL raised ~INR5bn equity capital via QIP which led to net gearing fall to 66% (versus 84% in Q4FY17). **Operations:** Despite residential new launches measuring 2msf (3 projects) during Q1FY18, new sales (15% residential) were slow - 0.3msf (down 16% YoY & QoQ) worth INR1.8bn (down 14% YoY, 16% QoQ) - owing to uncertainty related to GST and RERA (did not market projects during May-June'17).

### Scale-up plans ahead

BEL expects to launch ~2.8msf of residential space over next 12 months, ~50% of which could be under affordable category (w.r.t. 80IB tax benefits). With RERA and GST uncertainty now done with, BEL expects good demand traction for its projects. The company has commenced construction of *Tech Gardens, Bangalore* (3.3msf leasable area) and should begin work on *WTC Chennai* in Q2FY18 (1.7msf). Its ongoing hospitality asset – *Holiday Inn Express* at Bangalore – is expected to be operational soon. BEL expects Bangalore office space leasing to remain robust which should help leasing of its upcoming rental assets and augurs well for its hospitality business as well.

### Outlook and valuations: Good fundamentals; maintain 'BUY'

BEL's well-balanced portfolio should benefit from strong Bangalore market fundamentals. Launch of planned projects, completion of annuity assets and demand improvement in Bangalore are key stock catalysts, in our view. Stock valuation appears reasonable—38% discount to our FY18E NAV of INR425. We maintain 'BUY'.

#### Financials

(INR mn)

Year to March	Q1FY18	Q1FY17	% chg	Q4FY17	% chg	FY17	FY18E	FY19E
Revenues	5,550	4,592	20.9	5,537	0.2	20,241	22,716	25,666
EBITDA	1,263	1,175	7.5	1,981	(36.3)	5,744	6,166	6,607
Net Profit	317	203	56.0	743	(57.3)	1,534	2,097	2,620
EPS (INR)	2.5	1.8	36.5	6.5	(62.3)	13.6	15.5	19.4
P/E (x)							17.0	13.6
P/B (x)							1.6	1.4
ROE (%)						9.6	9.2	10.5

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	None

#### MARKET DATA (R: BRIG.BO, B: BRGD IN)

CMP	: INR 264
Target Price	: INR 340
52-week range (INR)	: 304 / 140
Share in issue (mn)	: 135.7
M cap (INR bn/USD mn)	: 36 / 561
Avg. Daily Vol.BSE/NSE('000)	: 131.4

#### SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	46.9	56.0	56.1
MF's, FI's & BK's	14.7	9.8	7.0
FII's	12.2	3.0	3.4
Others	26.2	31.2	33.5
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	1.0	2.5	(2.9)
3 months	7.7	6.3	1.9
12 months	63.4	14.2	28.6

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### Management Call Highlights

1. **New sales outlook:** With RERA coming into force from May 1, 2017, BEL stopped marketing its ongoing projects. This impacted sales during the quarter. The company believes disruption due to RERA and GST should largely subside in next few months. With marketing of its projects commencing, it expects new sales to pick-up in Q2FY18 and further rise in Q3FY18. New sales in Q2FY18 till date are 0.17msf.
2. **RERA and GST:** BEL has registered most of its applicable ongoing projects with respective state RERAs. It is still evaluating the impact of GST on costing for its ongoing projects and the benefits, if any, that it could pass on to buyers. It believes GST and RERA are positive disruptions which should help the sector and overall economy over long term.
3. **Utilisation of QIP funds:** BEL has utilised ~30% of the QIP funds (INR5bn) towards construction and land advances. It plans to utilise the balance funds towards business development.
4. **Others:** BEL is confident of launching all its planned projects over next 12 months. It does not expect any delays in its launch plans due to RERA, provided all approvals are in place. It expects some increase in debt due to RERA given restrictions on capital fungibility. Interactions with IT industry suggest healthy office leasing demand. It hence expects leasing momentum observed in past few years to continue going forward.

## Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	5,550	4,592	20.9	5,537	0.2	20,241	22,716	25,666
Direct Operating expenses	2,942	2,510	17.2	2,325	26.5	10,025	11,552	13,427
Staff costs	385	336	14.4	390	(1.4)	1,433	1,591	1,782
Other expenses	961	571	68.2	841	14.3	3,040	3,407	3,850
EBITDA	1,263	1,175	7.5	1,981	(36.3)	5,744	6,166	6,607
Depreciation	317	304	4.5	328	(3.4)	1,226	1,392	1,440
Other income	97	71	36.9	69	39.5	342	969	1,374
Interest	608	602	1.0	592	2.6	2,465	2,424	2,395
Profit before tax	435	340	27.8	1,130	(61.5)	2,396	3,319	4,146
Provision for taxes	142	119	19.1	305	(53.4)	732	1,161	1,451
Minority interest	20	(21)	(192.9)	(81)	(124.3)	141	85	120
Associate profit share	5	3	43.8	(2)	(387.5)	8	25	45
Reported net profit	317	203	56.0	743	(57.3)	1,534	2,097	2,620
Diluted shares (mn)	136	113		114		113	135	135
Diluted EPS (INR)	2.5	1.8	36.5	6.5	(62.3)	13.6	15.5	19.4
Adjusted Diluted EPS	2.5	1.8	36.5	6.5	(62.3)	13.6	15.5	19.4
Diluted P/E (x)	-	-		-		-	17.0	13.6
ROAE (%)	-	-		-		9.6	9.2	10.5
Cost of construction	53.0	54.7		42.0		49.5	50.9	52.3
Employee cost	6.9	7.3		7.0		7.1	7.0	6.9
Other expenses	17.3	12.4		15.2		15.0	15.0	15.0
Total expenses	77.2	74.4		64.2		71.6	72.9	74.3
EBITDA	22.8	25.6		35.8		28.4	27.1	25.7
Depreciation	5.7	6.6		5.9		6.1	6.1	5.6
EBIT	17.0	19.0		29.8		22.3	21.0	20.1
Interest expenditure	10.9	13.1		10.7		12.2	10.7	9.3
Reported net profit	5.7	4.4		13.4		7.6	9.2	10.2
Tax rate	32.7	35.0		27.0		30.5	35.0	35.0

### Company Description

Brigade Enterprises, established in 1986, is a South India based real estate developer focused on development of residential, commercial, retail, and hospitality projects. Its primary has been Bangalore with presence in other key markets such as Chennai, Hyderabad, Kochi, etc. It has an in-house, fully integrated property development team comprising engineers and architects who oversee the development of properties from inception to completion. Its land bank strategy includes outright purchase of land parcels as well as entering into joint development agreement (revenue / profit share) with land owners. Its product mix consists of premium residential apartments, mixed use developments and affordable homes.

### Investment Theme

1. Strong portfolio of ongoing and planned development projects located in attractive South India property markets. Good sales momentum in these projects provides strong cash flow visibility and should translate into strong earnings scale-up
2. Steady ramp-up in rental assets should provide rising annuity income.
3. Strong portfolio of hospitality assets in key South India markets.
4. Attractive land bank for future development in major South India markets.
5. Proxy to stable Bangalore physical market where residential demand/supply/pricing has remained largely stable while office space demand has been strong with little vacancy.
6. Attractive valuations.

### Key Risks

- 1) Slowdown in IT industry, leading to a general slowdown in new leases/sales in Bangalore.
- 2) Slow off take in upcoming rental assets.
- 3) Lower occupancy in hospitality assets.
- 4) Slower new launches and delays in execution in ongoing projects.

## Financial Statements

### Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
<b>Company</b>				
Area Sold (msf)	2.2	2.5	2.5	2.2
Average Rate (INR / sf)	5,553.6	5,546.5	5,928.1	6,252.6
Selling Price increase (%)	5	5	5	5
Construction Cost Increase (%)	5	5	5	5

### Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	16,761	20,241	22,716	25,666
Direct costs	7,964	10,025	11,552	13,427
Employee costs	1,258	1,433	1,591	1,782
Other Expenses	2,542	3,040	3,407	3,850
Total operating expenses	11,764	14,498	16,551	19,060
EBITDA	4,997	5,744	6,166	6,607
Depreciation	1,059	1,226	1,392	1,440
EBIT	3,938	4,518	4,774	5,167
Add: Other income	235.6	342.4	969.01	1,373.94
Less: Interest Expense	1,864	2,465	2,424	2,395
Profit Before Tax	2,309	2,396	3,319	4,146
Less: Provision for Tax	839	732	1,161	1,451
Less: Minority Interest	181	141	85	120
Associate profit share	13	8	25	45
Reported Profit	1,301	1,534	2,097	2,620
Adjusted Profit	1,301	1,534	2,097	2,620
Shares o /s (mn)	113	113	135	135
Adjusted Basic EPS	11.5	13.6	15.5	19.4
Diluted shares o/s (mn)	113	113	135	135
Adjusted Diluted EPS	11.5	13.6	15.5	19.4
Adjusted Cash EPS	20.9	24.4	25.8	30.0
Dividend per share (DPS)	2.0	2.0	2.0	2.0
Dividend Payout Ratio(%)	21.0	17.9	15.6	12.5

### Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	70.2	71.6	72.9	74.3
Staff costs	7.5	7.1	7.0	6.9
S G & A expenses	15.2	15.0	15.0	15.0
Depreciation	6.3	6.1	6.1	5.6
Interest Expense	11.1	12.2	10.7	9.3
EBITDA margins	29.8	28.4	27.1	25.7
Net Profit margins	7.8	7.6	9.2	10.2

### Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	27.9	20.8	12.2	13.0
EBITDA	30.5	14.9	7.4	7.1
PBT	33.9	3.7	38.5	24.9
Adjusted Profit	36.6	17.9	36.7	24.9
EPS	36.1	17.5	14.5	24.9

Balance sheet (INR mn)				
As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	1,132	1,132	1,352	1,352
Reserves & Surplus	13,571	14,831	21,381	23,674
Shareholders' funds	14,703	15,963	22,733	25,025
Minority Interest	924	924	924	924
Long term borrowings	19,990	21,540	22,540	21,000
Def. Tax Liability (net)	348	350	350	350
<b>Sources of funds</b>	<b>35,965</b>	<b>38,776</b>	<b>46,546</b>	<b>47,299</b>
Gross Block	16,584	22,200	23,999	23,999
Net Block	12,089	16,583	16,991	15,551
Capital work in progress	12,023	10,746	11,043	14,472
Total Fixed Assets	24,252	27,471	28,175	30,163
Goodwill on consolidation	2,304	2,304	2,304	2,304
Non current investments	506	506	506	506
Other non current assets	771	771	771	771
Current Investments	259	259	259	259
Cash and Equivalents	1,089	2,013	9,269	11,140
Inventories	19,105	18,169	18,278	16,193
Trade receivables	429	506	568	642
Loans & Advances	5,972	6,072	6,272	6,122
Other Current Assets	1,434	1,528	1,746	1,876
Total current assets	27,199	26,534	27,122	25,091
Current liabilities	19,958	20,521	21,300	22,376
Provisions	198	300	300	300
Total Current Liab	20,156	20,821	21,600	22,676
Net Curr Assets-ex cash	7,043	5,713	5,522	2,416
<b>Uses of funds</b>	<b>35,965</b>	<b>38,776</b>	<b>46,546</b>	<b>47,299</b>
BVPS (INR)	129.9	141.0	168.2	185.2

Free cash flow (INR mn)				
Year to March	FY16	FY17	FY18E	FY19E
Reported Profit	1,301	1,534	2,097	2,620
Add: Depreciation	1,059	1,226	1,392	1,440
Interest (Net of Tax)	1,187	1,676	1,576	1,557
Less: Changes in WC	(655)	(1,330)	(191)	(3,107)
Operating cash flow	2,945	3,987	3,680	7,166
Less: Capex	8,649	4,340	2,096	3,428
<b>Free Cash Flow</b>	<b>(4,447)</b>	<b>1,426</b>	<b>3,159</b>	<b>5,295</b>

Cash flow metrics				
Year to March	FY16	FY17	FY18E	FY19E
Investing cash flow	9,231	4,340	2,096	3,428
Financing cash flow	759	(274)	4,673	(327)
Net cash Flow	(5,527)	(627)	6,256	3,411
Capex	8,649	4,340	2,096	3,428
Dividend paid	273	274	327	327
Share issue/(buyback)	108	-	5,000	-

Profitability and efficiency ratios				
Year to March	FY16	FY17	FY18E	FY19E
EOP(ROE) (%)	8.9	9.6	9.2	10.5
ROAE (%)	9.2	10.0	10.8	11.0
ROACE (%)	14.5	15.7	15.3	16.9
Current Ratio	1.3	1.3	1.3	1.1
Gross Debt/EBITDA	4.0	3.8	3.7	3.2
Gross Debt/Equity	136.0	134.9	99.2	83.9
Net Debt/Equity	126.8	120.7	57.2	38.4

Operating ratios				
Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	0.5	0.5	0.5	0.5
Fixed Asset Turnover	1.4	1.4	1.4	1.6
Equity Turnover	1.2	1.3	1.2	1.1

Valuation parameters				
Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	11.5	13.6	15.5	19.4
Y-o-Y growth (%)	36.1	17.5	14.5	24.9
Adjusted Cash EPS (INR)	20.9	24.4	25.8	30.0
Diluted P/E (x)	22.9	19.5	17.0	13.6
P/B (x)	2.0	1.9	1.6	1.4
Dividend Yield (%)	0.8	0.8	0.8	0.8

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Brigade Enterprises	561	17.0	13.6	1.6	1.4	10.8	11.0
DLF	4,998	34.3	30.7	1.1	1.1	3.3	3.6
Godrej Properties	1,695	33.5	26.8	4.8	4.2	15.2	16.9
Oberoi Realty	1,982	14.8	13.7	1.9	1.7	14.0	13.3
Sobha Limited	563	16.9	13.6	1.3	1.2	7.7	9.0
Suntech Realty Limited	503	5.0	4.4	0.7	0.6	15.9	15.5
Median	-	17.0	13.7	1.4	1.3	12.4	12.2
AVERAGE	-	20.3	17.1	1.9	1.7	11.2	11.5

Source: Edelweiss research

## Additional Data

### Directors Data

Mr M. R. Jaishankar	Chairman & Managing Director	Ms Githa Shankar	Wholetime Director
Mr M. R. Gurumurthy	Non-Executive Director	Mr P. V. Maiya	Independent Director
Mr M. R. Shivram	Non-Executive Director	Dr. Srinivasa Murthy	Independent Director
Mr. Aroon Raman	Independent Director	Mr. Bijou Kurien	Independent Director
Ms. Lakshmi Venkatachalam	Independent Director		

Auditors - M/s. S.R. Batliboi & Associates LLP

### Holding – Top10

	Perc. Holding		Perc. Holding
Jaishankar m r	19.02	Shankar githa	13.78
Shankar nirupa	6.87	Mysore suraj gurumur	4.28
Icici prudential ass	3.77	Templeton asset mgmt	3.34
Kumar m r krishna	2.91	Shivram m r	2.78
Manjula m k	2.61	Ravindra m s	1.63

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
16 May 2017	Suresh K	Sell	17500.00
03 Apr 2017	M R Krishnakumar	Sell	100000.00
31 Mar 2017	M R Krishnakumar	Sell	100000.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Brigade Enterprises	BUY	SO	M	DLF	HOLD	SU	H
Godrej Properties	HOLD	SP	L	Oberoi Realty	BUY	SO	L
Sobha Limited	BUY	SO	M	Sunteck Realty Limited	BUY	SO	H

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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## Coverage group(s) of stocks by primary analyst(s): Real Estate

Brigade Enterprises, DLF, Godrej Properties, Oberoi Realty, Sobha Limited, Sunteck Realty Limited

### Recent Research

Date	Company	Title	Price (INR)	Recos
07-Aug-17	Sobha	All-round good performance; <i>Result Update</i>	384	Buy
07-Aug-17	Real Estate	Slow start to RERA; Long-term positive; <i>Sector Update</i>		
03-Aug-17	Godrej Properties	Strong operations coupled with b/s improvement; <i>Company Update</i>	500	Hold

### Distribution of Ratings / Market Cap

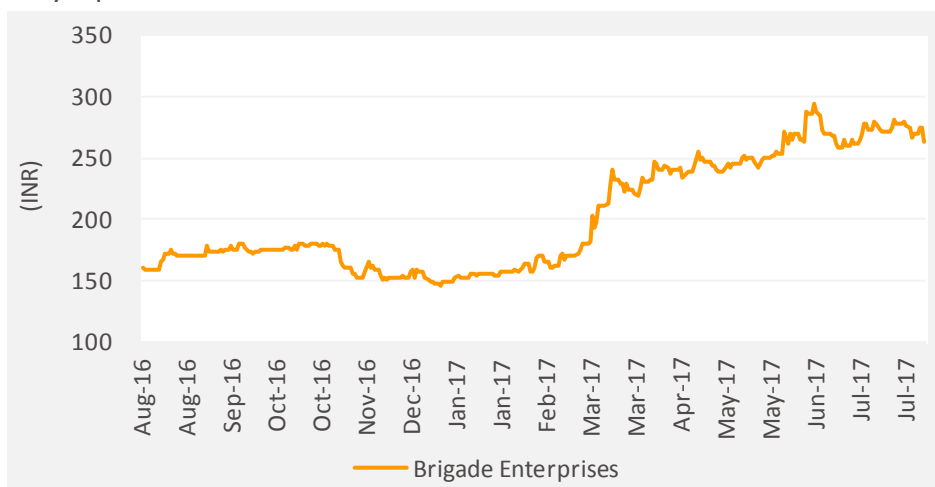
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

### One year price chart



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