

BRIGADE ENTERPRISES

Visible improvement across segments

- Revenue ahead of estimate

Brigade Enterprises (Brigade) reported Q2FY11 standalone revenue of INR 1,226 mn, ahead of our estimate of INR 960 mn. This was primarily due to higher share of revenue from *Gateway* on which average realizations were higher. EBITDA margin improved during the quarter (23% vs. 19% in Q1FY11) broadly in line with our expectation of ~25%. Reported net profit of INR 200 mn was in line with our expectation of INR 192 mn due to reversal of prior period items/excess tax provisions.

- Residential sales improve; new launches on cards

The company made new bookings of ~170 units (~0.2 msf) during the quarter, a visible improvement from ~125 units in Q1FY11 and Q4FY10 and currently it has unsold inventory of ~500 units across ongoing projects. Visibility on new launches is improving with Brigade planning to launch ~9 msf (over 70% residential) of new projects over the next 12 months including Phase I of Devanahalli and Kanakpura (Bengaluru) townships and Phase I of Brigade Value Homes. Additionally, the company has entered into a joint development agreement (JDA) for a residential project of ~2 msf spread over 21 acres at Arcot Road (Chennai) in which Brigade will have ~50% revenue share with an expected launch price of ~INR 5,000/sf.

- Uptick in leasing activity at *Gateway/Metropolis* projects

Brigade has entered into agreements to lease an additional ~0.3 msf at *Metropolis*, Whitefield in Bengaluru during the quarter at rentals of ~INR 30/sf and is also in final stages of negotiation at *WTC Gateway* for lease of ~0.3 msf. Further, *Orion Mall* which is expected to be operational in Q1CY11 is ~70% leased at average rentals of ~INR 80/sf (50% leased in Q1FY11). Construction activity on ~3 msf of rental assets is at an advanced stage and the *Sheraton, Gateway Hotel* (~230 keys) is expected to be operational in Q4FY11.

- Outlook and valuations: Poised for growth; maintain 'BUY'

We value Brigade on DCF basis for forthcoming residential/commercial launches of ~19 msf (its share at ~13 msf) at INR 9.0 bn, capital value of rental/hospitality assets at INR 17.5 bn, with residual land valued at INR 2.6 bn. We have revised our NAV to INR 194/share (INR 187 earlier) factoring in new Chennai JDA of ~2 msf. We maintain 'BUY' recommendation on the stock and rate it 'Sector Outperformer' on relative return basis.

Financials

(INR mn)

Year to March	Q2FY11	Q2FY10	% Chg	Q1FY11	% Chg	FY10	FY11E
Net revenues	1,226	840	45.9	925	32.6	3,824	5,812
EBITDA	277	115	140.1	178	55.7	677	2,145
Reported net profit	200	45	346.2	139	43.6	486	1,235
Diluted EPS (INR)	1.8	0.4	346.2	1.2	43.6	4.1	11.1
Diluted P/E (x)						33.2	12.4
EV/EBITDA (x)						33.5	10.6
ROAE (%)						4.7	11.6

November 9, 2010

Reuters: BRIG.BO Bloomberg: BRGD IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

Note:

Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 139
52-week range (INR)	:	187 / 120
Share in issue (mn)	:	112.3
M cap (INR bn/USD mn)	:	16 / 352
Avg. Daily Vol. BSE/NSE ('000):	:	260.3

SHARE HOLDING PATTERN (%)

Promoters*	:	57.5
MFs, FIs & Banks	:	2.6
FIIIs	:	4.4
Others	:	35.5
* Promoters pledged shares (% of share in issue)	:	NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	(4.3)	2.8	(4.2)
3 months	5.2	15.3	12.8
12 months	15.2	30.8	(5.5)

Adhidev Chattopadhyay

+91 22 6623 3358

adhidev.chattopadhyay@edelcap.com

Aashiesh Agarwal, CFA

+91 22 4063 5491

aashiesh.agarwal@edelcap.com

Financials snapshot - standalone

(INR mn)

Year to March	Q2FY11	Q2FY10	% change	Q1FY11	% change	FY10*	FY11E*	FY12E*
Net sales	1,226	840	45.9	925	32.6	3,824	5,812	6,084
Cost of construction	748	594	25.9	660	13.3	2,496	2,999	3,089
Staff Cost	63	30	113.4	43	47.9	236	262	274
Other exp	137	101	36.3	44	214.0	416	407	487
Total operating expenses	949	725	31.0	747	27.1	3,148	3,667	3,850
EBITDA	277	115	140.1	178	55.7	677	2,145	2,234
Depreciation	40	43	(6.7)	41	(3.1)	206	191	216
EBIT	237	72	227.3	136	73.6	471	1,954	2,019
Interest expense	48	19	147.5	16	209.1	90	141	134
Other income	14	15	(3.5)	6	158.0	89	50	55
Others	22	(7)	(409.7)	12	79.9			
PBT	225	61	270.9	139	62.3	470	1,863	1,939
Tax	25	16	58.0	(1)	(4,557.8)	4	618	621
Net profit from ordinary activities	200	45	346.2	139	43.6	466	1,246	1,318
Extraordinary items	0	0	NA	0	NA	(16)	0	0
Minority Interest	0	0	NA	0	NA	0	11	125
Share from associates	0	0	NA	0	NA	4	0	0
Reported net profit	200	45	346.2	139	43.6	486	1,235	1,193
as % of net revenues								
Cost of construction	61.0	70.7		71.4		65.3	51.6	50.8
Staff cost	5.2	3.5		4.6		6.2	4.5	4.5
Other expenses	11.2	12.0		4.7		10.9	7.0	8.0
Total operating expenses	77.4	86.3		80.8		82.3	63.1	63.3
Depreciation	3.3	5.1		4.5		5.4	3.3	3.5
Interest expenditure	3.9	2.3		1.7		2.4	2.4	2.2
Margins								
EBITDA margin	22.6	13.7		19.2		17.7	36.9	36.7
EBIT margin	19.3	8.6		14.8		12.3	33.6	33.2
Net profit margin	16.3	5.3		15.1		12.7	21.3	19.6
Tax rate	11.1	26.1		(0.4)		0.9	33.1	32.0

* Consolidated

- **Company Description**

Brigade is an established real estate developer in South India with focus on development of residential, commercial, retail, and hospitality projects. Since inception, its business is concentrated within Bengaluru and nearby areas such as Mysore. The company has an inhouse, fully integrated property development team comprising engineers and architects who oversee the development of properties from inception to completion.

The developer's ongoing projects are divided into residential projects of ~6 msf which are complete/nearing completion and commercial/retail/hospitality projects of ~3 msf at its flagship Gateway and Metropolis projects located in Bengaluru at Malleswaram and Whitefield, respectively. Apart from the ongoing projects, the company has delivered ~5.7 msf of residential and commercial projects till FY08 in South India and has an additional planned development of ~29 msf in South India, in which Brigade's economic interest is ~21 msf.

- **Investment Theme**

- **Quality South India developer with focus on Bengaluru**

Brigade is a South India based developer with operations concentrated primarily in Bengaluru along with other cities like Hyderabad, Mysore, Chennai, and Kochi. The developer currently has a land bank, of ~29.3 msf of saleable area (excluding ongoing projects, of which Brigade's economic interest is ~21 msf including ~16 msf residential and ~5 msf of commercial/retail projects with two-thirds of the land bank being concentrated in Bengaluru.

- **Completed rental assets and new launches to provide growth**

~3 msf of the company's Gateway/Metropolis projects' rental/hospitality assets are nearing completion. Improved leasing visibility coupled with the ~1.1 msf Gateway Office bagging 'World Trade Centre' status are key positives. After focusing on ~9 msf of projects across Bengaluru/Mysore in FY09-10, Brigade plans to launch ~9 msf residential projects across South India over the next 12 months, primarily in Bengaluru. The success of the launches will be key with revival in buyer sentiment along with increased hiring/salary hikes.

- **Key Risks**

- **Slower-than-expected recovery in commercial leasing**

A major part of Brigade's valuation emanates from Gateway and Metropolis commercial/retail assets. As the commercial/retail space in Bengaluru is still encountering oversupply problem, leasing activity may be slower than expected.

- **Visibility of cash flow dependent on large residential launches in FY11-12**

With Brigade's flagship Gateway/Metropolis projects in Bengaluru nearing completion, the company is planning to launch ~9 msf of new projects in FY11-12E. As these are its first major project launches after a gap of over three years, robust sales off take in these projects is essential for visibility of cash flows.

- **Land acquisition risk**

The company's current ~21 msf land bank is significantly lower than its peers in South India. Inability to replenish the land bank can negatively impact the company in a rising land prices scenario.

Financial Statements (Consolidated)

Income statement					(INR mn)
Year to March	FY08	FY09	FY10	FY11E	FY12E
Income from operations	4,889	3,908	3,824	5,812	6,084
Direct costs	2,913	2,792	2,496	2,999	3,089
Employee costs	340	215	236	262	274
Other expenses	320	340	416	407	487
Total operating expenses	3,573	3,347	3,148	3,667	3,850
EBITDA	1,316	561	677	2,145	2,234
Depreciation and amortisation	101	151	206	191	216
EBIT	1,215	410	471	1,954	2,019
Interest expenses	37	31	90	141	134
Other income	182	178	89	50	55
Profit before tax	1,360	557	470	1,863	1,939
Provision for tax	344	174	4	618	621
Core profit	1,016	382	466	1,246	1,318
Extraordinary items	(1)	110	16	0	0
Profit after tax	1,015	492	482	1,246	1,318
Minority Interest	0	0	0	11	125
Share from associates	5	2	4	0	0
Adjusted net profit	1,020	494	486	1,235	1,193
Equity shares outstanding (mn)	99	112	112	112	112
EPS (INR) basic	10.3	3.4	4.1	11.1	11.7
Diluted shares (mn)	99	112	112	112	112
EPS (INR) fully diluted	10.3	3.4	4.1	11.1	11.7
Dividend per share	2.3	1.2	1.2	1.1	1.1
Dividend payout (%)	22.0	27.3	27.7	10.0	10.0

Common size metrics- as % of net revenues

Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating expenses	73.1	85.6	82.3	63.1	63.3
Depreciation	2.1	3.9	5.4	3.3	3.5
Interest expenditure	0.8	0.8	2.4	2.4	2.2
EBITDA margins	26.9	14.4	17.7	36.9	36.7
Net profit margins	20.8	9.8	12.2	21.4	21.7

Growth metrics (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	22.5	(20.1)	(2.2)	52.0	4.7
EBITDA	25.5	(57.4)	20.6	216.9	4.2
PBT	29.3	(59.1)	(15.6)	296.4	4.1
Net profit	42.4	(62.4)	21.9	167.5	5.8
EPS	35.5	(66.8)	21.9	167.5	5.8

Balance sheet**(INR mn)**

As on 31st March	FY08	FY09	FY10	FY11E	FY12E
Equity share capital	1,123	1,123	1,123	1,123	1,123
Reserves & surplus	8,141	8,848	9,166	10,257	11,311
Shareholders funds	9,264	9,971	10,289	11,380	12,433
Secured loans	2,975	4,286	6,547	6,847	5,847
Unsecured loans	0	1,119	1,119	1,119	1,119
Borrowings	2,975	5,405	7,666	7,966	6,966
Minority interest	0	0	0	11	135
Sources of funds	12,239	15,376	17,955	19,356	19,535
Gross block	1,236	1,865	2,358	1,908	2,158
Depreciation	308	451	619	810	1,026
Net block	928	1,414	1,739	1,098	1,133
Capital work in progress	4,060	6,774	9,109	11,052	10,979
Total fixed assets	4,988	8,189	10,849	12,151	12,112
Investments	4,058	222	28	28	28
Inventories	3,023	6,040	6,296	5,614	5,970
Sundry debtors	29	45	81	111	117
Cash and equivalents	188	443	403	634	867
Loans and advances	3,679	4,006	3,915	3,557	3,318
Total current assets	6,920	10,535	10,695	9,917	10,272
Sundry creditors and others	3,454	3,511	3,314	2,548	2,667
Provisions	608	344	509	398	417
Total CL & provisions	4,062	3,855	3,823	2,946	3,084
Net current assets	2,858	6,680	6,872	6,971	7,189
Net Deferred tax	15	15	13	13	13
Misc expenditure	319	269	194	194	194
Uses of funds	12,239	15,376	17,955	19,356	19,535
Book value per share (INR)	94	89	92	101	111

Cash flow statement**(INR mn)**

Year to March	FY08	FY09	FY10	FY11E	FY12E
Net profit	1,016	382	466	1,246	1,318
Add: Depreciation	101	151	206	191	216
Add: Others	353	866	755	708	700
Gross cash flow	1,470	1,399	1,427	2,145	2,234
Less: Changes in W. C.	(2,802)	(3,417)	(364)	(486)	(606)
Operating cash flow	(1,332)	(2,018)	1,063	1,659	1,629
Less: Capex	(2,048)	(3,345)	(2,800)	(1,493)	(177)
Free cash flow	(3,380)	(5,364)	(1,737)	166	1,452

Cash flow metrics

Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating cash flow	(1,332)	(2,018)	1,063	1,659	1,629
Financing cash flow	7,293	1,843	1,461	15	(1,274)
Investing cash flow	(5,997)	430	(2,564)	(1,443)	(122)
Net cash flow	(36)	255	(40)	231	233
Capex	(2,048)	(3,345)	(2,800)	(1,493)	(177)
Dividend paid	0	(186)	(112)	(103)	(99)

Ratios

Year to March	FY08	FY09	FY10	FY11E	FY12E
ROAE (%)	19.6	4.1	4.7	11.6	10.2
ROACE (%)	20.2	3.5	2.8	10.5	10.4
Debtors (days)	8	3	6	6	7
Current ratio	1.7	2.7	2.8	3.4	3.3
Debt/Equity	0.3	0.5	0.7	0.7	0.6
Inventory (days)	331	592	902	725	684
Payable (days)	415	455	499	357	308
Cash conversion cycle (days)	(77)	141	409	374	383
Debt/EBITDA	2.3	9.6	11.3	3.7	3.1
Adjusted debt/Equity	0.3	0.5	0.7	0.7	0.6

Operating ratios (x)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Total asset turnover	0.4	0.3	0.2	0.3	0.3
Fixed assets turnover	5.6	3.3	2.4	4.1	5.5
Equity turnover	0.9	0.4	0.4	0.5	0.5

Du pont analysis

Year to March	FY08	FY09	FY10	FY11E	FY12E
NP margin (%)	20.9	9.8	12.3	21.3	19.6
Total assets turnover	0.6	0.3	0.2	0.3	0.3
Leverage multiplier	1.5	1.5	1.7	1.8	1.7
ROAE (%)	19.6	4.1	4.7	11.6	10.2

Valuation parameters

Year to March	FY08	FY09	FY10	FY11E	FY12E
Diluted EPS (INR)	10.3	3.4	4.1	11.1	11.7
Y-o-Y growth (%)	35.5	(66.8)	21.9	167.5	5.8
CEPS (INR)	10.0	4.8	6.0	12.7	12.6
Diluted P/E (x)	13.4	40.5	33.2	12.4	11.7
Price/BV(x)	1.5	1.6	1.5	1.4	1.2
EV/Sales (x)	2.5	5.2	5.9	3.9	3.6
EV/EBITDA (x)	9.4	36.0	33.5	10.6	9.7
Diluted shares O/S	99.0	112.3	112.3	112.3	112.3
Dividend yield (%)	1.6	0.9	0.9	0.8	0.8



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Anant Raj Industries	BUY	SO	M	Brigade Enterprises	BUY	SO	M
DLF	BUY	SP	L	Orbit corporation	BUY	SO	L
Mahindra Lifespace Developers	HOLD	SU	M	Sobha Developers	HOLD	SU	L
Parsvnath Developers	BUY	SP	M	Unitech	BUY	SP	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
Sector Underperformer (SU)	Stock return < 1.25 x Sector return
	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
Underweight (UW)	Sector return < 1.25 x Nifty return
	Sector return < 0.75 x Nifty return



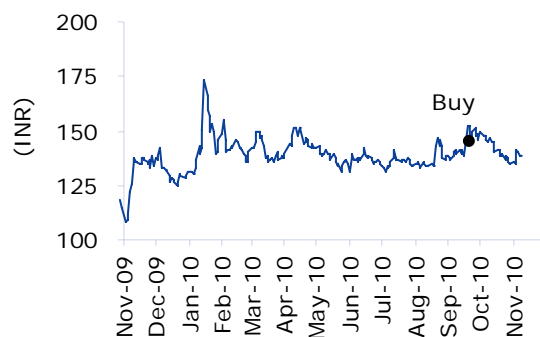
Edelweiss Securities Limited, 14th Floor, Express Towers, Nariman Point, Mumbai – 400 021.
Board: (91-22) 2286 4400, Email: research@edelcap.com

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Head Research	nischal.maheshwari@edelcap.com	+91 22 6623 3411

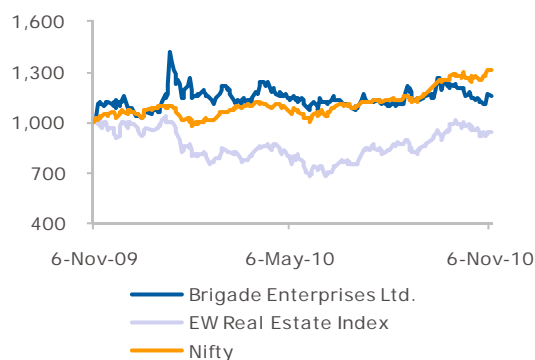
Coverage group(s) of stocks by primary analyst(s): Real Estate

Anant Raj Industries, Brigade Enterprises, DLF, Mahindra Lifespace Developers, Orbit corporation, Parsvnath Developers, Sobha Developers, Unitech

Brigade Enterprises



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	116	45	12	176
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	110	53	13	

Recent Research

Date	Company	Title	Price (INR)	Recos
02-Nov-10	Orbit Corporation	Steady quarter; execution to gain momentum; <i>Result Update</i>	116	Buy
01-Nov-10	Jaiprakash Associates	Construction and real estate surprise positively; <i>Result Update</i>	125	Buy
25-Oct-10	Mumbai Prop. Expo	Festive fails to bring cheer; <i>Visit Note</i>		

Access the entire repository of Edelweiss Research on www.edelresearch.com

This document has been prepared by Edelweiss Securities Limited (Edelweiss). Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Edelweiss Securities Limited generally prohibits its analysts, persons reporting to analysts and their family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Analyst holding in the stock: no.