

3Q earnings disappoint, office demand strong; Reiterate Buy

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3Q earnings below expectation; Reiterate Buy

Brigade reported disappointing 3Q earnings at Rs104mn (against our expectation of Rs170mn) primarily due to higher interest costs and lower revenue recognition. Positively EBIDTA margin saw sharp rebound. We reiterate our Buy rating with a lower PO of Rs100 (-9%) with potential upside of 40% from current levels. We have cut our PO to factor in a delay in residential launches and six month delay in completion of its retail mall project. We continue to like the stock given strong rental growth visibility and good pipeline of residential launches in FY13.

Aggressive residential launches ahead

Brigade continues to aggressively look at new residential launches with another 5mn sq ft lined up over the next 6 months. It has seen strong response to its launches in last 18months with 60% of the inventory pre sold. But the benefit of these launches will start reflecting in revenues only from 2HFY13. We have cut our earnings estimate for FY12-14 by 4-25% to factor in higher interest cost and have also pushed the revenue recognition from new residential projects by 6 months to reflect the delay in launches.

Solid demand for its commercial assets

Brigade's commercial projects in Bangalore have seen strong traction on leasing with its Summit project 95% leased and vacancy in WTC reducing to 35%. The benefit of the strong leasing should reflect in earnings from FY13. It has managed to sell 30% of its inventory in WTC with the latest transaction at Rs7000/sq ft against our estimate of Rs6000/sq ft. The retail mall (pre leased 85%) is expected to start operations from 4Q with rental accrual expected from 2QFY13.

Debt remains under control

The debt has remained flat in FY12 at Rs8bn given strong inflow from residential and commercial sale. Brigade expects to reduce debt by over 25% in FY13.

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	470	815	766	986	1,173
EPS	4.22	10.70	6.82	8.79	10.45
EPS Change (YoY)	-45.4%	153.2%	-36.2%	28.8%	19.0%
Dividend / Share	1.20	1.50	1.36	1.76	2.09
Free Cash Flow / Share	(22.37)	(16.02)	10.44	11.70	4.00

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	17.03x	6.73x	10.54x	8.19x	6.88x
Dividend Yield	1.67%	2.08%	1.90%	2.44%	2.91%
EV / EBITDA*	20.83x	9.93x	8.59x	5.90x	5.62x
Free Cash Flow Yield*	-31.10%	-22.27%	14.51%	16.26%	5.56%

* For full definitions of *iQmethod*SM measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 11135393

Stock Data

Price	Rs71.95
Price Objective	Rs100.00
Date Established	8-Feb-2012
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs37.65-Rs111.00
Mkt Val / Shares Out (mn)	US\$164 / 112.3
Market Value (mn)	Rs8,077
Average Daily Volume	80,555
BofAML Ticker / Exchange	XBDGF / NSI
Bloomberg / Reuters	BRGD IN / BRIG.NS
ROE (2012E)	6.7%
Net Dbt to Eqty (Mar-2011A)	79.3%
Est. 5-Yr EPS / DPS Growth	24.0% / 11.7%
Free Float	42.5%

Key Changes

(Rs)	Previous	Current
Price Obj.	110.00	100.00
2012E EPS	9.16	6.82
2013E EPS	10.90	8.79
2014E EPS	10.92	10.45
2012E EBITDA (m)	2,137.3	1,857.3
2013E EBITDA (m)	2,949.8	2,704.9

iQprofileSM Brigade Enterprises

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	3,842	5,481	6,057	8,041	8,342
Gross Profit	1,328	2,370	2,530	3,615	3,786
Sell General & Admin Expense	(571)	(772)	(727)	(965)	(1,488)
Operating Profit	560	1,407	1,553	2,218	2,353
Net Interest & Other Income	(90)	(168)	(532)	(848)	(723)
Associates	4	(2)	0	0	0
Pretax Income	474	1,237	1,021	1,370	1,630
Tax (expense) / Benefit	(4)	(422)	(255)	(384)	(456)
Net Income (Adjusted)	470	815	766	986	1,173
Average Fully Diluted Shares Outstanding	112	112	112	112	112

Key Cash Flow Statement Data

Net Income	470	815	766	986	1,173
Depreciation & Amortization	206	200	304	487	487
Change in Working Capital	(232)	(1,364)	1,760	494	(60)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(127)	(27)	(136)	(136)	(136)
Cash Flow from Operations	316	(377)	2,694	1,831	1,464
Capital Expenditure	(2,828)	(1,422)	(1,522)	(517)	(1,015)
(Acquisition) / Disposal of Investments	195	17	0	0	0
Other Cash Inflow / (Outflow)	89	91	136	136	136
Cash Flow from Investing	(2,544)	(1,314)	(1,386)	(381)	(878)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(158)	(196)	(179)	(230)	(274)
Cash Flow from Financing	2,181	1,340	(179)	(1,730)	(1,274)
Free Cash Flow	(2,512)	(1,798)	1,172	1,313	449
Net Debt	7,263	8,781	7,652	6,432	6,120
Change in Net Debt	2,303	1,532	(1,130)	(1,219)	(312)

Key Balance Sheet Data

Property, Plant & Equipment	10,849	12,239	13,456	13,487	14,015
Other Non-Current Assets	41	11	11	11	11
Trade Receivables	81	163	180	239	248
Cash & Equivalents	403	451	1,581	1,300	612
Other Current Assets	10,211	13,339	11,208	12,009	12,256
Total Assets	21,584	26,203	26,436	27,046	27,142
Long-Term Debt	7,666	9,232	9,232	7,732	6,732
Other Non-Current Liabilities	0	232	232	232	232
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	3,823	5,669	5,315	6,668	6,865
Total Liabilities	11,489	15,133	14,779	14,633	13,829
Total Equity	10,096	11,070	11,657	12,414	13,313
Total Equity & Liabilities	21,585	26,203	26,436	27,046	27,142

iQmethodSM - Bus Performance*

Return On Capital Employed	3.1%	4.8%	5.6%	7.7%	8.3%
Return On Equity	4.7%	7.7%	6.7%	8.2%	9.1%
Operating Margin	14.6%	25.7%	25.6%	27.6%	28.2%
EBITDA Margin	19.9%	29.3%	30.7%	33.6%	34.0%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.7x	-0.5x	3.5x	1.9x	1.2x
Asset Replacement Ratio	13.7x	7.1x	5.0x	1.1x	2.1x
Tax Rate (Reported)	0.9%	34.1%	25.0%	28.0%	28.0%
Net Debt-to-Equity Ratio	71.9%	79.3%	65.6%	51.8%	46.0%
Interest Cover	6.2x	8.4x	2.9x	2.6x	3.3x

Key Metrics

* For full definitions of iQmethodSM measures, see page 6.

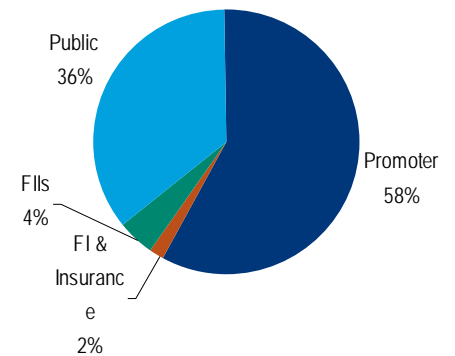
Company Description

Brigade is a Bangalore based real estate developer, primarily focused on development of large integrated enclaves. These enclaves are self contained urban neighborhood combining residential, social, business and commercial zones. It plans to enter the value housing also and has land bank across 7 cities in South India

Investment Thesis

We expect strong performance from the commercial assets of Brigade over next 12 months as all the assets will start generating lease rentals. While debt is elevated we believe it is well backed by the commercial assets. The recent launches in residential provide further visibility on earnings from FY13. High NAV visibility and a strong balance sheet provide further strength to our thesis. Hence, our Buy.

Chart 1: Shareholding as on Dec 2011



Source: BSE

Stock Data

Price to Book Value 0.7x

Table 1: NAV details

	Value (Rs m)	Value per share (Rs)	% of NAV (pre debt)
Residential	8,241	73	38.4%
Hospitality	2,300	20	10.7%
Commercial	10,925	97	50.9%
Gross NAV	21,466	191	
<i>Less</i>			
- Net debt	9,000	80	
Net NAV	12,466	111	
Assuming 10% discount to NAV	11,219	100	
Price Objective		100	

Source: BofA Merrill Lynch Global Research

Table 2: Earnings Snapshot

	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Total operating income	4,094	3,842	5,481	6,057	8,041	8,342
-growth	-19%	-6%	43%	11%	33%	4%
EBITDA	739	677	1,517	1,721	2,569	2,704
-growth	-51%	-8%	124%	13%	49%	5%
Net Income	384	470	815	766	986	1173
-growth	-62%	22%	73%	-6%	29%	19%
Margins						
Gross margin	32%	35%	43%	42%	45%	45%
EBITDA margin	18%	18%	28%	28%	32%	32%
Net Income margin	9%	12%	15%	13%	12%	14%

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

Brigade Enterprises (XBDGF)

Our preferred valuation methodology is NAV, calculated by discounting the cash flows from each of the real estate projects. Our price objective of Rs100 is therefore based on our NAV of Rs111. We expect Brigade to trade at a discount of 10% to its NAV given high NAV visibility, good earnings momentum and low regulatory risk. Key assumptions underlying our NAV are WACC of 15.1%, capitalization rate of 11% and inflation of 5% from FY14E on both selling price and construction costs. On a P/E basis, at our PO of Rs100, the stock would trade at 11x FY13E earnings. Downside risks are lower-than-expected volume and delay in revival of demand for commercial real estate in Bangalore.

Link to Definitions

Financials

Click [here](#) for definitions of commonly used terms.

Analyst Certification

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08 February 2012

India - General Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Anant Raj Industries Ltd	XNRJF	ARCP IN	Gagan Agarwal
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	DLF Limited	XVDUF	DLFU IN	Abhishek Kiran Gupta
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Havells	HVLIF	HAVL IN	Sanjaya Satapathy
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Oberoi Realty Ltd	XRXOF	OBER IN	Abhishek Kiran Gupta
	Opto Circuits	OPOCF	OPTC IN	Sanjaya Satapathy
	SINTEX INDUSTRIES LTD	SIXDF	SINT IN	Prasad Deshmukh
NEUTRAL				
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Coromandel International Ltd	CMDFF	CRIN IN	Prasad Deshmukh
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	Shree Cements	SREEEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Abhishek Kiran Gupta
UNDERPERFORM				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	Housing Development and Infrastructure	XGHSF	HDIL IN	Gagan Agarwal
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMUY	ICEM LX	Reena Verma Bhasin, CFA
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Abhishek Kiran Gupta
	Jaypee Infratech	XJAYF	JPIN IN	Gagan Agarwal
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Jindal Saw	SWPFF	JSAW IN	Sanjaya Satapathy
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	Sobha Developers	SBDRF	SOBHA IN	Gagan Agarwal
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	UltraTech Cemen	XDJNF	UTCEM IN	Reena Verma Bhasin, CFA
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
RVW				
	Fortis Healthcare Limited	XFFTf	FORH IN	Prasad Deshmukh

***iQmethod*SM Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings

Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit

Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

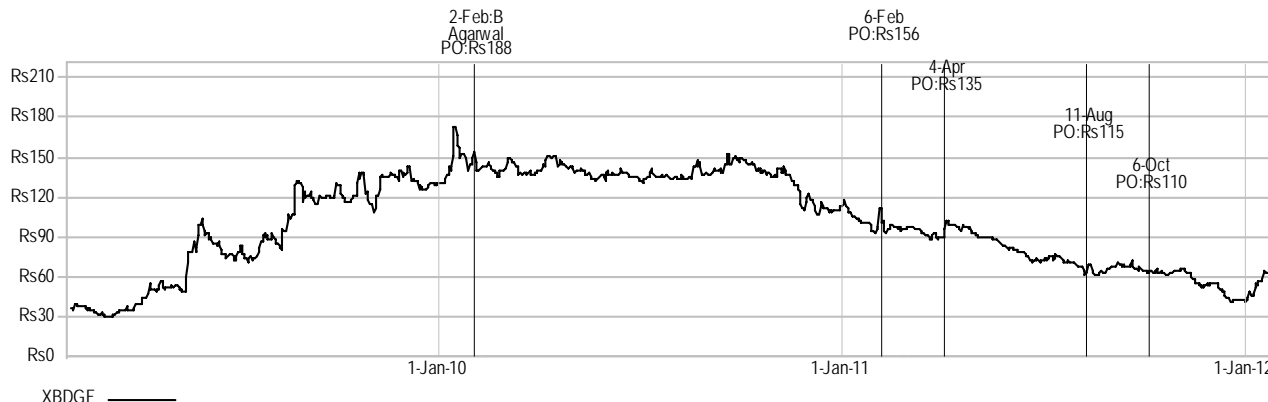
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XBDGF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of January 31, 2012 or such later date as indicated.

Investment Rating Distribution: Real Estate/Property Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	71	49.65%	Buy	37	55.22%
Neutral	34	23.78%	Neutral	14	41.18%
Sell	38	26.57%	Sell	11	29.73%

Investment Rating Distribution: Global Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2029	52.00%	Buy	1337	72.11%
Neutral	1009	25.86%	Neutral	657	71.34%
Sell	864	22.14%	Sell	487	60.20%

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