



CRISIL IER Independent Equity Research



**Brigade
Enterprises Ltd**

Initiating Coverage

Enhancing investment decisions



Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade		CRISIL Valuation Grade	
Assessment	Grade	Assessment	Grade
Excellent fundamentals	5/5	Strong upside (>25% from CMP)	5/5
Superior fundamentals	4/5	Upside (10-25% from CMP)	4/5
Good fundamentals	3/5	Align (+-10% from CMP)	3/5
Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)	2/5
Poor fundamentals	1/5	Strong downside (<-25% from CMP)	1/5

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Last updated: May, 2013

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Brigade Enterprises Ltd

Good play in the Bengaluru real estate market

Fundamental Grade	4/5 (Superior fundamentals)
Valuation Grade	5/5 (CMP has strong upside)
Industry	Real Estate Management & Development

High quality construction and strong brand equity position South-based real estate developer Brigade Enterprise Ltd (Brigade) suitably to benefit from the estimated 7-10% growth in absorption and 5-7% growth in capital values in Bengaluru. Of its ongoing 12.5 mn sq ft of projects, ~50% are booked. Ramp-up in construction of these projects is expected to drive revenue recognition and future cash flows. Brigade also has a strong portfolio of leased assets, providing ₹1.4 bn of rentals currently. Strong management, transparent disclosures and healthy balance sheet provide further comfort. CRISIL Research assigns Brigade a fundamental grade of 4/5, indicating that its fundamentals are superior relative to other listed securities in India. However, slowdown, if any, in the IT/ITeS industry poses a risk as this industry accounts for 75% of the real estate demand in Bengaluru.

Well-positioned in the Bengaluru real estate market, which is poised for robust growth
Brigade has a strong brand equity in the Bengaluru real estate market; it has developed 24 mn sq ft of real estate projects and is credited with development of marquee assets such as World Trade Centre and Orion Mall. The Bengaluru real estate market is expected to witness steady demand growth over the next two years driven by 15-16% growth in the IT/ITeS industry, burgeoning e-commerce industry and improving infrastructure. Absorption of residential and commercial projects is expected to increase 7-10% over the next two years. With inventory likely to be stable at 30 months, we expect capital value to increase 5-7%.

Strong project pipeline; steady revenue stream from commercial and hotel projects

Brigade has a strong project pipeline entailing the development of 47 mn sq ft (Brigade's share is 35 mn sq ft) including ongoing projects of 12.5 mn sq ft. Given the current booking run rate of 2.6 mn sq ft and expected growth of 10-15% in the subsequent years, we expect the current land bank to be launched over the next five-six years with monetisation expected over the next eight-nine years. Brigade's portfolio of commercial assets (1.6 mn sq ft) currently provides steady revenues and cash flows of ₹1.4 bn and ₹1.2 bn respectively; these assets contributed 15% to revenues and 23% to PBT in FY14. Its hotels - Sheraton (230 keys) and Grand Mercure (126 keys) - have strong occupancy of 75-80% with average room rate (ARR) of ₹7,000 and are currently profitable unlike most of the other hospitality assets.

Healthy balance sheet; cash flows and RoE to improve

The company has a healthy balance sheet with gearing of 0.7x as of FY14. We expect cash flows and RoE to improve as construction ramps up in the ongoing projects (12.5 mn sq ft), which are 51% booked. We expect ₹5.7 bn cash from operations over the next two years and revenue recognition of ₹23 bn from the existing projects; RoE is estimated to improve from 6.2% in FY14 to 18% in FY16.

Revenues to grow at a two-year CAGR of 43%; valuation: CMP has strong upside

We expect revenues to increase at a two-year CAGR of 43% to ₹19.4 bn by FY16 driven by revenue recognition in the ongoing projects and steady growth in rentals from leased and hospitality projects. EBITDA margin is expected to improve from 33.8% in FY14 to 34.2% in FY16. PAT is expected to increase from ₹0.8 bn in FY14 to ₹2.8 bn in FY16. We have used the sum-of-the-parts (SoTP) method to value Brigade and have arrived at a fair value of ₹210 per share. At the current market price, the valuation grade is 5/5.

KEY FORECAST

(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
Operating income	6,144	8,229	9,425	13,777	19,326
EBITDA	1,947	2,532	3,185	4,686	6,602
Adj net income	465	422	764	1,766	2,770
Adj EPS (₹)	4.1	3.8	6.8	15.7	24.7
EPS growth (%)	(43.3)	(9.1)	81.0	131.1	56.8
Dividend yield (%)	-	1.1	1.5	1.5	1.5
RoCE (%)	7.5	8.2	10.6	15.0	19.8
RoE (%)	4.1	3.6	6.2	13.2	18.0
PE (x)	31.7	34.9	19.3	8.3	5.3
P/BV (x)	1.3	1.2	1.2	1.0	0.9
EV/EBITDA (x)	11.7	9.8	7.2	5.4	4.0

CMP: Current market price, financial numbers re-classified as per CRISIL's standards

Source: Company, CRISIL Research estimates

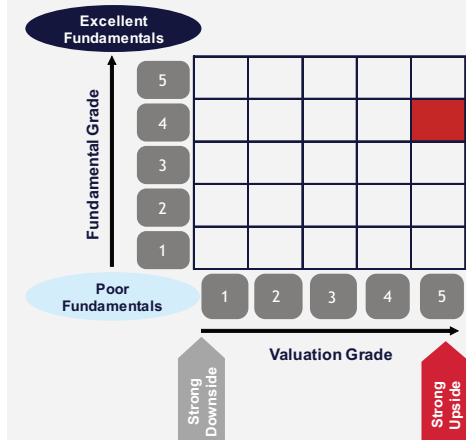
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September 08, 2014

Fair Value ₹210
CMP ₹131

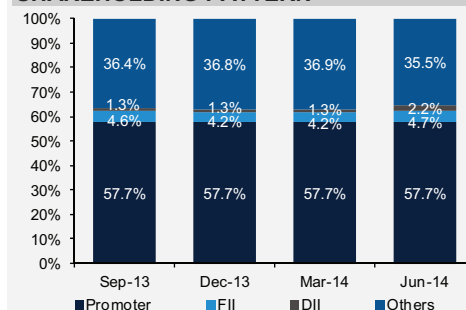
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	8087/27027
NSE/BSE ticker	BRIGADE
Face value (₹ per share)	10
Shares outstanding (mn)	112
Market cap (₹ mn)/(US\$ mn)	14,738/245
Enterprise value (₹ mn)/(US\$ mn)	23,554/391
52-week range (₹)/(H/L)	146/50
Beta	1.9
Free float (%)	42.3%
Avg daily volumes (30-days)	152,424
Avg daily value (30-days) (₹ mn)	20.2

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Brigade	-5%	15%	127%	158%
CNX 500	4%	8%	33%	52%

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Table 1: Brigade's business environment

Parameter	Real estate (residential and commercial projects on outright sale)	Lease rentals (commercial and retail projects)	Hospitality projects
Product / service offering	<ul style="list-style-type: none"> Develops residential (apartments and villas) and commercial real estate properties 	<ul style="list-style-type: none"> Commercial and retail properties developed are leased 	<ul style="list-style-type: none"> Develops hospitality projects under four-star and five-star categories
Geographic presence	<ul style="list-style-type: none"> Bengaluru-based player; executed projects in Bengaluru and Mysore Bengaluru dominates its ongoing and upcoming project pipeline of ~45 mn sq ft with ~75% share; Mysore, Chennai, Hyderabad, Kochi and Mangalore make up the rest. The management is keen to keep the focus on the South India real estate market 		
Market position	<ul style="list-style-type: none"> One of the leading real estate developers in Bengaluru. Its integrated township project Brigade Gateway was a huge success Executed 24 mn sq ft of projects till date; this compares well with established players such as Sobha Developers (65 mn sq ft), Prestige Estates (57 mn sq ft), Puravankara Projects (18 mn sq ft) and Nitesh Estates (2.5 mn sq ft) 	<ul style="list-style-type: none"> Developed marquee projects such as World Trade Centre (0.6 mn sq ft) in Bengaluru Lease rental portfolio of 1.6 mn sq ft compared with Prestige's 5.5 mn sq ft 	<ul style="list-style-type: none"> Established its presence in the hospitality segment by developing a hotel and service apartments Its five-star property Sheraton (230 keys) and service apartment Grand Mercure (126 keys) have Bengaluru-wide highest occupancy of 75% and 86%, respectively, as of FY14
Industry outlook	<ul style="list-style-type: none"> Demand for real estate in Bengaluru is driven by end-users largely from the IT/ITES industry. CRISIL Research expects residential demand to record 7% and 10% growth over the next two years respectively Demand for residential projects has kept pace with supply; hence, inventory levels are stable at 27-30 months. Owing to steady inventory, capital values are expected to increase 5-7%. Also, affordability is high in Bengaluru compared with Mumbai and the National Capital Region (NCR) 	<ul style="list-style-type: none"> Nearly 75% of the total commercial space in Bengaluru is given on lease to IT companies. With the expected 15-16% growth in the IT segment and expansion of e-commerce industry, absorption of commercial space is likely to be strong Driven by healthy growth and lower vacancy of 14-15%, lease rentals are expected to increase 5% p.a. over FY14-16 	<ul style="list-style-type: none"> Slow economic growth during FY11-14 led to tepid demand for rooms With estimated supply of over 900 rooms, ARR and occupancy rates (OR) are likely to remain under pressure in FY15 but are expected to pick up post FY15 due to revival in the economy
Sales forecast (FY14-FY16 – 2-yr CAGR)	52%	7.7%	3.7%
Average EBITDA margins (FY14-16)	25%	86%	41%
Key competitors	<ul style="list-style-type: none"> Bengaluru-based developers – Prestige, Sobha, Puravankara, Embassy Properties, Salarpuria and Sattva Pan-India developers – DLF, Unitech, Hiranandani 		
Key risks	<ul style="list-style-type: none"> Slowdown in the IT industry might have an adverse impact on the real estate demand in Bengaluru Labour shortage problem could impact construction cost and profitability 		

Source: Company, CRISIL Research

Grading Rationale

Good play in the Bengaluru real estate market...

A strong brand equity driven by high quality construction and a track record of timely delivery place Brigade suitably to benefit from the expected growth in the Bengaluru real estate market. Over the past 25 years, it has developed over 20 mn sq ft of projects across different segments. Apart from a strong brand and timeliness:

- 1) The company is credited with having developed marquee projects in Bengaluru. Its signature projects in Bengaluru include Brigade Gateway - one of the largest integrated lifestyle enclaves, which houses marquee assets such as World Trade Center (0.6 mn sq ft), Sheraton Hotel (0.3 mn sq ft) and Orion Mall (0.8 mn sq ft).
- 2) The company is well diversified in the South India market with a land bank of 47 mn sq ft (including ongoing projects of 12.5 mn sq ft) and healthy balance sheet. It is competitively placed in the Bengaluru real estate market.

It has developed 24 mn sq ft of real estate projects in 28 years

Table 2: Brigade’s competitive positioning vis-a-vis peers in the Bengaluru market

Particulars	Brigade	Prestige Estates	Sobha Developers	Puravankara Projects	Nitesh Estates
Track record, brand equity					
Land bank					
Geographical diversification					

Source: CRISIL Research

The company focuses only in South India with Bengaluru constituting 76% of the total saleable area followed by Chennai (10%); Mangalore, Chennai, Kochi and Hyderabad constitute the balance 14%. Brigade largely outsources construction work to recognised contractors such as Shapoorji Pallonji, JMC Projects and Simplex Infrastructure. It also has a small in-house team on stand-by, to be deployed at the time of urgency to maintain project timelines.

... which is poised for strong growth driven by IT/ITeS, rising e-commerce industry and improving infrastructure

The Bengaluru real estate market is expected to witness steady demand growth over the next two years mainly driven by 15-16% growth in the IT/ITeS industry. We expect absorption to increase 7% and 10% y-o-y in CY15 and CY16 respectively. With inventory likely to remain stable, we expect capital value to increase 5-7% per annum over the next two years. Bengaluru has inventory of 30 months which is much lower than the inventory levels in Mumbai and NCR.

Bengaluru has lower residential projects inventory than Mumbai and NCR



Bengaluru is India's IT/ITeS hub; nearly 30% of India's total work force in the IT industry is employed here. As per industry sources, ~55% of the demand for residential housing in Bengaluru is from professionals from the IT/ITeS industry. Also, 75% of Bengaluru's commercial real estate is leased to IT companies. Owing to steady growth in the IT/ITeS industry, sales volumes and prices in Bengaluru in the past two-three years have been stable. This is visible from the sales volumes for most of the Bengaluru players – volumes have either remained stable or recorded healthy growth compared with volatile trends for NCR and Mumbai-based developers. Also, population growth and migrant movement have been high in Bengaluru than in other key cities.

IT/ITeS to grow at 15-16% over the next two years

Table 3: Healthy growth in residential absorption in Bengaluru vis-a-vis Mumbai and NCR

Cities (mn sq ft)	CY10	CY11	CY12	CY13
NCR	96.0	89.6	98.7	90.4
MMR	64.7	34.1	39.1	37.5
Bengaluru	37.3	39.2	54.8	51.4
Pune	17.7	34.8	38.8	29.4
Chennai	33.6	21.8	23.5	29.3
Hyderabad	22.8	25.0	14.1	16.3
Total	272.1	244.4	269.0	254.3

Source: Company, CRISIL Research

Bengaluru leads the absorption of commercial space in India with ~40% of the total 15.7 mn sq ft of commercial space absorption across seven key cities in India in H1CY14. Owing to strong demand, vacancy in Bengaluru is low at 15% compared with an average of 20% in other key cities. Rising absorption of commercial space would continue to boost demand for residential projects given the thumb rule that every 1 sq ft of commercial absorption creates a demand for 5 sq ft of residential space.

Table 5: Absorption of commercial space strong in Bengaluru

(Mn sq ft)	CY11	CY12	CY13	H1CY14
NCR	5.8	4.8	3.7	2.2
Mumbai	5.6	3.7	4.3	1.9
Bengaluru	10.4	10.0	10.8	6.3
Chennai	4.2	3.6	3.9	1.1
Pune	2.4	1.6	2.1	1.7
Kolkata	2.7	1.5	0.7	0.3
Hyderabad	4.1	2.7	1.5	2.3
Total	35.2	27.9	27.0	15.7

Source: CRISIL Research

Table 4: Performance of Bengaluru-based developers better than Mumbai- and NCR-based players

Bookings (mn sq ft)	CY11	CY12	CY13
NCR-based players			
DLF	10.7	11.9	4.2
Unitech	7.4	6.2	2.8
Omaxe	9.4	8.8	8.9
Ashiana Housing	1.7	1.8	2.1
Total	29.2	28.6	17.9
Mumbai-based players			
Oberoi	0.8	0.6	0.4
Godrej Properties	3.3	4.2	2.3
Total	4.1	4.8	2.6
Bengaluru-based players			
Prestige Estates	4.0	6.4	6.7
Sobha Developers	3.1	3.6	3.7
Brigade	1.1	1.7	2.7
Puravankara	2.5	2.8	4.3
Total	10.7	14.5	17.4

Source: Company, CRISIL Research

E-commerce industry to add to demand

The e-commerce industry has grown at a rapid pace in India and is expected to grow significantly in the next few years; this is expected to drive demand for real estate in Bengaluru. As per industry sources, the e-commerce industry is expected to create 50,000 employment opportunities in the next three years. In the past five years, the industry grew at a CAGR of 57% to ₹225 bn in FY14 due to rising internet penetration. CRISIL Research expects robust growth to sustain and expects the e-commerce industry to grow at a two-year CAGR of 50% to ₹500 bn by FY16. Flipkart, one of the major e-commerce companies in India, has been eyeing 1.5 mn sq ft of commercial space in Bengaluru and plans to double its employee strength to 25,000 from 12,000. Amazon, the largest e-commerce company in the US, also has plans to expand its operations in India – it recently leased 40,000 sq ft of commercial space in Brigade’s World Trade Centre building.

E-commerce industry to grow at 50% over the next two years

Government’s push on infrastructure development to provide fillip

The Karnataka government’s increased thrust is expected to boost infrastructure development in Bengaluru in the coming years; this would aid demand and capital values across micro-markets. In its 2014-15 budget, the state government allocated ₹94.8 bn for infrastructure projects in Bengaluru to 1) increase water supply lines, 2) reduce traffic congestion and 3) improve the existing drainage system. Additionally, the government has given the approval for phase II of the Bengaluru metro.

Table 6: Ongoing/upcoming infrastructure developments in Bengaluru

Infrastructure projects	Details	Expected date of commencement	Micro-markets impacted
Within the city			
Metro Rail	Phase I was divided into four sub-phases. While the first two phases are complete, the remaining phases are expected to be completed by December 2015. In January 2014, the cabinet gave its nod to phase II of the metro. This phase encompasses two new lines and extensions of the four existing lines.	2014-2015 To be completed within five years from start	Jayanagar, Tumkur Road, MG Road, Hosur, Malleshwaram, Whitefield, Hebbal
Peripheral Ring Road	Proposed 65 km six-lane road; to be built with financial assistance from the Japanese International Cooperation Agency (JICA). The first phase will connect Tumkur Road to Hosur Road crossing Bellary Road, Old Madras Road and Varthur Road. This is expected to improve connectivity and ease traffic pressure within the city.	2017	Hebbal, Malleshwaram, Hosur, Tumkur Road
Monorail	The project is still in the planning phase. The proposed monorail project will cover 60 km and is expected to be completed in four phases. This is expected to improve connectivity between central business district (CBD) and peripheral residential areas.	NA	Hebbal, Jayanagar, Hosur, MG Road
Industrial corridors			
Project	Details		
Chennai-Bengaluru Industrial Corridor	A mega infrastructure project of the Government of India in co-operation with JICA. The corridor is aimed at improving the connectivity between Chennai and Bengaluru. Through this corridor, Bengaluru will be connected to a southern port, which is expected to aid economic development in the region.		
Mumbai-Bengaluru Industrial Corridor	The proposed industrial corridor is expected to improve connectivity of the north-west part of the city (including Tumkur Road). The corridor is expected to augment the industrial and economic growth in the region and improve infrastructure.		

Source: Company, CRISIL Research.

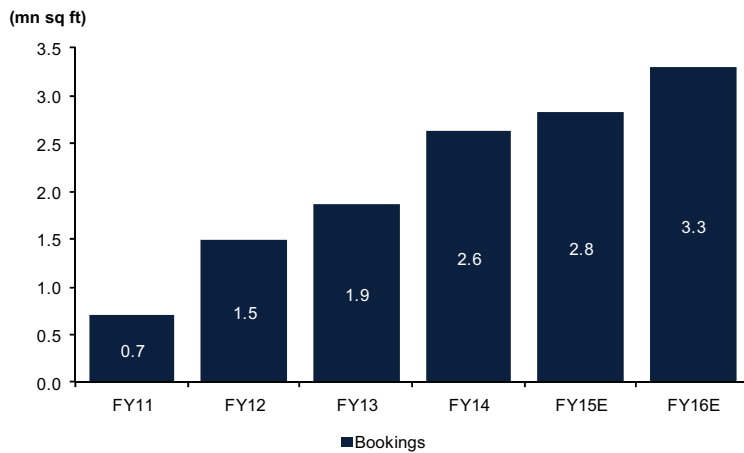


Expect bookings of 6.1 mn sq ft over the next two years

Driven by healthy demand in the Bengaluru real estate market, we expect bookings (Brigade's share) to increase to 2.8 mn sq ft in FY15 and 3.3 mn sq ft in FY16, at a two-year CAGR of 12.6%. Of these, 3.3 mn sq ft is expected to come from 9.4 mn sq ft (Brigade's share) already launched and 2.8 mn sq ft from 9.5 mn sq ft of new projects to be launched in the next two years.

Revenue recognition to increase in the next two years

Figure 1: Expect 3.3 mn sq ft of bookings in FY16



Note: FY15 and FY16 data includes only Brigade share

Source: Company, CRISIL Research estimates

We have done a micro-market analysis of areas where Brigade holds a sizeable land bank. While we expect demand growth to be healthy in Kanakpura Road, Whitefield and Hebbal, we believe development in Devanahalli would take another five-six years as growth of the aerospace and logistics hub will take time. Given that Brigade holds 31% land bank in Devanahalli, we expect the entire parcel to be monetised by FY25. Any delay in monetisation beyond our expectations could impact financials and valuation; this is a key monitorable.

Table 7: Synopsis of micro-markets where Brigade holds a large land bank

Location	Kanakpura Road (Bengaluru South)	Whitefield	Hebbal & Devanahalli (Bengaluru North)
Brigade’s unsold land bank (mn sq ft)	5.2	6.4	1.3 (Hebbal) 14.7 (Devanahalli)
Expected residential supply (mn sq ft) – FY14-16	41	40	31
Demand drivers	Phases I and II of Electronics City (580 acres) - campus of large IT companies such as TCS and Infosys. Phase III (100 acres) is currently being developed as a biotech hub	Expansion of IT/ITeS companies would continue to drive demand for office space. This coupled with excellent infrastructure should augment residential demand	Demand for real estate projects is on the rise in Hebbal due to proximity to the airport. For development of the 1,000-acre aerospace park, land has been allotted to few companies. As work progresses on this park, real estate demand should get a boost. Shortage of power and water in few areas are deterrents
Key sectors	IT/ITes, manufacturing, electronics	IT/ITeS	IT/ITeS, aerospace, logistics
Total office space (mn sq ft)	10.5	30	12
Key companies	TCS, Infosys, Wipro, HP, Mahindra Satyam, HCL Technologies	TCS, Dell, GE, Huawei, Mercedes Benz	Starrag Heckert Aerospace, Tyco Electronics, Pacific Natura Boitech

Source: Company, CRISIL Research

Key takeaways from site visits

We visited two under-construction projects and one completed residential project, a hotel, a mall and a commercial property. We believe the quality of construction is at par with other established players in Bengaluru. Considering the construction pace, we expect two ongoing projects to be delivered on time.

Under-construction projects

Brigade Caladium (0.15 mn sq ft) – residential

- Project has strong catchment area. Manyata Tech Park, largest IT park in Bengaluru is just 4 km away from the project.
- Construction is in full swing; the project is expected to be completed by September 2014.

Brigade Magnum (0.29 mn sq ft) – commercial

- The project is in Hebbal, 4 km from Manyata Tech Park.
- Work is going on in full swing; the project is expected to be completed by March 2016.

Completed projects

World Trade Centre (1.1 mn sq ft, Brigade currently owns 0.6 mn sq ft)

- One of Brigade’s marquee projects, located 10 km away from MG Road.
- Strong occupancy of 95%.



Hotel Sheraton (230 keys)

- Average occupancy at the hotel was 70% on a working day, i.e. Thursday.
- Room rentals are ₹7,500, at a premium of 5-10% to other hotels in the vicinity.

Orion Mall (0.8 mn sq ft)

- 95% occupied with an average lease rental of ₹85 per sq ft; key tenants include Zara, Star Bazaar and Blu-O. Strong captive customer base - ~1,600 homes at a walking distance

Revenue recognition and cash flows to increase significantly; expect net cash flows of ₹10 bn from ongoing projects

Of the ongoing projects of 12.5 mn sq ft (Brigade's share – 9.4 mn sq ft), 51% are booked and 32% constructed as of Q1FY15. Total sales value of the booked projects is ₹20.6 bn (Brigade's share), but only ₹6.8 bn has been recognised as revenues until Q1FY15. As construction at these projects ramps up, we expect revenue recognition to increase.

Table 8: Revenue recognition potential of ₹13.8 bn from the booked projects

Key ongoing projects	Location	Total area (mn sq ft)*	Booked until Q1FY15	Completed until Q1FY15 based on construction cost	Sales value (₹ mn)	Revenue recognised till date (₹ mn)	Revenue to be recognised (₹ mn)
Residential							
B.Meadows-Phase-1	Kanakpura Road	1.80	89%	69%	4,972	3,727	1,245
B.Meadows-Phase-2	Kanakpura Road	0.44	24%	2%	424	-	424
B.Lakefront	Mahadevapura	1.32	35%	14%	2,745	-	2,745
B.Exotica-ResTower-1	Old Madras Road	0.72	52%	55%	1,707	994	713
B.Exotica-ResTower-2	Old Madras Road	0.72	3%	10%	123	-	123
B. Golden Triangle-1	Old Madras Road	0.35	98%	30%	1,416	418	998
B. Golden Triangle-2	Old Madras Road	0.33	56%	13%	856	-	856
B.Omega-Res Tower-A	Thurahalli	0.19	7%	13%	83	-	83
Brigade Pinnacle-Mglr	Derebail	0.36	40%	29%	584	170	414
B.Symphony	K.R.S. Road	0.53	19%	16%	372	-	372
Projects under SPV							
Cosmopolis Phase I	Whitefield	0.43	56%	24%	1,559	-	1,559
Commercial							
B.IRV Centre	Whitefield	0.22	23%	36%	262	-	262
Brigade Magnum	Hebbal	0.29	38%	45%	916	414	502
Total		9.41	50.6%	33.3%	20,565	6,857	13,838

*Adjusted for Brigade's stake in the project

Source: Company, CRISIL Research

We expect healthy cash flows from the projects booked in the past two-three years; Brigade's bookings increased to 2.6 mn in FY14 from 0.7 mn sq ft in FY11. Of the booked projects, ₹9.2 bn are yet to be received from customers. Ongoing projects are expected to generate net cash inflows# of ₹9.8 bn over the next two-three years.

Table 9: Expect net cash inflows of ₹10 bn from the ongoing projects

Key ongoing projects	Total area (mn sq ft)	Cash flow yet to be received from booked projects (₹ mn)
Residential		
B.Meadows-Phase-1	1.80	712
B.Lakefront	1.32	1,714
B.Exotica-ResTower-1	0.72	542
B. Golden Triangle-1	0.35	678
B. Golden Triangle-2	0.33	526
Projects under SPV		
Cosmopolis Phase I	0.43	1,140
Commercial		
Brigade Magnum	0.29	265
Total	9.41	9,179

*Adjusted for Brigade's stake in the project

##Net cash flows = Amount yet to be received from area booked till date + future sale potential – amount to be spent on construction

Source: CRISIL Research estimates

Strong project pipeline of eight-nine years; plans to maintain land bank inventory at similar levels

Brigade has a strong project pipeline entailing development of 47 mn sq ft (Brigade's share is 35 mn sq ft) including ongoing projects of 12.5 mn sq ft (Brigade's share is 9.4 mn sq ft). Given the current booking run rate of 2.6 mn sq ft and expected growth of 10-15% in the subsequent years, we expect projects in the current land bank to be launched over the next five-six years with monetisation over the next eight-nine years. Brigade recently signed a memorandum of understanding with Government of Singapore Investment Corporation (GIC) to invest ₹15 bn to acquire land in the southern market. The company plans to undertake all large projects through this joint venture (JV). We expect consolidation and development of land parcels under the JV to be gradually undertaken over the next three to four years.

The company, as a strategy, plans to keep an inventory of eight-nine years thereby adding some land inventory every year. This strategy is in contrast to the approach of other real estate players, who aggressively accumulated land during FY05-10 by taking substantial debt. A limited land bank enables Brigade to manage its cash flows and balance sheet well.

Table 10: Brigade's existing and upcoming project pipeline

(Mn sq ft)	Residential and commercial	Lease portfolio	Hospitality
Existing	-	1.6	0.3
Ongoing	12.5	1.7	0.4
Upcoming and future	27.8	3.8	0.7
Total	40.3	7.1	1.4

Source: Company, CRISIL Research



Diversified revenue stream from lease rental portfolio to supplement cash flows; lease rentals of ₹1.4 bn currently

Brigade’s portfolio of commercial and retail assets provides support to revenues and cash flows. In FY14, these assets contributed 15% to total revenues and 23% to PBT. EBITDA from commercial property accounted for 26% of total operating cash flows. We expect EBITDA of ₹2.7 bn from commercial and lease assets over the next two years.

Currently, the total leasable commercial and retail space managed by the company is 1.6 mn sq ft with an average occupancy of 95%. Owing to expertise developed over the years in managing commercial and retail assets with access to a pool of large corporates and retailers, Brigade plans to expand its presence in the lease rental space in Bengaluru and other South Indian cities. We expect its commercial portfolio to increase to 3.2 mn sq ft by FY18.

Table 11: Portfolio of 1.6 mn sq ft of commercial and retail assets provides steady revenues with 23% contribution to PBT

Assets	Location	Area (mn sq ft)	Occupancy as of FY14	Avg. Lease rentals (₹/sq ft)	FY14 Revenues (₹ mn)	Key tenants
World Trade Centre	Malleswaram – Rajaji Nagar	0.6	91%	81	524	Amazon, KPMG, Siemens, Samsung
Orion Mall	Malleswaram – Rajaji Nagar	0.82	94%	85	792	Zara, Blu-O, Westside, Star Bazaar
Brigade South Parade	M.G.Road	0.11	73%	68	65	Cisco
Brigade Solitaire and others	Ring Road	0.05	100%	60	19	-
Total		1.58	92%		1,400	

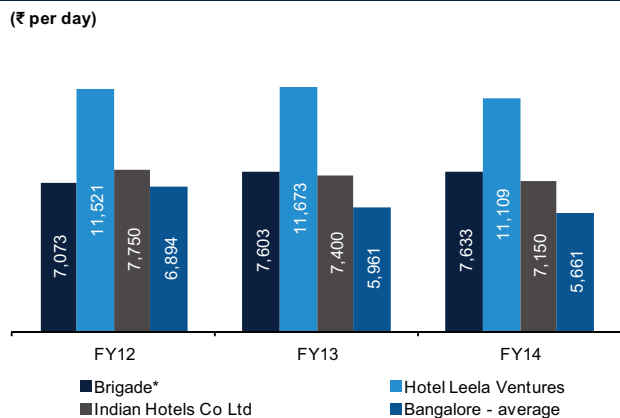
Source: Company, CRISIL Research

Hospitality assets recorded above-industry performance

The quality of Brigade’s hospitality assets is reflected in the higher-than-industry ARR and OR. Its five-star property Sheraton in Malleswaram reported an ARR of ₹7,633 compared with the industry average of ₹5,661. Also, occupancy of 75% in FY14 is superior vis-à-vis the industry average of 57%. Its 126-key service apartments – Grand Mercure in Koramangala – reported an ARR of ₹6,558 and OR of 86% in FY14. Strong performance in the hospitality business is due to its proximity to business districts. Owing to superior operating performance, hospitality assets reported EBITDA margin of 41% and PBT margin 4% in FY14; on the other hand, most of the peers reported net losses.

Hospitality projects recorded superior performance

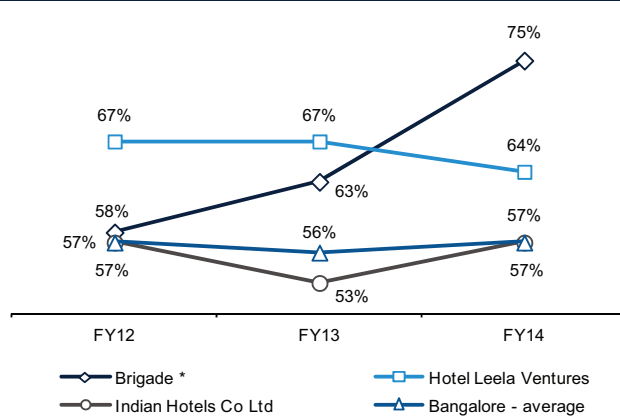
Figure 2: Brigade's five-star property has higher ARR...



* Operated by the Starwood Group
 ** Compares the average ARR of the Bengaluru five-star hotels of the players mentioned above

Source: CRISIL Research

Figure 3: ... and OR compared with industry as well as most peers



* Operated by the Starwood Group
 ** Compares the average OR of the Bengaluru five-star hotels of the players mentioned above

Source: CRISIL Research

Going forward, we expect Brigade's hospitality assets to benefit from the rise in demand for rooms in Bengaluru. Apart from the existing projects, Brigade has three ongoing projects – Holiday Inn in Chennai and Bengaluru, and Mercure in Mysore, which are expected to commence operations over the next two-three years.

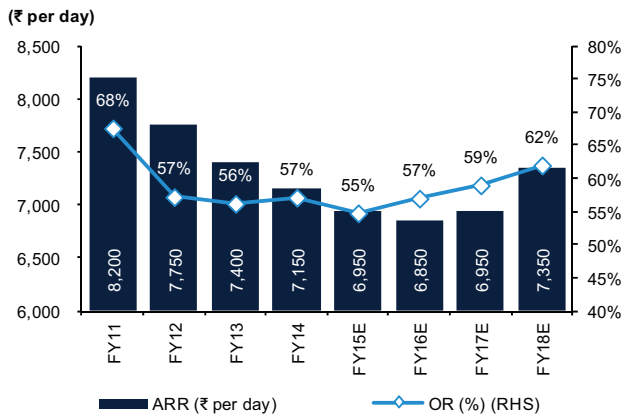
ARR and OR in Bengaluru expected to bounce back in FY16

Owing to a large addition of rooms, ARR and OR in the Bengaluru hospitality market are expected to decline in FY15. Robust corporate demand is expected to encourage gradual revival in ARR and OR over FY15-18.

Over FY11-14, economic uncertainty led to tepid demand for rooms, which coupled with consistent supply addition resulted in moderation in ARR (declined at a CAGR of 4%) and OR (decreased to 57% in FY14 from 68% in FY11) for hotels in Bengaluru. With estimated supply of over 900 rooms, ARR and OR are likely to remain under pressure in FY15. Post FY15, room demand from corporate houses is expected to pick up as a large supply of office space is expected in north Bengaluru and Whitefield. This is likely to support gradual revival in ARR and OR over FY15-18 – CRISIL Research expects ARR to grow at a CAGR of 2% over the period, while OR is expected to improve from 62% from 57%. Consistent addition of rooms is likely to limit a sharp increase in ARR and OR.



Figure 4: ARR and OR expected to start reviving from FY16...



Source: CRISIL Research

Table 12: ... but large upcoming supply likely to constrain growth

Hotel	Number of rooms	Expected date of commencement
Shangrila, Palace Road	397	2014-15
Sheraton, Whitefield	325	2015-16
Renaissance, Bengaluru	278	2016-17
Shangrila, Outer Ring Road	450	2016-17
Conrad	220	Under planning
Gateway, Bannerghatta	209	Under planning
Leela, Bhartiya City	250	Under planning
Wyndham Grand Yelahanka	180	Under planning
Holiday Inn, Devanahalli	210	Under planning

Source: CRISIL Research

Return ratios to improve; good cash flows in existing projects

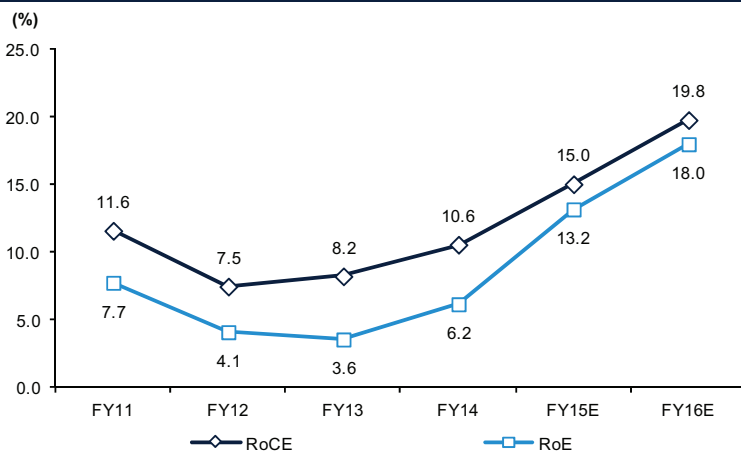
Though Brigade's RoCE improved to 10.6% in FY14 from 7.5% in FY12, it is low since in some of the projects the company has not reached the revenue recognition threshold. While cash flows in the existing projects has been good, currently there are customer advances (of the current liabilities of ₹10.6 bn, 58% are customer advances) as few of the projects have not received the revenue recognition threshold. We expect revenue recognition to improve over the next two years as construction progresses. This is expected to boost return ratios; we expect RoCE to improve from 10.6% in FY14 to 19.8% in FY16. We expect RoE to improve from 6.2% in FY14 to 18% in FY16 driven by growth in revenues and profitability.

Limited revenue recognition in ongoing projects led to lower return ratios

Table 13: Business-wise RoCE break-down as of FY14

Segment	Capital employed (₹ mn)	EBIT (₹ mn)	RoCE
Real estate	10,855	957	8.8%
Leased assets	7,711	741	9.6%
Hospitality projects	2,597	221	8.5%

Figure 5: Return ratios to improve going ahead



Source: Company, CRISIL Research estimates

Key Risks

Slowdown in IT industry could impact absorption in Bengaluru

Brigade's focus is on Bengaluru, which accounts for 76% of the ongoing and future project pipeline. Though we expect the IT industry to grow at 15-16% over the next two years, any slowdown could impact Bengaluru's real estate market and, consequently, Brigade's financials as the demand for real estate in Bengaluru is primarily linked to prospects in the IT/ITeS industry.

Labour shortage could have an adverse impact on project cost and margins

Shortage of labour in the past one-two years has increased worries of real estate developers. Due to good employment opportunities in their home states and guaranteed income from state governments, labourers prefer to work in their home states despite lower wages. Due to demand-supply mismatch, real estate companies have to give higher wages to the available labourers; this is expected to increase costs. If Brigade is unable to pass on the rise in labour costs, its margins could be impacted.

Execution delays in ongoing projects

Brigade has ongoing and future project pipeline of 47 mn sq ft, to be executed over the next eight-nine years. Given the huge scale of development, we have built in delays for the ongoing and future projects. However more-than-anticipated delays could impact profitability and valuation.

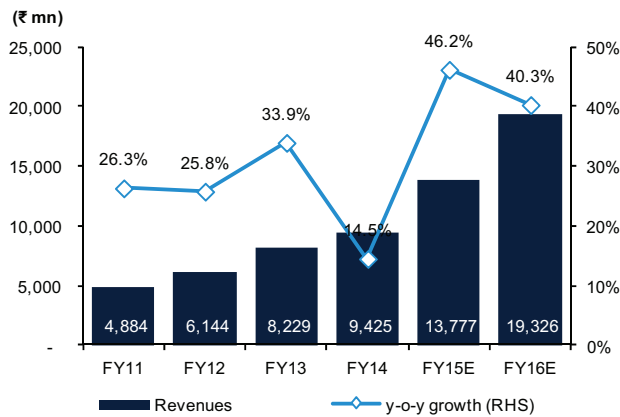


Financial Outlook

Revenues to grow at two-year CAGR of 43% to ₹19 bn by FY16

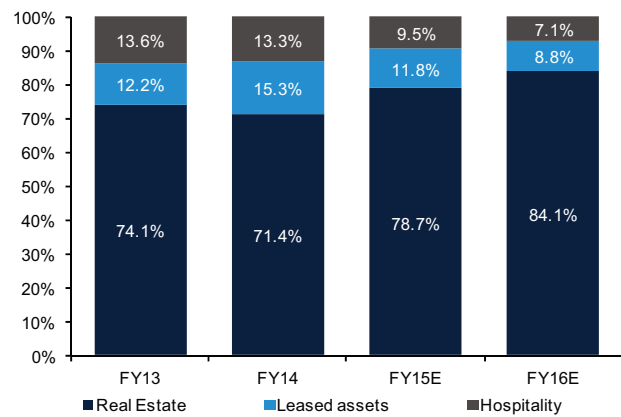
We expect revenues to grow at a two-year CAGR of 43% to ₹19.4 bn by FY16 driven by incremental revenue recognition in ongoing projects and steady growth in leased assets and hospitality projects. Of the 9.4 mn sq ft (Brigade's share) projects launched, 51% (totalling ₹20.6 bn) are booked until June 2014, while revenue recognised is ₹6.8 mn. The remaining revenues will be booked as the construction on these projects progresses. Accordingly, incremental revenues from the launched projects are expected to increase from ₹6.6 bn in FY14 to ₹10.2 bn in FY15 and ₹15.6 bn in FY16. Revenues from the leased and hospitality assets are expected to grow 7.7% and 3.7%, respectively, over the next two years.

Figure 6: Revenues expected to grow at a CAGR of 43%



Source: Company, CRISIL Research estimates

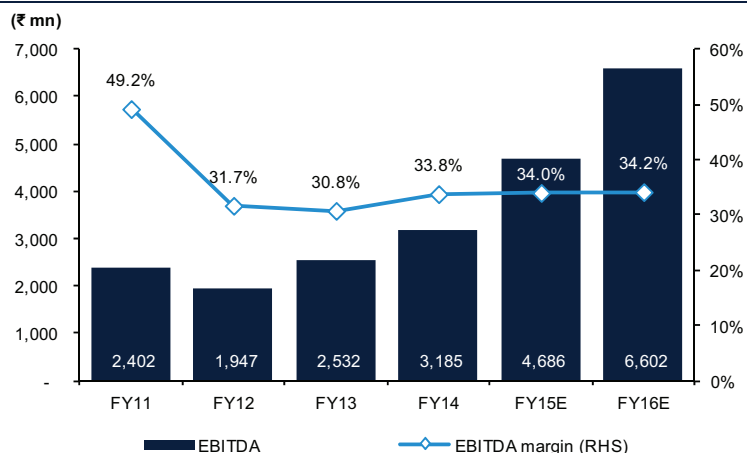
Figure 7: Contribution from real estate to increase



EBITDA margin to improve

We expect EBITDA margin to improve to 34.2% in FY16 from 33.8% in FY14. EBITDA margin of leased assets is expected to increase marginally to 86% in FY16 from 85% in FY14. Hospitality assets' EBITDA margin is expected at 41.8% in FY16 vs 40.8% in FY14.

Figure 8: EBITDA margins expected to improve



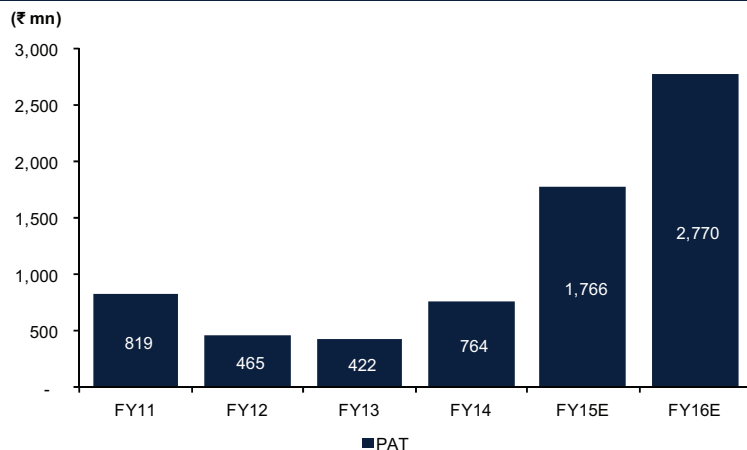
Source: Company, CRISIL Research estimates

Profitability to improve significantly

We expect Brigade to report profit of ₹1.8 bn and ₹2.8 bn in FY15 and FY16, respectively, against ₹0.8 bn in FY14 due to growth in revenues and improvement in EBITDA margin. EPS is expected to increase to ₹24.7 in FY16 from ₹6.8 in FY14.

EPS expected at ₹24.7 in FY16

Figure 9: PAT to record strong growth



Source: Company, CRISIL Research estimates

Expect positive cash from operations over the next two years

After assuming land purchases of ₹1.5 bn in FY15 and ₹1.7 bn in FY16, we expect Brigade to report ₹5.7 bn cash from operations over the next two years driven by revenue recognition in the real estate projects, and steady revenues and margins in the leased and hospitality assets.

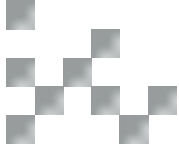
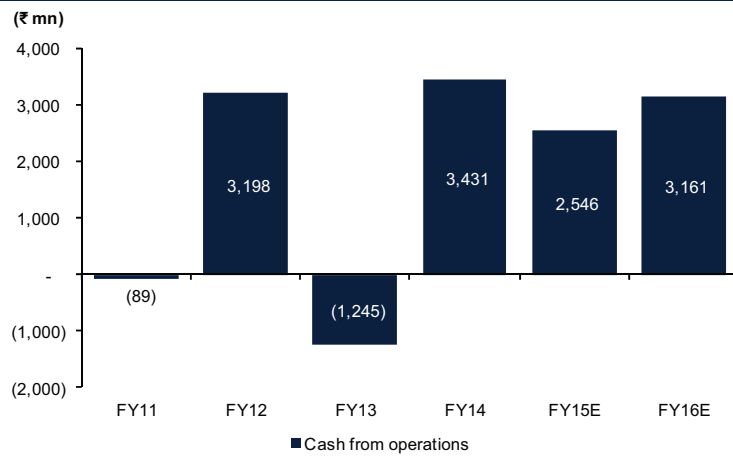


Figure 10: Healthy cash flows from operations



Source: Company, CRISIL Research estimates

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Experienced management

Brigade's management has three decades of experience in the real estate industry. It is headed by Mr M. R. Jaishankar (chairman and managing director). Mr Jaishankar holds a Bachelor of Science degree in agriculture from the University of Agricultural Sciences, Hebbal, Bengaluru and a Master of Business Administration from Manasa Gangotri, Mysore. He is ex-president of the Karnataka Ownership Apartments Promoters Association (KOAPA).

Fairly strong second line of management

Our interactions with business heads confirmed that the company has a fairly strong second line of management. The finance function is headed by Mr Suresh K. (CFO), who has been with the company for over three years with total experience of more than 25 years. Mr Roshin Mathew (president - engineering) has more than 25 years of experience in the real estate industry. Mr Viswa Prathap Desu (VP – sales and marketing) has more than 15 years of experience in the construction and housing industry.

Established brand equity in the Bengaluru real estate market

Over the past decade, Brigade's management has been able to establish its brand in the Bengaluru real estate market. Brigade pioneered the concept of integrated lifestyle enclave and is credited with development of marquee assets such as World Trade Centre and Orion Mall in Bengaluru.



Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Corporate governance at Brigade reflects good practices supported by a strong and fairly independent board, with good and relevant experience, and board processes and structures broadly conforming to minimum standards.

Board composition and processes

The company's board comprises eight directors, four of whom are independent. Its board composition is in line with SEBI's stipulated guidelines. The directors are well qualified, experienced and have a good understanding of the company's business and processes.

The company has various committees – audit, remuneration and investor grievance – in place to support corporate governance practices. The disclosures are sufficient to analyse various business aspects of the company. CRISIL Research assesses from its interactions with independent directors that the quality of agenda papers and the level of discussions at the board meetings are good.

High dividend payout, lean corporate structure, transparent disclosures

Barring FY12, Brigade has been able to maintain its dividend payout ratio of ~20%; this is a positive for minority shareholders. Contrary to most other real estate companies having a complex group structure, Brigade has a lean corporate structure with five wholly-owned subsidiaries and two joint ventures. The company's quality of disclosure is good judged by the level of information and details furnished in the annual report, presentations, websites and other publicly available data.

Long tenure of auditors; resolution passed to appoint new one

The current auditors – Narayanan, Patil & Ramesh – have been associated with the company for more than a decade. The long tenure may limit their objectivity and independence. However, in the last annual general meeting, the company passed a resolution to appoint S R Batliboi & Associates LLP as statutory auditors.

Valuation

Grade: 5/5

We have valued Brigade at ₹23.6 bn by the SoTP method, which translates into a fair value of ₹210 per share. Consequently, we initiate coverage on Brigade with a valuation grade of **5/5**. This grade indicates that the market price has 'strong upside' from the current levels.

Our NAV model factors in cash flows (considering Brigade's share) from the on-going and upcoming residential and commercial development of 19 mn sq ft. For the future pipeline of ~21 mn sq ft of residential development, we have applied a discount of ~25% to the derived NAV as these projects are yet to be launched and might be delayed beyond the completion dates estimated by us. We have valued the hospitality project by the EV/room method, while retail and commercial assets are valued using capitalisation rates. The following are the key assumptions for our valuation:

- We have assumed cost of equity of 17.0% and WACC of 14.8%.
- For the existing commercial and retail 'built and lease' asset, we have assumed a capitalisation rate of 9% given the strong occupancy and steady revenues. For the upcoming commercial and retail projects, we have assumed a capitalisation rate of 11%.
- For the Sheraton and Grand Mercure hotels, we have assumed EV/room of ₹15 mn. For the upcoming hotels, we have assumed EV/room of ₹5-10 mn depending on their location.

SoTP valuation of ₹210 per share

Projects	EV (₹ mn)	EV (₹ per share)
Outright sale (residential and commercial)	16,660	148
Lease rentals (commercial and retail)	14,946	133
Hospitality project	4,714	42
Less: FY15 net debt	11,085	(99)
Less: Land cost to be paid	1,612	(14)
Equity value	23,614	210
Per share value	210	

Source: CRISIL Research

Sensitivity to WACC and growth in capital values

		Growth in capital values				
		3.0%	4.0%	5.0%	6.0%	7.0%
WACC	12.8%	206	218	231	245	258
	13.8%	196	208	220	233	247
	14.8%	187	198	210	223	236
	15.8%	178	189	201	213	225
	16.8%	170	181	192	204	216

Source: Company, CRISIL Research

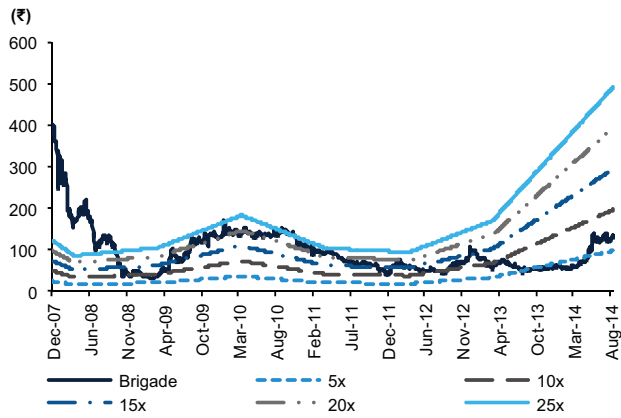
Sensitivity to WACC and capitalisation rates

		Capitalisation rates				
		7%	8%	9%	10%	11%
WACC	12.8%	272	249	231	217	205
	13.8%	260	238	220	206	195
	14.8%	250	228	210	196	185
	15.8%	240	218	201	187	176
	16.8%	231	209	192	178	167

Source: Company, CRISIL Research

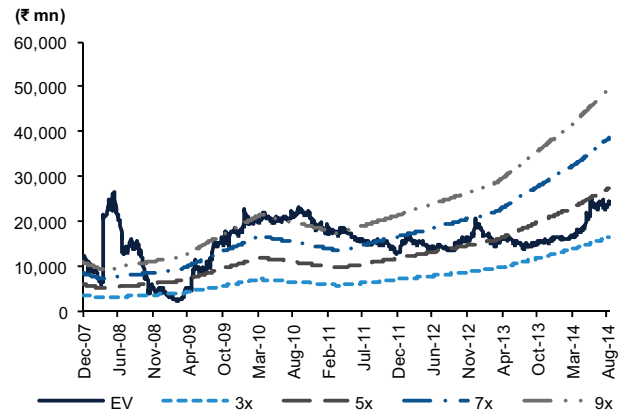


One-year forward P/E band



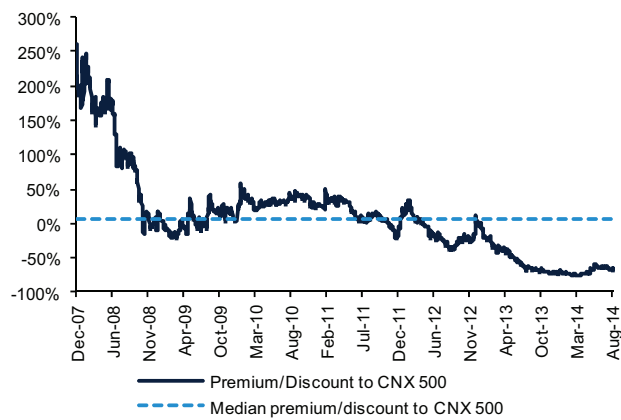
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



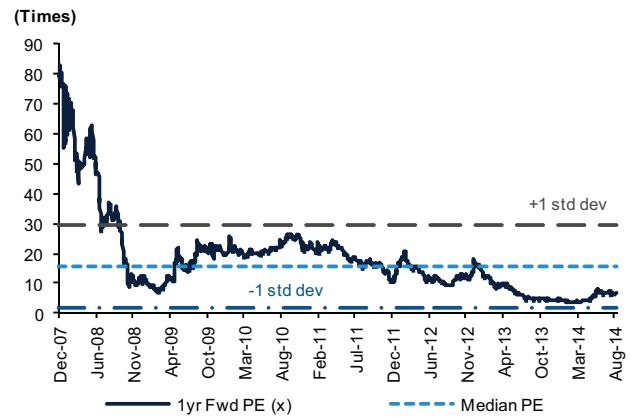
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

Peer comparison

Companies	M.cap (₹ mn)	P/E (x)			P/B (x)			EV/EBITDA (x)			RoE (%)		
		FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E
Brigade*	14,738	19.3	8.3	5.3	1.2	1.0	0.9	7.2	5.4	4.0	6.2	13.2	18.0
Prestige	89,250	27.6	26.5	19.4	3.0	2.8	2.5	15.4	11.9	9.5	11.0	13.5	13.6
Sobha	44,325	17.7	10.7	7.0	1.9	1.8	1.6	9.5	6.6	4.7	10.6	16.0	21.0
Puravankara	21,960	8.1	13.5	10.7	1.0	0.9	0.8	6.4	7.7	7.2	13.6	7.9	10.4
Nitesh	2,036	38.8	NA	NA	0.6	NA	NA	8.8	NA	NA	1.6	NA	NA
Average		22.3	14.8	10.6	1.5	1.6	1.5	9.5	7.9	6.4	8.6	12.7	15.8
Median		19.5	12.1	8.9	1.2	1.4	1.3	8.8	7.2	6.0	10.6	13.4	15.8

*CRISIL Research estimates

Source: CRISIL Research, Industry sources

Company Overview

Brigade is an established real estate developer in South India with a focus on residential, commercial, retail and hospitality projects. It is predominantly a Bengaluru-based developer with a presence in other South Indian cities of Mysore, Chennai, Kochi, Hyderabad and Mangalore.

Brigade has developed 24 mn sq ft of residential and commercial projects over the past 25 years. The company is credited with the development of integrated township projects - Brigade Gateway at Malleswaram and Brigade Metropolis at Whitefield. Currently, it has 1.6 mn sq ft of commercial and retail assets, 356-key hotels and service apartments. It has ongoing residential projects of 12.5 mn sq ft, 1.7 mn sq ft of commercial projects and 0.4 mn sq ft of hospitality projects. The company also has future project pipeline of 32.3 mn sq ft.

Milestones

Year	Key events
1992	Construction of Brigade Gardens, a shopping complex in Bengaluru, completed
1994	Completion and handover of the first luxury apartments project outside Bengaluru, Brigade Residency, Mysore
1995	Conversion of the partnership firm Brigade Enterprises into a private limited company Brigade Enterprise Private Limited
1996	Obtained ISO 9001: 1994 certification from the London-based certifying agency bureau - Veritas Quality International
2000	Launch of Homestead I, luxury service apartments in Bengaluru
2001	Completion and handover of Komarla Brigade Residency, an eco-friendly building
2002	Merger of Brigade Developers Private Limited and Brigade Investments and Projects Private Limited into Brigade Enterprises Limited
2005	Re-certified for ISO 9001:2000
2006	Completion of Brigade Millennium, an integrated lifestyle enclave in Bengaluru
2007	Raised ₹6,500 mn through IPO
2008	Completed construction of a hospital at Brigade Gateway, Malleswaram
2010	Completed construction of 2.2 mn sq ft of residential project at Brigade Gateway, Malleswaram
2010	Its iconic commercial project - World Trade Centre (1.1 mn sq ft) was ready for occupation
2011	Sheraton Hotel (230 keys) became operational at Brigade Gateway, Malleswaram
2012	Orion Mall (0.8 mn sq ft) became operational at Brigade Gateway, Malleswaram
2013	Received the Best Commercial Complex award in Bengaluru zone at the CREDAI Real Estate Awards Karnataka 2013

Annexure: Financials

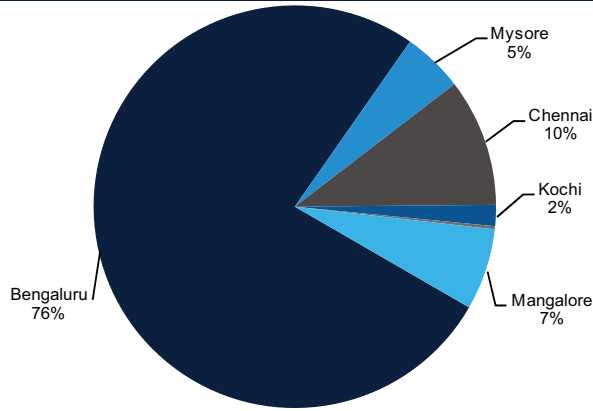
Income statement						Balance Sheet					
(₹ mn)	FY12	FY13	FY14	FY15E	FY16E	(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
Operating income	6,144	8,229	9,425	13,777	19,326	Liabilities					
EBITDA	1,947	2,532	3,185	4,686	6,602	Equity share capital	1,123	1,123	1,123	1,123	1,123
EBITDA margin	31.7%	30.8%	33.8%	34.0%	34.2%	Reserves	10,480	11,016	11,557	13,041	15,533
Depreciation	440	773	827	1,120	1,248	Minorities	-	-	-	-	-
EBIT	1,507	1,759	2,358	3,565	5,354	Net worth	11,603	12,139	12,679	14,163	16,656
Interest	1,199	1,310	1,446	1,044	1,176	Convertible debt	-	-	-	-	-
Operating PBT	308	449	912	2,522	4,179	Other debt	8,510	10,549	9,322	11,322	12,072
Other income	260	58	188	38	18	Total debt	8,510	10,549	9,322	11,322	12,072
Exceptional inc/(exp)	105	191	43	-	-	Deferred tax liability (net)	204	244	342	342	342
PBT	673	698	1,143	2,560	4,196	Total liabilities	20,318	22,932	22,344	25,827	29,070
Tax provision	104	98	345	794	1,427	Assets					
Share of profit from associates	-	(13)	(9.9)	-	-	Net fixed assets	4,958	10,395	12,205	11,085	11,192
PAT (Reported)	569	613	808	1,766	2,770	Capital WIP	9,283	3,904	2,481	7,014	9,325
Less: Exceptionals	105	191	43	-	-	Total fixed assets	14,241	14,299	14,686	18,099	20,517
Adjusted PAT	465	422	764	1,766	2,770	Investments	29	55	331	331	331
						Current assets					
						Inventory	8,200	9,099	11,320	11,366	13,665
						Sundry debtors	671	621	1,377	1,858	2,607
						Loans and advances	3,905	4,828	4,112	4,523	6,344
						Cash & bank balance	478	449	507	237	206
						Marketable securities	-	41	493	493	493
						Total current assets	13,254	15,038	17,809	18,478	23,316
						Total current liabilities	7,292	6,597	10,609	11,207	15,220
						Net current assets	5,962	8,441	7,200	7,270	8,096
						Intangibles/Misc. expenditure	85	137	127	127	127
						Total assets	20,318	22,932	22,344	25,827	29,070
						Cash flow					
						(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
						Pre-tax profit	568	507	1,099	2,560	4,196
						Total tax paid	(131)	(58)	(248)	(794)	(1,427)
						Depreciation	440	773	827	1,120	1,248
						Working capital changes	2,321	(2,467)	1,751	(340)	(857)
						Net cash from operations	3,198	(1,245)	3,431	2,546	3,161
						Cash from investments					
						Capital expenditure	(2,528)	(882)	(1,204)	(4,533)	(3,665)
						Investments and others	(4)	(66)	(730)	-	-
						Net cash from investments	(2,532)	(949)	(1,934)	(4,533)	(3,665)
						Cash from financing					
						Equity raised/(repaid)	1	83	(103)	-	-
						Debt raised/(repaid)	(694)	2,038	(1,226)	2,000	750
						Dividend (incl. tax)	-	(197)	(262)	(283)	(277)
						Others (incl extraordinary)	68	241	151	-	-
						Net cash from financing	(626)	2,165	(1,440)	1,717	473
						Change in cash position	41	(29)	57	(270)	(31)
						Closing cash	478	449	507	237	206
						Quarterly financials (Standalone)					
						(₹ mn)	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15
						Net Sales	1,573	1,808	1,835	3,942	1,682
						Change (q-o-q)	-47%	15%	1%	115%	-57%
						EBITDA	469	594	657	975	480
						Change (q-o-q)	-35%	27%	11%	48%	-51%
						EBITDA margin	30%	33%	36%	25%	29%
						PAT	67	190	149	492	74
						Adj PAT	67	190	149	492	74
						Change (q-o-q)	-76%	184%	-22%	230%	-85%
						Adj PAT margin	4%	11%	8%	12%	4%
						Adj EPS (₹)	0.6	1.7	1.3	4.4	0.7

Financial numbers have been re-classified as per CRISIL's standards

Source: CRISIL Research

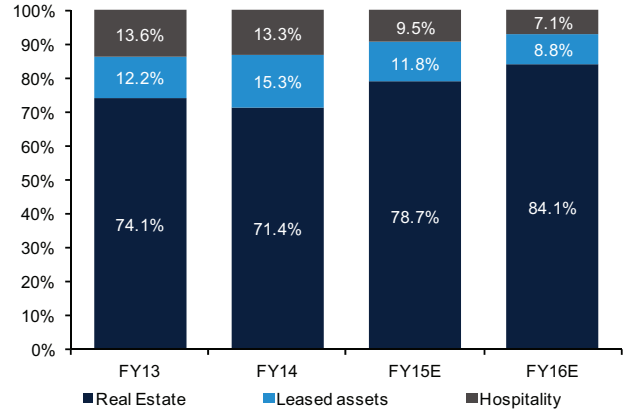
Focus Charts

Bengaluru comprises 76% of the total land bank



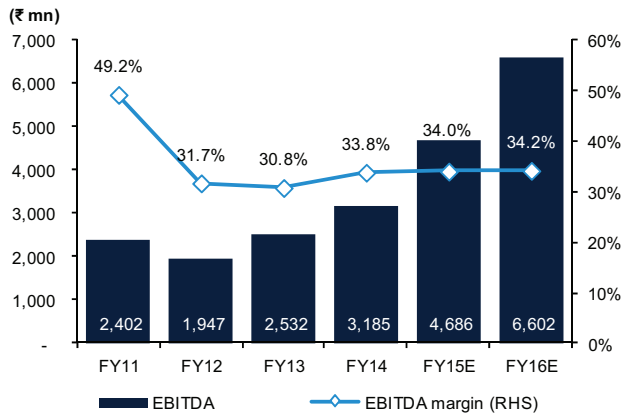
Source: Company, CRISIL Research

Contribution from real estate projects to increase



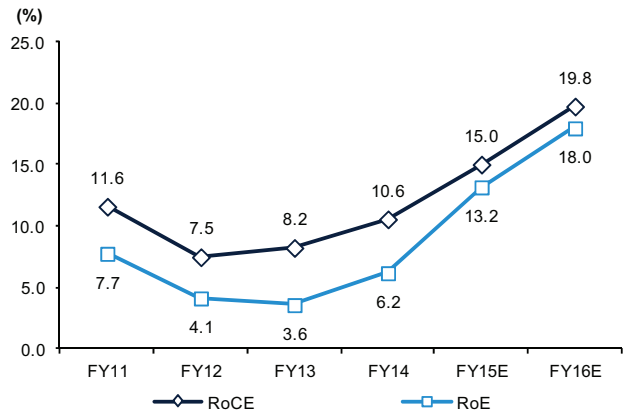
Source: Company, CRISIL Research

EBITDA margin to improve by 50 bps in the next two years



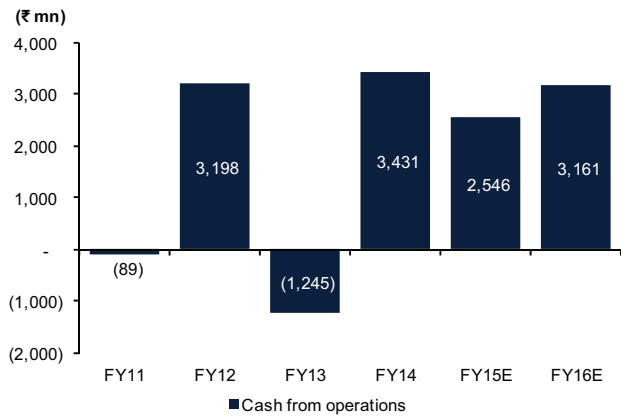
Source: Company, CRISIL Research

Return ratios to improve



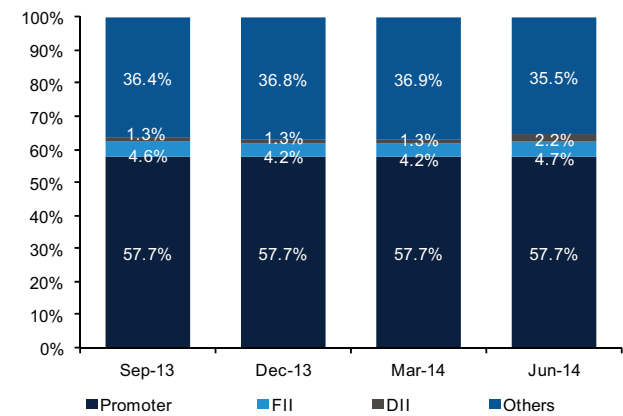
Source: Company, CRISIL Research

Strong cash from operations

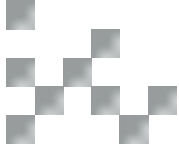


Source: Company, CRISIL Research

Shareholding pattern



Source: Company, CRISIL Research



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