

# Brigade Enterprises

**BSE SENSEX**

67,572

**S&P CNX**

19,979

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Bloomberg	BRGD IN
Equity Shares (m)	230
M.Cap.(INRb)/(USD\$)	133.3 / 1.6
52-Week Range (INR)	608 / 431
1, 6, 12 Rel. Per (%)	-8/16/0
12M Avg Val (INR M)	111

## Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	34.4	41.4	47.0
EBITDA	8.6	12.3	14.8
EBITDA Margin (%)	24.9	29.6	31.4
Adj PAT	2.5	5.2	6.7
Cons. EPS (Rs)	12.1	25.3	32.6
EPS Growth (%)	42.2	108.8	28.9
BV/Share (Rs)	158.8	182.0	212.6

## Ratios

Net D:E	0.9	0.8	0.6
RoE (%)	8.0	14.8	16.5
RoCE (%)	6.8	9.6	11.1
Payout (%)	21.6	7.9	6.1

## Valuations

P/E (x)	46	22	17
P/BV (x)	3.5	3.1	2.6
EV/EBITDA (x)	16.8	11.6	9.5
Div. Yield (%)	0.5	0.4	0.4

## Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	43.8	43.8	43.9
DII	24.6	24.6	23.9
FII	14.3	14.2	13.6
Others	17.3	17.4	18.6

FII Includes depository receipts

**CMP: INR580**

**TP: INR720 (+24%)**

**Buy**

## Reiterates 15-20% pre-sales growth target

**Leasing momentum to continue | Existing assets to fully lease out in three-four quarters**

We met the management of Brigade Enterprises (BEL) to understand the business outlook. Key takeaways are as follows (1) the company is on track to launch its 7.5msf of projects in FY24. The launch of projects on TVS land in Chennai is expected to be the key growth driver in FY24 (2) with concerns about interest rates in the past, the management expects strong demand momentum for the next two-three years, supported by robust economic growth (3) management does not perceive any significant concerns regarding demand for SEZ office space and expects to lease out vacant spaces in their operational portfolio over the next three-four quarters (4) the management acknowledged that the current market conditions present an opportune time to divest a partial stake in its hospitality portfolio.

## Expects Chennai to be key driver of pre-sales growth in FY24

- In FY23, BEL delivered 34% YoY growth in sales volumes to 6.3msf, while the booking value grew 36% YoY to INR41b. The significant growth can be attributed to an uptick in project launches, as the company launched 5.5msf of projects vs. 3.8msf in FY22
- In FY24, the company expects to launch 7.5msf of projects. The company has strong visibility for 4.5-5.0msf of these launches. Out of the total 7.5msf, 5-6msf is expected to be in Bengaluru. The estimated GDV for these projects in Bengaluru is expected to be INR35-40b
- The company also plans to launch its luxury project at TVS land in Chennai. It is expected to consist of 0.6msf of residential development, 0.3msf office, and the remaining in high street retail with a residential GDV of INR12b.
- BEL has set an aggressive target to launch the Chennai project in 4QFY24, i.e., within one year of acquisition. Apart from this project, the company's launches are likely to be similar to those in FY23. Therefore, the successful launch of this project is likely to be a key driver of growth in FY24.
- As per the management, rising interest rate was never going to be a concern, but with rates now peaked out, demand momentum is expected to remain strong for the next two-three years, supported by robust economic growth.
- Management abstained from giving any guidance for FY24, but reiterated its target of 15-20% volume growth over the next three-five years.

## BD momentum to continue; specific focus on Hyderabad

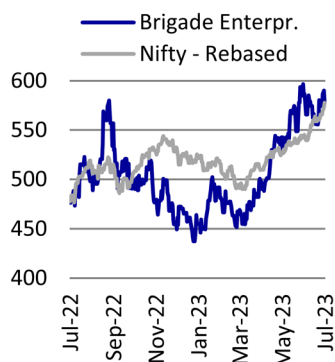
- In FY23, BEL added 8.7msf of projects with GDV of INR50b for a total consideration of INR9.5b. It currently holds 448acres of land with development potential of 46msf. Of this, 83% is meant for residential and commercial sale.
- Assuming 10-15% of volume growth, current land bank will suffice for next four-five years of growth and through its BD strategy, management intends to maintain similar level of visibility each year.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Stock Performance (1-year)**

- While BEL has enough projects in Chennai, it will look to focus more on Hyderabad to build its pipeline. It is in advanced discussion to acquire a 1msf project in Hyderabad. It took eight-nine years for BEL to ramp up in Chennai and it expects a similar growth trajectory in Hyderabad as well over the next two-three years. In Bengaluru, the BEL is currently experiencing robust opportunities and intends to sustain its business development traction in the region.
- The company generated INR15b of operational cash flows in FY23 and this is expected to increase to INR19-20b over the next two years.
- Residential gross debt of just INR0.5b allows the company to be aggressive on land acquisition and also provides comfort for raising debt if needed.

**Expects full leasing by end-FY24; exit rentals to increase to INR11b by FY25**

- Despite concerns over leasing of SEZ spaces, the company has leased out ~0.7 msf in FY23. The management expects the remaining 1.3msf of vacant area to be leased out within the next three-four quarters. Once fully leased out, the portfolio will generate INR10b of rentals.
- Brigade Twin towers (1.3msf) is expected to be delivered by Mar'25. This development is expected to generate an additional rental income of INR1-1.2b. The company is also developing a project at Whitefield, Brigade Padmini Tech Park (1.3msf) of which 0.3msf will be delivered by Mar'24, but the company is considering the possibility of putting it up for sale instead of lease.
- On the retail front, the company will largely focus on neighborhood malls at its large residential projects in East, North, and South Bengaluru with a cumulative development potential of less than 1msf.
- While BEL would ideally prefer 0.8-1.0msf malls, currently there are no viable opportunities for those in Bengaluru. However, the company may explore the potential for developing malls in cities like Chennai and Hyderabad in the future.

**Partial stake monetization of hospitality under consideration**

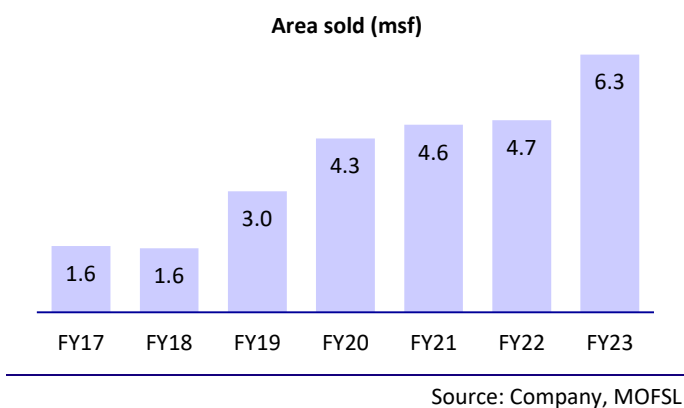
- BEL's hospitality segment delivered its best performance since the ramp-up in FY19, with revenue of INR3.9b, which more than doubled YoY; EBITDA of INR1.2b; and an EBITDA margin of 30%. ARR's were 12% higher than FY20 (pre-Covid) while occupancy climbed to 69% vs. 62% in FY20.
- The management acknowledged that this would be the best time to divest some stake in the hospitality portfolio, however, it is not looking at full divestment.

**Valuation and view; Residential segment can witness further re-rating**

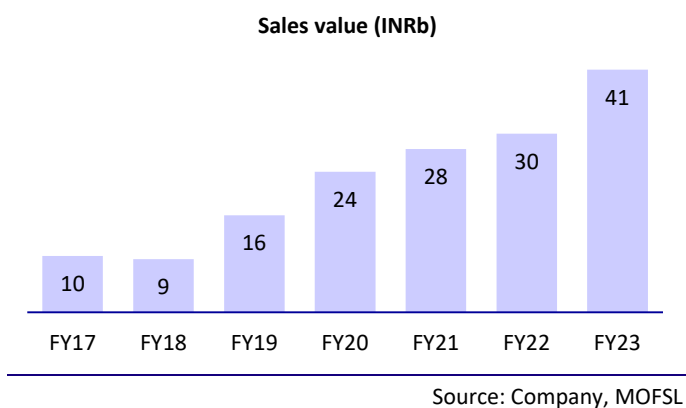
- We maintain our estimates across the residential and commercial segment as the company reiterated its 15-20% volume growth guidance in the residential segment and remains confident of fully leasing its commercial segment by FY24.
- We derive a value of INR66b for its commercial business (INR5.8b EBITDA valued at 8.5% cap rate) and INR26b for its hospitality business (INR1.5b EBITDA at 15x EV/EBITDA). Thus, the current EV of INR147b implies INR55b value for its residential business, while its existing pipeline is valued at INR40b or 37% premium to NAV.
- We believe that an increase in business development activities, especially in Hyderabad, will contribute to additional growth visibility for BEL. This, in turn, could result in a re-rating of the valuation for its residential segment. We value the residential segment at INR87b based on DCF-methodology. We reiterate our BUY rating with an unchanged SOTP-based TP of INR720, implying a 24% upside potential.

## Story in charts

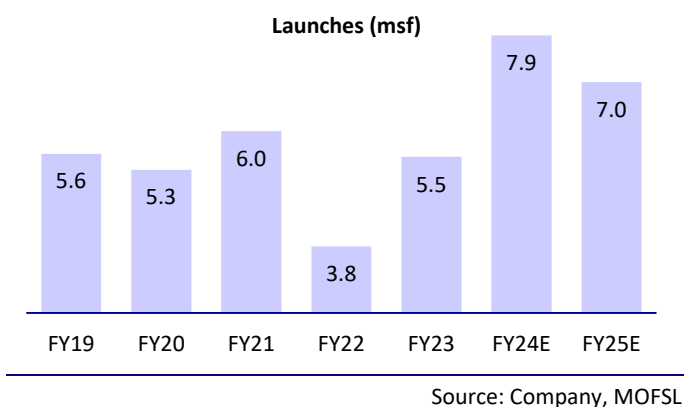
**Exhibit 1: Aided by strong project pipeline, BRGD achieved accelerated growth in residential segment in FY23...**



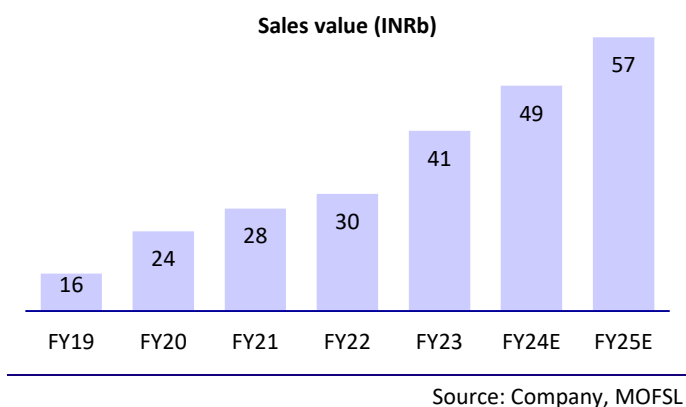
**Exhibit 2: ...as sales increased 36% YoY**



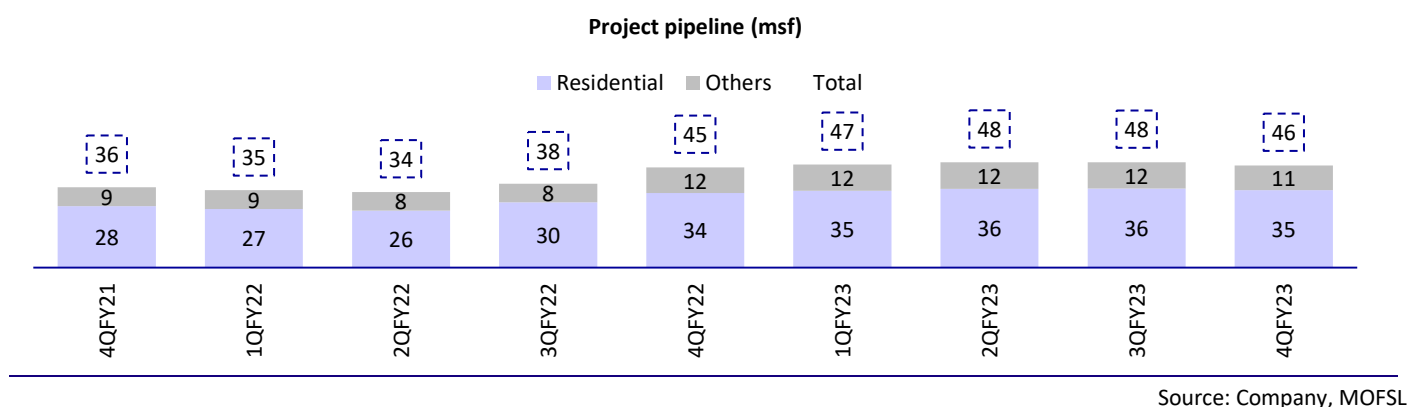
**Exhibit 3: With launches expected to increase further...**

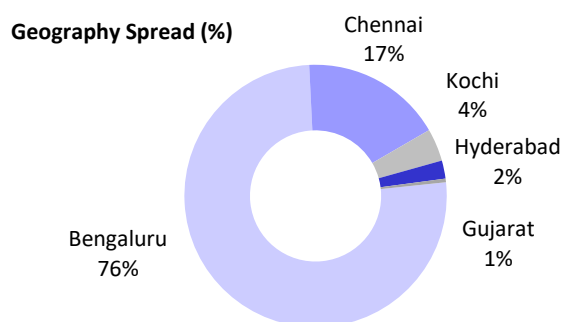
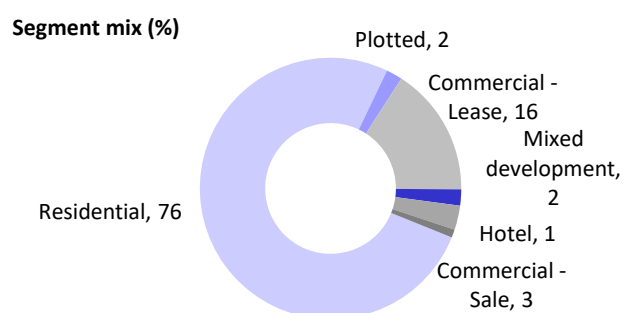
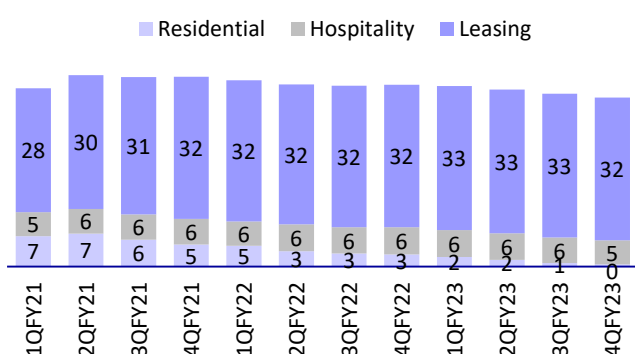
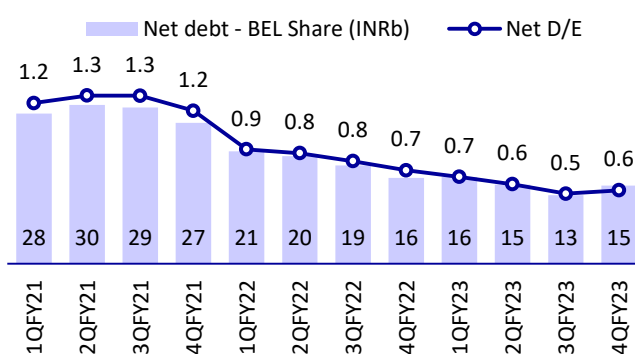
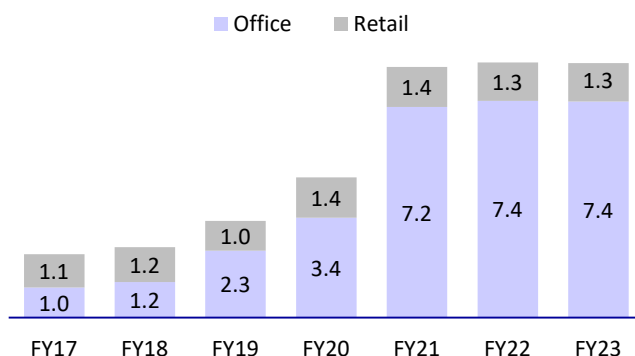
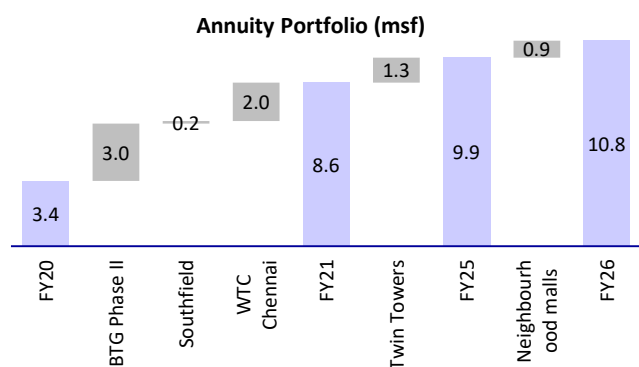
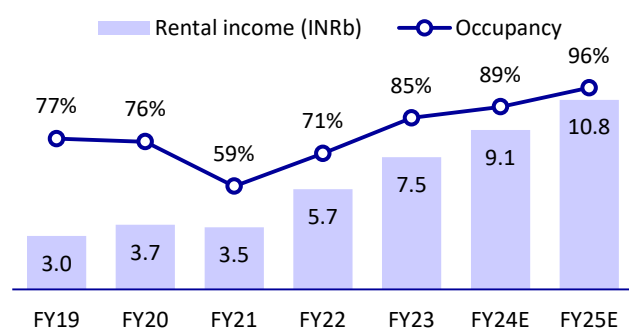
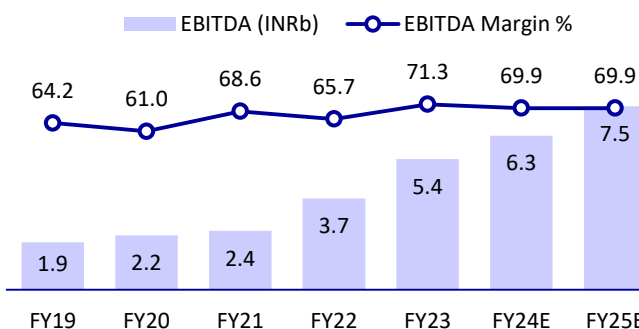


**Exhibit 4: ...BRGD to report 18% CAGR in pre-sales over FY23-25**



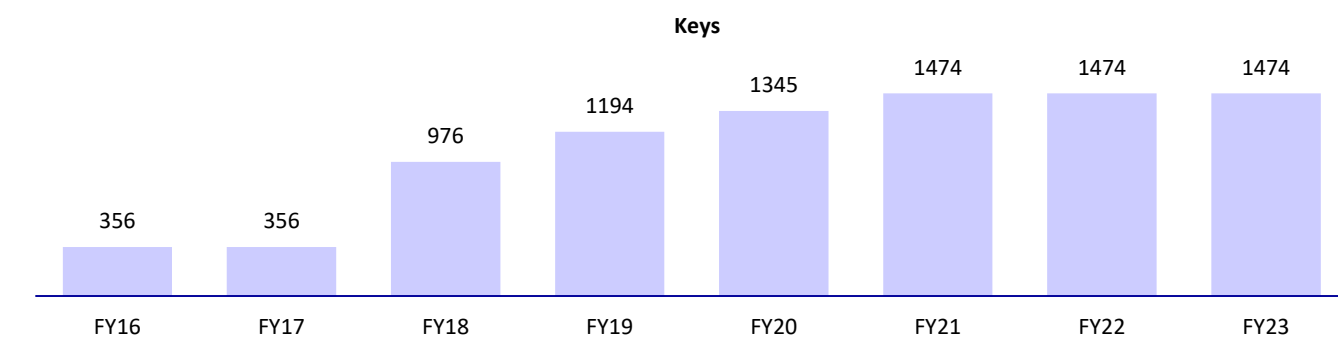
**Exhibit 5: Strong focus on BD is evident in the gradual rise in residential pipeline since FY21**



**Exhibit 6: BRGD's land bank is largely concentrated in Bengaluru...****Exhibit 7: ...and residential segment accounts for largest share****Exhibit 8: Enhanced cash flows has resulted in residential business becoming net debt free****Exhibit 9: Overall net debt too witnessed healthy reduction since FY21 ('000)****Exhibit 10: BRGD has grown its annuity portfolio by ~4x since FY17****Exhibit 11: ...and it is further expected to increase to ~11msf****Exhibit 12: Rental income to breach INR10b by FY25****Exhibit 13: EBITDA margin expected to remain steady**

Source: MOFSL, Company

Source: MOFSL, Company

**Exhibit 14: Company also scaled up its annuity portfolio by 4x since FY17**

Source: Company, MOSL

**Exhibit 15: Our SoTP-based approach denotes 24% upside for BRGD based on CMP; reiterate BUY rating**

Segment	Valuation metric	Value (INR b)	Per share (INR)	As a percentage of NAV (%)
Residential	❖ DCF of three-year cash flow at a WACC of 11.3% and terminal value assuming cash flow sustain in FY22-24	87	379	53
Commercial	❖ Based on the cap rate of 8.5% for Office and Retail assets on FY24E EBITDA	66	287	40
Hotel	❖ FY23E EV/EBITDA of 15x	26	112	16
<b>Gross asset value</b>		<b>179</b>	<b>777</b>	<b>108</b>
<b>Net debt (BRGD's share)</b>		<b>(13)</b>	<b>(57)</b>	<b>-8</b>
<b>Net asset value</b>		<b>166</b>	<b>720</b>	<b>100</b>
No. of shares		230		
<b>Target price</b>		<b>720</b>		
CMP		580		
<b>Upside (%)</b>		<b>24</b>		

**Exhibit 16: Current valuation ascribes limited value to BRGD's growth potential in residential segment**

	Description	Value (INR b)
Market cap	Valued at CMP of INR580	134
Net debt	Peak debt at FY24E	13
<b>Enterprise value</b>		<b>147</b>
Operation portfolio at FY25	FY25 EBITDA of INR5.8b @ 8.5% cap rate	66
Hospitality	INR1.3b of EBITDA valued at 15x EV/EBITDA	26
<b>Total value of commercial and hospitality</b>		<b>92</b>
<b>Implied residential value</b>		<b>55</b>
NAV of existing pipeline	DCF of current project pipeline at WACC of 11.3%	40
<b>Premium/(Discount) to NAV</b>		<b>37%</b>

Source: MOFSL

## Financials and valuations

### Consolidated Profit & Loss

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Total Income from Operations</b>	<b>29,728</b>	<b>26,322</b>	<b>19,500</b>	<b>29,988</b>	<b>34,446</b>	<b>41,359</b>	<b>46,965</b>
Change (%)	56.7	-11.5	-25.9	53.8	14.9	20.1	13.6
<b>Total Expenditure</b>	<b>21,831</b>	<b>19,689</b>	<b>14,780</b>	<b>22,325</b>	<b>25,856</b>	<b>29,105</b>	<b>32,212</b>
% of Sales	73.4	74.8	75.8	74.4	75.1	70.4	68.6
<b>EBITDA</b>	<b>7,897</b>	<b>6,632</b>	<b>4,719</b>	<b>7,663</b>	<b>8,590</b>	<b>12,253</b>	<b>14,753</b>
Margin (%)	26.6	25.2	24.2	25.6	24.9	29.6	31.4
Depreciation	1,400	1,920	2,369	3,505	3,146	3,370	3,861
<b>EBIT</b>	<b>6,497</b>	<b>4,712</b>	<b>2,350</b>	<b>4,158</b>	<b>5,444</b>	<b>8,883</b>	<b>10,892</b>
Int. and Finance Charges	2,785	3,403	3,468	4,436	4,342	3,981	3,756
Other Income	563	494	604	667	1,186	1,222	1,283
<b>PBT bef. EO Exp.</b>	<b>4,274</b>	<b>1,803</b>	<b>-514</b>	<b>389</b>	<b>2,289</b>	<b>6,123</b>	<b>8,418</b>
EO Items	0	-205	-763	-567	450	0	0
<b>PBT after EO Exp.</b>	<b>4,274</b>	<b>1,598</b>	<b>-1,277</b>	<b>-177</b>	<b>2,739</b>	<b>6,123</b>	<b>8,418</b>
Total Tax	1,455	474	-287	497	558	1,541	2,119
Tax Rate (%)	34.0	29.6	22.5	-280.3	20.4	25.2	25.2
Minority Interest	420	-150	-475	-1,448	-651	-583	-361
<b>Reported PAT</b>	<b>2,399</b>	<b>1,274</b>	<b>-515</b>	<b>774</b>	<b>2,832</b>	<b>5,165</b>	<b>6,660</b>
<b>Adjusted PAT</b>	<b>2,399</b>	<b>1,418</b>	<b>77</b>	<b>1,739</b>	<b>2,474</b>	<b>5,165</b>	<b>6,660</b>
Change (%)	72.3	-40.9	-94.6	2,165.4	42.2	108.8	28.9
Margin (%)	8.1	5.4	0.4	5.8	7.2	12.5	14.2

### Consolidated Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1,362	2,044	2,109	2,303	2,303	2,303	2,303
Total Reserves	20,332	20,768	21,368	26,797	30,143	34,899	41,151
<b>Net Worth</b>	<b>21,694</b>	<b>22,811</b>	<b>23,477</b>	<b>29,099</b>	<b>32,445</b>	<b>37,202</b>	<b>43,453</b>
Minority Interest	1,884	1,659	1,156	-323	-1,013	-1,596	-1,957
Total Loans	36,440	44,218	43,897	48,327	45,488	42,988	40,488
Deferred Tax Liabilities	0	0	-2,155	-2,642	-3,317	-3,317	-3,317
<b>Capital Employed</b>	<b>60,018</b>	<b>68,688</b>	<b>66,374</b>	<b>74,461</b>	<b>73,604</b>	<b>75,277</b>	<b>78,667</b>
Gross Block	27,742	36,874	59,464	61,822	62,567	72,253	82,183
Less: Accum. Deprn.	5,019	6,939	9,308	12,814	15,960	19,330	23,191
<b>Net Fixed Assets</b>	<b>22,724</b>	<b>29,935</b>	<b>50,156</b>	<b>49,008</b>	<b>46,608</b>	<b>52,923</b>	<b>58,992</b>
Goodwill on Consolidation	43	43	43	43	203	203	203
Capital WIP	20,097	20,975	4,949	5,407	7,405	1,655	-5,863
<b>Total Investments</b>	<b>977</b>	<b>721</b>	<b>890</b>	<b>5,086</b>	<b>617</b>	<b>617</b>	<b>617</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>64,158</b>	<b>70,935</b>	<b>79,942</b>	<b>88,825</b>	<b>1,05,500</b>	<b>1,11,102</b>	<b>1,20,963</b>
Inventory	48,161	52,094	59,020	62,228	73,273	73,653	79,776
Account Receivables	4,208	4,306	5,272	5,042	4,616	6,799	7,720
Cash and Bank Balance	2,222	3,049	5,594	9,448	14,781	13,951	14,504
Loans and Advances	9,567	11,486	10,056	12,108	12,830	16,699	18,962
<b>Curr. Liability &amp; Prov.</b>	<b>47,980</b>	<b>53,921</b>	<b>69,606</b>	<b>73,908</b>	<b>86,729</b>	<b>91,223</b>	<b>96,245</b>
Account Payables	6,081	5,005	5,770	6,491	7,347	10,366	11,473
Other Current Liabilities	41,803	48,811	63,747	67,333	79,278	80,650	84,537
Provisions	97	105	89	83	105	207	235
<b>Net Current Assets</b>	<b>16,178</b>	<b>17,014</b>	<b>10,336</b>	<b>14,917</b>	<b>18,770</b>	<b>19,879</b>	<b>24,718</b>
Misc Expenditure	0	0	0	0	0	0	0
<b>Appl. of Funds</b>	<b>60,018</b>	<b>68,688</b>	<b>66,374</b>	<b>74,462</b>	<b>73,603</b>	<b>75,276</b>	<b>78,667</b>

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>11.7</b>	<b>6.9</b>	<b>0.4</b>	<b>8.5</b>	<b>12.1</b>	<b>25.3</b>	<b>32.6</b>
Cash EPS	18.6	16.3	12.0	25.7	27.5	41.8	51.5
BV/Share	106.1	111.6	114.9	142.4	158.8	182.0	212.6
DPS	1.3	1.0	0.0	1.0	1.0	2.0	2.0
Payout (%)	13.7	19.3	0.0	26.4	7.2	7.9	6.1
<b>Valuation (x)</b>							
P/E	44.2	74.8	1,381.5	61.0	44.6	22.0	17.1
Cash P/E	27.9	31.8	43.4	20.2	19.6	13.3	10.8
P/BV	4.9	4.7	4.5	3.6	3.4	3.1	2.6
EV/Sales	4.7	5.6	7.4	4.8	4.1	3.5	3.0
EV/EBITDA	17.8	22.2	30.6	18.9	16.4	11.6	9.5
Dividend Yield (%)	0.3	0.2	0.0	0.2	0.2	0.4	0.4
FCF per share	-6.5	-13.1	16.4	40.3	33.9	23.7	29.0
<b>Return Ratios (%)</b>							
RoE	10.8	6.4	0.3	6.6	8.0	14.8	16.5
RoCE	8.1	5.9	3.4	25.3	6.8	9.6	11.1
RoIC	12.1	8.2	3.7	28.9	8.2	12.1	12.7
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	1.1	0.7	0.3	0.5	0.6	0.6	0.6
Asset Turnover (x)	0.5	0.4	0.3	0.4	0.5	0.5	0.6
Inventory (Days)	591	722	1,105	757	776	650	620
Debtor (Days)	52	60	99	61	49	60	60
Creditor (Days)	75	69	108	79	78	91	89
<b>Leverage Ratio (x)</b>							
Current Ratio	1.3	1.3	1.1	1.2	1.2	1.2	1.3
Interest Cover Ratio	2.3	1.4	0.7	0.9	1.3	2.2	2.9
Net Debt/Equity	1.6	1.8	1.6	1.3	0.9	0.8	0.6

### Consolidated Cash flow

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	4,274	1,614	-1,251	-150	2,780	6,123	8,418
Depreciation	1,400	1,920	2,369	3,505	3,146	3,370	3,861
Interest & Finance Charges	2,583	3,403	3,468	4,436	4,342	3,981	3,756
Direct Taxes Paid	-1,117	-642	-536	-1,039	-558	-1,541	-2,119
(Inc)/Dec in WC	-2,363	-1,643	3,814	4,047	1,480	-1,938	-4,287
<b>CF from Operations</b>	<b>4,777</b>	<b>4,652</b>	<b>7,864</b>	<b>10,799</b>	<b>11,189</b>	<b>9,996</b>	<b>9,630</b>
Others	-105	-4	165	-478	-1,186	-1,222	-1,283
<b>CF from Operating incl EO</b>	<b>4,672</b>	<b>4,649</b>	<b>8,029</b>	<b>10,321</b>	<b>10,003</b>	<b>8,774</b>	<b>8,347</b>
(Inc)/Dec in FA	-6,005	-7,328	-4,670	-2,084	-3,073	-3,935	-2,412
<b>Free Cash Flow</b>	<b>-1,333</b>	<b>-2,679</b>	<b>3,359</b>	<b>8,237</b>	<b>6,930</b>	<b>4,839</b>	<b>5,935</b>
(Pur)/Sale of Investments	1,601	237	-342	-4,036	4,469	0	0
Others	40	-75	-2,473	-3,594	1,186	1,222	1,283
<b>CF from Investments</b>	<b>-4,364</b>	<b>-7,166</b>	<b>-7,484</b>	<b>-9,714</b>	<b>2,582</b>	<b>-2,714</b>	<b>-1,130</b>
Issue of Shares	5	320	883	5,028	0	0	0
Inc/(Dec) in Debt	3,925	7,406	3,032	-831	-2,839	-2,500	-2,500
Interest Paid	-3,154	-3,859	-3,943	-3,511	-4,342	-3,981	-3,756
Dividend Paid	-328	-575	0	-276	-204	-409	-409
Others	-1	52	2,029	-78	0	0	0
<b>CF from Fin. Activity</b>	<b>448</b>	<b>3,344</b>	<b>2,000</b>	<b>333</b>	<b>-7,384</b>	<b>-6,890</b>	<b>-6,665</b>
<b>Inc/Dec of Cash</b>	<b>756</b>	<b>827</b>	<b>2,545</b>	<b>940</b>	<b>5,201</b>	<b>-830</b>	<b>552</b>
Opening Balance	1,466	2,222	3,049	2,804	3,745	7,723	6,893
<b>Closing Balance</b>	<b>2,222</b>	<b>3,049</b>	<b>5,594</b>	<b>3,745</b>	<b>8,946</b>	<b>6,893</b>	<b>7,446</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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