Equity Research

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BSE Sensex: 54278

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Q1FY22 result review

Real Estate

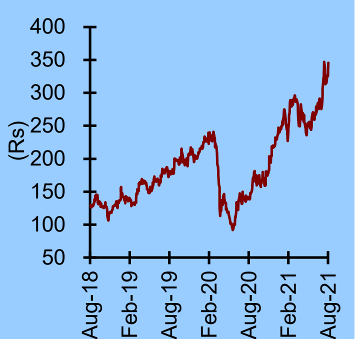
Target price: Rs400

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	47.8	44.1	44.1
Institutional investors	32.6	38.0	38.1
MFs and other	19.4	23.3	23.4
FIs/Banks/Ins	1.5	1.8	1.7
FIIs	11.7	12.9	13.0
Others	19.6	17.9	17.8

Source: NSE

Price chart



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INDIA

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Brigade Enterprises

BUY

Maintained

Pick up in leasing momentum remains key

Rs335

Q1FY22 was a steady quarter for Brigade Enterprises' (BRGD) with residential sales bookings of 0.8msf worth Rs4.8bn (up 82% YoY in volume and 92% in value terms) while incremental leasing and hotel segment operations remained weak on account of Covid. The recent QIP issuance of Rs5.0bn led to company's share of net debt reducing by Rs5.4bn QoQ to Rs21.2bn. With peak capex behind and recent QIP fund raise, the company's liquidity position is comfortable and we expect BRGD's share of rental NOI to grow at 25% CAGR over FY21-24E to Rs5.7bn driven by incremental leasing in Chennai/Bengaluru office projects from H2FY22. We reiterate our BUY rating with an unchanged target price of Rs400/share based on March 2022 DCF based NAV factoring in recent QIP issuance and new residential project additions. Key risks are prolonged weakness in office leasing and slowdown in residential demand.

- **Steady quarter for residential sales:** Q1FY22 saw BRGD achieving residential sales bookings of 0.8msf worth Rs4.8bn (82% YoY in volume terms and up 92% 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 H2FY21. While Q1FY22 was relatively muted owing to second Covid wave impact, with 1.9msf of planned launches in the remainder of FY22E and 7.6msf of unsold inventory, we have built in sales bookings of 5.0msf each in FY22-24E worth over Rs30bn annually.
- **Robust office rental collections, incremental leasing remains key:** BRGD achieved Q1FY22 office rental collections of 99%. The focus remains on incremental leasing with WTC Chennai rentals commencing in Q1FY22 (2msf of which over 80% is leased) and Tech Gardens, Bengaluru (3msf of which over 40% is leased). As per company, ~1.5msf of fresh leasing discussions are in the advanced stage of which 0.8msf is in Tech Gardens. However, any deal closures are subject to lockdowns being lifted and international travel seeing pick up. Given ongoing COVID-19 impact, we have factored in a 30% rental income loss for BRGD's two operational malls in Bengaluru in FY22E which clocked FY20 rental income of Rs1.2bn with mall rentals to trend back to FY20 levels from FY23E onwards. We estimate BRGD's share of rental NOI to grow at a 25% CAGR over FY21-24E to Rs5.7bn.
- **Net debt decreases QoQ on account of QIP proceeds and healthy collections:** BRGD's Q1FY22 collections remained healthy at Rs7.2bn of which Rs5.6bn was from residential segment. Overall, BRGD's share of net debt reduced by Rs5.4bn QoQ to Rs21.2bn primarily on account of QIP proceeds of Rs5.0bn with residential segment debt reducing by Rs0.3bn QoQ to Rs4.7bn. 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	Rs77bn/US$1bn
Reuters/Bloomberg	BRIG.BO/BRGD IN
Shares Outstanding (mn)	229.6
52-week Range (Rs)	347/138
Free Float (%)	55.9
FII (%)	13.9
Daily Volume (US$/'000)	1,789
Absolute Return 3m (%)	32.0
Absolute Return 12m (%)	141.6
Sensex Return 3m (%)	11.6
Sensex Return 12m (%)	44.3

Year to Mar	FY21	FY22E	FY23E	FY24E
Revenue (Rs bn)	19.5	28.6	34.0	39.9
Rec. Net Income (Rs bn)	(0.5)	1.0	2.4	3.7
EPS (Rs)	(2.2)	4.5	10.5	16.1
% Chg YoY	(134.4)	(307.0)	129.9	53.6
P/E (x)	(152.4)	73.6	32.0	20.8
P/B (x)	3.0	2.6	2.5	2.3
EV/E (x)	22.9	14.3	11.3	9.2
Dividend yield (%)	0.3	0.9	1.0	1.0
RoCE (%)	4.9	8.0	10.4	12.7
RoE (%)	(2.1)	4.0	8.0	11.4

Table 1: Q1FY22 consolidated result snapshot

Year ending March (Rs mn)	Q1FY22	Q1FY21	Q4Y21	YoY (%)	QoQ (%)
Total Operating income	**3,828**	**2,033**	**7,912**	***88.3***	***(51.6)***
Raw Materials	1,728	807	4,630	*114.2*	*(62.7)*
Personnel Cost	406	368	473	*10.2*	*(14.3)*
Other Expenses	581	385	922	*51.1*	*(37.0)*
Total Expenses	**2,715**	**1,559**	**6,025**	***74.1***	***(54.9)***
EBITDA	**1,113**	**474**	**1,887**	***134.9***	***(41.0)***
EBITDA margin (%)	29.1	23.3	23.9	*577.2*	*523.0*
Interest (Net)	1,132	891	900	*27.0*	*25.8*
Depreciation	845	556	661	*52.1*	*27.9*
Other Income	87	105	296	*(16.8)*	*(70.5)*
Extraordinary items	209	0	363	-	-
Profit Before Tax	**(986)**	**(868)**	**260**	***NM***	***NM***
Taxation	(117)	(219)	70		
Profit After Tax before MI/Associate	**(869)**	**(649)**	**191**	***NM***	***NM***
MI/Associate share	468	122	205		
Reported PAT	**(401)**	**(527)**	**396**	***NM***	***NM***
Net margin (%)	(10.5)	(25.9)	5.0	*NM*	*NM*

Source: Company data, I-Sec research

Valuations & views

- We reiterate our BUY rating with an unchanged target price of Rs400/share based on March 2022 DCF based NAV factoring in recent QIP issuance and new residential project additions.
- 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 Rs0.3bn in FY22E, Rs0.8bn in FY23E and Rs1.1bn in FY24E.
- 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 over FY22-24E 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 2: Key historical numbers and forward assumptions

Year ending March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Development Properties						
Area sold (msf)	2.97	4.27	4.60	5.01	5.01	5.09
Average Realisation (Rs/psf)	5,542	5,573	6,012	6,300	6,615	6,615
Sale Value (Rs mn)	16,439	23,768	27,667	31,563	33,141	33,141
Rental NOI – BRGD share (Rs mn)	**2,723**	**3,097**	**2,945**	**3,799**	**4,796**	**5,735**

Source: Company data, I-Sec research

Table 3: BRGD SoTP valuation

Segment	BRGD FY22 GAV (Rs mn)	Rs/share	% of GAV
Development properties	25,521	111	22.3
Rental assets @ 8% cap rate	75,510	329	65.9
Hotel assets – 15x FY24E EV/EBITDA	13,595	59	11.9
Total GAV	**114,626**	**499**	**100.0**
Less: FY22 Net Debt (BRGD economic share) *	21,828	95	
Less: Outstanding land payments	1,000	4	
FY22E NAV	**91,798**	**400**	

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

Summary financials (consolidated)

Table 4: Earnings Statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Net Sales	**19,500**	**28,643**	**33,970**	**39,909**
Operating Expenses	**14,780**	**21,102**	**24,276**	**28,014**
EBITDA	**4,719**	**7,541**	**9,695**	**11,895**
% margins	24%	26%	29%	30%
Depreciation & Amortisation	2,369	3,061	3,367	3,673
Interest expenses	3,468	3,766	3,708	3,798
Other Income	604	634	666	699
Exceptional items	(763)	-	-	-
PBT	**(1,277)**	**1,348**	**3,286**	**5,124**
Less: Taxes	(287)	405	986	1,537
PAT before Minority/Associate	**(990)**	**944**	**2,300**	**3,586**
Minority/Associate share	527	100	100	100
Net Income (Reported)	**(463)**	**1,044**	**2,400**	**3,686**

Source: Company data I-Sec research

Table 5: Balance Sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Assets				
Total Current Assets	76,981	84,449	90,445	99,013
of which cash & cash eqv.	5,594	9,684	9,047	10,352
Total Current Liabilities & Provisions	69,714	72,065	74,613	77,374
Net Current Assets	**7,268**	**12,383**	**15,832**	**21,639**
Goodwill/Investments	3,100	3,113	3,125	3,138
Net Fixed Assets	50,156	48,965	45,598	41,925
Capital WIP	4,949	4,449	6,849	8,349
Total Assets	**65,473**	**68,910**	**71,405**	**75,051**
Liabilities				
Borrowings	42,996	40,701	41,701	42,701
Equity Share Capital	2,109	2,296	2,296	2,296
Reserves & Surplus*	21,368	27,014	28,608	31,355
Warrants	-	-	-	-
Net Worth	**23,477**	**29,310**	**30,904**	**33,650**
Minority Interest	1,156	1,056	956	856
Deferred Taxes	(2,155)	(2,155)	(2,155)	(2,155)
Total Liabilities	**65,473**	**68,910**	**71,405**	**75,051**

Source: Company data I-Sec research

Table 6: Cashflow Statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
PBT	**(1,277)**	**1,348**	**3,286**	**5,124**
Depreciation	2,369	3,061	3,367	3,673
Non-Cash Adjustments	(1,404)	(181)	(15)	(15)
Working Capital Changes	3,814	(1,023)	(4,083)	(4,498)
Taxes Paid	287	(405)	(986)	(1,537)
Operating Cashflow	**3,790**	**2,800**	**1,569**	**2,746**
Capital Commitments	(4,670)	(1,500)	(2,400)	(1,500)
Free Cashflow	**(880)**	**1,300**	**(831)**	**1,246**
Other investing cashflow	(342)	-	-	-
Cashflow from Investing Activities	**(5,011)**	**(1,500)**	**(2,400)**	**(1,500)**
Issue of Share Capital	810	5,000	-	-
Inc (Dec) in Borrowings	3,432	(2,000)	1,000	1,000
Dividend paid	-	(211)	(806)	(940)
Cashflow from Financing activities	**4,242**	**2,789**	**194**	**60**
Chg. in Cash & Bank balances	**3,020**	**4,090**	**(637)**	**1,306**

Source: Company data I-Sec research

Table 7: Key Ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
EPS	(2.2)	4.5	10.5	16.1
Cash EPS	9.0	17.9	25.1	32.1
Dividend per share (DPS)	1.0	3.0	3.5	3.5
Book Value per share (BV)	111.3	127.7	134.6	146.6
Growth (%)				
Net Sales	(25.9)	46.9	18.6	17.5
EBITDA	(28.8)	59.8	28.6	22.7
PAT	(135.5)	(325.4)	129.9	53.6
Valuation Ratios (x)				
P/E	(152.4)	73.6	32.0	20.8
P/BV	3.0	2.6	2.5	2.3
EV / EBITDA	22.9	14.3	11.3	9.2
Dividend Yield	0.3	0.9	1.0	1.0
Operating Ratios				
Debt/EBITDA (x)	9.1	5.4	4.3	3.6
Net D/E	1.6	1.1	1.1	1.0
Return Ratios (%)				
RoE	(2.1)	4.0	8.0	11.4
RoCE	4.9	8.0	10.4	12.7
EBITDA Margins	24.2	26.3	28.5	29.8
Net Income Margins	(2.4)	3.6	7.1	9.2

Source: Company data I-Sec research

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