

Brigade Enterprises

7 February 2019

Reuters: BRIG.NS; Bloomberg: BRGD IN

Rise In Other Expenses And Decline in Other Income Lead To Weak Earnings

Brigade Enterprises (BEL) reported earnings of Rs 594mn in 3QFY19, down 31.3% QoQ and up 32.1% YoY. Earnings decline on QoQ basis was driven by: 1) Increase in other expenses by 17.2% QoQ to Rs1,108mn. 2) Other income at Rs103mn declining 42.1% QoQ. Overall, sales realization of Rs5,739/sqft remained flat on YoY and QoQ basis. However, sales volume of 0.78mnsqft witnessed a sharp increase from 0.43mnsqft in 3QFY18. Weak operating cash flow after interest costs at Rs(392)mn in 3QFY19 and planned expansion of retail and commercial space raises concern over cash flow. However, we expect lease income to post a 12.6% CAGR over FY19E-FY21E, mitigating any risk relating to cash flow. We have retained Buy rating on BEL with a target price of Rs290 based on FY21E NAV.

Revenue decline and EBITDA margin compression led to a decline in operating profit QoQ: Following the change in revenue recognition from POCM method to completion method, 3QFY19 numbers are not exactly comparable with 3QFY18. Revenues in 3QFY19 stood at Rs6,877mn, down 16.7% QoQ and up 62.2% YoY. EBITDA margin was at 25.6%, a decline of 1,197bps YoY and 91bps QoQ. EBITDA declined 19.6% QoQ to Rs 1,759mn. Other income at Rs103mn declined 42.1% QoQ. Other expenses at Rs1,108mn increased 44.5% YoY and 17.2% QoQ. Increase in other expenses and decline in other income QoQ contributed to weak QoQ earnings of BEL.

Sales volume rises 83% YoY: BEL reported sales volume of 0.78mn sqft in 3QFY19, representing an increase of 83% YoY. However, sales volume stood at 0.80mn sqft in 2QFY19.

Average realisation declines to Rs5,739/sqft: BEL reported average realisation of Rs5,739/sqft, flat on QoQ and YoY basis. Despite flat sales realisation, sales value at Rs4,459mn increased 70% YoY on account of a sharp rise in sales volume.

Rise in net debt raises concerns: BEL reported net debt of Rs24,005mn in 3QFY19, higher than Rs23,012 mn in 2QFY19 and Rs20,758 in 3QFY18. The rise in debt in a weak residential estate environment raises concerns.

Negative operational cash flow after interest costs raises concerns: Net operating cash flow after interest costs was Rs(392)mn in 3QFY19 as compared to Rs927mn in 2QFY19 and Rs (266)mn in 3QFY18. Weak reported cash flow was because of: 1) Rise in interest expenses. 2) Increase in sales and marketing expenses. However, we expect lease income to post a 12.6% CAGR over FY19E-FY21E mitigating any risk relating to cash flow.

We have Buy rating on BEL with a target price of Rs290: Our optimism is driven by its 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 increased in commercial and retail properties over the next five to seven years. We have Buy rating on BEL with a target price of Rs290 based on FY21E NAV.

BUY
Sector: Real Estate

CMP: Rs206

Target Price: Rs290

Upside: 41%

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Key Data

Current Shares O/S (mn)	136.2
Mkt Cap (Rsbn/US\$m)	28.2/394.3
52 Wk H / L (Rs)	310/157
Daily Vol. (3M NSE Avg.)	122,272

Price Performance (%)

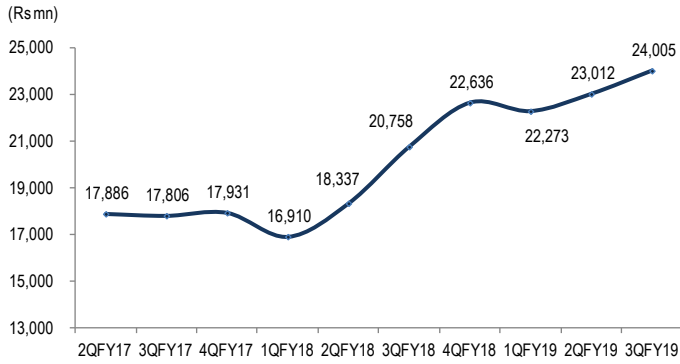
	1 M	6 M	1 Yr
Brigade Enterprises	(2.6)	6.3	(26.1)
Nifty Index	3.1	(2.9)	5.4

Source: Bloomberg

Y/E March (Rsmn)	3QFY19	2QFY19	QoQ (%)	3QFY18	YoY (%)	3QFY19E	Var. (%)
Net sales	6,877	8,259	(16.7)	4,239	62.2	8,662	(20.6)
Cost of goods	(3,593)	(4,624)	(22.3)	(1,476)	143.4	(4,880)	(26.4)
Employee benefits expenses	(417)	(501)	(16.8)	(404)	3.2	(511)	(18.4)
Other expenses	(1,108)	(946)	17.2	(767)	44.5	(965)	14.9
EBITDA	1,759	2,188	(19.6)	1,592	10.5	2,306	(23.7)
EBITDAM (%)	25.6	26.5	-	37.6	-	26.6	-
Depreciation and amortisation	(320)	(339)	(5.7)	(366)	(12.6)	(345)	(7.3)
EBIT	1,440	1,849	(22.1)	1,226	17.4	1,961	(26.6)
EBITM (%)	20.9	22.4	-	28.9	-	22.6	-
Other income	103	177	(42.1)	97	5.7	177	(42.1)
Interest expenses	(697)	(697)	-	(636)	9.6	(711)	(2.0)
Extraordinary/exceptional items	-	-	-	-	-	-	-
Profit before tax	845	1,329	(36.4)	687	23.0	1,427	(40.8)
Tax expenses	(251)	(464)	-	(237)	-	(471)	-
Effective tax rate (%)	29.7	34.9	-	34.5	-	33.0	-
Reported net profit	594	865	(31.3)	450	32.1	956	(37.8)
NPM (%)	8.6	10.5	-	10.6	-	11.0	-

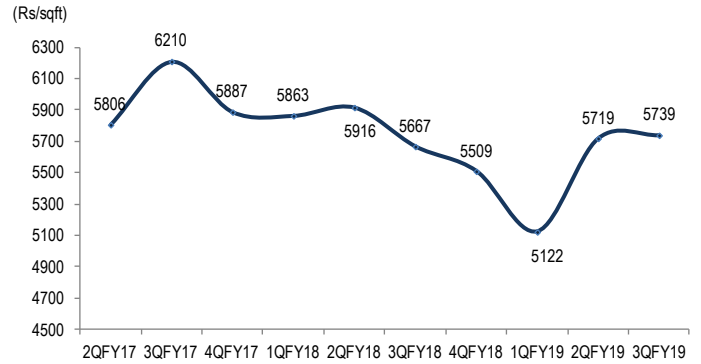
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Net debt



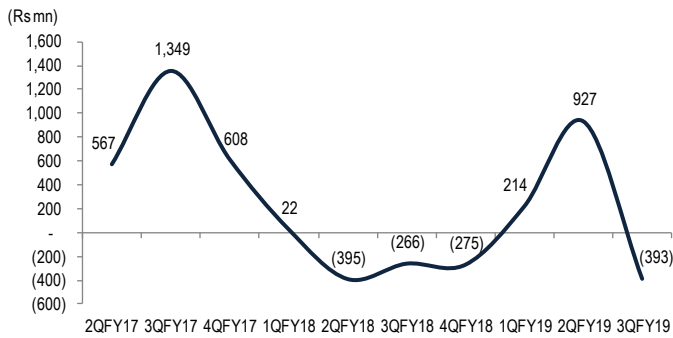
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Average sale price



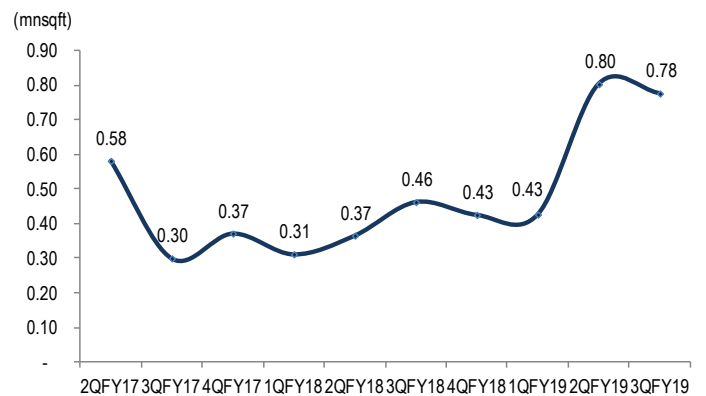
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Net operating cash flow after interest costs



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Average sale volume



Source: Company, Nirmal Bang Institutional Equities Research

Consolidated financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	20,241	18,972	27,119	30,480	33,357
Growth YoY (%)	(0.7)	(6.3)	42.9	12.4	9.4
COGS	10,025	8,448	14,815	17,488	18,642
Operating costs	4,473	4,979	5,063	5,534	6,087
EBITDA	5,744	5,545	7,242	7,457	8,627
EBITDA growth (%)	17.2	(3.5)	30.6	3.0	15.7
EBITDA margin (%)	28.4	29.2	26.7	24.5	25.9
Depreciation	1,226	1,377	1,386	1,637	2,351
EBIT	4,518	4,168	5,856	5,820	6,276
EBIT (%)	22.3	22.0	21.6	19.1	18.8
Net interest expenses	2,465	2,594	3,073	3,423	3,283
Other income	342	483	482	627	600
Earnings before tax	2,396	1,942	3,266	3,024	3,593
Tax- total	732	628	1,078	998	1,186
Rate of tax (%)	30.5	32.4	33.0	33.0	33.0
Net profit	1,664	1,314	2,188	2,026	2,408
Share of profits	8	15	15	15	15
MI	141.2	(63.2)	45.0	45.0	45.0
Adjusted PAT	1,531	1,392	2,158	1,996	2,378

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	1,137	1,361	1,361	1,361	1,361
Reserves and surplus	15,813	21,510	23,035	24,446	26,126
Net worth	16,949	22,870	24,396	25,806	27,487
Loans	25,763	33,897	43,897	48,897	46,897
Minority interest	2,274	2,231	2,231	2,231	2,231
Provisions	7	14	14	14	14
Deferred tax liability	640	381	381	381	381
Other non-current liabilities	1,120	1,711	1,711	1,711	1,711
Total capital employed	46,754	61,104	72,629	79,040	78,720
Net fixed assets (including CWIP)	20,431	29,462	33,714	37,032	39,021
Investment property	9,469	9,835	9,169	8,503	7,837
Land advance	1,410	2,260	2,260	2,260	2,260
Investments	540	2,359	2,359	2,359	2,359
Loans	85	99	99	99	99
Other non-current assets	3,610	5,004	5,004	5,004	5,004
Goodwill	43	43	43	43	43
Total non-current assets	35,588	49,061	52,647	55,299	56,622
Inventories	22,639	21,795	47,605	52,327	54,271
Unbilled revenues	2,305	2,180	3,751	4,123	4,276
Debtors	374	1,770	3,725	4,187	4,582
Cash and bank balance	1,363	1,466	1,461	2,604	2,390
Others	1,251	1,948	2,046	2,148	2,256
Total current assets	27,932	29,158	58,587	65,389	67,775
Current liabilities	16,697	17,048	38,538	41,581	45,609
Provisions	70	67	67	67	67
Total current liabilities	16,767	17,115	38,605	41,648	45,676
Net current assets	11,166	12,043	19,982	23,740	22,099
Total capital employed	46,754	61,104	72,629	79,040	78,720

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Profit after tax	1,531	1,392	2,158	1,996	2,378
Depreciation	1,226	1,377	1,386	1,637	2,351
Other income	(342)	(483)	(482)	(627)	(600)
Working capital changes	97	(775)	(7,944)	(2,615)	1,428
Operating cash flow	2,511	1,511	(4,882)	392	5,556
Capital expenditure	(4,190)	(10,407)	(4,972)	(4,290)	(3,673)
Investments	(647)	(4,269)	-	-	-
Cash flow from investments	(4,837)	(14,676)	(4,972)	(4,290)	(3,673)
Equity	40	4,936	-	-	-
Debt	1,176	8,134	10,000	5,000	(2,000)
Others	1,384	606	482	627	600
Dividends	-	(408)	(633)	(586)	(697)
Cash flow from financing	2,600	13,268	9,849	5,041	(2,098)
Total cash generation	274	103	(5)	1,143	(214)
Opening cash balance	1,089	1,363	1,466	1,461	2,604
Closing cash & bank balance	1,363	1,466	1,461	2,604	2,390

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

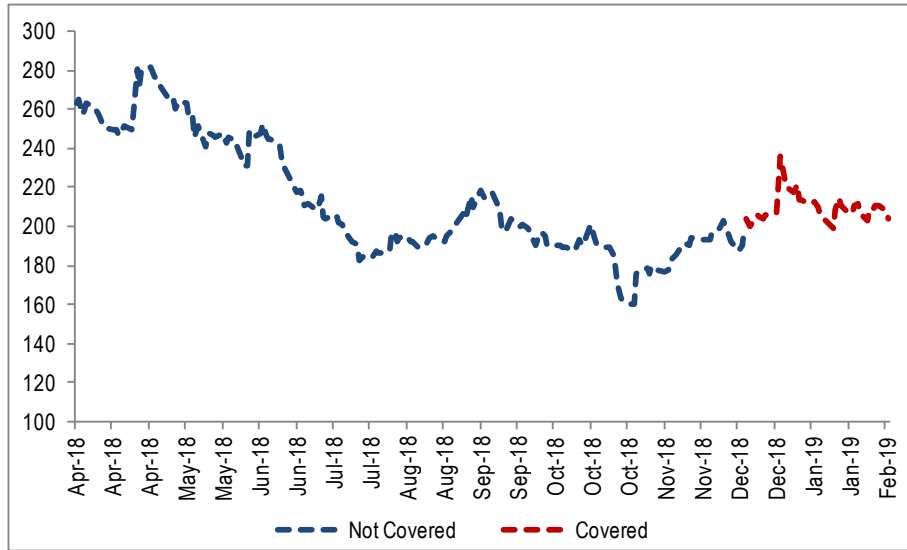
Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Profitability and return ratios					
EBITDA margin (%)	28.4	29.2	26.7	24.5	25.9
EBIT margin (%)	22.3	22.0	21.6	19.1	18.8
Net profit margin (%)	7.6	7.3	8.0	6.6	7.1
RoE(%)	9.0	6.1	8.8	7.7	8.7
RoCE (%)	9.7	6.8	8.1	7.4	8.0
Working capital & liquidity ratios					
Receivables (days)	7	34	50	50	50
Inventory (days)	824	942	1,173	1,092	1,063
Payables (days)	189	211	165	166	172
Current ratio (x)	1.7	1.7	1.5	1.6	1.48
Valuation ratios					
EV/sales (x)	2.5	3.3	2.7	2.5	2.2
EV/EBITDA (x)	8.7	11.3	10.0	10.3	8.7
P/E (x)	15.3	20.2	13.0	14.1	11.8
P/BV (x)	1.4	1.2	1.2	1.1	1.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
7 February 2019	Buy	206	290

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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