

Brigade Enterprises

9 May 2019

Reuters: BRIG.NS; Bloomberg: BRGD IN

Strong Revenue Growth, But Stress On Balance Sheet

Brigade Enterprises (BEL) reported earnings of Rs717mn in 4QFY19, up 21% QoQ. The earnings growth was driven by: 1) Revenue growth of 11% QoQ and 75% YoY. 2) EBITDA margin expansion by 275bps QoQ to 28% because of the increase in hospitality and lease sales by 13% and 10%, respectively, QoQ. 3) Increase in other income by 74% QoQ to Rs178mn. Net operating cash flow increased 3.6x to Rs1,447, primarily because of the increase in collections. However, we are concerned over: 1) Net debt increasing from Rs22,758mn in FY18 to Rs24,703mn in FY19. 2) Sharp rise in receivables by 140% YoY to Rs4,208mn in FY19. We have retained Buy rating on BEL with a target price of Rs290 based on FY21E NAV.

Revenue grows and EBITDA margin improves: In 4QFY19, revenues increased 11% to Rs7,600 because of the rise in hospitality, leasing and residential sales by 13%, 10% and 11%, respectively, QoQ. EBITDA margin stood at 28%, up 275bps, primarily because of the decrease in other expenses.

Sales volume rises 89% YoY: BEL reported sales volume of 0.96mn sqft in 4QFY19, representing an increase of 23% QoQ and 125% YoY.

Average realisation declines to Rs5,545/sqft, down 5% QoQ: In FY19, BEL reported average realisation of Rs5,545/sqft, down 3% YoY. Despite the decline in realisation, sales value at Rs16,440mn increased 83% YoY on account of the growth in sales volume. Residential sales were up 89% and commercial property sales rose 54% YoY. In 4QFY19, average realisation declined 6% QoQ to Rs5,426/sqft. Commercial realty sales increased 140% QoQ to Rs561mn.

Rise in net debt and receivables raises concerns: BEL reported net debt of Rs24,703mn in FY19, higher than Rs22,758 mn in FY18. The rise is mostly because of hospitality and leasing capex. The rise in debt in a weak residential estate environment raises concerns. In 4QFY19 receivables increased 140% YoY to Rs4,208mn.

Improvement in net operating cash flow after interest costs: Net operating cash flow after interest costs improved to Rs655mn in 4QFY19 from (Rs393mn) in 3QFY19. The improvement was because of the increase in total collections and reduction in construction costs during 4QFY19.

Retain Buy rating on BEL with a target price of Rs290: Our optimism is driven by BEL's attractive valuation which is supported by steady residential sales, despite a weak environment, a strong portfolio of operational rental assets which reduces the risk associated with the residential segment and a planned increase in commercial and retail properties over the next five to seven years. We have retained Buy rating on BEL with a target price of Rs290 based on FY21E NAV. We will be revising our estimates shortly.

BUY

Sector: Real Estate

CMP: Rs227

Target Price: Rs290

Upside: 28%

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Key Data

Current Shares O/S (mn)	136.2
Mkt Cap (Rsbn/US\$m)	31.0/445.5
52 Wk H / L (Rs)	275/157
Daily Vol. (3M NSE Avg.)	146,020

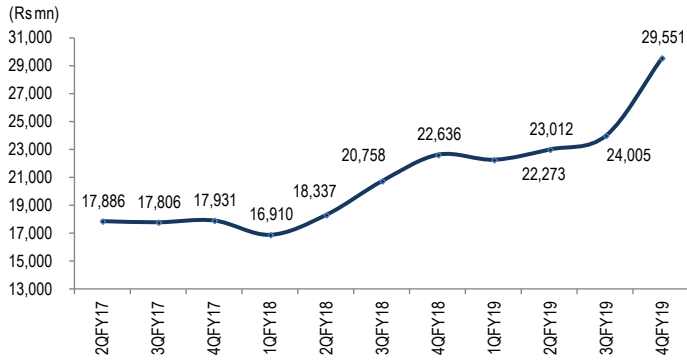
Price Performance (%)

	1 M	6 M	1 Yr
Brigade Enterprises	(7.0)	27.1	(14.8)
Nifty Index	(2.1)	7.2	6.0

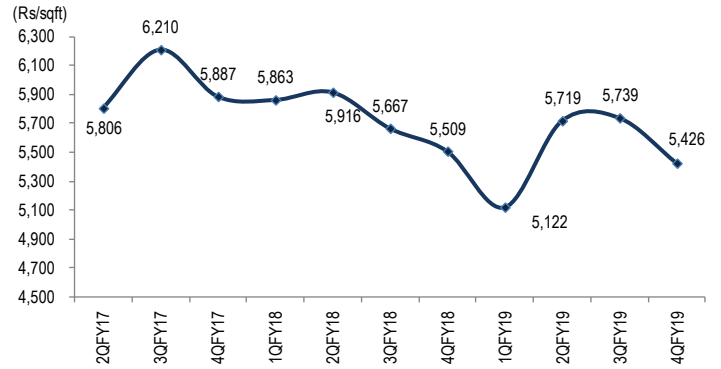
Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY19	QoQ (%)	4QFY18	YoY (%)	4QFY19E	Var. (%)
Net sales	7,600	6,877	10.5	4,335	75.3	7,002	8.5
Cost of goods	(3,914)	(3,593)	8.9	(1,556)	151.6	(3,696)	5.9
Employee benefits expenses	(498)	(417)	19.6	(343)	45.2	(422)	18.1
Other expenses	(1,034)	(1,108)	(6.7)	(1,088)	(5.0)	(1,122)	(7.8)
EBITDA	2,154	1,759	22.4	1,348	59.8	1,762	22.2
EBITDA margin (%)	28.3	25.6	-	31.1	-	25.2	-
Depreciation and amortisation	(425)	(320)	32.8	(372)	14.1	(324)	31.2
EBIT	1,729	1,440	20.1	976	77.2	1,438	20.2
EBIT margin (%)	22.8	20.9	-	22.5	-	20.5	-
Other income	178	103	73.6	141	25.8	104	71.4
Interest expenses	(763)	(697)	9.4	(746)	2.2	(697)	9.4
Extraordinary/exceptional items	-	-	-	(115)	-	-	-
Profit before tax	1,144	845	35.4	256	347.7	845	35.4
Tax expenses	(428)	(251)	70.6	(102)	319.0	(279)	53.4
Effective tax rate (%)	37	30	-	40	-	33	-
Reported net profit	717	594	20.6	154	366.8	566	26.6
Adjusted net profit	597	489	22.1	181	230.5	461	29.5
NPM (%)	9.4	7.1	-	4.2	-	6.6	-

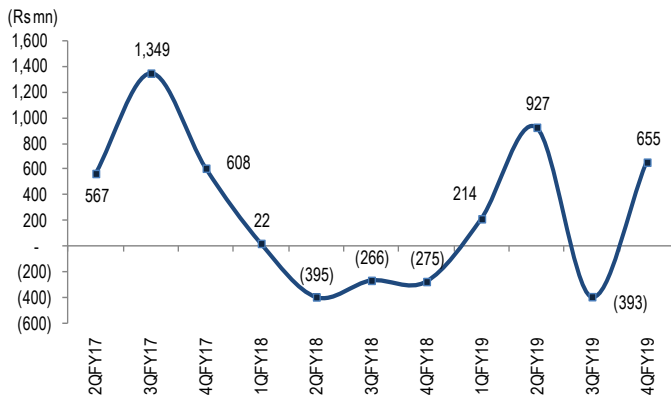
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Net debt


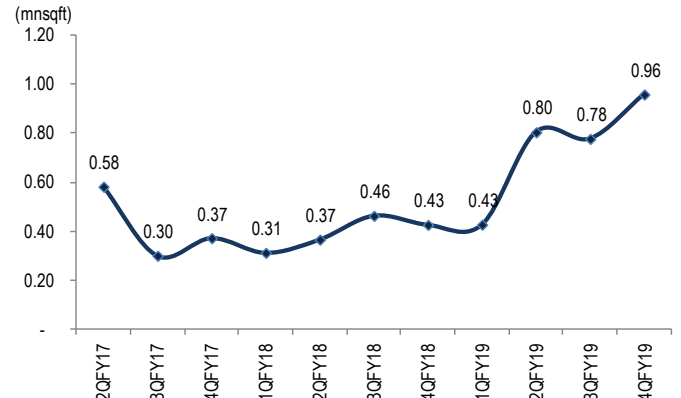
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Average sale price


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Net operating cash flow after interest costs


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Average sales volume


Source: Company, Nirmal Bang Institutional Equities Research

Consolidated financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	20,241	18,972	29,728	30,480	33,357
Growth YoY (%)	(0.7)	(6.3)	56.7	2.5	9.4
COGS	10,025	8,448	15,947	17,042	18,242
Operating costs	4,473	4,979	5,884	5,200	6,087
EBITDA	5,744	5,545	7,897	8,238	9,027
EBITDA growth (%)	17.2	(3.5)	42.4	4.3	9.6
EBITDA margin (%)	28.4	29.2	26.6	27.0	27.1
Depreciation	1,226	1,377	1,400	1,637	2,351
EBIT	4,518	4,168	6,497	6,601	6,677
EBIT (%)	22.3	22.0	21.9	21.7	20.0
Net interest expenses	2,465	2,594	2,785	3,423	3,283
Other income	342	483	545	627	690
Earnings before tax	2,396	1,942	4,257	3,805	4,084
Tax- total	732	628	1,455	998	1,186
Rate of tax (%)	30.5	32.4	34.2	26.2	29.0
Net profit	1,664	1,314	2,801	2,807	2,898
Share of profits	8	15	18	15	15
MI	141.2	(63.2)	419.9	45.0	45.0
Adjusted PAT	1,531	1,392	2,399	2,777	2,868

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	1,137	1,361	1,362	1,362	1,362
Reserves and surplus	15,813	21,510	20,332	24,446	26,126
Net worth	16,949	22,870	21,694	25,808	27,488
Loans	25,763	33,897	33,778	48,897	46,897
Minority interest	2,274	2,231	1,884	2,231	2,231
Provisions	7	14	17	14	14
Deferred tax liability	640	381	-	381	381
Other non-current liabilities	1,120	1,711	1,669	1,711	1,711
Total capital employed	46,754	61,104	59,042	79,040	78,720
Net fixed assets (including CWIP)	20,431	29,462	29,345	37,032	39,021
Investment property	9,469	9,835	13,475	8,503	7,837
Land advance	1,410	2,260	-	2,260	2,260
Investments	540	2,359	977	2,359	2,359
Loans	85	99	3,047	99	99
Other non-current assets	3,610	5,004	4,059	5,004	5,004
Goodwill	43	43	43	43	43
Total non-current assets	35,588	49,061	50,947	55,299	56,622
Inventories	22,639	21,795	48,161	52,327	54,271
Unbilled revenues	2,305	2,180	-	4,123	4,276
Debtors	374	1,770	4,208	4,187	4,582
Cash and bank balance	1,363	1,466	2,222	2,604	2,390
Others	1,251	1,948	2,461	2,148	2,256
Total current assets	27,932	29,158	57,052	65,389	67,775
Current liabilities	16,697	17,048	48,876	41,581	45,609
Provisions	70	67	80	67	67
Total current liabilities	16,767	17,115	48,956	41,648	45,676
Net current assets	11,166	12,043	8,095	23,740	22,099
Total capital employed	46,754	61,104	59,042	79,040	78,720

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Profit after tax	1,531	1,392	2,399	2,777	2,868
Depreciation	1,226	1,377	1,400	1,637	2,351
Other income	(342)	(483)	(545)	(627)	(690)
Working capital changes	97	(775)	4,704	(2,615)	1,428
Operating cash flow	2,511	1,511	7,958	1,172	5,957
Capital expenditure	(4,190)	(10,407)	(1,284)	(5,071)	(4,164)
Investments	(647)	(4,269)	(910)	-	-
Cash flow from investments	(4,837)	(14,676)	(2,194)	(5,071)	(4,164)
Equity	40	4,936	(3,576)	-	-
Debt	1,176	8,134	(119)	5,000	(2,000)
Others	1,384	606	(1313)	627	600
Dividends	-	(408)	-	(586)	(697)
Cash flow from financing	2,600	13,268	(5,008)	5,041	(2,098)
Total cash generation	274	103	757	1,143	(214)
Opening cash balance	1,089	1,363	1,466	1,461	2,604
Closing cash & bank balance	1,363	1,466	2,222	2,604	2,390

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

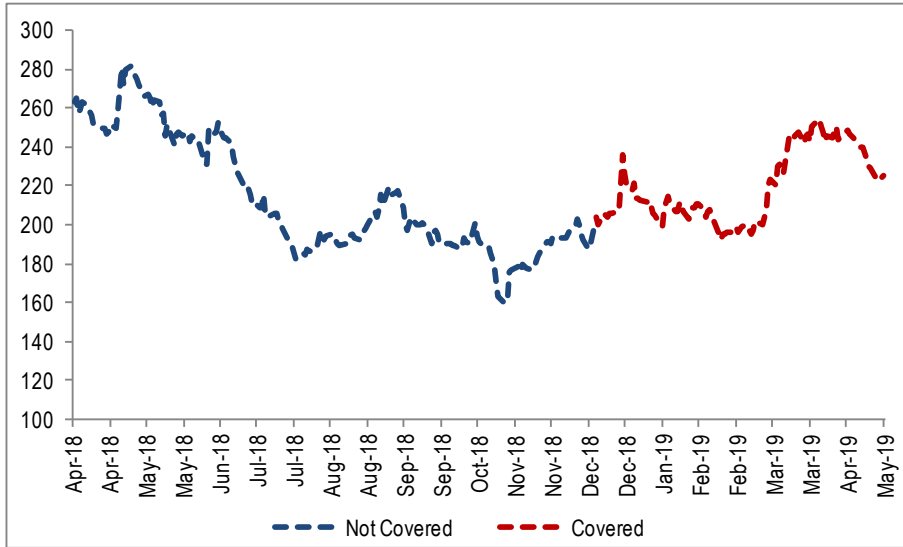
Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Profitability and return ratios					
EBITDA margin (%)	28.4	29.2	26.6	27.0	27.1
EBIT margin (%)	22.3	22.0	21.9	21.7	20.0
Net profit margin (%)	7.6	7.3	8.1	9.1	8.6
RoE(%)	9.0	6.1	11.1	10.8	10.4
RoCE (%)	9.7	6.8	11.0	8.4	8.5
Working capital & liquidity ratios					
Receivables (days)	7	34	52	50	50
Inventory (days)	824	942	1,102	1,121	1,086
Payables (days)	189	211	98	166	172
Current ratio (x)	1.7	1.7	1.2	1.6	1.48
Valuation ratios					
EV/sales (x)	2.6	3.5	2.2	2.6	2.3
EV/EBITDA (x)	9.1	11.8	8.2	9.6	8.6
P/E (x)	16.9	22.2	12.9	11.1	10.8
P/BV (x)	1.5	1.4	1.4	1.2	1.1

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 December 2018	Buy	200	290
7 February 2019	Buy	206	290
9 May 2019	Buy	227	290

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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