

Brigade Enterprises Ltd (BEL)

- Project pipeline provides visibility

Recommendation : Buy
 CMP : Rs 271
 Sector : Real Estate

NSE Code : BRIGADE
 BSE Code : 532929

Financial break up

Market Cap (Rs. Cr) : 3688
 EPS (FY19) : 20.57
 PE : 13.17
 Face Value : Rs.10/-

Share Holding Pattern:

Promoters : 46.84
 Others : 53.16

Background: BEL is a renowned real estate development company in South India, with a diversified portfolio of projects spread across the Real Estate, Leasing and Hospitality businesses. The company's Real Estate business includes standalone apartment properties and integrated lifestyle enclaves which are conceptualized as self-contained, gated communities that generally include a combination of apartment complexes, luxury villas, townhouses, commercial and retail space, recreational clubs, parks, schools and convention centers. BEL's Leasing business includes commercial office spaces, Special Economic Zones (SEZ), software and IT parks. The company also develops hospitals and retail malls with entertainment facilities, such as multiplexes. BEL's properties in the Hospitality business include serviced residences, hotels, recreational clubs and convention centers.

Innovative Projects

The company is one of the early developers of integrated lifestyle enclaves in Bengaluru, which are self-contained communities, generally including a combination of apartment complexes, commercial and retail space, and other lifestyle amenities. The company has developed the Brigade Gateway Enclave in central Bengaluru, which is spread over 39.73 acres of land and houses 1,255 residential apartments along with the Orion mall and multiplex, the Sheraton Grand Bangalore Hotel – Brigade Gateway, the Columbia Asia hospital, the World Trade Center Bengaluru and the Brigade School.

Expanding Geographical Presence

BEL intends to expand their operations into other cities primarily in south India, which has the potential for growth and demand for their properties. The economic growth in these cities will result in higher disposable incomes in the middle and higher income groups, which is expected to result in an increase in demand for improved residential housing, as well as higher quality retail space. The company recognizes the need to build their Land Bank in these new cities is critical to their growth strategy. Towards this end the company has acquired, land in various cities such as Chennai, Hyderabad, Kochi, Mangalore, GIFT city, Gujarat and Mysuru, for their residential, commercial and hospitality properties.

Increasing Leasing Business

BEL's Leasing business includes commercial office spaces, software and IT parks and retail malls. The company generates revenue from this business through renting the premises through operating leases. In addition, the company generate revenue from their retail projects through the provision of advertising space and product promotion space for short-term lease in their malls, and fees charged for parking space at their malls. BEL plans to achieve 3msf of pre-leasing in FY20 majorly comprising its two key projects - WTC Chennai and BTG Bengaluru. Construction of BTG is on track and is expected to be completed by Dec'19. The company has already pre-leased 0.36msf in BTG and is in advanced stages of discussion to lease further 0.55msf

Outlook & Valuation

We recommend a **Buy** on BEL for long term investors. Given the Strong Brand , Robust Execution track record, Diversified revenue stream, Expanding geographical presence, and Increasing leasing business, are key positives for the stock. At the CMP of INR 271, the stock trades at 13.17x EPS of FY19. The key risks to the business include increase in competition from peer companies, Slowdown in GDP growth which will impact demand for real estate and too much reliance on Bengaluru projects are the key risks of the company.

Investment Arguments

Company Profile: BEL is a renowned real estate development company in South India, with a diversified portfolio of projects spread across the Real Estate, Leasing and Hospitality businesses.

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The company's business is predominantly located in Bengaluru but the company has gradually expanded their geographical presence to other cities in south India such as Chennai, Hyderabad, Kochi, Mangalore, Mysuru and GIFT City, Gujarat.

Land Bank - Group

Location	Land Area (in acres)	Total Cost* (INR in Mn)	Paid (INR in Mn)	Payable (INR in Mn)
Bangalore	337	9,432	7,481	1,951
Chennai	49	2,377	2,227	150
Hyderabad	13	180	120	60
Kochi	18	140	140	-
Mangalore	29	54	46	8
Gujarat	2	267	130	137
Mysore	17	20	12	8
Grand Total	465	12,470	10,156	2,314

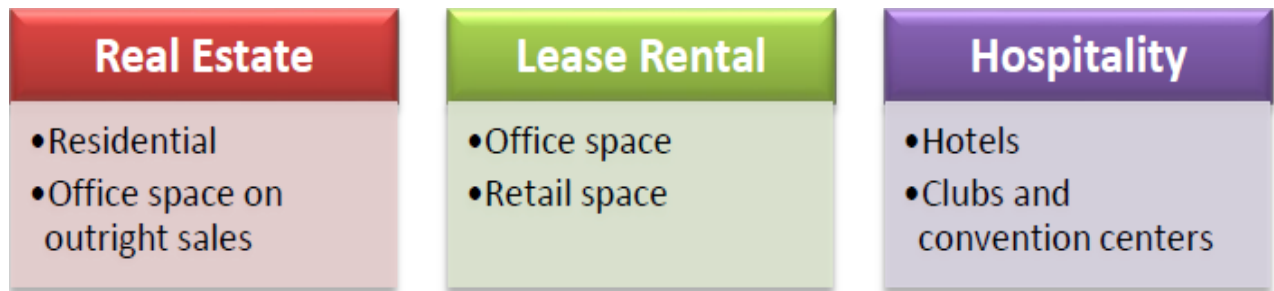
Diversified Business Segments

In the real estate business, the company develops and sells residential and commercial spaces. Over the last four years, the company has successfully completed more than 15 projects with an aggregate saleable area of more than 6msf.

BEL develops commercial projects i.e offices and retail space and generates revenue primarily by leasing units at such properties. After constructing World Trade Center at Brigade Gateway in Bengaluru and Phase-I of World Trade Center in Kochi it is now developing Phase-II of World Trade Center in Kochi. The company is also constructing World Trade Center in Chennai. This apart, the company has the license to construct World Trade Centers in Hyderabad and Trivandrum, which would position the company as a premium office space developer in India.

BEL began its shopping mall operations with the launch of Orion Mall at Brigade Gateway in January 2012, and then Brigade Orion East in Bengaluru in June 2016. It is developing one more mall, Orion OMR, at Old Madras Road in Bengaluru.

As part of its hospitality business, the company develops serviced residences, hotels, lifestyle membership clubs, and convention centers. The company owns three hotel properties in Bengaluru i.e the Grand Mercure, the Sheraton Hotel, and Holiday Inn Express, one hotel property at Mysuru i.e the Grand Mercure, and one in Chennai Holiday Inn. BEL is developing five more hotel properties in Bangalore, Kochi, Mysore and Gujarat. The company operates hotels through management contracts with leading international hospitality service providers.



Pioneer in Innovative Projects

BEL has developed several properties which have been innovative in the real estate industry in Bengaluru. The company is one of the early developers of integrated lifestyle enclaves in Bengaluru, which are self-contained communities, generally including a combination of apartment complexes, commercial and retail space, and other lifestyle amenities. The company has developed the Brigade Gateway Enclave in central Bengaluru, which is spread over 39.73 acres of land and houses 1,255 residential apartments along with the Orion mall and multiplex, the Sheraton Grand Bangalore Hotel – Brigade Gateway, the Columbia Asia hospital, the World Trade Center Bengaluru and the Brigade School. The company also developed the Brigade Metropolis Enclave which is spread over 36 acres and houses apartments, two office towers, a shopping center and other facilities. The company intends to continue to focus on the development of integrated lifestyle enclaves and are currently developing Brigade Golden Triangle which is spread over 18.66 acres and will house around 672 apartments offering its residents various lifestyle facilities and will also comprise of an office development, mall and a hotel. The company is also developing Brigade Orchards at Bengaluru which is spread over approximately 130 acres and will house units comprising of luxury villas, value homes, luxury apartments, retirement homes and other facilities like high end club, sports academy, school, hospital, shopping malls etc.

Inhouse Competence

BEL has developed in-house competencies for every stage in a property development life cycle, commencing from property development inception, which involves identification of parcels of land and the conceptualization of the development, to execution, which involves planning, designing and overseeing the construction activities, marketing and sales culminating in property delivery, which involves interfacing their marketing and sales and customer service team with customers. BEL's team comprises of 1,928 permanent employees, which includes 442 employees in engineering, architecture and design. In addition to their in-house competencies, the company also leverages the expertise of external professionals with specializations to match their wide range of operations, such as architects, interior designers,

landscapers, engineers, building services consultants and communication consultants for the development and management of their properties. The company also provides facility management services through our Associate, Tandem Allied Services which provides a comprehensive range of value added services in facility management, realty services, financial services and interior solutions.

Expanding geographical presence

BEL intends to expand their operations into other cities primarily in south India, which has the potential for growth and demand for their properties. The economic growth in these cities will result in higher disposable incomes in the middle and higher income groups, which is expected to result in an increase in demand for improved residential housing, as well as higher quality retail space. The company recognizes the need to build their Land Bank in these new cities is critical to their growth strategy. Towards this end the company has acquired, land in various cities such as Chennai, Hyderabad, Kochi, Mangalore, GIFT city, Gujarat and Mysuru, for their residential, commercial and hospitality properties. The company believes that these cities have the potential to grow at a rapid pace and they intend to develop properties in such cities to take advantage of such potential. The company seeks to identify low cost land in fast growing cities and suburbs which attract increasing economic activity in manufacturing, IT, ITES, telecommunications, tourism and other sectors. Further, the company is in the process of developing commercial and hospitality properties at GIFT city, Gujarat. The company has identified these smart cities to potentially have a high demand for their properties and intend to expand their operations to these regions over the next few years.

Innovative and High Quality Residential and Commercial Developments

The company has developed a reputation for consistently developing high quality properties that are unique, reliable and convenient for their customers. The company intends to focus on innovation and provide quality property execution in order to maximize client satisfaction. The company also intends to continue to use technologically advanced tools and processes without compromising on reliability or quality of their constructions. BEL continues to enhance their architectural, design, construction and development capabilities which enables them to provide innovative, modern and quality products and services to their customers. BEL's high quality of construction has in the past satisfied their customers to such an extent that they have requested the company to also carry out the furnishing of the interiors of their properties. The company intends to selectively carry out the furnishing of interiors in addition to their construction and development activities, ensuring that such services conform to existing quality standards.

The company had received awards in the past for their residential and commercial developments which include The "Developer of the year - Commercial for Nalapad Brigade Centre" at the Realty Plus Excellence Awards (South) 2016 and The "Luxury apartment project of the Year" award for Brigade Exotica at the NDTV Property Awards 2015.

BEL to improve their operational efficiency, introduced precast concrete technology and set up a precast plant at their Brigade Orchards project in June 2013. Precast concrete is produced by casting concrete in reusable moulds which is then cured in a controlled environment and transported to the construction site for erection. The precast technology improves the quality of construction and has enabled them to make optimal use of their resources such as labour, raw materials and other auxiliary works.

Leasing Business

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BEL plans to achieve 3msf of pre-leasing in FY20 majorly comprising its two key projects - WTC Chennai and BTG Bengaluru. Construction of BTG is on track and is expected to be completed by Dec'19. The company has already pre-leased 0.36msf in BTG and is in advanced stages of discussion to lease further 0.55msf. BTG is currently pre-leasing at INR55psf while WTC Chennai is pre-leasing at INR75-80psf. The company expects strong traction in both BTG and WTC Chennai on the tax holiday benefits for tenants if booking is completed before the '2020 Sunset Clause' deadline. The company expects to execute 3msf of new pre-leases by end-FY20.

Lease Position

Project	Area in '000 Sft		
	Leasable Area	Leased	To be Leased
WTC @ Bangalore	628	628	-
WTC Tower 1 @ Kochi	384	360	24
Brigade Bhuwalka Icon	188	188	-
Brigade Financial Centre @ Gift City	315	44	271
Brigade Vantage @ Chennai	57	57	-
Orion Mall @ Brigade Gateway	821	802	19
Orion East Mall	148	129	19
Brigade Broadway	25	-	25
Others	33	33	-
Total	2,600	2,241	358

EL Dorado Project

BEL's Brigade El Dorado is a 50-acre affordable housing integrated residential enclave which is the company's 8th integrated conclave located 15 minutes from Bengaluru Airport in Huvinayakanahalli, North Bengaluru. The company has saleable potential of 5.5msf to be developed in phases with 2-3BHK configurations ranging from 795- 1,068sf with carpet area of up to 60sqm and costs less than INR4.5m per unit.

The project is expected to do well as it is located in an aerospace park — a 3,000-acre development planned and promoted by the Karnataka Industrial Area Development Board (KIADB), as the hub of aerospace industry in India. The location has good connectivity due to the Elevated Expressway to Bengaluru International Airport Limited (BIAL), metro routes, flyovers connecting ORR (Outer Ring Road) and NH-7, Peripheral Ring Road, etc., making it an attractive end-use property and investment destination (Exhibit 3). These units will attract 1% GST. Also, those eligible for PMAY scheme can avail additional subsidy up to INR0.2m on these units, making it an attractive proposition.

Marquee names such as Boeing, Airbus, Rolls Royce, etc., are planning to set up facilities in this park. Other MNCs like Shell, SAP Labs are also setting up campuses in this area. BEL owns the land for this project and margins are estimated to be in the range of ~28%.

Ongoing Projects

The company has about 18458000 sft project area. The JV share is about 5671000 sft and co share constitutes about 12787000 sft. The real estate segment contributes about 11722 sft while the commercial segment contributes about 6202000 sft and the remaining 534000 sft is contributed by hospitality segment.

Projects	Project Area	Area in '000 sft	
		LO/JV share	Co Share
Real Estate projects	10,081	2,303	7,778
Brigade Orchards *	1,641	820	821
Total Real Estate (A)	11,722	3,123	8,599
WTC, Kochi Phase 2	387	-	387
Brigade Opus	347	-	347
Brigade Orion OMR	268	-	268
Brigade Tech Gardens	3,200	1,568	1,632
WTC, Chennai	2,000	980	1,020
Total Commercial (B)	6,202	2,548	3,654
Four Points by Sheraton	191	-	191
Grand Mercure – GIFT City	145	-	145
Holiday Inn Express at Golden Triangle	88	-	88
Ibis Style, Mysore	110	-	110
Total Hospitality (C)	534	-	534
Total (A+B+C)	18,458	5,671	12,787

Increasing debt to fund capex

BEL's consolidated gross debt is expected to rise from INR33.7b in FY19 to ~INR36.7b in FY20, primarily due to capex commitments towards significant leasing assets. Between Brigade Tech Garden (BTG) in Bengaluru and WTC in Chennai -two projects funded by debt – a further capex of INR11b (BRGD share INR5.6b) is needed to complete the projects during the year. However, improving cash flow in the residential business is likely to limit debt increase. BEL's residential debt has reduced from INR7.9b in FY18 to INR6.8b FY19. Of the total commercial debt of INR21.3b, INR12.5b is secured against lease rental, which limits any potential risk due to debt.

Key-Risks

Increase in Competition: Increase in competition from other players would impact overall growth prospects of the company.

Slowdown in GDP Growth: Any slowdown in the economy is likely to result in reduction in demand for real estate projects which will impact the company's growth and profitability.

Too much reliance in Bengaluru region: The company derives majority revenues from the Bengaluru region which contributes close to 86%. Any slow down in the Bengaluru real estate market will impact the company adversely.

Financials

Consolidated P&L

Consolidated Profit & Loss account (Rs.Cr)	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Income					
Sales Turnover	1,310.83	2,037.92	2,024.14	1,897.20	2,972.78
Net Sales	1,310.83	2,037.92	2,024.14	1,897.20	2,972.78
Other Income	20.01	31.9	34.55	37.9	54.48
Stock Adjustments	225.15	86.64	-4.66	67.64	678.05
Total Income	1,555.99	2,156.46	2,054.03	2,002.74	3,705.31
Expenditure					
Raw Materials	0	0	0	0	139.36
Employee Cost	104.75	125.22	143.32	154.5	187.9
Other Manufacturing Expenses	808.74	1,244.99	997.79	912.48	0
Selling and Admin Expenses	0	67.72	63.01	58.77	0
Miscellaneous Expenses	239.45	196.47	241	284.63	2,533.90
Total Expenses	1,152.94	1,634.40	1,445.12	1,410.38	2,861.16
Operating Profit	383.04	490.16	574.36	554.46	789.67
PBDIT	403.05	522.06	608.91	592.36	844.15
Interest	131.39	199.01	246.48	259.4	278.5
PBDT	271.66	323.05	362.43	332.96	565.65
Depreciation	99.18	105.92	122.55	137.66	140
Profit Before Tax	172.48	217.13	239.88	195.3	425.65
PBT (Post Extra-ord Items)	172.48	217.13	239.88	195.3	425.65
Tax	57.53	80.19	73.16	62.82	145.52
Reported Net Profit	114.95	122.65	152.29	137.67	280.13
Earning Per Share (Rs)	10.19	10.83	13.4	10.12	20.57

Consolidated Balance Sheet (Rs.Cr)

Consolidated Balance Sheet (Rs.Cr)	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Sources Of Funds					
Total Share Capital	112.74	113.18	113.66	136.07	136.18
Equity Share Capital	112.74	113.18	113.66	136.07	136.18
Reserves	1,243.95	1,416.34	1,529.18	2,098.88	2,033.22
Networth	1,356.69	1,529.52	1,642.84	2,234.95	2,169.40
Secured Loans	685.03	1,044.24	1,860.83	2,921.83	3,377.84
Unsecured Loans	268.45	632.68	0	0	0
Total Debt	953.48	1,676.92	1,860.83	2,921.83	3,377.84
Minority Interest	25.84	123.82	227.44	223.06	188.43
Total Liabilities	2,336.01	3,330.26	3,731.11	5,379.84	5,735.67
Application Of Funds					
Gross Block	1,706.13	1,287.57	1,511.26	1,953.19	4,286.38
Less: Revaluation Reserves	0	8.29	8.29	8.29	0
Less: Accum. Depreciation	344.21	29.99	80.61	148.37	0
Net Block	1,361.92	1,249.29	1,422.36	1,796.53	4,286.38
Capital Work in Progress	485.65	1,410.83	1,563.68	2,129.12	0
Investments	34.47	76.57	54.01	235.85	97.67
Inventories	1,544.38	2,306.69	2,263.91	2,179.47	4,816.06
Sundry Debtors	14.96	42.94	37.37	176.95	420.82
Cash and Bank Balance	82.93	108.93	136.33	146.58	222.22
Total Current Assets	1,642.27	2,458.56	2,437.61	2,503.00	5,459.10
Loans and Advances	777.21	794.26	866.06	1,149.08	956.71
Total CA, Loans & Advances	2,419.48	3,252.82	3,303.67	3,652.08	6,415.81
Current Liabilities	1,932.01	2,652.66	2,604.87	2,425.60	5,054.52
Provisions	33.5	6.59	7.74	8.14	9.67
Total CL & Provisions	1,965.51	2,659.25	2,612.61	2,433.74	5,064.19
Net Current Assets	453.97	593.57	691.06	1,218.34	1,351.62
Total Assets	2,336.01	3,330.26	3,731.11	5,379.84	5,735.67

Consolidated Cash Flow Statement

Cash Flow Statement (Rs.Cr)	Mar-15	Mar-16	Mar-17	Mar-18
Net Profit/Loss Before Extraordinary Items And Tax	108.66	210.25	232.32	251.81
Net CashFlow From Operating Activities	-16.03	212.89	413.79	69.21
Net Cash Used In Investing Activities	-240.36	-471.49	-332.19	-638.06
Net Cash Used From Financing Activities	251.01	266.5	-91.52	557.35
Adjustments on Amalgamation / Merger / Demerger / Others	0	0	-9.33	0
Net Inc/Dec In Cash And Cash Equivalents	-5.38	7.9	-19.25	-11.5
Cash And Cash Equivalents Begin of Year	27.79	22.41	24.25	5
Cash And Cash Equivalents End Of Year	22.41	30.31	5	-6.5

Consolidated Key Financial ratio's

Consolidated Key Financial Ratios	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Operating Profit Margin(%)	29.22	24.05	28.37	29.22	26.56
Gross Profit Margin(%)	21.65	18.85	22.32	21.96	21.85
Net Profit Margin(%)	7.26	6.08	7.56	7.33	8.07
Return On Capital Employed(%)	13.15	13	13.87	9.01	12.69
Return On Net Worth(%)	7.01	8.1	9.31	6.22	11.05
Current Ratio	1.16	1.15	1.08	1.25	1.24
Quick Ratio	0.44	0.36	0.4	0.6	0.29
Debt Equity Ratio	0.7	1.1	1.13	1.31	1.56
Long Term Debt Equity Ratio	0.66	0.98	0.99	1.2	1.53
Inventory Turnover Ratio	0.85	0.88	0.89	0.87	0.62
Debtors Turnover Ratio	50.06	70.39	50.41	17.7	9.95
Investments Turnover Ratio	0.85	0.88	0.89	0.87	0.62
Fixed Assets Turnover Ratio	0.87	1.6	1.35	0.98	0.69
Asset Turnover Ratio	0.6	0.72	0.57	0.42	0.53

Disclaimer

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