

## Brigade Enterprises

Q3FY10 /Rating change

22 January 2010

## Hold

Target Price: Rs157

CMP: Rs153\*

Upside: 3%

\*as on 22 January 2010

## Residential volumes steady

**We downgrade our rating on Brigade Enterprises (Brigade) to Hold (Buy earlier) with a revised FY11E NAV of Rs157/share as we believe positives are already factored into the stock price. The success of affordable housing launches and robust commercial/retail leasing activity in FY11-12E would be key upside triggers for the stock.**

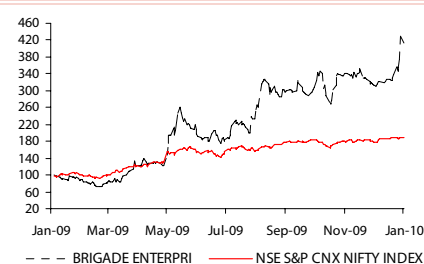
- **Volumes steady:** Brigade reported Q3 revenue of Rs653mn (down 22% QoQ) owing to marginally lower sales volumes (110 units in Q3 vs 124 in Q2FY10). A majority of sales were recorded from the Metropolis project in Bangalore.
- **New launches seeing traction:** Recent affordable housing launch under 'Brigade Value Homes' has seen strong interest with bookings in ~80% of 2,500 homes launched in Bangalore in Rs1-2.6mn bracket. Construction on the projects is expected to commence in 6-12 months with completion timeline of 24 months.
- **Downgraded to Hold as positives are priced in:** We raise our target price to Rs157/share (Rs124 earlier) after pricing in development of additional 20msf (Brigade's economic interest out of ~28msf of saleable area). However, we downgrade the stock to Hold (earlier Buy) as we believe that positives are already in the stock price. Faster-than-expected recovery in the Bangalore commercial/retail segment is key upside risk to our rating.

## Key Data

Bloomberg Code	BRGD IN
Reuters Code	BRIG.BO
Current Shares O/S (mn)	112.3
Diluted Shares O/S(mn)	112.3
Mkt Cap (Rsbn/USDmn)	17.2/371.9
52 Wk H / L (Rs)	187/28
Daily Vol. (3M NSE Avg.)	426,489
Face Value (Rs)	10

USD = Rs47.2

## One Year Indexed Stock Performance



## Price Performance (%)

	1M	6M	1Yr
Brigade Ent.	20.6	95.9	286.1
NIFTY	2.2	15.8	87.7

Source: Bloomberg, Centrum Research  
\*as on 22 January 2010

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Y/E March (Rsmn)*	Q3FY10	Q3FY09	YoY (%)	Q2FY10	QoQ (%)	Q3FY10E	Variance (%)
<b>Net sales</b>	<b>653</b>	<b>1,047</b>	<b>(37.7)</b>	<b>840</b>	<b>(22.3)</b>	<b>1,024</b>	<b>(36.2)</b>
Consumption of RM	451	771		594		733	
% of sales	69.0	73.6		70.7		71.6	
Employee costs	39	32		30		36	
% of sales	5.9	3.0		3.5		3.5	
Other expenses	82	69		101		101	
% of sales	12.5	6.6		12.0		9.9	
<b>EBITDA</b>	<b>82</b>	<b>175</b>	<b>(53.4)</b>	<b>115</b>	<b>(29.1)</b>	<b>154</b>	<b>(46.7)</b>
<b>EBITDA Margin (%)</b>	<b>12.5</b>	<b>16.8</b>		<b>13.7</b>		<b>15.0</b>	
Dep and amortisation	47	21		43		51	
Interest	21	20		19		30	
<b>EBT</b>	<b>14</b>	<b>135</b>		<b>53</b>		<b>73</b>	
Other income	37	25		15		14	
<b>PBT</b>	<b>51</b>	<b>160</b>	<b>(68.0)</b>	<b>68</b>	<b>(24.4)</b>	<b>87</b>	
Exceptional item (reported)	(0)	(40)		(7)		0	
Provision for tax	(9)	54		16		25	
Effective Tax Rate %	(16.6)	33.7		23.4		29.3	
<b>PAT (reported)</b>	<b>59</b>	<b>66</b>	<b>(10.1)</b>	<b>45</b>	<b>32.3</b>	<b>61</b>	
<b>PAT (adjusted)</b>	<b>59</b>	<b>22</b>	<b>169.6</b>	<b>45</b>	<b>32.3</b>	<b>61</b>	<b>(3.2)</b>
<b>NPM (%)</b>	<b>8.6</b>	<b>2.0</b>		<b>5.2</b>		<b>5.9</b>	
<b>EPS (adjusted)</b>	<b>0.5</b>	<b>0.2</b>		<b>0.4</b>		<b>0.5</b>	

Source: Company, Centrum Research; \*Standalone numbers, full year figures are consolidated

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY07	3,992	NA	1,049	26.3	733	NA	7.8	50.1	18.9	19.6	19.0
FY08	4,889	22.5	1,391	28.4	1,020	39.1	9.1	11.0	8.6	16.8	14.3
FY09	3,908	(20.1)	561	14.4	868	(14.9)	3.4	8.7	2.7	44.9	35.6
FY10E	3,874	(0.9)	892	23.0	502	(42.2)	4.5	4.8	4.0	34.2	22.4
FY11E	5,661	46.1	1,719	30.4	1,013	102.0	9.0	9.0	6.5	16.9	11.6

Source: Company, Centrum Research Estimates

**Please refer to important disclosures/disclaimers in Appendix A**

## Residential segment steady, new launches to provide the push

Brigade reported revenue of Rs653mn for Q3 (down 22.3% QoQ and 37.7% YoY) vs our estimate of Rs1,024mn due to lower-than-expected revenue booking from its Gateway and Metropolis projects. Majority sales for Q3 were booked for the Metropolis project with margins remaining steady QoQ. Residential volumes have remained steady in Q3 with Brigade selling 110 apartments (majority in Metropolis) vs 124 in Q2FY10 and 96 in Q1FY10. The residential components of the Gateway and Metropolis projects are 75% and 88% complete, respectively. The company has launched two new projects in November 2009 at Mysore (0.24msf with 237 residential apartments and 1 commercial/retail project of 0.15msf).

### Exhibit 1: Sales achieved up to Dec 2009 in ongoing projects

Project	Total saleable units	Units sold as of Dec 2009	Units sold Apr-Dec 2009
Brigade Crescent	10	0	0
Brigade Courtyard	184	166	32
Brigade Lakeview	11	11	4
Brigade Odyssey	4	0	0
Brigade Palm Springs	139	85	46
Brigade Petunia	49	30	5
Brigade Gateway	1,253	1,046	51
Brigade Metropolis	1,600	1,332	160
Brigade HS-4	14	6	0
Brigade Horizon	70	16	8
Brigade Solitaire	43	39	6
Brigade Sparkle	192	17	18
<b>Total</b>	<b>3,569</b>	<b>2,748</b>	<b>330</b>

Source: Company, Centrum Research

## Affordable housing launches seeing strong interest

Brigade recently launched 'Brigade Value Homes' with 2,500 houses (out of total planned launches in CY10-11 of 10,000 homes of ~8-10msf) across Bangalore in the 1st phase in the Rs1-2.6mn bracket. Although official figures are not quoted, company mentions that strongest traction is seen in Rs2mn+ homes. Company expects to begin construction in H2CY10 with construction period of 18-24 months – (currently booking amounts are being kept in escrow with Corporation Bank and customers receive interest on deposited amount) until construction commences. As per press reports, company has seen interest for ~2,000 homes till date across its four launches in Bangalore. We believe that revival in IT/ITES sector in Bangalore with increased hiring and salary hikes will drive demand for Brigade's projects which are attractively priced.

## Gateway and Metropolis rental assets nearing completion

### Exhibit 2: Brigade's rental assets operational update

Project Name	Area (msf)	Assumed rental (Rs/psf/month)/ARR	Status
North Star, Gateway	1.1	60	Completion expected in FY10; no leases yet but Brigade is seeing significant increase in enquiries for commercial space
Orion Mall, Gateway	0.8	60-65	40% leased, to start operations in Sep 2010
Columbia Asia Hospital	0.14	50	200 bed hospital which is already operational
Sheraton Hotel, Gateway	0.30	ARR of Rs8,000	230 keys hotel expected to commence operations in Sep 2010
Summit I & II, Metropolis	0.84	25	Expected to commence operations in June 2010; no leases yet
Arcade, Metropolis	0.09	30	Retail space to become operational in June 2010; no leases yet
Mercure Homestead Residences	NA	ARR of Rs6,000	4 star operational property with 220 rooms, current ARR at Rs6,250 with occupancies of 55-60%

Source: Company, Centrum Research Estimates

### Positives priced in - downgraded to Hold but target price raised to Rs157

We are raising our target price to Rs157/share (Rs124 earlier) after pricing in development of additional 20msf (Brigade's economic interest out of ~28msf of saleable area) consisting of affordable housing launches over FY11-16 at gross margins of 25% (including land cost) and considering capitalized value of commercial/retail/hotel assets at bottom of cycle rentals and cap rate of 11%. Although Brigade remains our preferred play on Bangalore property market owing to lean land bank size (6-7 years of development potential) and focus on affordable housing, we revise our rating to Hold (Buy earlier) as we believe that the current stock price factors in all the positives.

Infusion of PE funds of ~US\$50mn through dilution of minority stake in its hotel business and sale of North Star office building for Rs5-6bn in H1CY10 are key watching points as this would make Brigade a zero net debt company and also enable it to augment its land bank in South India and lead to quicker launch and execution of balance 6-7 hotel projects across South India.

#### Exhibit 3: Brigade's valuation

	Rsmn	Per Share (Rs)
GAV	24,249	216
Less: FY11E Net Debt	6,646	59
Less: Land Payments	0	0
<b>NAV</b>	<b>17,603</b>	<b>157</b>

Source: Centrum Research Estimate

## Financials

### Exhibit 4: Income Statement

Y/E March (Rsmn)	FY07	FY08	FY09	FY10E	FY11E
<b>Revenues</b>	<b>3,992</b>	<b>4,889</b>	<b>3,908</b>	<b>3,874</b>	<b>5,661</b>
<i>Growth in revenues (%)</i>		22.5	(20.1)	(0.9)	46.1
Operating expenses	2,943	3,499	3,347	2,983	3,942
<i>% of net sales</i>	73.7	71.6	85.6	77.0	69.6
<b>EBITDA</b>	<b>1,049</b>	<b>1,391</b>	<b>561</b>	<b>892</b>	<b>1,719</b>
<i>y-o-y growth</i>		32.6	(59.7)	58.9	92.8
<i>EBITDA Margin</i>	26.3	28.4	14.4	23.0	30.4
Depreciation & Amortisation	100	101	151	166	212
Other Income	121	107	178	151	101
<b>EBIT</b>	<b>1,069</b>	<b>1,397</b>	<b>588</b>	<b>877</b>	<b>1,608</b>
Interest expenses	17	37	31	208	257
<b>EBT before ext items</b>	<b>1,052</b>	<b>1,360</b>	<b>557</b>	<b>669</b>	<b>1,351</b>
Ext. Income/(Exp)	0	0	0	0	0
<b>EBT</b>	<b>1,052</b>	<b>1,360</b>	<b>557</b>	<b>669</b>	<b>1,351</b>
Provision for tax	338	344	174	167	338
Effective tax rate	32.2	25.3	31.3	25.0	25.0
<b>Net Profit bef min int.</b>	<b>714</b>	<b>1,016</b>	<b>382</b>	<b>502</b>	<b>1,013</b>
Minority interest	0	0	0	0	0
<b>Net Profit after min int.</b>	<b>714</b>	<b>1,016</b>	<b>382</b>	<b>502</b>	<b>1,013</b>
Ext. income/ (expenses)	20	4	486	0	0
<b>Adjusted Net Profit</b>	<b>733</b>	<b>1,020</b>	<b>868</b>	<b>502</b>	<b>1,013</b>
<i>y-o-y growth</i>		39.1	(14.9)	(42.2)	102.0
<i>Adjusted Net Profit Margin</i>	17.8	20.4	21.2	12.5	17.6

Source: Company, Centrum Research Estimates

### Exhibit 5: Balance Sheet

Y/E March (Rsmn)	FY07	FY08	FY09	FY10E	FY11E
Share Capital	269	1,123	1,123	1,123	1,123
Reserves	1,194	8,141	8,848	9,262	10,098
Shareholders' fund	1,463	9,264	9,971	10,385	11,220
Minority Interest	0	0	0	0	0
Debt	2,402	2,975	5,405	7,405	8,405
Deferred Tax Liability	0	0	0	0	0
<b>Total Capital Employed</b>	<b>3,865</b>	<b>12,239</b>	<b>15,376</b>	<b>17,789</b>	<b>19,625</b>
Total Fixed Assets	3,039	4,988	8,189	10,104	12,241
Investments	11	4,058	222	222	222
Inventories	2,259	3,023	6,040	5,307	4,653
Debtors	178	29	45	318	310
Cash and bank balances	225	188	443	651	1,759
Loans and Advances	1,657	3,679	4,006	3,184	2,714
Total current assets	4,319	6,920	10,535	9,460	9,436
Current liabilities and provisions	3,531	4,062	3,855	2,282	2,559
Net current assets	788	2,858	6,680	7,178	6,877
Deferred tax asset	17	15	15	15	15
Miscellaneous Expenditure	10	319	269	269	269
<b>Total Assets</b>	<b>3,864</b>	<b>12,239</b>	<b>15,376</b>	<b>17,789</b>	<b>19,625</b>

Source: Company, Centrum Research Estimates

### Exhibit 6: Cash flow

Y/E March (Rsmn)	FY07	FY08	FY09	FY10E	FY11E
<b>Cash flow from operations</b>					
Profit before tax	1,052	1,357	557	669	1,351
Depreciation	100	101	151	166	212
Interest expenses	130	23	427	203	252
Other Non oper.(inc)/exp.	13	(11)	264	(46)	(46)
<b>Oper profit bef wor cap chg.</b>	<b>1,295</b>	<b>1,470</b>	<b>1,399</b>	<b>992</b>	<b>1,769</b>
Working capital adjustment	(1,643)	(2,206)	(3,258)	(291)	1,410
<b>Gross cash from operations</b>	<b>(348)</b>	<b>(736)</b>	<b>(1,859)</b>	<b>700</b>	<b>3,178</b>
Direct taxes paid	(195)	(596)	(159)	(167)	(338)
Others	0	0	0	0	0
<b>Cash from operations</b>	<b>(543)</b>	<b>(1,332)</b>	<b>(2,018)</b>	<b>533</b>	<b>2,841</b>
<b>Cash flow from investment</b>					
Capex	(608)	(2,048)	(3,345)	(2,081)	(2,349)
Investment	0	(4,037)	3,644	0	0
Other Income	12	87	131	51	51
<b>Cash gen from investing</b>	<b>(595)</b>	<b>(5,997)</b>	<b>430</b>	<b>(2,030)</b>	<b>(2,298)</b>
<b>Cash flow from fin act.</b>					
Proc. from share capital	0	6,754	76	0	0
Borrowings/ (Repayments)	1,377	573	2,430	2,000	1,000
Interest expenses	(141)	(34)	(446)	(208)	(257)
Dividend paid	(84)	0	(263)	(88)	(178)
<b>Cash gen from financing</b>	<b>1,151</b>	<b>7,293</b>	<b>1,843</b>	<b>1,704</b>	<b>565</b>
<b>Net cash inc/ (decrease)</b>	<b>13</b>	<b>(36)</b>	<b>255</b>	<b>207</b>	<b>1,108</b>
<b>Opening cash balance</b>	<b>212</b>	<b>225</b>	<b>188</b>	<b>443</b>	<b>651</b>
<b>Closing cash balance</b>	<b>225</b>	<b>188</b>	<b>443</b>	<b>651</b>	<b>1,759</b>

Source: Company, Centrum Research Estimates

### Exhibit 7: Key Ratios

Y/E March	FY07	FY08	FY09	FY10E	FY11E
<b>Margin Ratios (%)</b>					
EBITDA Margin	26.3	28.4	14.4	23.0	30.4
PBIT Margin	26.0	28.0	14.4	21.8	27.9
PBT Margin	25.6	27.2	13.6	16.6	23.4
PAT Margin	17.8	20.4	21.2	12.5	17.6
<b>Growth Ratio (%)</b>					
Revenue	-	22.5	(20.1)	(0.9)	46.1
EBITDA	-	32.6	(59.7)	58.9	92.8
Net Profit	-	39.1	(14.9)	(42.2)	102.0
<b>Return Ratios (%)</b>					
ROCE	18.9	8.6	2.7	4.0	6.5
ROIC	20.1	13.2	2.8	4.2	7.2
ROE	50.1	11.0	8.7	4.8	9.0
<b>Per share Ratios (Rs)</b>					
Basic EPS	7.8	9.1	3.4	4.5	9.0
Fully diluted EPS	7.8	9.1	3.4	4.5	9.0
Book value	15.5	82.5	88.8	92.5	100.0
Cash per share	2.0	1.7	4.0	5.8	15.7
Dividend per share	0.6	2.0	1.2	0.7	1.4
<b>Solvency Ratio (x)</b>					
Debt-equity	1.6	0.3	0.5	0.7	0.7
Interest coverage ratio	62.6	37.5	18.8	4.2	6.3
<b>Valuation (x)</b>					
P/E	19.6	16.8	44.9	34.2	16.9
P/BV	9.8	1.9	1.7	1.7	1.5
EV/EBITDA	19.0	14.3	35.6	22.4	11.6
EV/Sales	5.0	4.1	5.1	5.1	3.5
M-cap/Sales	4.3	3.5	4.4	4.4	3.0

Source: Company, Centrum Research Estimates

## Appendix A

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