

Brigade Enterprises Limited

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BRIGADE

Building Positive Experiences

Ref: BEL/NSE/BSE/13112019

13th November, 2019

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Department of Corporate Services - Listing
BSE Limited
P. J. Towers
Dalal Street,
Mumbai - 400 001

Re.: Scrip Symbol: BRIGADE/Scrip Code: 532929

Dear Sir,

Sub.: Transcript of Conference Call on the Company's Q2 FY-20 Earnings - 7th November, 2019

We are enclosing herewith the transcript of the Conference Call on the Company's Q2 financial results for the financial year 2019-20 held on Thursday, 7th November, 2019.

Kindly take the same on your records.

Thanking you,
Yours faithfully,

For **Brigade Enterprises Limited**

P. Om Prakash
Company Secretary & Compliance Officer

Encl.: a/a

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“Brigade Enterprises Limited Q2 FY-20 Earnings
Conference Call”

November 7, 2019



**MANAGEMENT: MR. M. R. JAISHANKAR – CHAIRMAN & MANAGING
DIRECTOR, BRIGADE ENTERPRISES LIMITED
MS. NIRUPA SHANKAR – EXECUTIVE DIRECTOR,
BRIGADE ENTERPRISES LIMITED
MS. PAVITRA SHANKAR – EXECUTIVE DIRECTOR,
BRIGADE ENTERPRISES LIMITED
MR. ATUL GOYAL – CHIEF FINANCIAL OFFICER,
BRIGADE ENTERPRISES LIMITED**



*Brigade Enterprises Limited
November 7, 2019*

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY20 Earnings conference call of Brigade Enterprises Limited.

We have with us today on the call Mr. M. R. Jaishankar – Chairman & Managing Director, Pavitra Shankar – Executive Director; Nirupa Shankar – Executive Director; and Mr. Atul Goyal – Chief Financial Officer.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. M. R. Jaishankar – Chairman & Managing Director. Thank you and over to you.

M. R. Jaishankar: Good evening. Thank you all for joining for this conference call analyst call and I would like to say in addition to the names mentioned we have more people to answer and to interact with you when needed.

Rajendra Joshi our CEO – Residential; Amar Mysore – Executive Director; Subrata Sharma – COO for office business, company secretary and others. So, we will be happy to interact with you.

And I am glad to inform that as you would have seen from our press release and investor presentation where we have done fairly well in Q2 also like Q1 with a sale of 1 million square feet plus in the residential segment and about 600,000 square feet of fresh leases. In additions I am happy to say all our hotels are performing much better than earlier quarter and last year in terms of occupancies though there could be some small challenges on the rates but the occupancies are all substantially better and we are also opening Grand Mercure, Gift City Ahmedabad with a soft opening in this quarter and a formal opening in Q4.

To be very precise tomorrow we have the pre-opening pooja in Gift City for Grand Mercure and the Holiday Inn Express Old Madras Road which is part of the golden triangle mixed use project is also getting ready and that should also be open in the Q4 FY20. Even the mall Orion Uptown, OMR Bangalore should also be operational in Q4. We are just waiting for the occupancy certificate which should happen within the month of November.

All our retail malls are also showing improved sales density per square foot and that is a good sign for us to go forward with more plans in retail. Similarly, residential business has shown encouraging signs of new launches ongoing products across the sector you can say as far as Brigade is concerned we have fairly positive outlook.



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And of course yesterday the finance minister has come out with a scheme for stressed projects which is definitely a welcome move by the government and hope it brings much needed relief to projects which are stalled and though it may take couple of weeks or couple of months for all the final details and the procedures to be formalized by the government and overall in my opinion the real estate sector should improve along with the signs as soon as the economy shows signs of improvement and Bangalore is definitely in a better situation than few other cities in the country from whatever we hear from analysts and other developers. So, with this few opening remarks I will ask Atul Goyal our CFO to come up with his detailed statement.

Atul Goyal:

Thank you sir. Good afternoon everybody. On behalf of the company we would like to welcome you on the earning call of H1 FY2020. So, I will take first the operational performance because it has become very, very important after the induction of AS115 because of the variation in revenues. So, our sales performance for the half year ending September 2019 we have achieved around 2.13 million square feet which is 73% more than 1.23 million square feet sold during the half year year-on-year.

The sale value of the area sold during the year stood at Rs. 1,122 crores an increase of 65% as compared to sale value of Rs. 678 crores for the same half year ending of last financial year. The average price realization was Rs. 5,271 per square feet for the area sold during the half year ending September 2019.

We have done good progress in leasing also. We have preleased around 0.6 million square feet in Q2 which gives us the rental yield of Rs. 44 crores. Total H1 FY20 we have preleased around 1.37 million square feet which is estimated to do annual rent yield of around Rs. 110 crores. In the hospitality segment average occupancy rate has increased to 63% from 58% YoY and GOP for hospitality increased by Rs. 8 crores YoY which is excluding Four Points Sheraton, Kochi which we have recently opened, and the hotel is under stabilization stage. The revenue in hospitality segment had increased by Rs. 22 crores around 16% YoY and EBITDA by Rs. 8 crores at 25% YoY.

So, there is a significant improvement in performance in hospitality segment. The consolidated revenue for H1 FY20 stood at Rs. 1,469 crores versus Rs. 1,552 crores in the same half year ending of last financial year. The real estate segment clocked a turnover of Rs. 1,134 crores and an EBITDA of 22% in H1 FY20 versus a turnover of Rs. 1,250 crores and an EBITDA of 23% in H1 FY19.

The decrease in revenue is mainly due to change in revenue recognition as per AS115. So that is a variation I was talking about. The hospitality segment clocked a turnover of Rs. 160 crores and an EBITDA of 26% in H1 FY20 versus a turnover of Rs. 138 crores and an EBITDA of 24% in H1 FY19. The leasing segment clocked a turnover of Rs. 175 crores and an EBITDA of 63% in H1 FY20 versus a turnover of Rs. 164 crores and an EBITDA of 67% in H1 FY19.

The decrease in EBITDA margin is mainly due to some CAPEX projects which we have capitalized during this year and they are not fully operational right now so once they will reach to their full return potential then EBITDA will get restated at 67%/ 68% what we have been showing earlier.

The consolidated EBITDA including other income for H1 FY20 stood at Rs. 397 crores versus Rs. 425 crores in H1 FY19. EBITDA margin including other income stood at 27% which is constant year-on-year. The interest and finance charges for the half year stood at Rs. 174 crores consolidated profit before tax for the half year is Rs. 138 crores compared to Rs. 227 crores in the same half year of last financial year.

These are also affected as I mentioned earlier due to capitalization and the interest cost for that capital asset getting debited to P&L but it is again an aberration or temporary phase once the revenue starts coming from these properties the percentage will again be reinstated in coming quarters.

Coming to consolidated performance for Q2 FY2020 the consolidated revenue for Q2 FY20 stood at Rs. 750 crores versus Rs. 844 crores in the same quarter ending of last financial year. The real estate segment clocked a turnover of Rs. 579 crores and an EBITDA of 23% in Q2 FY20 versus a turnover of Rs. 683 crores and an EBITDA of 23% in Q2 FY19. So hospitality segment clocked a turnover of Rs. 83 crores and an EBITDA of 26% in Q2 FY20 versus a turnover of Rs. 74 crores at an EBITDA of 28% in Q2 FY19.

The leasing segment clocked a turnover of Rs. 91 crores and an EBITDA of 60% in Q2 FY20 versus a turnover of Rs. 87 crores with an EBITDA of 67% in Q2 FY19. The consolidated EBITDA including other income for Q2 FY20 stood at Rs. 207 crores versus Rs. 236 crores in Q2 FY19. EBITDA margin including other income stood at 27% which is constant year-on-year. The interest and finance charges for the quarter stood at Rs. 94 crores consolidated profit before tax for the quarter was Rs. 65 crores compared to Rs. 133 crores in the same quarter in last financial year.

Coming to debt position and its breakup, Rs. 714 crores is the real estate segment debt. Rs. 538 crores in hospitality segment in which Rs. 430 crores is GOP securitized loan and Rs. 108 crores is the CAPEX loan and in leasing side we have a loan of around Rs. 2,439 crores of which Rs. 1,256 crores is securitized lease rental and Rs. 1,183 crores is the CAPEX loan.

So if you see our bulk increase in debt is in CAPEX projects which are now nearing completion in both Tech Gardens and WTC Chennai. The cash and cash equivalent stand at Rs. 349 crores as on September 30, 2019 consequently the company's debt outstanding as on September 30, 2019 is Rs. 3,343 crores out of which BL share is Rs. 2,775 crores.

The company's effective cost of debt remains steady as on 30 September 2019 at 9.73% per annum. We have a credit rating of A with a stable outlook which has been assigned both by CRISIL and ICRA. I also wanted to share some leverages ratio that we track on a trailing year basis. Interest coverage ratio stood at 2.29x in H1 FY20 and the net debt to equity stood at 1.12x for H1 FY20.

The net debt to EBITDA stood at 4.2x for H1 FY20. The return on equity stood at 5.6% for FY20. To give you brief business update, we have launched six projects aggregating to 1.90 million square feet during H1 FY20 out of which residential is 0.9 million square feet including two projects which are in affordable housing segments of 0.78 million square feet and commercial projects of 1 million square feet.

Further launches to the extent of 8.36 million square feet are planned of which residential space aggregating to 5.52 million square feet, office and retail space totaling to 2.54 million square feet and hospitality 149 keys coming up near to Bangalore International Airport and 112 keys near Brigade Tech Gardens.

I will hand it back to the moderator for the questions. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: Sir, my first question is on the leasing now. So, what is the visibility for the leasing because I think it is just six months to go before the SEZ clause gets over. That is one. And all the assets we have capitalized for Tech Gardens Phase 1, Gift City when do we see the actual rentals starting to flow into the P&Ls?

Subrata K C Sharma See as far as the visibility is concerned as on date, we have already done 1.37 million square feet for H1. The target for the year is 3 million square feet and I would say that we have a very positive visibility of another 2 million square feet. So out of these 2 million square feet we are sure that we will close 90% of it. So as far as the target of 3 million square feet is concerned, we are quite positive.

Adhidev Chattopadhyay: Does it include the hard option? These 1.3 million square feet is excluding the hard option we have mentioned in the presentation for Brigade Tech Gardens Phase 1?

Subrata K C Sharma: So 1.37 million square feet excludes the hard option. As on date we have approximately 0.4 million hard option but what we are seeing is most of the hard options are getting accelerated.



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So, as I talk, yesterday we closed around 0.05 million square feet of hard option. There is certain level of business growth across all the companies that we are seeing.

Atul Goyal: If you see totally, we have done around 1.8 million sft in both Tech Gardens and WTC, Chennai around 1 million square feet in Tech Gardens and 0.8 million sft in WTC, Chennai.

Adhidev Chattopadhyay: I think in your presentation apart from the Slide 23 #what you have given you are saying on the Chennai one around 0.8 million sft has been locked in out of the 2 million sft. Is it correct?

Subrata K C Sharma: Yeah, if you see the Chennai market this year particularly market is doing pretty good. So last year it closed at around 2.7 million, this year in three quarters it is already 3.3 million plus. And plus, there has been a strong what you call consolidation among the companies. So, if you see the net absorption it is around 57% to 58% and we being in a very strong and preferred micro market we are seeing lot of interest that is being generated for our property.

So whatever transactions that we have done 80% of it is consolidation and 20% to 25% or may be like around 20% is actual expansion. So as on date we have a strong visibility and strong pipeline which would be approximately 2.5 million plus only for Chennai.

Adhidev Chattopadhyay: Sir, secondly on the hotel business now we have around Rs. 40 odd crores of GOP in the first half. So, what is the outlook for second half on the overall business and outlook for hotel industry? That is one. And is there any update on the divestment of stake in the hotel business?

Nirupa Shankar: So, we are expecting a similar performance in the second half as well. So definitely around doubling of what you saw in the first half is what we can expect in the second half as well because generally November-December-January are quite strong months for the hospitality industry. With regard to the divestment we are very close to closing the valuation figures. So hopefully we are still working hard towards closing this transaction as well. But as I had mentioned before we were speaking to two parties before we have narrowed it down to one and hopefully, we are working hard to close this as soon as possible.

Adhidev Chattopadhyay: So, as what we have given to understand the only disconnect is on the valuation or is there any other considerations here?

Nirupa Shankar: No, it is just by and large closed we just have last bit of negotiation.

Adhidev Chattopadhyay: Okay so we should expect to hear something in this financial year is that a proper timeline to consider?

Nirupa Shankar: Yeah, fingers crossed.

- Moderator:** Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.
- Swagato Ghosh:** Sir, just to clarify so many numbers are shown so just a little bit confused. 1.8 is the total already preleased in Tech Gardens and WTC Chennai combined and we have visibility for another 3.5 million to 4 million for the rest of the year in terms of preleasing, is that right?
- Subrata K C Sharma:** I will tell you, see as on date we have done 1.37 million for H1. This 1.37 million is excluding the hard option. Now hard option is approximately 0.4 million as on date, but we expect most of the hard option to be closed in this financial year itself because lot of companies are experiencing significant business growth. So as on date we are quite optimistic for about 50% of the hard option to be closed in next one week.
- And as far as the visibility is concerned, I am telling you that 2 million are highly positive visibility out of this 90% we are sure to close. Apart from that in the pipeline we have approximately another 1.5 million Chennai plus Bangalore. So that is why we have confident of actually achieving 3 million plus this year. So, am I clear?
- Swagato Ghosh:** Yeah, so out of the total 5.3 million by the end of FY20 we should be doing close to 3 million?
- Subrata K C Sharma:** By the end of FY20 we should be exceeding 3 million but 3 million is the target.
- Swagato Ghosh:** But that will not include the hard option or that will include the hard option?
- Subrata K C Sharma:** Whatever hard option gets concluded those will be included. Whatever hard options remain as hard option will not be counted in the closures. So, as we go forward there will be more addition to the hard options and the hard options that are already there will get concluded as well.
- Swagato Ghosh:** And for the entire fill up when do we expect the timeline?
- Subrata K C Sharma:** Entire fill up means which property like?
- Swagato Ghosh:** Tech Gardens and WTC combined?
- Subrata K C Sharma:** See next financial year because I will tell you why okay. See as far as SEZ clause is concerned it does not affect the companies which are already doing SEZ business. So, they can expand in this property plus many companies which are taking up space in the SEZ so they are also taking a significant amount of hard options. So those hard options going forward when it closes will be counted in the absorption. So, it will be another one year from now which we will see that 100% occupancy in both the Tech parks.
- Swagato Ghosh:** But when the company is occupied at hard option area will they get the tax benefits?

Subrata K C Sharma: Sure, see the companies which starts business from the SEZ okay so they will certainly get the tax benefits and other companies which are operating elsewhere they can also take up space in the SEZ they will get the tax benefits for the balance years that are remaining. But they will have to show expansion in their business. And having said that not only the companies which are doing SEZ business are preferring these two properties.

Both these properties are flagship properties of Brigade and both the micro markets are among the preferred micro markets. So even non-SEZ companies are also looking for spaces in these two properties.

We have signed the properties with companies which will not claim SEZ benefits. It is a mix of both.

Swagato Ghosh: And on the residential side I had a couple of questions. On the launch pipeline can you tell us for the next four to five quarters how much can we launch, and which are the major projects in the pipeline?

M. R. Jaishankar: Yeah, I think if you see Slide number 30 has a total of residential 5.52 million square feet of which Brigade's economic interest is 3.87 million square feet in residential. So, it is more of additional buildings in Brigade Cornerstone Utopia and Brigade El Dorado and also in Chennai. So, we have two fairly large projects. Brigade Residences at World Trade Center and the second phase of Brigade Xanadu. In addition in Hyderabad our much awaited project Brigade Citadel Phase 1, will be launched which is about 0.8 million out of a total of nearly about 2 million square feet.

Swagato Ghosh: And sir, so I am guessing the timeline for this would be within next three to four quarters but what I am trying to understand it is there more to this number which has stuck in the RERA approval stage and can there be an upside to this number?

M. R. Jaishankar: No, currently there may not be an upside to this number. I think this is the number. In this all that is required is mostly RERA registration which will happen in usual course. There is no concern except Hyderabad which is awaiting the approval.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: Sir, just want to enquire on around almost Rs. 900 crores CAPEX in both WTC, Chennai and in Tech Gardens Bangalore all of it will be incurred in this current financial year or there is some spill over we are expecting?

Atul Goyal: There will be spill over because see generally work finishes when OC is received which will happen this year but there are retention amounts and some finishing work of common areas

which will go on. Final bills will come on so I think out of this around 60% to 70% will get expended this year and rest will move on into next financial year.

Adhidev Chattopadhyay: Sir, secondly for the quarter on the residential business now we had Brigade focus event and we also just launched one phase in the Orchards. So, could you just break up from where the majority of sales have come, from which projects or which event has helped us to achieve the sales?

Rajendra Joshi: If you look at our sales for quarter 2 it is about 1 million square feet that we have done. Two projects have contributed in a big manner. Utopia in Whitefield and El Dorado in North Bangalore. These two have contributed to close to about 45% of the sales volumes. In addition, as you mentioned we launched a small project in Brigade Orchards called Kino, again in the affordable segment which has done extremely well. So, all these three projects have contributed close to 50% of the total area sold in the second quarter.

Adhidev Chattopadhyay: And sir, just if you could share some color on Brigade Showcase would have contributed how much to the overall sales for the quarter like the Rs. 530 crores of sales like showcase would be at least 30%, 40% of that?

Rajendra Joshi: So, in Brigade Showcase we did extremely well, and it contributed close to about 40% of our total business for the quarter with an extremely successful event for the year.

Adhidev Chattopadhyay: Sir, the other question was on the upcoming residential pipeline. The sort of blended margins when we are you looking at pricing in the market is there any target margin we are looking at when you are looking at our pricing or it is again determined by the overall market whatever pricing we can achieve, or which way do we look at it?

M. R. Jaishankar: See always the pricing is market driven but there is always a desire to achieve a margin of 15% to 20% if not more. But ultimately it is the dynamics of market which will determine either cost escalations based on all that. But normally our EBITDA will be in the range of 27% to 30% mostly.

Adhidev Chattopadhyay: And one final question on our SABMiller land parcel with the commercial project which we are still in planning stage. What is the visibility when do we see CAPEX starting there and what milestones need to be met to commence work there?

M. R. Jaishankar: Definitely in this quarter it will happen. We have zeroed in on the civil contractors and all that. This quarter it should start. We have got all the approvals and clearances so we will be starting.

Adhidev Chattopadhyay: Sir, I believe you are looking at some partner for this project so is it something which will come later, or we are going ahead with the CAPEX on our own like?

M. R. Jaishankar: I would say answer is yes and no. But we will be starting and going ahead with the project on our own. But during the process if something happens and our partners are interested, so then we are open to it. We do not have a closed mind, but we are not depending on any partner.

Adhidev Chattopadhyay: And this would require another Rs. 800 crores to Rs. 900 crores of CAPEX, right?

M. R. Jaishankar: It will also be in two stages. See the current approval for us is 1.3 million square feet and with the TDR it will go up to 2 million square feet plus. So currently for the last three years in Karnataka the TDR policy is in a limbo. I think may be in Q4 the TDR policy also should get resolved and if that happens with some additional approval, we should go for 2 million square feet. But as far as the project is concerned its feasibility is based on 1.3 million square feet. We have also done financial closure.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir, any progress on the HDFC platform?

M. R. Jaishankar: Actually, there is not much progress in the HDFC platform. The discussions were preliminary but it has not progressed I think probably HDFC must be flooded with proposals and evaluations so that could be the reason. But there is no progress.

Parikshit Kandpal: Sir, just on the two SEZ there are 2 million square feet which you said with a 90% of close to leasing it out. So, is there any hard option in these also?

Subrata K C Sharma: Hard options will always be there. Whatever transactions we do and particularly for the bigger companies they will always have hard options to facilitate their business growth. But it is very difficult to assess the hard options that will come by as we go forward, but hard options will always be there.

Parikshit Kandpal: But will it be significant I mean like you said in the 0.4 million is the hard option so 1.37 you have leased out and another 0.4 is the hard option which is already done. So, this 2 million will it be significant hard option?

Subrata K C Sharma: You see if you go by the numbers may be like approximately 0.3 to 0.4 we can expect but having said that our experience is that whatever the 0.4 that we have currently having most of it will be consumed during this financial year. So, we are seeing lot of business growth in all the companies. Most of the companies that have taken up space with us. So hard option in fact if you ask me it is not a concern for us.

I would rather say it is a kind of opportunity for us to actually have the bigger companies with us because we have space, they also look at the developments where they can actually expand

in the near future. So many of the transactions big ticket transactions that we have done hard option is one a critical aspect to their requirements.

Parikshit Kandpal: So hard option will start generating revenues as and when it materializes right?

Subrata K C Sharma: Yes, so but we are seeing acceleration in the take up of all the hard options. The market is quite positive.

Parikshit Kandpal: But they have a timeline and they give you that timeline that okay after this much?

Subrata K C Sharma: Yes, so all hard options are covered by timelines but what I am actually telling again and again is most of the hard options are getting preponed.

Parikshit Kandpal: So just coming from revenue perspective because you have already blocked this inventory for a particular company or corporate?

Subrata K C Sharma: But again, you have to see the other side of it. Unless and until we have the comfort of hard options to the companies it is very difficult to actually get those companies in our parks. So it is a kind of critical requirement for many companies.

Parikshit Kandpal: Sir, secondly this 5.3 million which is the total leasable potential, 3 million we will close by March 2020. So, balance 2.3 million how it will be split between the two SEZ's so what will be the residual leasable area in the two SEZs Chennai and Bangalore, the 2.3 million if you can break up?

Subrata K C Sharma: See both the markets are very different. If you see like 3 million that we have total inventory in Bangalore again the Bangalore market size is huge. It is 15 million square feet and that is how like this is also been aggressively taken like whatever discussions that we are having now with many companies the requirements will fall like big tickets. And in Chennai though the market is small but we being in the preferred micro market we are seeing lot of consolidation and movement of existing companies from various location to our park. So, both are highly positive, but both have different characters.

Parikshit Kandpal: So, this 3 million which you expect to lease out by March 2020 how much of that will be in Bangalore?

Subrata K C Sharma: See Bangalore would be approximately 2 and the balance in Chennai. Chennai can be more also. See I will tell you like lot of discussions that are happening now there are many big-ticket discussions that are happening. Okay if one or two of those closes you never know the entire thing will shift. So, it is very difficult to predict now.

- Parikshit Kandpal:** And what will be the lease rentals in Bangalore and if you can brief your leasing average rate in Bangalore and Chennai?
- Subrata K C Sharma:** See Bangalore as of now if you ask me the average it would be somewhere around 55 plus but now that we are actually gaining in the occupancy our target is to achieve around 60 on an average. So that is how we are actually positioning ourselves and Chennai it is 80 plus parking etc. So, we are now targeting somewhere around 95 to 100. So, it has a correlation with the occupancy the more we actually getting anchor tenancy we try to push the rentals up.
- Parikshit Kandpal:** And these two rates like in Bangalore 55 is in line with the micro-market rates there or?
- Subrata K C Sharma:** It is actually better than that particular micro-market because our property it stands apart in terms of the offerings and the amenities and the overall design characteristics and in Chennai as well. So, both the markets.
- Parikshit Kandpal:** So just on the residential market Jaishankar sir can throw some light how is the total Bangalore market growing in terms of annual volumes combined put together 40 million odd or 45 million so has it been growing or so how is the market behavior there now?
- M. R. Jaishankar:** I do not think the market is growing. It is more or less stagnant in the sense like it is expected to be somewhere around 55,000 units annually. So it may be 40-50 million square feet may be but what is positive is that it has not contracted much, give or take 5% plus minus is the situation. That is the positive and there is the kind of consolidation that may be happening in Bangalore. The business is 55,000 units may be getting distributed to a smaller lesser number. I would not say smaller, lesser number of developers and may be a year or two earlier.
- Parikshit Kandpal:** So, market share basically the more organized then?
- M. R. Jaishankar:** Market share I think quite a few recognized and steady developers are getting a better market share.
- Parikshit Kandpal:** So, if we go by the yesterday's announcement of the finance minister where the stuck-up projects are being given some funding and getting revived. Since the market is not growing will it again start hurting the volumes for the top developers.
- M. R. Jaishankar:** Sure, yesterday's announcement will take its own time for it to become effective and also for anybody it is not easy to gain market share once they lose market share and name in the market the entire thing is a question of confidence gain. So, from that angle and also if general economy revives etc the size of the market also will grow. See for 55,000 to 60,000 units a year is not very large for a city with a 12 million population and growing.



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- Parikshit Kandpal:** So just on the hotel part I mean how much of stake sale we are comfortable with and also what kind of the proceeds, when do we expect to get the proceeds and how much debt we can reduce approximately if you can suggest?
- M. R. Jaishankar:** See we are not looking at very big stake sale or anything though we are not averse to 40% stake etc but it may be anywhere between 20% to 25% or 20% to 30%. Somewhere in this range. The intention is to get growth funds not necessarily to reduce the debt alone. The intention is to have the comfort of a fund with substantial means in order to have growth plans.
- Parikshit Kandpal:** This will be a strategic investor who will keep investing in the future hotel projects or like what kind of investment?
- M. R. Jaishankar:** Yeah, it is going to be strategic investor.
- Parikshit Kandpal:** And what is the valuations if you can I mean I do not know whether you will be able to disclose it but what kind of like?
- M. R. Jaishankar:** No, it is too premature I think it is not in anybody's interest to disclose it.
- Parikshit Kandpal:** And lastly sir on the tax rates. So, have you moved to the new tax rates and so what kind of tax rates you are building now?
- M. R. Jaishankar:** I think our CFO will respond.
- Atul Goyal:** Yeah, we are still analyzing the various perspective of tax rates to be applied to various companies because we are in to affordable housing and you know 80IBA is applicable there and as well as SEZ properties. So we are analyzing that and since you can opt this anytime during this year or may be subsequent years so we are doing our projections carefully and deciding as to what rate we should go ahead based on our MAT credit and all available credit for various companies.
- Moderator:** Thank you. The next question is from the line of Mayank Hayanki from Axis Mutual Fund. Please go ahead.
- Mayank Hayanki:** Just about the operational timeline of the portion that we have already leased out. So, the current 1.37 million square feet which we have leased out from the two new upcoming properties we should start seeing the lease rental from these from mid of next financial year I mean the complete portion of it?
- Subrata K C Sharma:** Can you repeat the question, we lost you in between?

- Mayank Hayanki:** So, first question was on the operational details of the lease target which we have given of 3 million square feet. So, once this 3 million square feet is leased we should start seeing this getting reflected in cash flows from mid of FY21 sometime or there would be further delay in the set up lag time?
- Subrata K C Sharma:** So again it will be staggered so as far as the BTG is concerned in Bangalore tenants have started moving in and we have started actually realizing revenue but the chunk of it from the second block the revenue generation will happen from say Feb and going forward then on most of the clients will be moving in. So I think from January onwards there will be a significant revenue generation from BTG from its Phase-B and as far as the C cluster is concerned it would be post March because March-April-May normally people will do their fit outs and then the rent commencement will happen. So, it will be like second quarter of next financial year.
- Mayank Hayanki:** So we can presume that let us say if you are able to lease out 3 million square feet kind of volume by March 2020 then probably the whole 3 million square feet should kind of start getting reflected in about September 2020, six months from then?
- Subrata K C Sharma:** Yes. Because in Chennai again Chennai as soon as we hand it over so Q1 will go in their fit outs and Q2 onwards the revenue will start. So, though it will be staggered what you said is correct.
- Mayank Hayanki:** Second on the lease rates now the lease rates in these two properties are similar to the initial signings or has it moved up or down since then?
- Subrata K C Sharma:** It has moved up only so there is no question of moving down. So and as we go forward like we are actually pressing for more so it will certainly go further up like we are now targeting approximately 60 though, 60 may not be immediately achievable for the C cluster again depending upon the ticket size we will try to inch towards 60 as far as Bangalore is concerned. And as far as Chennai is concerned, we will try to inch towards 95 or 100 based on the transaction size.
- Mayank Hayanki:** So that would almost be about 10% jump for Chennai since the initial signing?
- Subrata K C Sharma:** See it has to happen actually. It always happens like the same way as initial our tenants will actually get a better rentals and then again it is also a function of what size you are taking, what kind of negotiations you are entering into. So, all those things plays a role but the major thing is the more we are occupied the more we would be able to push the rentals up.
- Mayank Hayanki:** Secondly on WTC Kochi any update on the leasing there which still remains?
- Subrata K C Sharma:** Yeah, so basically as far as WTC Kochi is concerned, see Kochi is again a very different market. So, we are seeing a lot of actually enquiries from the small sized companies and those are getting

closed one-by-one. But the best thing that has happened over the last one month is two of our existing tenants they are looking for actually a significant growth.

So we are quite hopeful of closing these two requirements and if we are closing these two requirements we will be almost like 50% done of the balance inventories and apart from that all the mid-sized and the small sized companies that we are signing we should be at a healthy occupancy level like in excess of around 80% by this financial year end.

Mayank Hayanki: Then on the hotel business just confirming that the current deal which we are pursuing that could have both sale of current equity as well as fresh equity increase right, it will be a mix of both, or it will be either one of them?

Nirupa Shankar: Yes, it will be a mixture of primary and secondary.

Mayank Hayanki: And just last one to Mr. Jaishankar. On the real estate relief package which shall be announced we looked and then we have operational challenges but, in some way, does it impact us also? That is number one and secondly what would be your estimate of such projects in Bangalore which would come under this plan?

Atul Goyal: See this stressed asset is right now in very, very initial stage and it will take time when the government comes with a guideline. You see it clearly says that the net worth of the company or that of project should be positive to avail this benefit from the bank. So, it is going to be a challenge in that way and secondly majority of the projects are stuck in NCR and Delhi. In projects in Bangalore there are some, but that portion is not much high.

So I think in Bangalore market we are still very competitive and I do not think as you are saying that it is a threat to tier 1 developer. As Mr. Jaishankar said it is a matter of confidence which the customer has on the developer and that is why we do not see as any threat for this package to the stressed developers.

Mayank Hayanki: I am sure as a company we are much stronger than or our brand is much stronger than one of those who have stressed. I just wanted any estimate of stressed assets in Bangalore if you would have that?

Pavitra Shankar: Actually Mr. Jaishankar had to leave as he had to catch a flight so the rest of us are pitching in. Like Atul said I think the package is a good thing to have come out but honestly it is quite initial in terms of what the terms of the package are. So we are not really sure how many of these other developers and assets will come out and can qualify for the package itself. So I think it remains to be seen. There could be a lot of stress that is not yet public so it would need to be seen on what the exact detailed measure before that would all start coming out.

Mayank Hayanki: Just last question on the cash flow statement. So, on cash flow statement just seen the employee admin expenses that has jumped sequentially very high. So, is that normal, is that how it is lumpy because of the lumpy nature, how does it go? So Q1 FY20 which was Rs. 658 million and Q2 FY20 this is Rs. 100 crores almost?

Atul Goyal: No, it is merely due payment of property tax for the projects which are capitalized in Q4 FY19 and Handing over of the corpus funds to few associations for the completed projects and payment of managerial remuneration and increase salary cost due to annual increments and payout of the Bonus to employees. But if you see overall it is in line what we have been showing in our books and accounts.

Moderator: Thank you. The next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: Sir, two questions. One was if you could share your thoughts on Gift City project I mean it has been moving slowly it has been almost 15 months now but then there is hardly any leasing so if you could help us with the issue there I mean is that more of demand issue or pricing issue there? And any sense on the lease pipeline that you have for leasing at this stage?

Subrata K C Sharma: So as far as Gift City is concerned we all know it is a kind of a challenging project majorly because of the demand issue because if you are following Ahmadabad, Ahmadabad would be doing somewhere around 1 million only for the past two years and out of this 1 million almost 90% of it is in CBD and SG Road if I am correct. Now Gift City though we have like we are at 16% occupancy levels and we have like the number of tenants would be like 5 plus. Now had it been any other office building with these kinds of names it would have been like completely full by now. But the size take up per tenant is also very small.

But having said that two things that we have done from our end. We have started actually approaching companies in Mumbai and Pune and presenting Gift as an option for them to actually expand. This confidence we got because recently we signed up a Pune based IT company which took up complete one floor and they are now looking to expand by another one floor. And apart from that, off late we are also seeing some kind of reference in terms of IT companies evaluating Ahmadabad as an alternate market because Ahmadabad is actually offering them lesser operational expenses and as far as we came to know from the companies that is operating out of Gift they are almost like reducing their operational expenses by 30%.

So now we are seeing like even recently we had a site inspection for 1 lakhs square feet by one major captive IT. So, we are hopeful that with one or two big transactions plus the existing tenant expansion we should be approximately achieving 50% plus by this financial year. That is what we feel. But let us understand that it is a challenging project no doubt. But we have strengthened our team and we have started going out of Gift actually to market the projects majorly Mumbai and Pune.

- Prem Khurana:** And the second question was if I were to look at the cash flow statement over the last two quarters our partner seems to have infused some money in the SPV and I am sure we would have matched the number. Is it mean, would you be able to share, I mean why is it so I mean is there any change in the funding pattern as if I mean there has been some revision cost estimates and which is where we are required to put in money or is it that I mean this was the plan and then just that it is coinciding as the projects are nearing completion?
- Atul Goyal:** No, see this is as per the plan. See we have taken funding in both the projects and as and when as per the debt equity requirement of the banks we are providing the equity into the company and then taking financing on the same. So in this both the companies both the partners have contributed around Rs. 150 crores, Rs. 75 crores by us and Rs. 75 crores by the GIC Company.
- Prem Khurana:** Any more money that is possible?
- Atul Goyal:** Yeah, definitely it will be there but and this will be again in line. We have around the equity requirement of around Rs. 200 crores to Rs. 250 crores which will come on as and time when the project requires it and for the purpose of taking more debt in to the company.
- Prem Khurana:** Incremental Rs. 200 odd crores or Rs. 200 crores would be essentially Rs. 150 crores is where you had put in. So, you are saying Rs. 50 crores more?
- Atul Goyal:** It is incrementally around Rs. 200 crores.
- Prem Khurana:** And we have one block left in Cosmopolis if I remember correctly L block any plans on launching it? I think initially the plan was to kind of monetize some of in this equity requirement because Cosmopolis you have sold out all the towers except for the L tower which was yet to be taken up?
- Pavitra Shankar:** This is Pavitra again. As Mr. Jaishankar mentioned the TDR issue in Bangalore that has not been resolved for the last couple of years and the L Tower in Cosmopolis is pending that resolution. So, everything else is ready to go just a matter of getting the TDR permission.
- Moderator:** Thank you. The next question is from the line of Janakiraman from Franklin Templeton. Please go ahead.
- Janakiraman:** See in the hospitality business one is seeing a fairly meaningful improvement in the occupancy but also a dilution on the ARR. Can you throw some light?
- Nirupa Shankar:** So usually you know dip in rates or rather the stagnation of rates is due to the increase in the supply in the market because every time a new hotel comes into the market, they try to undercut the existing players. So, the thing is at least we have been able to maintain the rate but increase our occupancies which mean that the revenue per available room is still increasing.

So, it is always a constant battle between whether you want to increase your rates and whether you want to focus on the occupancy game. In the end you have to look at the RevPAR which is the revenue per available room and as long as that is increasing it shows a healthy trend. But generally, when the new supply in the market and Bangalore did see a bit of new supply in the last two quarters.

There is usually pressure on rates because of the very competitive game especially for the large businesses. And Bangalore as you know is an 80% or 90% corporate rate driven and they all the flag corporates negotiate extremely hard on these rates in order to give us large volumes of business. So that is the main reason for it.

Janakiraman: Okay and the reduction in the GST rates for hotels will it help your pricing in the coming quarters?

Atul Goyal: Yeah, definitely it will help because from 28% the GST rate has come to 18% this is definitely a good sign for hospitality industry and definitely it will fuel demand in the market.

Janakiraman: And since you said that Bangalore market is dominated by the corporate demands so if one considers the assets that you have in Bangalore broadly what percentage of revenue will coming through corporate contracts?

Nirupa Shankar: I would say almost 70% of the business is through corporates. There is may be 15% to 17% from the websites or online travel agents and the balance would be through walk-ins or as we call them free independent travelers.

Janakiraman: Okay and would you typically sign annual rate contracts with these corporates?

Nirupa Shankar: Yes, based on the volumes that they give us we sign annual contracts.

Janakiraman: On the commercial real estate side while things are quite good one is also seeing that many developers are now allocating larger capital towards the commercial side, residential business is not looking all that great. So, given that additional supply let us say one looks at the next two, three years in Bangalore how does the demand supply position looks?

Subrata K C Sharma: You asked about Bangalore isn't it?

Janakiraman: Correct mainly Bangalore.

Subrata K C Sharma: So, Bangalore as far as the market is concerned it is a very strong market. It is very strong in the sense the best market in India and as we see no sign of any degrowth in the market, even in the current financial year it is already around 13 million plus against last year's 15 million. So we expect a growth of 12% to 15% this year as well.

And the way the pre commitments are being done and the pipeline and the RFCs are happening in the market we see no reason why this market will actually stop growing in the near future. And at the same time like commercial market overall if you see on India basis also it is growing significantly. It is around 30% plus as on date Q3 last year versus Q3 this year. Plus, Hyderabad is also growing. So commercial market overall, I think will be on a steady growth path for the at least for next three to four years.

Janakiraman: What kind of supply growth do you foresee in Bangalore?

Subrata K C Sharma: You see Bangalore as far as the supply and demand are concerned it is kind of matching though there is a huge mismatch in Hyderabad, but Bangalore is kind of matching. And as far as the vacancy level is concerned particularly in the outer ring road etc wherein almost like 65% of the transactions are happening is quite low. I think it is low below 5%. Overall Bangalore is around 5% vacancy level.

So, the supply is not significantly large that it will outgrow the demand significantly and there will be a push on the rental downwards. So as far as the major micro markets are concerned outer ring road, Whitefield area and there has been also a shift transition happening in the North Bangalore. So, these will always be preferred micro markets in Bangalore.

Janakiraman: So, in light of this kind of strength in commercial real estate I think earlier Mr. Jaishankar made a comment that the residential market in Bangalore is stagnant at about 50 million square feet. So that is quite surprising, right? One would have thought that this kind of demand for commercial real estate will lead to more jobs and then subsequently more demand for residential aspect?

Pavitra Shankar: That is generally the trend. Obviously, there are multiple factors why the market has been stagnant not just in Bangalore, but I will say Bangalore has had one of the best responses to the various disruptive stocks that industry has seen. Yeah, but in general effect the residential market growth follows the commercial market growth, but it generally takes a couple of years in order to do that.

So, what we have seen over the past quarters at least in Brigade a very strong sales trend because in a market where there is at least some activity happening it is going towards the larger players and consolidating towards those who have a strong balance sheet and good financial management.

Janakiraman: Okay and are you also seeing some stronger growth let us say when your existing rental assets come up for re-pricing?

Subrata K C Sharma: Yeah so see it is again as I told it is always a function of micro market versus the occupancy levels. So, though occupancy level actually favors more like so far as we see the example of

World Trade Centre there we are able to push the rental significantly high if some space becomes vacant. So, it is always the case like and that but particularly in Bangalore the weighted average rental growth has been around 8%.

And in North Bangalore it is upwards of 10%. So, it again depends upon which micro market is growing faster, what kind of vacancy level that particular micro market has and also the quality of asset. And since our assets are among the preferred assets so you have been able to push the rentals significantly high once it comes back to us.

Janakiraman: And lastly, the balance sheet has also seen reasonable increase on debt and given the fact that you are executing two really large projects which understand the pulse but are there some comfort limits that you have in terms of debt how do you measure them whether it is debt to EBITDA or debt to rental revenue whatever it is. What do you use to measure the comfortable level of debts?

Atul Goyal: We measure debt generally on debt equity ratio. Our D/E is at 1.12 and we will be comfortable till 1.5. We need to consider debt to EBITDA as well once all the under-construction lease assets starts the rental income at full capacity.

Janakiraman: And is there any possibility of rating getting upgraded?

Atul Goyal: It is very difficult to say after recent issues with rating agencies but I think our sales have been demonstrating upward trend and our cash flows are also improving so yes we are pitching for it let us see if we can get it next year but definitely we are trying for a rating upgrade and I think the possibility is high.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Nirupa Shankar for closing comments.

Nirupa Shankar: Thank you everybody for participating on this call. We have had an exciting Q2 and we look forward to an exciting quarter ahead. On the residential side we are expecting strong presales trend to continue, and we look forward to our project launches in Hyderabad and Chennai. In office we are very confident of a robust Q3 as discussed, we have so many transactions in the pipeline.

So we are very confident of that and in retail we are gearing up to launch our third mall and creating new products and services in the existing malls and finally in hospitality as mentioned November and December should be very strong months in the business and obviously as mentioned we are working hard to close out this hospitality deal. I know people are waiting expectedly for it.



*Brigade Enterprises Limited
November 7, 2019*

And finally just wanted to mention with the Brigade REAP, our real estate accelerator two of them raised funds WEGoT which is the water monitoring \$2 million with Go Frugal and HDFC Capital as the lead investors and Snaptrude a 3D, rapid modeling company raised \$600,000 with Accel and Brigade as the lead investors so our Proptech front as well. So that was all from our side. Thank you for your patience and listening and speak to you next quarter.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Brigade Enterprises Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.