



Brigade Enterprises

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,850	BRGD IN
	REUTERS CODE
S&P CNX: 5,036	BRIG.BO

23 January 2010

Buy

Previous Recommendation: Buy

Rs152

Equity Shares (m)	112.3
52-Week Range	187/28
1,6,12 Rel. Perf. (%)	20/65/196
M.Cap. (Rs b)	17.1
M.Cap. (US\$ b)	0.4

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	3,951	867	7.7	-15.0	19.7	1.7	3.9	4.3	5.6	36.5
3/10E	4,278	775	6.9	-10.7	22.1	1.7	7.6	7.9	5.6	16.5
3/11E	6,447	1,148	10.2	48.2	14.9	1.6	10.5	10.7	3.6	10.3
3/12E	9,077	1,752	15.6	52.6	9.8	1.4	14.7	15.0	2.5	6.8

- 3QFY10 PAT up 174%:** Brigade Enterprises' (BEL) 3QFY10 revenues were down 41% YoY at Rs572m, and net profit was up 174% YoY at Rs60m. For 9MFY10, rental income was Rs220m.
- Steady progress in the residential vertical:** During 3QFY10, BEL launched two residential projects – Brigade Sparkle (~0.2msf) in Mysore at Rs2,000-2,200/sf and Brigade Sonata (~0.02msf) in central Bangalore (soft launch phase underway). During 3QFY10, BEL sold ~118 units, including ~16 units at its recently launched Brigade Sparkle project. BEL's key projects, Gateway and Metropolis progressed well during 3QFY10, with sales of 38 units in Metropolis and 22 units in Gateway. The management is hopeful of delivering both these projects to buyers in FY10.
- Commercial vertical to witness transactions:** During 3QFY10, BEL launched two new commercial projects – Brigade Vantage in Mysore (retail/commercial projects of 0.06msf) and Brigade Rubix in Bangalore (commercial project of 0.2msf). The company expects to achieve lease rentals of Rs20-22/sf/mth from Brigade Vantage and Rs30-40/sf/mth from Brigade Rubix.
- Valuation and view:** This erstwhile Bangalore-focused real estate developer is now looking to expand its operations across other key southern cities such as Chennai, Hyderabad, Kochi and Mysore. Our NAV for Brigade is Rs164/share, the residential vertical accounting for 34% of GAV and the commercial vertical forming ~37% of GAV. The retail and hospitality verticals form ~15% and ~12% of GAV respectively. We are positive about BEL due to its quality land bank with strong monetization visibility. BEL trades at an ~11% discount to its NAV of Rs164/share and ~1.5x FY11E BV of Rs97. Maintain **Buy**.

QUARTERLY PERFORMANCE

	FY09				FY10			(Rs Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	FY09	FY10
Sales	1,207	967	974	351	578	766	572	3,951	4,278
Change (%)	-54.9	-77.5	-90.3	-95.9	-52.1	-20.7	-41.2	-20.8	8.3
Total Expenditure	932	891	872	516	553	725	571	3,347	2,828
Project Cost	785	721	771	435	468	594	451	3,133	2,384
Employee Cost	65	57	32	23	29	30	39	215	354
Others	82	113	69	58	56	101	82	0	90
EBITDA	275	76	102	-165	25	42	1	604	1,450
Change (%)	-63.9	-94.6	-98.5	-103.2	-90.8	-45.1	-98.9	-57.3	139.9
As of % Sales	22.8	7.9	10.4	-47.1	4.4	5.4	0.2	15.3	33.9
Depreciation	22	51	21	41	45	43	47	151	193
Interest	18	-1	20	-7	22	19	21	31	228
Other Income	116	119	99	111	86	88	118	135	63
Extra-ordinary income	0	187	-84	292	4	7	0	-	-
PBT	351	333	76	204	48	61	52	557	1,091
Tax	85	-54	54	48	9	16	-9	175	316
Effective Tax Rate (%)	24.3	-16.2	71.1	23.4	19.1	26.2	-16.5	31.4	29.0
Reported PAT	266	387	22	156	39	45	60	382	775
Change (%)	-64.1	-62.6	-99.5	-95.6	-85.3	-88.4	173.9	-62.4	102.9
Prior period items/extra ordinary	-	-	-	-90	-	-	-	486	-
Adj PAT	266	387	-62	66	39	45	60	867	775
Change (%)	-64.1	-62.6	-101.4	-98.2	-85.3	-88.4	-195.9	-15.0	-10.7

E: MOST Estimates

3QFY10 PAT up 174%

Brigade Enterprises' (BEL) 3QFY10 revenues were down 41% YoY at Rs572m, and net profit was up 174% YoY at Rs60m. For 9MFY10, rental income was Rs220m. As of December 2009, BEL's gross debt was Rs3.7b (v/s Rs4.3b as of March 2009), and its net debt equity was 0.37x (v/s 0.43x as of March 2009).

DETAILS OF LAUNCHES DURING 3QFY10

PROJECT	LOCATION	AREA (MSF)	BEL'S SH.%	BEL'S SH. AREA (MSF)	LAUNCH	ESTIMATE COMPLETION
Brigade Sparkle	J.P Nagar, Mysore	0.24	81	0.19	3QFY10	Jun-12
Brigade Vantage	Vinobha Road, Mysore	0.12	50	0.06	3QFY10	Dec-11
Brigade Rubix	HMT layout, Blore	0.20	100	0.20	3QFY10	Jun-12
Brigade Sonata	Palace Road	0.03	50	0.02	3QFY10	Jun-11
Total		0.59		0.47		

Source: Company/MOSL

Steady progress in the residential vertical

During 3QFY10, BEL launched two residential projects – Brigade Sparkle (~0.2msf) in Mysore at Rs2,000-2,200/sf and Brigade Sonata (~0.02msf) in central Bangalore (soft launch phase underway). During 3QFY10, BEL sold ~118units, including ~16 units at Brigade Sparkle project. BEL's key projects – Gateway and Metropolis progressed well during 3QFY10, with sales of 38 units in Metropolis and 22 units in Gateway. The management hopes to deliver the projects to buyers in FY10.

TOTAL UNITS SOLD DURING 3QFY10

PROJECT	LOCATION	NOS	AS % OF TOTAL
Metropolis	Bangalore	38	32.2
Gateway	Bangalore	22	18.6
Sparkle (new launch at Mysore)	Mysore	18	15.3
Palmsprings	Bangalore	15	12.7
Courtyard	Bangalore	14	11.9
Others	-	11	9.3
Total		118	100.0

DETAILS OF KEY PROJECTS (RS M)

PROJECT	METROPOLIS	GATEWAY	TOTAL
Total no. of units	1,618	1,257	2,875
Units sold as of Dec-09	1,332	1,046	2,378
Sold %	82.3	83.2	82.7
Units unsold as of Dec-09	286	211	497
Total Project Realizations	5,110	8,750	13,860
Avg realization per unit	3.2	7.0	4.8
Amount Recd till Dec-09	3,750	6,185	9,935
As % of total realizations	73.4	70.7	71.7
Amount to be received	1,360	2,565	3,925
Revenues recognized	3,450	6,190	9,640
As % of total realizations	67.5	70.7	69.6
Revenues to be recognized	1,660	2,560	4,220
Balance cost to be incurred %	13.0	16.0	29.0

Source: Company/MOSL

Commercial vertical to witness transaction

The commercial projects at Brigade Gateway (Summit 1 and 2) and Brigade Metropolis (North Star) are yet to be leased/sold. There has been no progress on the planned sale of ~1msf of commercial office space in Bangalore to Oracle for ~Rs6b. However the management hopes to lease or sell part of these projects in FY10. The retail project at Brigade Gateway, Orion Mall is 40-45% leased at average lease rentals of Rs70/sf/mth. During 3QFY10, BEL launched two new commercial projects – Brigade Vantage in Mysore (retail/commercial projects of 0.06msf) and Brigade Rubix in Bangalore (commercial project of 0.2msf). The company expects lease rentals of Rs20-22/sf/mth from Brigade Vantage and Rs30-40/sf/mth from Brigade Rubix.

DETAILS OF PLANNED LAUNCHES IN 4QFY10

PROJECT	LOCATION	AREA (MSF)	BEL'S SH. %	BEL'S SH. AREA (MSF)	ESTIMATE LAUNCH	ESTIMATE COMPLETION
Brigade Nalpat Broadway	K. G Road, Bangalore	0.06	30	0.02	Feb-10	Jan-12
Brigade Zenith	Banjara Hills, Hyderabad	0.12	50	0.06	Feb-10	Dec-11
Brigade Orion Mall @ Banaswadi	Banaswadi Rd, Blore	0.24	56	0.13	Jan-10	Jun-12
Brigade Exotica *	Bandapura, Blore	1.45	100	1.45	Feb-10	Dec-14
Brigade Palmgrove	Bogadi, Mysore	0.35	70	0.25	Feb-10	Jun-12
Brigade IRV centre	Nallurahalli, Blore	0.28	60	0.17	Feb-10	Jun-12
Brigade Bhuwalka Icon	Near ITPL, Blore	0.41	50	0.21	Feb-10	Dec-12
Brigade SRP I	OMR II, Chennai	0.18	45	0.08	Feb-10	Jun-12
Brigade Omega	Thurahalli I, Blore	0.86	66	0.56	Mar-10	Mar-13
Brigade Orchards *	Devanahalli	7.50	50	3.75	Mar-10	Dec-16
Cochin Infopark	Cochin	0.71	100	0.71	Mar-10	Mar-13
		12.17		7.39		

Note: * Projects to be developed in phases

Source: Company/MOSL

Foray into affordable housing segments with Brigade Value Homes

BEL plans to launch 7-8msf of affordable homes (Brigade Value Homes) by FY11. These form part of its existing landbank of ~28msf. BEL plans to develop ~10,000 homes under this segment, largely in Bangalore. In the first phase, BEL will develop affordable homes in Kanakapura Road (4,000 units), Devanahalli Town (3,000 units), Mysore Road (1,600 units) and K R Puram in Whitefield (1,000 units). It is likely to launch them over the next 6-12 months. These projects will offer 1 bedroom, hall and kitchen (BHK) homes of 500-550sf priced at Rs1-1.3m/unit, 2 BHK homes of 850-900sf, priced at Rs1.7-2.1m/unit and 3 BHK homes of 1,050-1,100sf priced at Rs2.1-2.6m/unit.

The management says the average land cost for these projects is Rs250-300/sf and the construction cost is likely to be Rs1,000-1,200/sf. The management is targeting average realizations of Rs2,000-2,400/sf from the projects and is likely to earn EBITDA margins of ~20-25%. The development of the projects is to be funded equally from BEL's internal accruals, customer advances and institutional funds. BEL expects the projects to start contributing to revenues from FY12 onwards. Recent launches in the affordable housing segment in Bangalore have had an encouraging response. Demand is likely to gain momentum in the IT hub of Bangalore, given the improvement in outlook for the IT sector.

BEL'S AFFORDABLE HOUSING PLANS

LOCATION	PLANNED AFFORDABLE HOMES (NOS.)	REALIZATIONS (RS/SF)	STATUS
Devanahalli, Bangalore	3,000	2,200	Plans approved, likely to be launched in 6 months
Kanakpura, Bangalore	4,000	2,000	Plans approved, likely to be launched in 6 months
Mysore Road, Bangalore	1,600	2,000	Planning Stage
Whitefield, Bangalore	1,000	2,400	Planning Stage
Total	9,600	2,100	

Source: Company/MOSL

Value unlocking from hospitality vertical could be a near-term catalyst

BEL is considering raising funds by selling some stake in its hospitality subsidiary, Brigade Hospitality Services, to PE investors. Negotiations are underway and the deal is likely to be finalized in FY10. This could result in significant value unlocking for BEL and strengthen its cash flows. Including the recently launched Brigade Mercure Homestead Residences, a 4-star property with 126 rooms, BEL has 220 operational rooms. BEL plans to develop ~1.2msf of hotel projects, mostly in Bangalore.

BEL'S HOTEL DEVELOPMENT PLANS

PROJECT	LOCATION	TOTAL AREA (MSF)	BEL'S SHARE %	BEL'S SHARE (MSF)
Homestead 111 (Mercure)	Bangalore	0.10	100	0.10
Brigade Gateway (Sheraton)	Bangalore	0.30	100	0.30
Homestead 4, Jayanagar	Bangalore	0.04	100	0.04
Brigade Holiday Inn	Bangalore	0.30	100	0.30
Cochin Resort	Cochin	0.10	100	0.10
Sheraton Hotel	Bangalore	0.30	100	0.30
Business Hotel Chennai	Chennai	0.00	100	0.00
Homestead IV - Completed	Jayanagar, Bangalore	0.01	52	0.01
Galaxy Club, Malleswaram	Gateway, Bangalore	0.05	100	0.05
Total		1.20	-	1.20

Source: Company/MOSL

Valuation and view

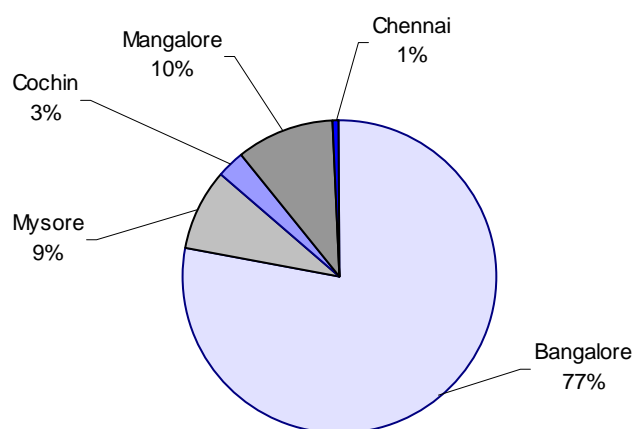
This erstwhile Bangalore-focused real estate developer is now looking to expand operations in other key southern cities such as Chennai, Hyderabad, Kochi and Mysore. It has a landbank of ~28msf, ~19.6msf residential, ~6msf commercial, ~1.1 hotel and ~0.8msf retail. Our NAV for Brigade is Rs164/share, with the residential vertical accounting for 34% of GAV and the commercial vertical forming ~37% of GAV. The retail and hospitality verticals form ~15% and ~12% of GAV respectively. We are positive about BEL due to its quality land bank with strong monetization visibility. BEL trades at an ~11% discount to its NAV of Rs164/share and ~1.5x FY11E BV of Rs97. Maintain **Buy**.

NAV OF RS164/SHARE

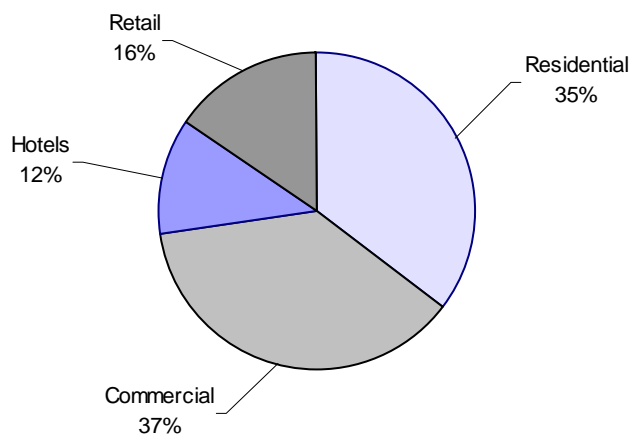
NAV CALCULATIONS	(RS M)	NAV/SHARE	% OF NAV	% OF GAV
Residential	13,088	117	71	34
Commercial	13,901	124	75	37
Hotels	4,411	39	24	12
Retail	5,797	52	31	15
Rental Property	772	7	4	2
Gross Annual Value	37,970	338	206	100
Less: Net Debt	6,978	62	38	18
Less: Other Op Exp	3,797	34	21	10
Tax	8,733	78	47	23
Net Asset Value	18,462	164	100	49

Source: MOSL

CITY-WISE GAV ANALYSIS



VERTICAL-WISE GAV ANALYSIS



Source: Company/MOSL

Brigade Enterprises: an investment profile

Company description

BEL, promoted by Jaishankar, is predominantly a Bangalore based developer with two decades of experience. It is present across all verticals with a focus on the middle and upper middle class segments. Brigade has traditionally focused on the Bangalore market but is now expanding to other South Indian cities such as Mysore, Hyderabad and Chennai. Brigade is one of the first companies to start mixed-use township development (Brigade Millenia) and was also among the first to develop commercial space (1989) in Bangalore.

Key investment arguments

- BEL's two key projects in Bangalore, (i) Gateway in Malleswaram and (ii) Metropolis in Whitefield, both mixed-use enclaves are in advanced stages of completion and ready for monetization. Both the projects form ~41% of our GAV
- BEL is considering raising funds by diluting stake in its hospitality subsidiary, Brigade Hospitality Services, to private equity investors. Negotiations are underway and the deal is likely to be finalized in FY10.

Key investment risks

- 60% of BEL's landbank is in Bangalore.
- Concentration on the over-competitive middle income housing segment poses a risk.

Recent developments

- BEL plans to launch 7-8msf of affordable homes (Brigade Value Homes) by FY11. These form part of its existing landbank of ~28msf.
- BEL plans to develop ~10,000 homes under this segment, largely in Bangalore. In the first phase, BEL will develop affordable homes in Kanakapura Road (4,000 units), Devanahalli Town (3,000 units), Mysore Road (1,600 units) and K R Puram in Whitefield (1,000 units). The homes are likely to be launched over the next 6-12 months.

Valuation and view

- Our FY11E NAV is Rs164/share. We are positive on BEL, due to its quality landbank with strong monetization visibility. BEL trades at an ~11% discount to its NAV of Rs164/share and ~1.5x FY11E BV of Rs97. **Buy**.

Sector view

- The RE sector seems firmly set on the path to recovery, following the successful balance sheet recapitalization by key RE companies and the pick-up in RE activity. We believe key RE companies that have successfully completed their recapitalization exercise are well placed to capitalize on the growth phase ahead, as they can now shift focus to project execution and pursue NAV enhancement strategies.

COMPARATIVE VALUATIONS

		BRIGADE ENT.	PURAVANKARA	ANANT RAJ
P/E (x)	FY10E	22.1	19.8	19.9
	FY11E	14.9	13.3	13.9
P/B (x)	FY10E	1.7	1.5	1.2
	FY11E	1.6	1.4	1.1
EV/Sales (x)	FY10E	5.6	2.9	9.2
	FY11E	3.6	2.2	5.9
EV/EBITDA (x)	FY10E	16.5	12.2	16.9
	FY11E	10.3	6.5	10.5

SHAREHOLDING PATTERN (%)

	DEC-09	SEP-09	DEC-08
Promoter	57.5	57.5	57.3
Domestic Inst	2.1	1.2	2.0
Foreign	4.9	4.9	5.5
Others	35.5	36.4	35.2

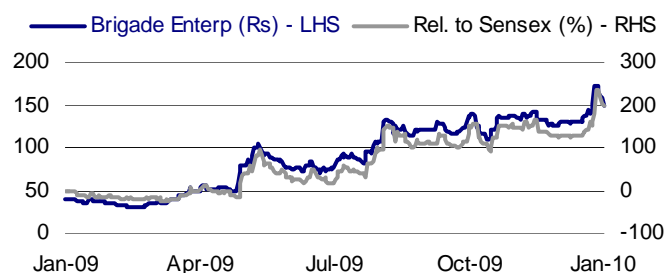
EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	6.9	5.5	26.6
FY11	10.2	7.6	35.3

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
152	164	7.7	Buy

STOCK PERFORMANCE (1 YEAR)



Financials and Valuation

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2008	2009	2010E	2011E	2012E	
Net Sales	4,986	3,951	4,278	6,447	9,077	
Change (%)	22.2	-20.8	8.3	50.7	40.8	
Construction expenses	3,233	3,133	2,384	3,568	4,989	
Staff Cost	340	215	354	514	668	
Selling & Administrative exp	0	0	90	93	96	
EBITDA	1,413	604	1,450	2,272	3,325	
% of Net Sales	28.3	15.3	33.9	35.2	36.6	
Depreciation	101	151	193	407	641	
Interest	37	31	228	301	289	
Other Income	85	135	63	76	107	
PBT	1,360	557	1,091	1,640	2,502	
Tax	344	175	316	492	751	
Rate (%)	25.3	31.4	29.0	30.0	30.0	
Reported PAT	1,016	382	775	1,148	1,752	
Extra-ord. Inc. (net of exp.)	0	0	0	0	0	
Adjusted PAT	1,020	867	775	1,148	1,752	
Change (%)	39.1	-15.0	-10.7	48.2	52.6	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2008	2009	2010E	2011E	2012E	
Share Capital	1,123	1,123	1,123	1,123	1,123	
Reserves	8,141	8,848	9,132	9,789	10,804	
Net Worth	9,264	9,971	10,255	10,911	11,926	
Loans	2,975	5,405	7,650	7,400	7,050	
Deferred Tax Liability	-15	-15	-15	-15	-15	
Capital Employed	12,224	15,360	17,889	18,296	18,961	
Gross Fixed Assets	1,236	1,865	2,961	7,089	10,038	
Less: Depreciation	308	451	800	1,207	1,935	
Net Fixed Assets	928	1,414	2,161	5,883	8,103	
Capital WIP	4,060	6,774	7,328	3,541	1,954	
Investments	4,058	222	250	250	250	
Curr. Assets	6,920	10,535	12,890	15,014	17,780	
Inventory	3,023	6,040	7,531	8,401	10,081	
Debtors	29	45	171	121	229	
Cash & Bank Balance	188	443	781	1,094	1,532	
Loans & Advances	3,679	4,006	4,407	5,398	5,938	
Current Liab. & Prov.	4,062	3,855	4,740	6,392	9,126	
Creditors	1,398	2,046	0	0	0	
Advance received	0	0	4,171	5,268	7,428	
Other Liabilities	2,056	1,465	0	0	0	
Provisions	608	344	569	1,123	1,698	
Net Current Assets	2,858	6,680	8,150	8,623	8,654	
Misc. Expenses	319	269	0	0	0	
Application of Funds	12,223	15,360	17,889	18,296	18,961	

E: MOSL Estimates

RATIOS						
Y/E MARCH	2008	2009	2010E	2011E	2012E	
Basic (Rs)						
Adjusted EPS	9.1	7.7	6.9	10.2	15.6	
Growth (%)	-66.6	-15.0	-10.7	48.2	52.6	
Cash EPS	2.0	0.9	1.7	2.8	4.3	
Book Value	82.5	88.8	91.4	97.2	106.2	
DPS	2.0	1.2	1.0	1.0	1.5	
Payout (incl. Div. Tax.)	25.9	41.3	81.5	55.0	54.1	
Valuation (x)						
P/E	16.8	19.7	22.1	14.9	9.8	
Cash P/E	76.5	160.4	88.3	55.0	35.7	
EV/EBITDA	14.1	36.5	16.5	10.3	6.8	
EV/Sales	4.0	5.6	5.6	3.6	2.5	
Price/Book Value	1.8	1.7	1.7	1.6	1.4	
Dividend Yield (%)	172.5	103.5	414.6	414.6	621.9	
Profitability Ratios (%)						
RoE	11.4	3.9	7.6	10.5	14.7	
RoCE	17.4	4.3	7.9	10.7	15.0	
Leverage Ratio						
Debt/Equity (x)	0.3	0.5	0.7	0.7	0.6	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2008	2009	2010E	2011E	2012E	
PBT before Extraordinary Item	1,360	557	1,091	1,640	2,502	
Add : Depreciation	101	151	193	407	641	
Interest	37	31	228	301	289	
Less : Direct Taxes Paid	344	175	316	492	751	
(Inc)/Dec in WC	2,106	3,567	1,133	160	-406	
CF from Operations	-952	-2,516	64	1,696	3,087	
(Inc)/Dec in FA	-2,050	-3,352	-1,494	-341	-1,274	
(Pur)/Sale of Investments	-4,048	3,836	-28	0	0	
CF from Investments	-6,097	484	-1,521	-341	-1,274	
(Inc)/Dec in Net worth	6,736	47	410	140	210	
(Inc)/Dec in Debt	573	2,430	2,245	-250	-350	
Less : Interest Paid	37	31	228	301	289	
Dividend Paid	263	158	631	631	947	
CF from Fin. Activity	7,009	2,288	1,795	-1,042	-1,376	
Inc/Dec of Cash	-40	255	337	313	438	
Add: Beginning Balance	225	188	443	781	1,094	
Closing Balance	188	444	781	1,094	1,532	



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

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Disclosure of Interest Statement

Brigade Enterprises

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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