

Q4FY21 result review

Real Estate

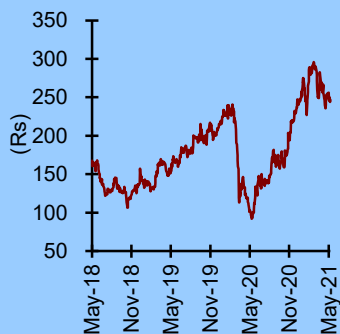
Target price: Rs346

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	47.3	47.8	48.0
Institutional investors	31.9	32.6	32.4
MFs and other	19.0	19.4	19.0
FIs/Banks/Ins	1.5	1.5	1.6
FIIIs	11.4	11.7	11.8
Others	20.8	19.6	19.6

Source: NSE

Price chart



INDIA

Brigade Enterprises

BUY

Maintained

Rs259

Record quarter for residential sales

Q4FY21 saw Brigade Enterprises' (BRGD) clocking record residential volumes of 1.66msf worth Rs10.2bn (up 56% YoY in value terms) driven by strong uptick in sales from its Hyderabad and Chennai projects which accounted for 40% of the quarter's sales. While incremental office leasing and malls/hotels will continue to see pressure in H1FY22, we expect H2FY22 to see a gradual pickup in these segments. With peak capex behind and a strong pipeline of residential launches, we remain bullish on the company's long-term prospects. We expect BRGD's share of rental NOI to grow at 28% CAGR over FY21-23E to Rs4.8bn driven by leasing in Chennai/Bengaluru office projects. We reiterate our BUY rating with an unchanged Mar-22 NAV based target price of Rs346/share. Key risks are prolonged weakness in office leasing and slowdown in residential demand.

- ▶ **Record quarter for residential sales:** While Q3FY21 saw BRGD clock sales bookings of 1.53msf worth Rs9.2bn, Q4FY21 saw BRGD achieving record sales bookings of 1.66msf worth Rs10.2bn (up 58% YoY in volume terms and up 56% in value terms). This was driven by Hyderabad (Citadel) and Chennai (Xanadu/WTC) markets which contributed to 40% of the quarter's sales similar to Q3FY21. On the basis of a strong H2FY21 performance, BRGD has clocked FY21 sales of 4.6msf worth Rs27.7bn (up 16% YoY in value terms). While Q1FY22 is expected to be muted owing to second Covid wave impact, with 1.43msf of planned launches and 7.2msf of unsold inventory, we have built in sales bookings of 5.0msf each in FY22/23E.
- ▶ **Robust office rental collections, incremental leasing remains key:** BRGD achieved Q4FY21 office rental collections of 99%. The focus remains on incremental leasing with WTC Chennai rentals expected to commence from Q2FY22 (2msf of which over 80% is leased) and Tech Gardens, Bengaluru (3msf of which ~42% is leased). As per company, ~1msf of fresh leasing discussions are in the advanced stage of which 0.75msf is in Tech Gardens. However, any deal closures are subject to lockdowns being lifted and international travel seeing pick up. BRGD has expiries of 0.5msf in its existing office portfolio in FY22 of which the company management remains confident of retaining the entire tenant base. For its malls, the company expects a similar round of rental waivers for lockdown period as seen in FY21.
- ▶ **Residential debt decreases QoQ on robust sales and collections:** BRGD's Q4FY21 collections rose 64% QoQ to 11.2bn leading to Rs4.0bn of operating surplus which was offset by capex of Rs1.3bn and interest payment of Rs1.0bn. Overall, BRGD's share of net debt reduced by Rs2.9bn QoQ to Rs26.5bn with residential segment debt reducing by Rs1.1bn QoQ to Rs5.0bn. With peak capex now complete in Tech Gardens, Bengaluru and World Trade Centre, Chennai we expect net debt levels to remain around current levels over FY22-23E.

Market Cap	Rs54.8bn/US\$751mn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	BRIG.BO/BRGD IN	Revenue (Rs bn)	26.3	19.5	28.1	32.8
Shares Outstanding (mn)	210.9	Rec. Net Income (Rs bn)	1.3	(0.5)	1.5	3.1
52-week Range (Rs)	296/92	EPS (Rs)	6.4	(2.2)	7.0	14.9
Free Float (%)	52.0	% Chg YoY	(45.8)	(134.4)	(416.5)	114.3
FII (%)	11.8	P/E (x)	40.6	(118.0)	37.3	17.4
Daily Volume (US\$/'000)	1,080	P/B (x)	2.3	2.3	2.2	2.0
Absolute Return 3m (%)	(7.7)	EV/E (x)	13.4	19.5	12.5	9.2
Absolute Return 12m (%)	171.7	Dividend yield (%)	0.8	0.4	1.2	1.4
Sensex Return 3m (%)	(1.8)	RoCE (%)	9.3	4.9	8.8	12.2
Sensex Return 12m (%)	67.1	RoE (%)	7.6	(2.1)	6.1	12.1

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Table 1: Q4FY21 consolidated result snapshot

Year ending March (Rs mn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)
Total Operating income	7,912	6,359	6,446	24.4	22.7
Raw Materials	4,630	3,533	3,962	31.0	16.9
Personnel Cost	473	456	399	3.8	18.5
Other Expenses	922	1,019	601	(9.5)	53.5
Total Expenses	6,025	5,008	4,962	20.3	21.4
EBITDA	1,887	1,352	1,484	39.6	27.1
<i>EBITDA margin (%)</i>	23.9	21.3	23.0	259.9	82.7
Interest (Net)	900	805	856	11.7	5.1
Depreciation	661	563	591	17.3	11.8
Other Income	296	84	90	251.8	228.4
Extraordinary items	363	205	400	-	-
Profit Before Tax	260	(138)	(273)	NM	NM
Taxation	70	(28)	(52)		
Profit After Tax before MI/Associate	191	(110)	(221)	NM	NM
MI/Associate share	205	137	59		
Reported PAT	396	27	(161)	NM	NM
<i>Net margin (%)</i>	5.0	0.4	NM	NM	NM

Source: Company data, I-Sec research

Table 2: Key historical numbers and forward assumptions

Year ending March	FY18	FY19	FY20	FY21	FY22E	FY23E
Development Properties						
Area sold (msf)	1.57	2.97	4.27	4.60	5.01	5.01
Average Realisation (Rs/psf)	5,720	5,542	5,573	6,012	6,300	6,615
Sale Value (Rs mn)	8,964	16,439	23,768	27,667	31,563	33,141
Rental NOI – BRGD share (Rs mn)	2,295	2,723	3,097	2,945	3,799	4,796

Source: Company data, I-Sec research

Table 3: BRGD Direct Format Cash Flows FY16-21

Direct Format Cash Flow (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21
Operating Activities:						
Total Collections	19,526	20,844	17,922	22,416	25,385	27,119
Direct Cost/Construction Cost	(11,392)	(11,027)	(10,004)	(11,520)	(12,784)	(11,132)
Land Owner Payments	(415)	(816)	(445)	(608)	(1,288)	(1,853)
Employee & Admin Expenses	(1,514)	(1,859)	(2,596)	(2,796)	(3,176)	(2,221)
Sales & Marketing Expenses	(926)	(935)	(876)	(703)	(1,043)	(938)
Statutory Payments	(1,374)	(1,579)	(2,393)	(2,020)	(2,020)	(1,707)
Other Payments	(382)	-	(20)	(265)	(52)	(98)
Net Cash Flow from Operating Activities...(A)	3,523	4,628	1,588	4,504	5,022	9,170
Investment Activities:						
Cash from Investment Activities (FD & MF)	2,082	946	4,081	5,017	2,213	4,379
Construction Cost (CWIP/Capex Projects)	(2,085)	(3,094)	(6,017)	(5,327)	(7,618)	(5,200)
Investment in Land /TDR/JV	(6,957)	(1,486)	(4,355)	(952)	(314)	(1,856)
Other Investments (FD & Mutual Fund)	(1,788)	(671)	(5,802)	(3,001)	(2,072)	(6,994)
Net Cash Flow from Investment Activities...(B)	(8,748)	(4,305)	(12,093)	(4,263)	(7,791)	(9,671)
Financing Activities:						
Debt Drawdown	14,521	10,198	20,125	11,165	11,874	18,157
Investment by PE	-	-	400	10	1,070	860
Proceeds from ESOP/QIP	3,152	79	5,019	8	302	882
Dividend Payment	(450)	-	(358)	(319)	(575)	-
Debt Repayment	(9,921)	(8,658)	(12,659)	(7,267)	(5,669)	(15,267)
Interest Payment	(1,646)	(2,114)	(2,502)	(3,000)	(3,628)	(3,712)
Net Cash Flow from Financing Activities...C	5,656	(495)	10,025	597	3,374	920
Net Cash Flows for the Period...(A)+(B)+(C)	431	(172)	(480)	838	605	419

Source: Company, I-Sec Research

Valuations & views

- We reiterate our BUY rating with an unchanged target price of Rs346/share based on March 2022 DCF based NAV factoring in new residential project additions and lower cap rate assumption of 8% for the annuity business.
- For annuity business, we have factored in a 30% loss in mall rentals for FY22E and all incremental leasing in Tech Gardens/WTC Chennai to commence from Q2FY22.
- With hotels being a deep cyclical, we expect recovery to be visible only in FY23E and estimate a marginal EBITDA of Rs0.2bn in FY22E and Rs0.6bn of EBITDA in FY23E.
- With residential sales took a hit in H1FY21 owing to COVID impact, the strong bounce-back in Q3FY21 and Q4FY21 sales to above the pre-COVID run-rate of over 1msf has led us to build in sales bookings of 5.0msf each in FY22E and FY23E accounting for a muted Q1FY22 in light of second Covid wave.
- Key risks to our call are prolonged weakness in office leasing and slowdown in residential demand in South India.

Table 4: BRGD SoTP valuation

Segment	BRGD FY22 GAV (Rs mn)	Rs/share	% of GAV
Development properties	20,845	99	20.2
Rental assets @ 8% cap rate	75,510	358	73.3
Hotel assets – 12x FY23E EV/EBITDA	6,624	31	6.4
Total GAV	102,979	488	100.0
Less: FY22 Net Debt (BRGD economic share) *	28,310	134	
Less: Outstanding land payments	1,750	8	
FY20 NAV	72,919	346	

Source: Company data, I-Sec research, adjusted for GIC share of debt estimated at Rs9.2bn in Tech Gardens and WTC, Chennai as of March 2022

Summary financials (consolidated)

Table 5: Earnings Statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Net Sales	26,322	19,500	28,110	32,756
Operating Expenses	19,689	14,780	20,720	22,428
EBITDA	6,632	4,719	7,390	10,328
% margins	25%	24%	26%	32%
Depreciation & Amortisation	1,920	2,369	2,412	2,822
Interest expenses	3,403	3,468	3,946	4,113
Other Income	494	604	634	666
Exceptional items	(205)	(763)	-	-
PBT	2,008	(1,277)	1,666	4,059
Less: Taxes	474	(287)	500	1,218
PAT before				
Minority/Associate	1,534	(990)	1,166	2,841
Minority/Associate share	(228)	527	300	300
Net Income (Reported)	1,306	(463)	1,466	3,141

Source: Company data I-Sec research

Table 6: Balance Sheet
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	65,700	76,981	81,966	87,799
of which cash & cash eqv.	3,049	5,594	7,201	6,400
Total Current Liabilities & Provisions	58,182	69,749	72,101	74,648
Net Current Assets	7,518	7,232	9,866	13,151
Goodwill/Investments	3,776	3,100	3,113	3,125
Net Fixed Assets	29,935	50,191	48,705	48,283
Capital WIP	20,975	4,949	6,449	7,675
Total Assets	62,204	65,473	68,133	72,234
Liabilities				
Borrowings	39,107	42,996	44,701	46,701
Equity Share Capital	2,044	2,109	2,109	2,109
Reserves & Surplus*	20,480	21,368	22,623	25,024
Warrants	287	-	-	-
Net Worth	22,811	23,477	24,732	27,133
Minority Interest	1,659	1,156	856	556
Deferred Taxes	(1,374)	(2,155)	(2,155)	(2,155)
Total Liabilities	62,204	65,473	68,133	72,234

Source: Company data I-Sec research

Table 7: Cashflow Statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT	2,008	(1,277)	1,666	4,059
Depreciation	1,920	2,369	2,412	2,822
Non-Cash Adjustments	(476)	(1,404)	(1,237)	(1,241)
Working Capital Changes	(1,643)	3,740	(1,023)	(4,083)
Taxes Paid	(474)	287	(500)	(1,218)
Operating Cashflow	1,336	3,716	1,318	339
Capital Commitments	(7,328)	(4,670)	(1,500)	(2,400)
Free Cashflow	(5,992)	(954)	(182)	(2,061)
Other investing cashflow	237	(342)	-	-
Cashflow from Investing Activities	(7,091)	(5,011)	(1,500)	(2,400)
Issue of Share Capital	287	883	-	-
Inc (Dec) in Borrowings	7,324	3,432	2,000	2,000
Dividend paid	(575)	-	(211)	(740)
Cashflow from Financing activities	7,037	4,315	1,789	1,260
Chg. in Cash & Bank balances	1,282	3,020	1,607	(801)

Source: Company data I-Sec research

Table 8: Key Ratios
(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS	6.4	(2.2)	7.0	14.9
Cash EPS	15.8	9.0	18.4	28.3
Dividend per share (DPS)	2.0	1.0	3.0	3.5
Book Value per share (BV)	111.6	111.3	117.3	128.6
Growth (%)				
Net Sales	(11.5)	(25.9)	44.2	16.5
EBITDA	(16.0)	(28.8)	56.6	39.8
PAT	(45.6)	(135.5)	(416.5)	114.3
Valuation Ratios (x)				
P/E	40.6	(118.0)	37.3	17.4
P/BV	2.3	2.3	2.2	2.0
EV / EBITDA	13.4	19.5	12.5	9.2
Dividend Yield	0.8	0.4	1.2	1.4
Operating Ratios				
Debt/EBITDA (x)	5.9	9.1	6.0	4.5
Net D/E	1.6	1.6	1.5	1.5
Return Ratios (%)				
RoE	7.6	(2.1)	6.1	12.1
RoCE	9.3	4.9	8.8	12.2
EBITDA Margins	25.2	24.2	26.3	31.5
Net Income Margins	5.0	(2.4)	5.2	9.6

Source: Company data I-Sec research

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