

Recommendation: "SUBSCRIBE"

Issue Snapshot

Issue Period:	Dec 10 - Dec 13, 2007	
Price Band	Rs.351 - Rs.390	
Issue Size	Rs.6,711 - Rs.7,456 mn	
Market Cap	Rs.40 - Rs.44 bn	
Issue Size	16624720 shares	
Employees:	100,000 shares	
QIB:	9,914,832 shares	
Non-Institutional:	1,652,472 shares	
Retail:	4,957,416 shares	
Green Shoe Option	2,493,708 shares	
Face Value / Share	Rs.10	
Book Value / Share	Rs.13 as on March 31,2007	
Capital Structure:		
Pre Issue Equity	Rs.942 mn	
Post Issue Equity	Rs.1,133 mn	
Shareholding Pattern	Preissue (%)	Post issue (%)
Promoters & PAC	68.31	56.78
Others	31.69	26.34
Employees	-	0.09
Public	-	14.58
Green Shoe Option	-	2.20
Total	100.00	100.00
Total no. of shares	94,206,735	113,325,163

Investment Highlights:

- BEL has shown a CAGR of 70% in the topline; 105% in OPM & 88% in the bottomline in the last three years.
- Investment Rationale: BEL has healthy booking in its ongoing projects; Strong return indicators; Timely execution of projects with quality standards; Strong clientele; BEL has diversified its business within the real estate sector; Has built innovative projects in the past; BEL is penetrating to other cities in south India; BEL has executed & has the capability to execute projects with low risk involved; Experienced management; Project expenses have been reducing from FY 2004 to FY 2007 resulting in improved OPM & NPM; Intends to develop certain SEZ's.
- Concerns are: BEL is mainly concentrated in the Bangalore market; Low land bank which may influence BEL to acquire land at a higher cost; Presence of promoter group companies in the same business line; Dependency on other companies for the development of properties; BEL is new into the segment of developing SEZ; Comparing to the peer's, BEL's topline & bottomline is the lowest seen with net margin also being the lowest.
- ICRA has assigned an IPO Grade "3/5" to this issue.
- Business strategies are: Leveraging the expertise in the development of integrated lifestyle enclaves; Focus on hospitality & related ventures; Expansion into various cities in south India; Maintain quality standards for the developments undertaken; Outsourcing selectively to increase scale of operations & reduce capital investment; Continued focus on properties in a diverse range of price segment.

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Valuation: The stock is available at a P/E of 45x & 50x on the lower & the upper band of the issue price respectively. BEL has plans of foraying into other segments of real estate (like SEZ) along with other cities in South India, which makes it a good story for investment. Comparing to its peer group, the margins (OPM & NPM) are on the lower side. Infact, the P/E on its upper band of the issue price is the highest. It also faces huge competition in sector from other larger players like Sobha, Parsvnath, etc who have fairly larger market share than BEL. Looking at the ongoing projects & forthcoming projects, BEL has good chance of capturing a better share in the market. As seen in the past, the reduction in the ratio of project expenses to sales has helped BEL in improving its OPM & NPM which we believe will continue. BEL has recorded strong return on capital employed (ROCE) of 36% & return on net worth (RONW) of 49% in FY2007. Hence, we recommend, "Subscribe" at lower band of the issue price.

Company Background

The company was incorporated on November 08, 1995. BEL is a real estate development company based in Bangalore, primarily focused on the development of residential, commercial & hospitality properties in South India. The residential properties include integrated lifestyle enclaves & apartment buildings targeted towards middle income & high income customers. The integrated lifestyle enclaves are conceptualized as self-contained, gated communities, which generally include a combination of apartment complexes, commercial & retail space, recreational clubs, parks, schools, convention centres & car parking. The commercial properties include commercial office space, software & IT parks, schools, hospitals & retail malls with entertainment facilities, such as multiplexes. BEL's properties in the hospitality sector include serviced residences, hotels, resorts, spas, recreational clubs & convention centres in Bangalore & other parts of South India. BEL has developed land aggregating to 5.67 mn sq. ft of saleable area & approximately 6.74 mn sq. ft. of developable area.

Company Snapshot

- BEL has shown a CAGR of 70% in the topline; 105% in OPM & 88% in the bottomline in the last three years (from FY 2004 to FY 2007). On a Y-o-Y basis, BEL has grown by 102% in the topline; 111% in OPM & 70% in the bottomline from FY 2006 to FY 2007.
- **Investment Rationale:**
 1. As of November 23, 2007, BEL was in the process of developing approximately 12.53 mn sq. ft. of saleable area & approximately 13.84 mn sq. ft. of developable area. On the same date, the forthcoming properties (properties that are in planning stage, where approvals are in the process of being obtained but construction has not yet begun) included approximately 23.14 mn sq. ft. of saleable area & approximately 30.32 mn sq. ft. of developable area.
 2. BEL has recorded phenomenon strong returns. This is shown by certain indicators like return on capital employed (ROCE) of 36% & return on net worth (RONW) of 49% in FY2007.
 3. BEL has a track record of timely execution of projects with adequate quality standards.
 4. The clients of BEL include multinational corporations with a worldwide presence. Several of these clients have established long-term relationships with BEL & have consistently been repeat clients of BEL while undertaking their expansion activities. Some of the prominent clients are: Cisco Systems India Pvt Ltd, Digi Captions India Pvt Ltd, Mahindra Engineering Design & Development Co. Ltd, Mindtree Consulting Ltd, Spice Communications Ltd, Tata Coffee Ltd & TTK Prestige Ltd.
 5. BEL has diversified its business within the real estate sector. BEL has developed properties in the segments of residential, commercial, integrated lifestyle & hospitality.
 6. BEL has built several properties which have been among the first of their kind in the real estate industry in Bangalore. For example, BEL's commercial venture, 'Brigade Software Park' has been one of the first real estate projects developed by a private developer to be classified as an infrastructure project by the Government of Karnataka. BEL is also one of the early developers of integrated lifestyle enclaves in Bangalore, which are conceptualized as self contained, gated communities, generally including a combination of apartment complexes, commercial & retail space, recreational clubs, parks, schools, convention centres & car parking.
 7. BEL has started foraying into other cities within South India apart from its focused cities of Bangalore & Mysore. Some of the cities where BEL has plans of foraying into are Hyderabad, Chennai, Kotayyam, Mangalore & Chickmagalur.
 8. BEL utilizes the services of three companies for the development of their projects, which helps them in reducing the risk involved in construction of buildings (mainly in case of large contracts).

9. The promoters of BEL have over two decades of experience in the field of real estate development.
10. Project expenses have been reducing from FY 2004 to FY 2007. The proportion of project expense to sales in FY 2004 was 63% & in FY 2007 it was 57%. For the H1 FY2008, it was 49%. This reduction has helped BEL in improving its OPM & NPM which have risen from 18% to 32% & from 13% to 17% respectively.
11. BEL has been allotted 25 acres each at Mangalore pursuant to a lease agreement dated November 24, 2006 & at Mysore pursuant to an allotment letter dated June 8, 2007. These lands have been allotted by the KIADB for the purpose of an IT/ITES SEZ project.

- **Concerns are:**

1. BEL is mainly concentrated in the Bangalore market.
2. Low land bank which may influence BEL to acquire land at a higher cost.
3. Presence of promoter group companies in the same business line.
4. Dependency on other companies for the development of certain properties.
5. BEL is new into the segment of developing SEZ.
6. Comparing to the peer's, BEL's topline & bottomline is the lowest seen with net margin also being the lowest.

- ICRA has assigned an IPO Grade "3/5" indicating average fundamentals of BEL.

- Business strategies are: Leveraging the expertise in the development of integrated lifestyle enclaves; Focus on hospitality & related ventures; Expansion into various cities in south India; Maintain quality standards for the developments undertaken; Outsourcing selectively to increase scale of operations & reduce capital investment; Continued focus on properties in a diverse range of price segment.

- For the six months ended period on September 30, 2007, BEL has recorded a topline of Rs.2, 287 mn, OPM of Rs.882 mn & bottomline of Rs.440 mn. The ratios for the same period are: OPM at 39%; & NPM at 19%.

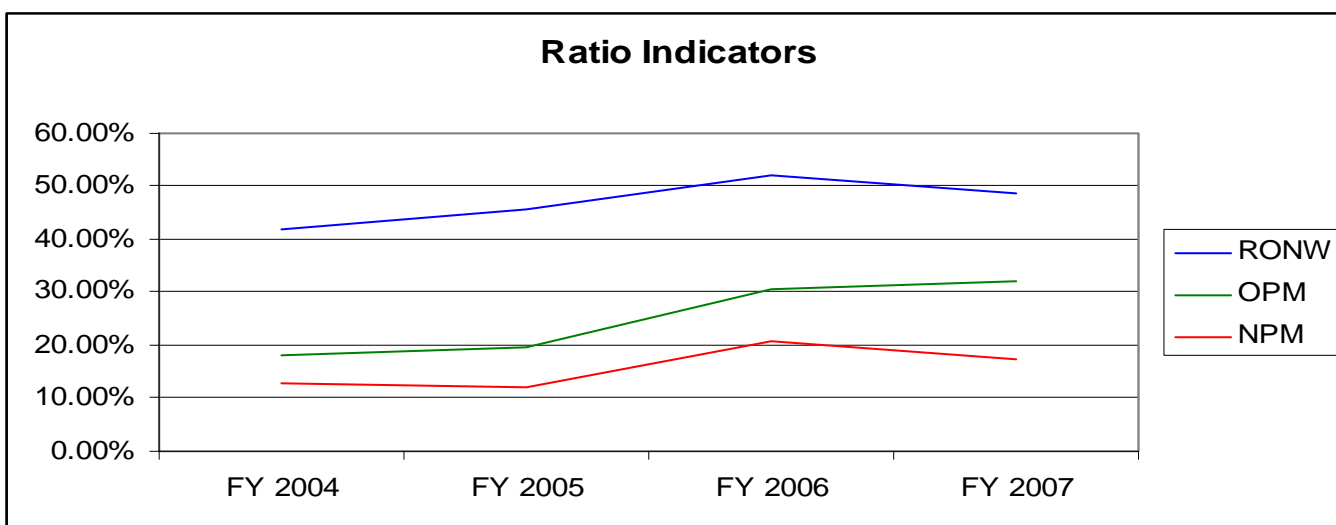
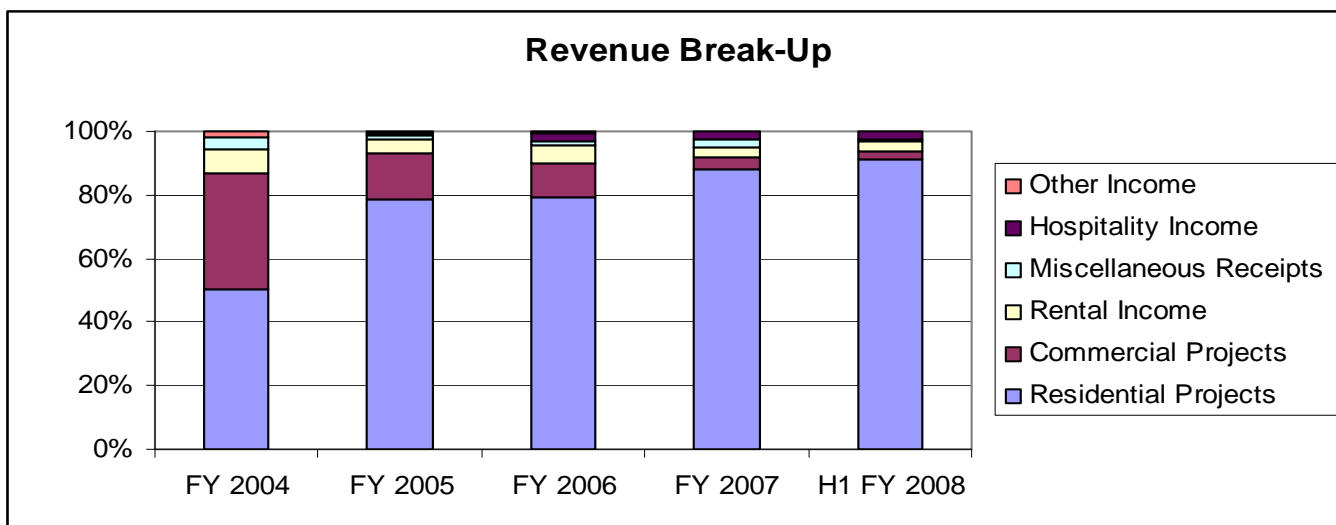
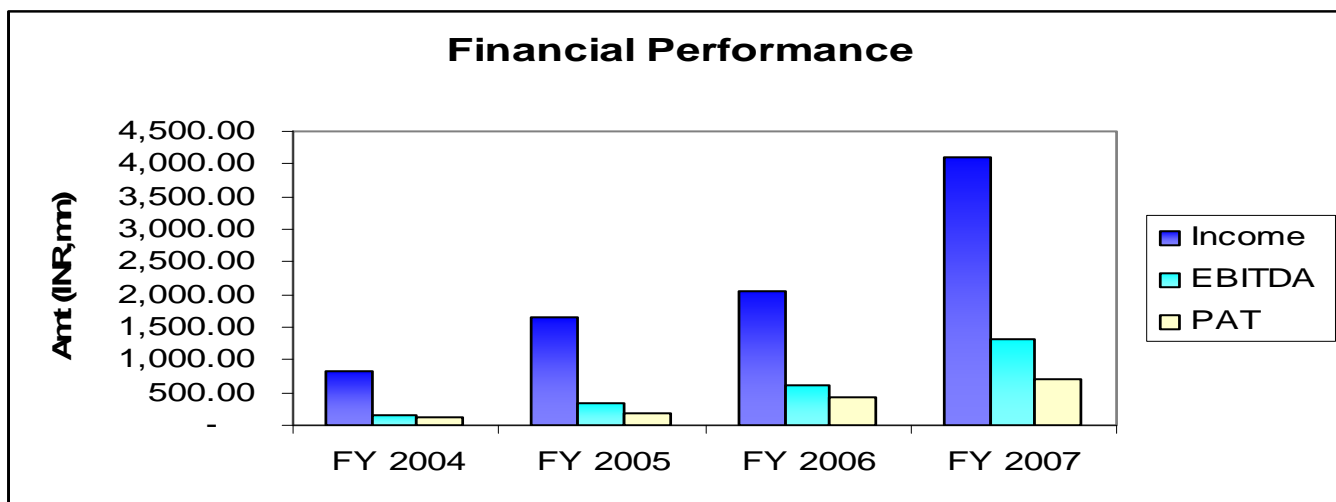
Peer group comparison:

Company*	EV/EBITDA (x)	P/E (x)	MCAP/SALES (x)	P/BV (x)	EPS (Rs.)	Share Price (Rs.)	Dividend/ Share (Rs.)
BEL at Lower Band	24.12	45.23	8.70	22.89	7.76	351.00	2.00
BEL at Upper Band	26.63	50.25	9.66	25.44	7.76	390.00	2.00
Puravankara Projects Limited	52.39	45.97	18.33	45.80	9.77	449.00	0.94
Unitech Limited	37.12	44.88	18.48	34.92	9.56	428.95	0.50
Parsvnath Developers Limited	14.41	17.89	4.56	4.91	22.19	396.95	2.50
Sobha Developers Limited	23.79	33.66	5.50	8.01	26.61	895.65	5.50

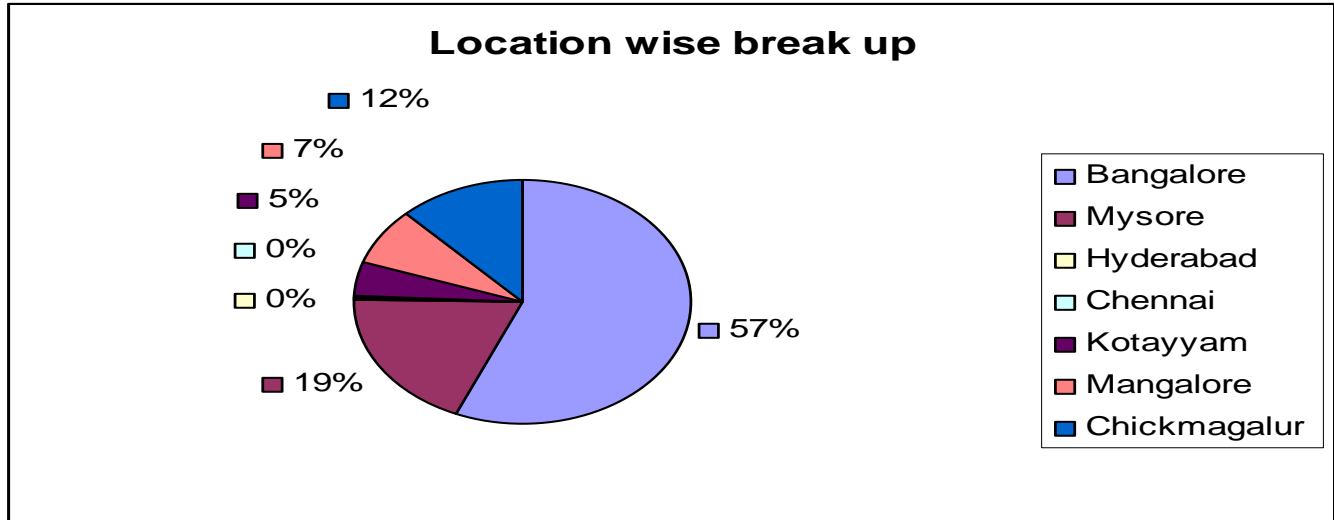
**Source: SPA Research. All figures are based on FY 2008E.*

Industry Scenario

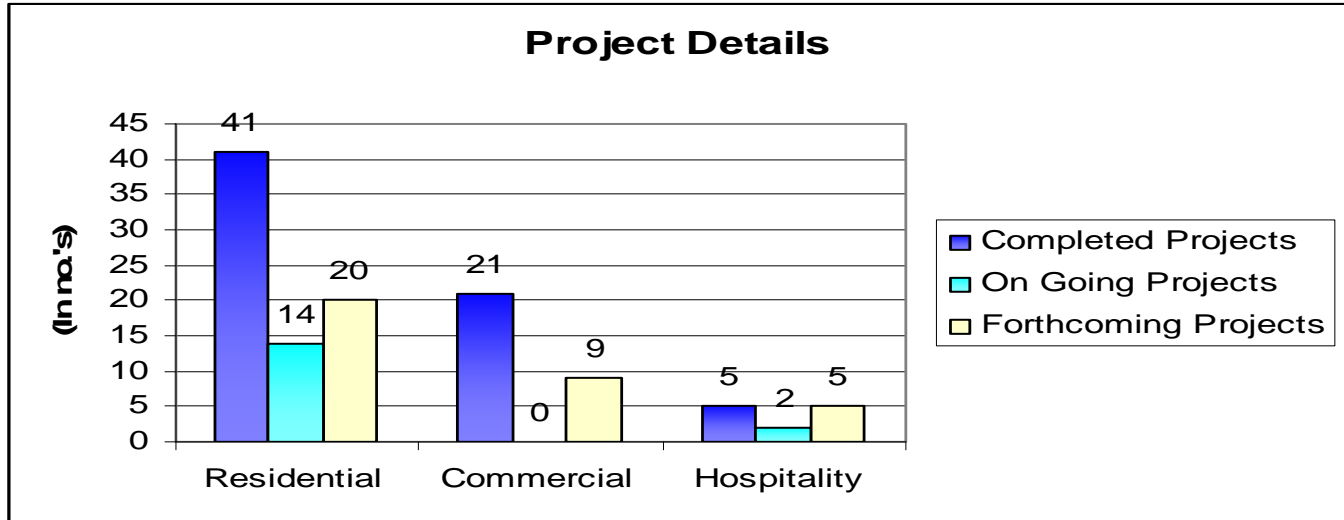
- The trend towards greater organization & transparency has contributed to the development of reliable indicators of value & organized investment in the real estate sector by domestic & international financial institutions & has also resulted in the greater availability of financing for real estate developments. Regulatory changes permitting foreign investment are expected to further increase investment in the Indian real estate sector. The nature of demand is also changing, with heightened consumer expectations that are influenced by higher disposable incomes, increased globalization & the introduction of new real estate products & services.
- These trends have been reinforced by the substantial recent growth in the Indian economy, which has stimulated demand for land & developed real estate across the business lines. Demand for residential, commercial & retail real estate is rising throughout India, accompanied by increased demand for hotel accommodation & improved infrastructure. In addition, tax & other benefits applicable to special economic zones are expected to result in a new source of demand.
- According to CRIS INFAC's, housing investments (permanent non-slum houses) are expected to grow at an implicit trend annual growth rate (TAGR) of 12% over the next five years. Housing investments are expected to increase from Rs. 9.8 tn from 2001-02 to 2005-06 to Rs. 17.3 tn from 2006-07 to 2010-11, driven by urban housing investments, which are expected to grow at a CAGR of 13.7%.
- The IT, ITES & related sectors are estimated to account for more than 70% of net demand. Capital flows into corporate real estate over the next three years are estimated at more than US\$5 bn.
- The room demand is expected to grow at a CAGR of 10% over the next five years. This is expected to be accompanied by increases in average room rates of 20% & 10% in the fiscal years 2007 & 2008, respectively. Growth in occupancy rates is likely to be assisted by factors such as a 10% CAGR in the number of incoming travelers to India over the next five years.
- SEZs, by virtue of their size, are expected to be a significant new source of real estate demand. There were 19 SEZs prior to the enactment of the SEZ Act & as of July 31, 2007 there are 135 SEZs that have been notified under the SEZ Act.



Land Reserves:



Location wise break up	Land Reserves (in acres)
Bangalore	227.98
Mysore	75.36
Hyderabad	1.38
Chennai	1.46
Kotayyam	18.23
Mangalore	30.04
Chickmagalur	49.00
Total	403.45

Details of projects of BEL:


Financial Snapshot	(Rs. In Million)			
	FY 2007	FY 2006	FY 2005	FY 2004
Sales	4,112.14	2,038.74	1,641.16	834.44
Total Income	4,112.14	2,038.74	1,641.16	834.44
Operating Profit	1,317.99	623.50	323.96	152.18
Net Profit	714.98	419.81	197.20	107.74
EPS* (Rs./share)	6.31	3.70	1.74	0.95
Share capital	269.16	269.16	107.66	35.89
Reserves & Surplus	1,193.93	537.74	324.74	222.19
Net worth	1,463.09	806.90	432.40	258.08
Total Debt	2,402.03	1,025.25	1,092.71	310.66
Book Value* (Rs./share)	12.91	7.12	3.82	2.28

**The no. of shares are of the post issue equity i.e. 113.33 mn shares.*

Key Ratios:

Particulars	FY 2004	FY 2005	FY 2006	FY 2007
RONW	41.75%	45.61%	52.03%	48.87%
OPM	18.24%	19.74%	30.58%	32.05%
NPM	12.91%	12.02%	20.59%	17.39%

Income Statement				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Income	4,112.14	2,038.74	1,641.16	834.44
Inc/Dec in stocks	58.06	(6.42)	(36.13)	(67.89)
Project Expense	2,329.53	1,152.87	1,069.71	480.80
Employment Costs	182.56	96.99	52.43	32.42
Administrative & Selling Expense	340.12	158.96	158.93	101.15
Operating Expenditure	2,794.15	1,415.24	1,317.20	682.26
Operating Income	1,317.99	623.50	323.96	152.18
Other Income	-	-	-	-
Gross Profits	1,317.99	623.50	323.96	152.18
Finance & Interest charges	165.63	96.57	60.68	18.93
Depreciation	100.35	58.39	41.59	11.96
Profit Before Tax	1,052.01	468.54	221.69	121.29
Tax	337.03	48.73	24.49	13.55
Profit After Tax	714.98	419.81	197.20	107.74
Extraordinary Items	-	(3.25)	(1.57)	(0.33)
Net Profit	714.98	423.06	198.77	108.07

Cash Flow Statement				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Cash flow from operations	1,275.17	600.85	305.39	139.85
Cash for working capital	1,818.05	75.38	592.06	190.05
Net Operating Cash Flow - A	(542.88)	525.47	(286.67)	(50.20)
Net purchase of fixed assets	(607.71)	(251.80)	(347.44)	(49.75)
Net purchase of investments	0.14	(4.37)	(0.31)	(0.08)
Interest Received	11.59	10.19	2.27	0.90
Income from Investments	0.65	0.15	0.11	2.19
Net Cash Flow From Investing - B	(595.33)	(245.82)	(345.37)	(46.74)
Interest Payment	(141.23)	(94.19)	(53.83)	(18.75)
Proceeds / Repayment from borrowings	1,376.79	(67.69)	782.05	163.80
Dividend payments	(84.40)	(35.29)	(20.29)	(7.29)
Net Cash Flow From Financing - C	1,151.17	(197.18)	707.93	137.77
Net Cash Flow (A+B+C)	12.96	82.48	75.90	40.83
Opening Cash	211.69	129.21	53.31	12.48
Closing Cash	224.65	211.69	129.21	53.31

Balance Sheet				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Sources of Funds				
Equity Share Capital	269.16	269.16	107.66	35.89
Reserves & Surplus	1,193.93	537.74	324.74	222.19
Miscellaneous expenditure (written off)	(9.99)	(0.65)	-	-
Networth	1,453.10	806.25	432.40	258.08
Secured Loan	2,402.03	1,007.32	1,071.61	286.65
Unsecured Loan	-	17.93	21.10	24.01
Loan Funds	2,402.03	1,025.25	1,092.71	310.66
Deferred Tax Liability, net	-	-	-	-
Total Liability	3,855.13	1,831.50	1,525.11	568.74
Application of Funds				
Gross Block	1,049.29	487.52	427.21	209.70
Less: Depreciation	216.48	116.35	58.59	32.36
Net Block	832.81	371.17	368.62	177.34
Capital work in progress	479.32	433.60	232.97	109.01
Net Fixed Assets	1,312.13	804.77	601.59	286.35
Investments	10.64	8.20	4.43	2.56
Deferred Tax Asset	16.76	4.33	10.76	1.18
Current Assets				
Inventories	3,986.24	2,681.58	2,128.94	461.12
Sundry Debtors	177.57	78.01	98.99	30.69
Cash & Bank	224.65	211.69	129.21	53.31
Loans & Advances	1,658.11	805.93	560.27	596.49
Less: Current Liabilities & Provisions	3,530.97	2,763.01	2,009.08	862.96
Net Current Assets	2,515.60	1,014.20	908.33	278.65
Total Assets	3,855.13	1,831.50	1,525.11	568.74

Objects of the issue:

1. To fund acquisition of land.
2. To fund construction & development for ongoing & forthcoming projects. .
3. General corporate purpose.

The detailed cost of the above objects of the issue is given below:

(Amount, INR, mn)

Sl. No.	Particulars	Total Estimated Cost	Amount Paid as on November 23, 2007	Estimated amount to be financed from the net proceeds of the issue.	Balance amount required to be funded
1.	Acquisition of land.	1,356.12	876.43	479.69	---
2.	Construction & development for ongoing & forthcoming projects.	11,295.47	1,260.87	5,120.37	4,914.23
3.	General corporate purpose.	•	---	•	•
	Total	•	2,137.30	•	4,914.23

Utilization schedule of the net proceeds:

(Amount, INR, mn)

Sl. No.	Particulars	Estimated net proceeds utilization as on March 31,		
		2008	2009	2010
1.	Acquisition of land.	479.69	---	---
2.	Construction & development for ongoing & forthcoming projects.	3,732.87	1,050.00	337.50
3.	General corporate purpose.	•	•	•
	Total	•	•	•

The objects of the issue have not been appraised by any bank or any financial institution or an independent organization.



Brigade Enterprises Limited (BEL)

Equity Research Desk

IPO-Analysis

10th December, 2007

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Disclosure of Interest Statement

1. Analyst ownership of the stock - No
2. Group/Directors ownership of the stock – No
3. Broking relationship with company covered - No

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