Initiating Coverage | 8 January 2015
Sector: Real Estate

Brigade Enterprises

Emerging edifice

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Brigade Enterprises: Emerging edifice

Brigade Enterprises

BSE Sensex	S&P CNX
27,275	8,235

CMP: INR154 TP: INR232 Upside: 50% Buy

Stock Info

Bloomberg	BRGD IN
Equity Shares (m)	113.5
52-Week Range (INR)	170/51
1, 6, 12 Rel. Per (%)	4/19/120
M.Cap. (INR b)	16.5
M.Cap. (USD b)	0.3

Financial Snapshot (INR b)

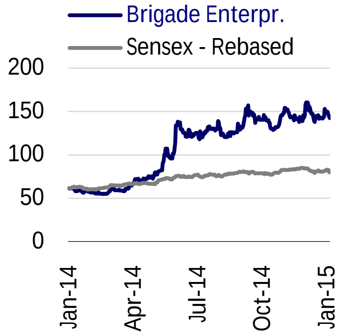
Y/E Mar	2015E	2016E	2017E
Net Sales	13.3	17.0	20.5
EBITDA	3.6	4.7	6.4
Adj PAT	1.2	1.8	2.5
Adj EPS (INR)	10.3	15.5	22.1
EPS Gr (%)	33.2	50.0	43.9
BV/Sh(INR)	119.9	131.7	150.6
RoE (%)	8.6	11.7	14.8
RoCE (%)	12.1	15.0	18.8
Payout (%)	23.3	23.5	20.3
Valuations			
P/E (x)	14.9	10.0	7.0
P/BV (x)	1.3	1.2	1.0
EV/EBITDA (x)	7.4	5.9	4.4
Div. Yield (%)	1.3	1.9	2.6

Shareholding pattern (%)

As on	Sep-14	Jun-14	Sep-13
Promoter	57.7	57.7	57.7
DII	2.8	2.2	1.3
FII	5.1	5.0	4.9
Others	34.4	35.1	36.1

Note: FII Includes depository receipts

Stock Performance (1-year)



Emerging edifice

Growth I Quality I Enablers

- **BRGD is set to leap into the next orbit, with significant scale-up across business segments. We expect revenue to double and PAT to treble over the next three years.**
- **Besides bright growth prospects, we believe BRGD has all the winning traits – enviable track record, product diversification, superior product quality, and good governance.**
- **FCFE of INR9.5b-10b over FY15-18 would be strong enough to drive BRGD's capex and future acquisitions without hurting balance sheet strength. Its JV with GIC gives it added financial muscle.**
- **At 7x FY17E EPS and 1x FY17E BV, BRGD trades at a steep discount to peers with similar RoE outlook. Our SOTP-based target of INR232 implies ~50% upside. Buy.**

Growth prospects bright – revenue to double in three years

BRGD operates in three verticals – real estate (development and sale model), lease rental (retail and office properties rented out), and hotel. We expect its real estate operations viz. cumulative presales/collections to scale-up 1.5-2x over FY15-17E v/s FY12-14, on the back of resilient Bangalore market and strong launch pipeline. BRGD has 1.62msf of leasable area, with ~95% occupancy and average rental of INR1.5b. It has 1.6msf of commercial and retail projects under execution, which are likely to add INR0.9b of annuity income by FY18. It currently owns two hotel properties, with 356 keys. It intends to add two properties, taking its capacity to 753 keys by FY18 and revenue to INR1.9b by FY18. BRGD is set to leap into the next orbit, with significant scale-up across segments. We expect consolidated revenue to double and PAT to treble over the next three years.

Quality play – strong brand, diversification, good governance

If the key attributes that determine a developers' operational success are derived from (a) quality of products, and hence, customer preference, (b) execution – on-time delivery track record, and (c) diversified product categories, then BRGD scores high. An established brand in Bangalore and Mysore, BRGD is expanding its presence to other cities as well. Governance standards of Indian real estate companies are much criticized. Examining BRGD in this perspective, we find that it has a relatively simple corporate structure, conservative accounting practices, no major anomaly in critical balance sheet items, and good payout track record.

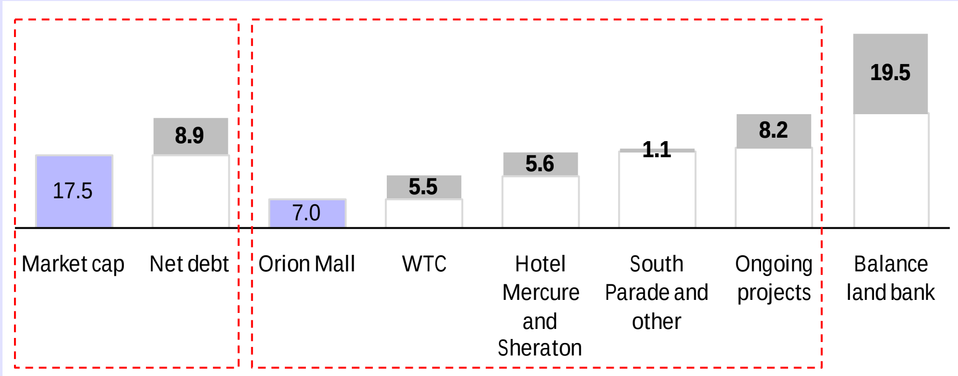
Growth ambition, B/S strength can co-exist; JV with GIC crucial

BRGD's growth ambitions are unlikely to put its financials under stress, given (a) healthy surplus cash from real estate business (overall FCFE of INR9.5b-10b over FY15-18 v/s capex plan of ~INR7.5b), (b) prudent mix of JV-JDA route for land aggregation, and (c) JV with GIC affiliate, which would add meaningful financial muscle. Also, GIC's choice of BRGD while making a commitment as large as INR15b bolsters the company's brand and image.

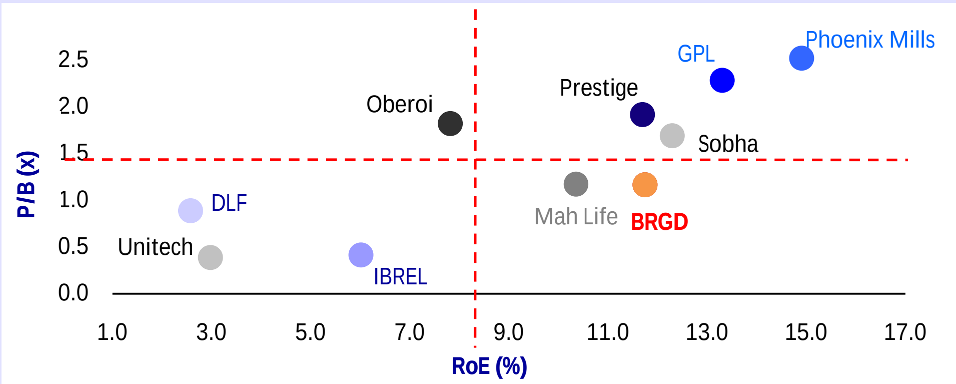
Matured assets valued greater than EV; Buy

Our SOTP value for BRGD is ~INR31b, which translates into a fair value of INR273/share. We set our target price at INR232/share, ~15% discount to SOTP value. Our target price translates into an EV of 9x FY17E total cash EBITDA – 10%/25% discount to the current trading multiples of Sobha/Prestige. Completed annuity assets (Orion Mall, WTC, two hotels) account for ~73% of the EV of INR26b. BRGD trades at (a) 10x/7x FY16/17E EPS, (b) 1.2x/1x FY16/17E BV, and (c) 6.9x FY17E Cash EBITDA. Strong operational scale-up should drive re-rating.

NAV break-up (INR b): Operational annuity assets capture ~73% of current EV; strong upside potential from upcoming and future assets across verticals



BRGD trades at value-quadrant, with P/B at discount to peers with similar RoE potential



Story in charts

Exhibit 1: BRGD's has ~37msf of monetizable land bank across three segments

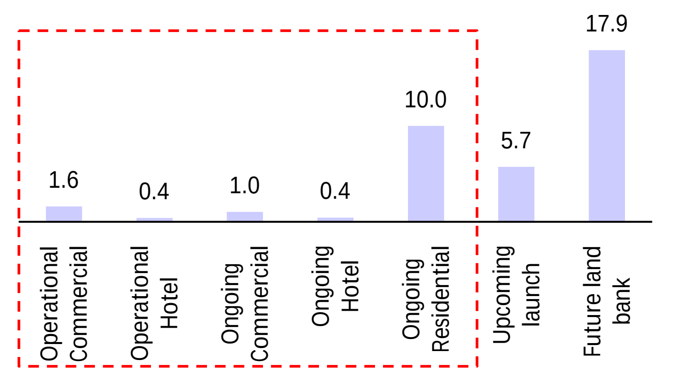


Exhibit 2: We expect strong scale-up in real estate business

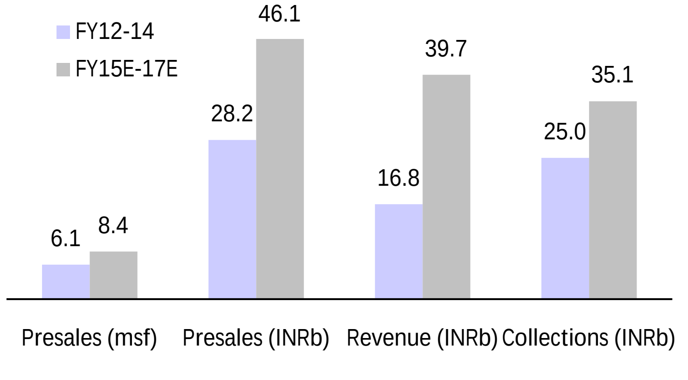


Exhibit 3: Bangalore still has favorable unsold inventories (months)

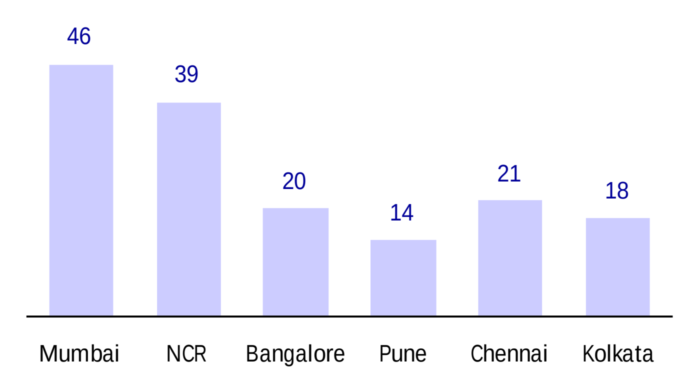


Exhibit 4: Bangalore has been consistent outperformer in commercial absorption (msf) among key metros

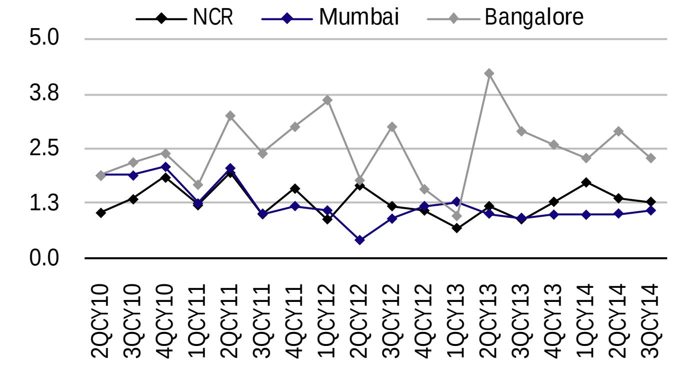


Exhibit 5: BRGD to reach 2.2msf of area and INR2b of lease rentals by FY17-exit

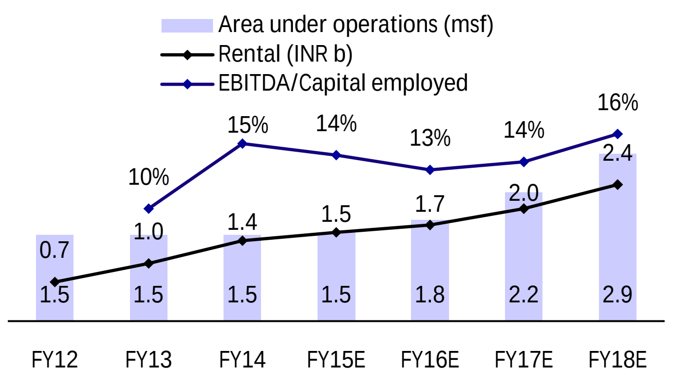
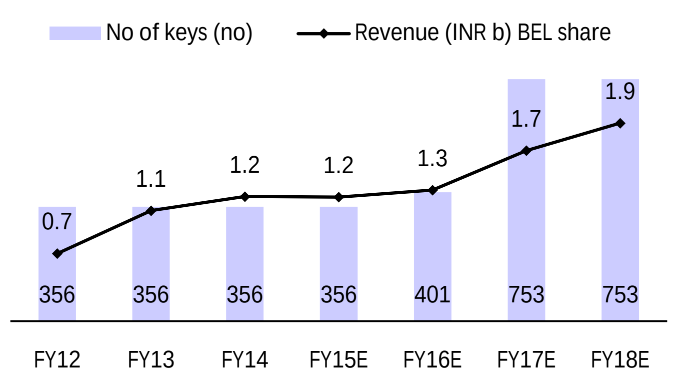


Exhibit 6: Scale-up in hotel business



Story in charts

Exhibit 7: Expect BRGD's revenue to multiply ~2x in the next three years

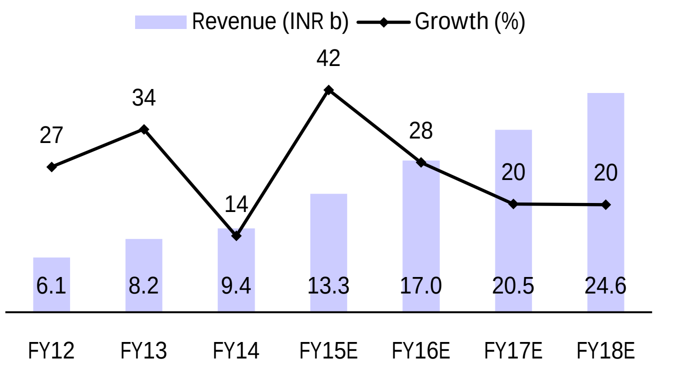


Exhibit 8: We expect ~40% CAGR in PAT over FY14-18

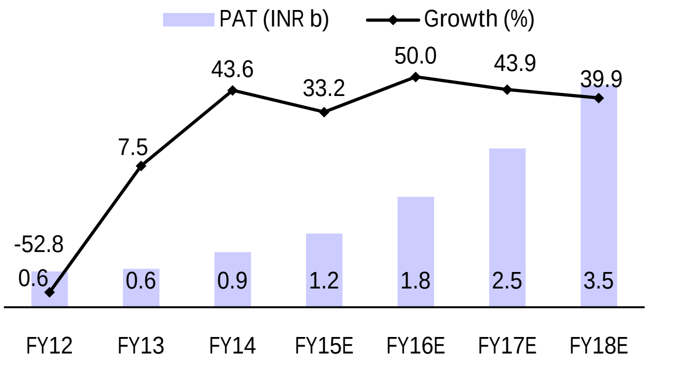


Exhibit 9: Prudent capital allocation (%)

	FY12	FY13	FY14	1HFY15
Capital Employed mix				
Real Estate	47	46	51	53
Hotel	13	14	12	10
Lease	40	40	36	37
Revenue mix				
Real Estate	78	74	71	68
Hotel	10	14	13	15
Lease	11	12	15	17
EBIT mix				
Real Estate	71	62	50	45
Hotel	4	8	11	14
Lease	25	30	39	41

Exhibit 10: Scale-up in profit to boost return ratios meaningfully (%)

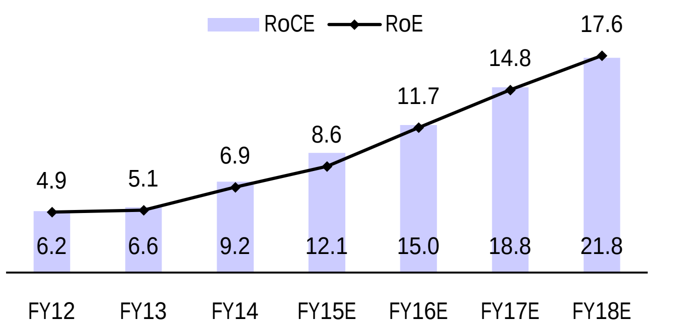


Exhibit 11: Surplus cash in residential vertical offers healthy support to growth plan

	FY14	FY15E	FY16E	FY17E	FY18E
Dev Co					
Collections	9.6	10.7	13.5	16.0	18.7
Constructions	5.8	7.8	9.4	11.6	13.1
Dev Co cash EBITDA	**3.8**	**2.6**	**3.1**	**3.4**	**3.6**
Rent Co					
Rental	1.3	1.4	1.6	1.9	2.3
Capex	0.8	1.4	1.7	1.2	0.4
Rent Co cash EBITDA	**0.3**	**-0.1**	**-0.3**	**0.5**	**1.7**
Hotel Co					
Revenue	1.4	1.4	1.5	1.9	2.2
Capex	0.3	0.9	0.9	0.3	0.4
Hotel Co cash EBITDA	**0.2**	**-0.3**	**-0.3**	**0.4**	**0.5**
SG & A	0.9	1.2	1.3	1.4	1.6
Total cash EBITDA	**3.3**	**1.1**	**1.2**	**2.8**	**4.2**
Tax expense	0.3	0.6	0.9	1.4	1.9
Interest cost	1.1	1.0	1.2	1.3	1.4
Dividend	0.3	0.3	0.4	0.5	0.7
FCFE	**1.6**	**-0.9**	**-1.3**	**-0.4**	**0.2**
Cash EBITDA	3.3	1.4	2.2	3.8	6.2

Exhibit 12: We set our target price for BRGD at INR232/share – 15% discount to SOTP value of INR273/share

	INR M	NAV/share
Real Estate Segment	**13,734**	**121**
Dev Co (Standalone)	10,887	96
Dev Co (JV)	2,847	25
Dev Co FY17E cash EBITDA	*2,489*	
Implied cash EV/EBITDA	*5.5*	
Lease rental segment	**18,639**	**164**
FY17E EBITDA	*1,667*	
Implied EV/EBITDA	*11*	
Hotel segment	**7,534**	**66**
FY17E EBITDA	*753*	
EV/EBITDA	*10*	
Implied EV	*7,534*	
Less: Net Debt (FY15E)	8,872	78
SOTP CALCULATION	**31,035**	**273**
Target Price at ~10% discount to SoTP	26,380	232
Net Cash EBITDA (FY17E)	3,818	
Implied EV/Cash EBITDA	9.0	

Growth prospects bright

Consolidated revenue to double, PAT to treble in three years

- **BRGD operates in three verticals – real estate (development and sale model), lease rental (retail and office properties rented out), and hospitality.**
- **We expect its real estate operations viz. cumulative presales/collections to scale-up 1.5-2x over FY15-17E v/s FY12-14, on the back of resilient Bangalore market and strong launch pipeline.**
- **BRGD has 1.62msf of leasable area, with ~95% occupancy and average rental of INR1.5b. It has 1.6msf of commercial and retail projects under execution, which are likely to add INR0.9b of annuity income by FY18.**
- **It currently owns two hotel properties, with 356 keys. It intends to add two properties, taking its capacity to 753 keys by FY18 and revenue to INR1.9b by FY18.**
- **BRGD is set to leap into the next orbit, with significant scale-up across segments. We expect consolidated revenue to double and PAT to treble over the next three years.**

Medium-term growth agenda

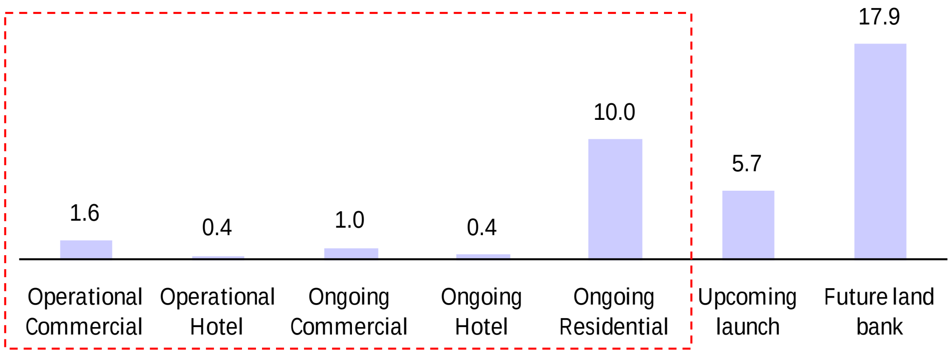
- Overall revenue growth CAGR of 30-40%
- Real Estate: Steady 10-15% improvement in sales velocity
- Lease Rental and Hospitality: Scale-up in revenue to ~2x by FY17-18
- Continuously plough back surplus cash flow for capex and land bank

Direct sales (residential and part of commercial) account for 75% of planned projects; the balance 25% is meant for annuity model

BRGD has ~37msf of land bank, including ~10msf of ongoing real estate projects (residential and commercial projects for sale), ~2msf of operational annuity assets (1.6msf of office/retail and two hotels with 356 keys), and ~1.5msf of annuity projects under construction. Bangalore accounts for almost 90% of its operational and ongoing projects. Of the balance ~24msf (BRGD's share; total 31.6msf) of land bank, ~70% is located in Bangalore, followed by Mysore (existing market) and Chennai and Mangalore (planned entry). The residential segment accounts for 69% of product offerings, and the commercial segment accounts for ~28%.

In terms of method of monetization, direct sales (residential and part of commercial) account for 75% of planned projects, while balance 25% is meant for annuity model (commercial, retail, hotel). This mix makes BRGD's overall business model more robust. The above land potential is in addition to (a) unsold inventory of 4.6msf (BRGD's share), (b) commercial and retail operational rental assets of 1.5msf, and (3) two operating hotels in Bangalore, with 356 rooms.

Exhibit 13: BRGD's has ~37msf of monetizable land bank across three segments



Source: Company, MOSL

Real estate – being Bangalore-dependent, remains resilient

BRGD has been posting strong growth in operations, with consistent scale-up in launches and healthy demand in Bangalore. Favorable product mix in the mid-to-premium segment resulted in presales multiplying ~2x over FY12-14 to an annual run rate of 2.5-3msf (INR13b-15b). Average realization during this period grew at a CAGR of ~10% (in line with market). In Bangalore, products with a ticket size of INR6m-10m have been witnessing healthy volume growth. Our conviction in BRGD's ability to maintain operational momentum is based on the favorable attributes viz. (a) robust pipeline with ~10msf (unsold inventory of ~4.6msf) of ongoing projects and ~3.7msf of launch plan for next 12 months, ~85% of which is in Bangalore, and (b) products are skewed towards price points of INR4,000-6,000/sf.

Micro-market mix of unsold inventories is healthy, with East Bangalore accounting for ~50%

Exhibit 14: Existing inventory 2.5-3x desired sales velocity

	Area (msf)	BRGD share (msf)	Sold (msf)	Value (INR b)	Unsold (msf)
Ongoing Projects	**13.6**	**10.0**	**5.4**	**23.7**	**4.6**
Bangalore	12.2	8.8	5.0	22.0	3.8
Non-Bangalore	1.4	1.2	0.4	1.7	0.8
Upcoming launch	**5.4**	**3.7**			**3.7**
Bangalore	4.1	2.7			2.7
Non-Bangalore	1.3	1.0			1.0
Next 12 months inventory	**19.0**	**13.7**	**5.4**	**23.7**	**8.3**

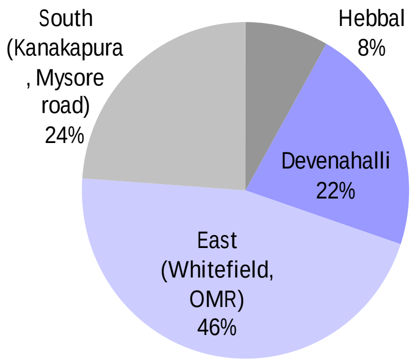
Our conviction in BRGD's ability to maintain operational momentum due to products being skewed towards favorable price points of INR4,000-6,000/sf

Exhibit 15: Price mix for Bangalore projects favorable (msf)

INR/sf	<4000	4000-6000	>6000	Total
Whitefield/OMR		2.3	1.7	4.0
Hebbal		0	0.4	0.4
North Bangalore	0.3	0.7	0.3	1.3
South Bangalore	1.8	1.0		2.8
Total ongoing projects	**2.1**	**4.0**	**2.4**	**8.5**
Whitefield		0.4	0.7	1.1
Hebbal		0.4		0.4
North Bangalore		0.3		0.3
South Bangalore	0.9	0.1		1.0
Total upcoming projects	**0.9**	**1.2**	**0.7**	**2.8**
Total projects	**3.0**	**5.2**	**3.1**	**11.3**

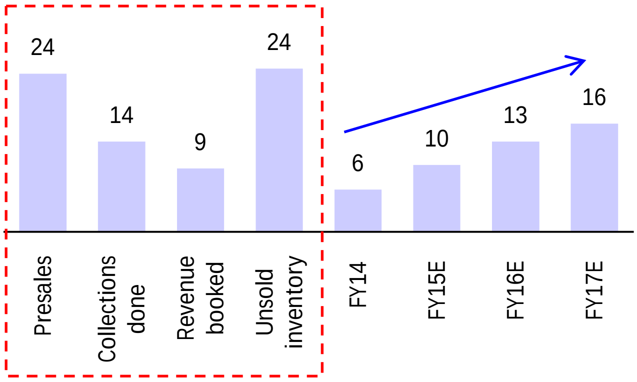
Source: MOSL

Exhibit 16: Micro-market mix of Bangalore inventory (including upcoming projects)



Source: Company, MOSL

Exhibit 17: Ongoing projects aid strong revenue visibility due to conservative accounting policy (INR b)



Source: Company, MOSL

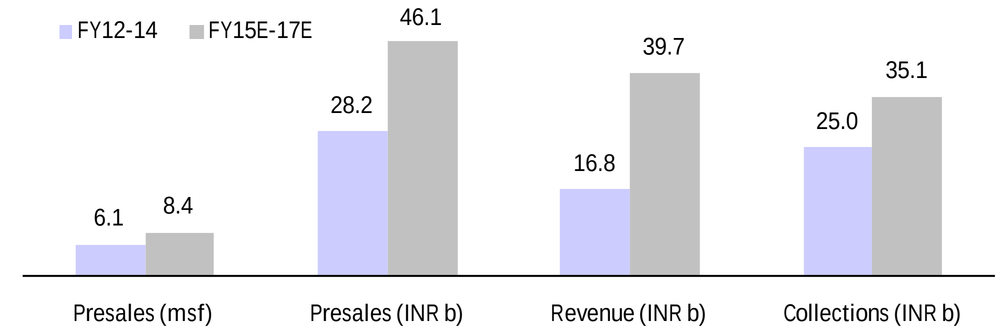
BRGD has achieved sales of INR23.7b (BRGD's share) in its ongoing projects, with pending revenue of INR15b and pending customer collections of INR10b as on September 2014. This coupled with unsold inventory of INR4.6msf (valued at INR24b as per ongoing rates) and upcoming launch of 3.7msf render strong visibility of cash flow and profit growth over FY15-17. We forecast 1.5x-2x scale-up in presales and collection velocity over FY15-17 vis-à-vis FY12-14.

Exhibit 18: We forecast healthy growth in all real estate operating parameters

	FY14	FY15E	FY16E	FY17E	CAGR (%)
Presales (msf)	2.6	2.5	2.9	3.0	9
Presales (INR b)	13.4	13.3	16.0	16.8	12
Collections (INR b)	9.6	10.7	13.5	16.0	22
Construction spend (INR b)	6.5	6.9	8.3	10.2	21
Revenue (INR b)	6.5	10.0	13.5	16.2	27
Cost (INR b)	4.9	7.6	9.9	11.3	22
Gross Profit (INR b)	1.7	2.4	3.6	4.9	42
Gross Margin (%)	**25.9**	**24.3**	**26.4**	**30.2**	

Exhibit 19: Management targets strong scale-up in real estate business

Real estate business to scale up 1.5x-2x in three years



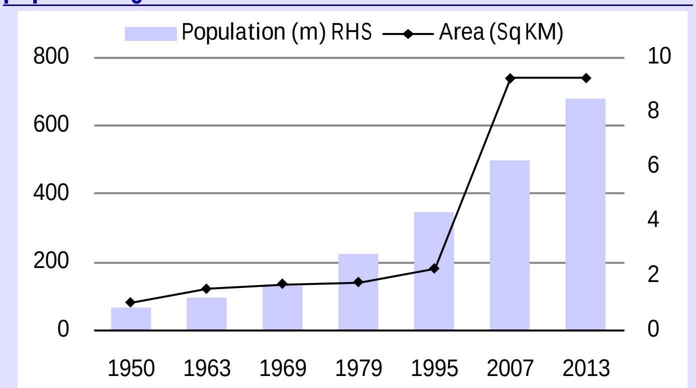
Source: Company, MOSL

Bangalore real estate still most comforting

There has been boom in job opportunities in varied sectors viz. IT/ITES, Biotech, Automobile, Textile, Engineering etc in Bangalore over past 5-6 years

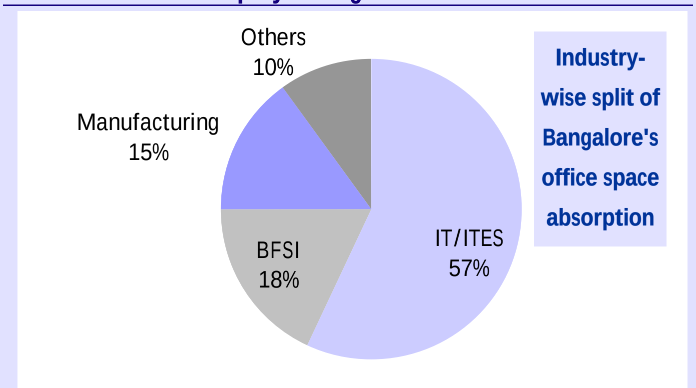
Unlike the previous cycle, which was driven by speculative value appreciation, we believe the next upturn in real estate will be volume-driven. The inherent dynamics of BRGD's home market, Bangalore, strongly mimic the volume play characteristics. This market had outperformed in the last three years and should sustain strength in presales. Operational dynamics are well supported by (1) continuous population influx, (2) boom in job opportunities in varied sectors (IT/ITES, BFSI, Biotech, Automobiles, Textile, Engineering, etc) in the last 5-6 years, and most importantly, (3) rational pricing by developers, which has kept speculation low (~80% end-user demand) and affordability high.

Exhibit 20: Bangalore has witnessed 47% decadal population growth...



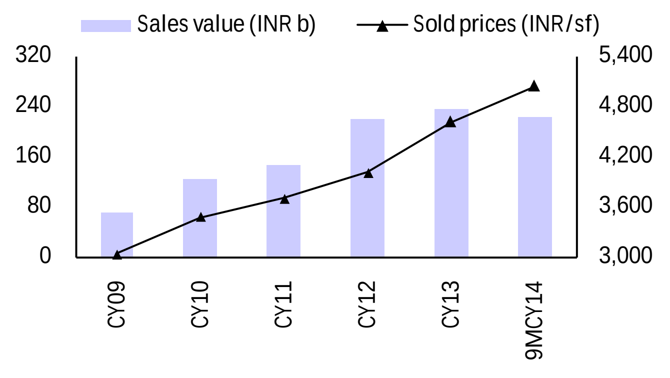
Source: Vestian

Exhibit 21: ...with employment generation from varied source



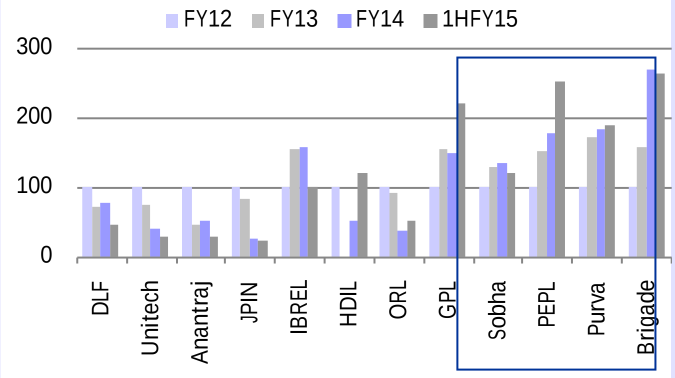
Source: CW, BEL AR FY14

Exhibit 22: Controlled price trend has led to strong growth in sales in Bangalore market (nearly doubled from FY10 base)



Source: Liases Foras, MOSL

Exhibit 23: Among the listed players, Bangalore-centric developers have outperformed (100-index FY12)

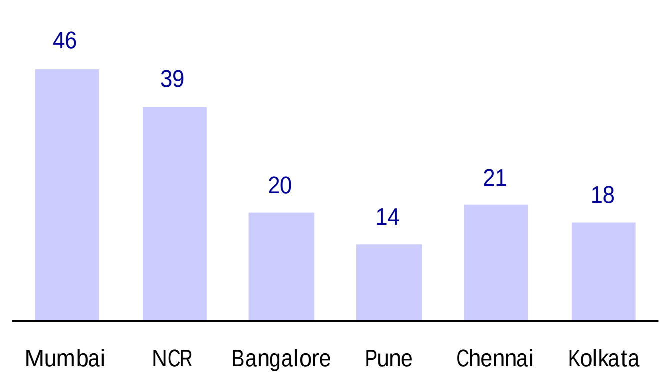


Source: Company, MOSL

Absolute absorption velocity to sustain, with key drivers intact

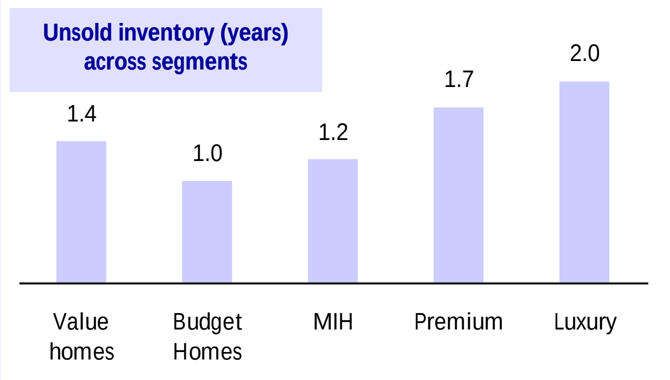
Bangalore may witness moderation in volume growth on account of high base. However, we expect the absolute absorption velocity (50-55msf annually) to sustain. Our conviction emerges from (a) healthy commercial leasing (consistently ~10msf/annum) over FY12-14, which renders good medium-term housing demand visibility, and (b) favorable unsold inventories compared to other metros. Spurt in supply may keep broad pricing uptick under check, but the preferred developers with attractive product proposition should gain market share. Growth in prices in select micro markets would be a function of infrastructure boost (like connectivity, industrial corridors, etc) or shift in commercial demand towards specific regions.

Exhibit 24: Bangalore still has favorable unsold inventories (months)



Source: Industry, MOSL

Exhibit 25: Inventories lower in mid-segment (~15months), higher in luxury segment



Source: Industry, MOSL

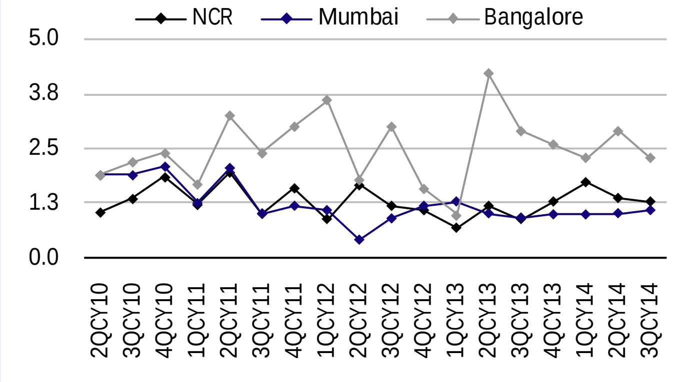
Offers best dynamics for commercial real estate

Bangalore enjoys the best office market dynamics, with lowest vacancy coupled with consistently high absorption. Client profile is well diversified and evolving continuously, with anchor dependency on IT/ITES also giving way to other sectors such as Biotechnology, Automobiles, Aviation, and Textiles. Bangalore accounts for 30-35% of India's IT/ITES work strength and 60% of all Biotech companies. The E-commerce industry is also showing promising potential, with robust growth likely in the next few years.

Industry sources indicate that the E-commerce industry could create 50,000 employment opportunities in the next three years. Flipkart has taken over 50,000sf in Koramangala in FY14 and has been eyeing 1.5msf of commercial space in

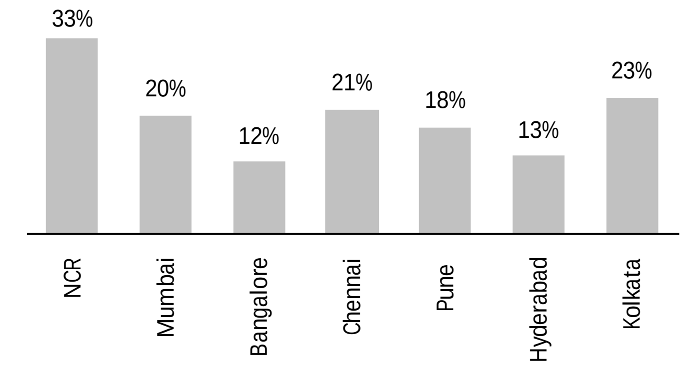
Bangalore to double its employee strength to from 12,000 to 25,000. Amazon recently leased 40,000sf of commercial space in Brigade's World Trade Center, and evaluating another 1msf. Myntra took ~60,000sf in AKR Tech Park off Hosur Road, while e-Bay occupied 47,000sf in Brigade Tech Park (Whitefield) and 1.25sf in Pritech Park (Marathahalli ORR). Given all E-commerce players' strong growth plans, this industry would provide an added boost to the Bangalore real estate market, which offers the required technology talent pool and controlled rentals.

Exhibit 26: Bangalore has been consistent outperformer in commercial absorption (msf) among key metros



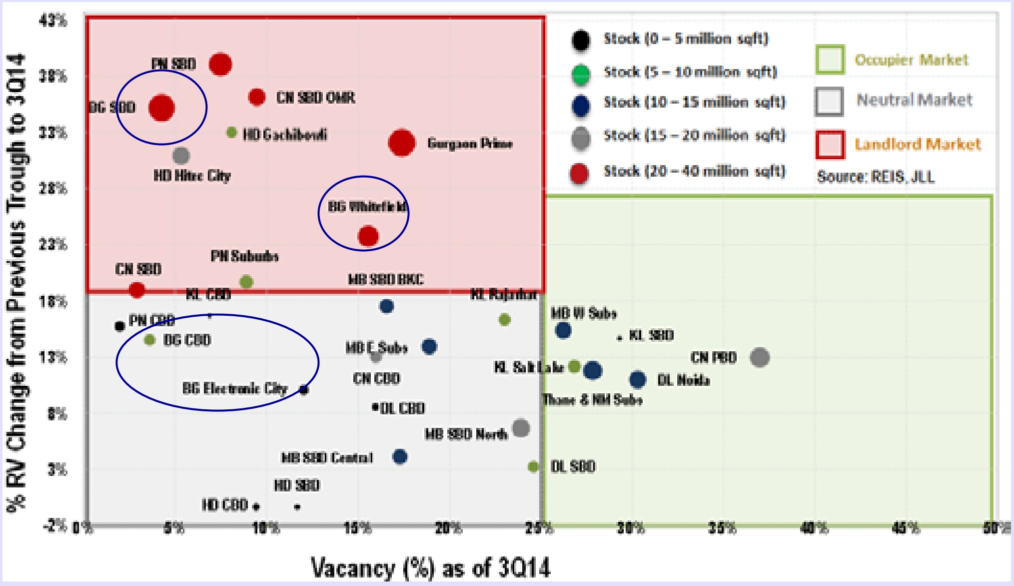
Source: DTZ

Exhibit 27: Vacancy rates (%) of Bangalore most favorable among metros, aiding visibility of strengthening rentals



Source: DTZ

Exhibit 28: Relative positioning of key office space micro-market by JLL



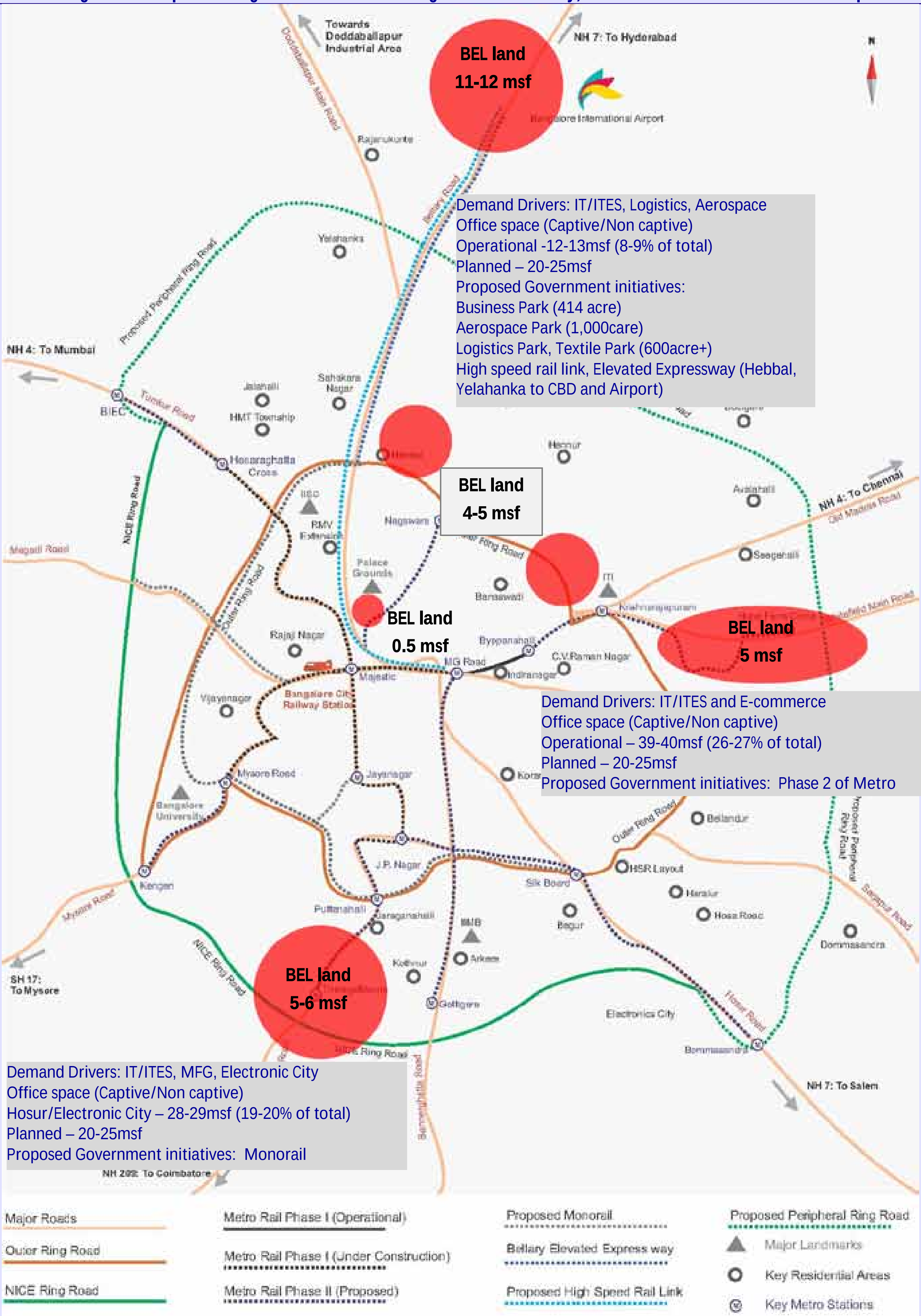
BRGD has healthy land bank mix in Bangalore

For commercial projects, BRGD's dependency is on Whitefield, and East and North Bangalore

BRGD's ongoing and upcoming projects in Bangalore are well exposed to established micro markets and emerging corridors

In terms of location of its land parcels, BRGD is present in a healthy mix of mature and developing areas. Its ongoing and upcoming projects in Bangalore are well exposed to (a) established micro markets – Whitefield (~5msf) and Central Bangalore (0.3msf), and (b) younger locations – Kanakapura Road (5-6msf), Hebbal/OMR (~4msf), and Devenahalli (11-12msf). The northern suburbs (Yelahanka, Hebbal, Devenahalli) are evolving as a new growth corridor due to proximity to the airport. The eastern suburbs (Whitefield, Marthahalli) have slowly emerged as an IT-ITES hub, with STPI/SEZ as well as residential, retail and hospitality projects. South Bangalore (Kanakapura Road) is gaining prominence, with improved infrastructure (NICE Road, proposed Metro) and demand from Electronic City.

Exhibit 29: Brigade's land positioning: Micro-markets offer good marketability, demand drivers and infrastructure push



Source: MOSL, Vestian Map

Lease rental – portfolio to nearly double in four years

BRGD has 1.62msf of leasable area, with ~95% occupancy and average rental of INR1.45b. Key continuators are (a) World Trade Center, WTC (1.1msf), and (b) Orion Mall (0.82msf), both situated at its enclave campus – Gateway, Malleswaram. Both projects have begun scaling up operations since FY12. WTC is a grade-A 30-storied office project, with 0.65msf leasable area (sold 0.3msf), and house to clients of international repute. These include names like Amazon, ABB, Samsung, KPMG, Embassy of Canada, and Siemens.

Footfalls at Orion Mall are over 1m/month during the peak season, higher than Mantri Mall, which is 3-4km away

Orion Mall is the most sought after retail destination in West Bangalore and enjoys ~95% occupancy, with major brands such as PVR, Westside, Star Bazaar, Landmark, and Zara as tenants. The anchors are operating at monthly rentals of INR60-65/sf, while new leasing for non-anchors is happening at INR100/sf. Average rental is INR80-85/sf. Lease agreements are typically renewed in 3-9 years, with rentals being revised upward by 5% annually or 15% every three years. Orion Mall has a section that is leased under minimum guarantee plus revenue sharing model, while it is currently deriving ~10% of total rental due to revenue sharing contribution.

BRGD has 2.4msf (BRGD's share: 1.6msf) of commercial and retail projects at various stages of execution, which are likely to get operational over FY15-19. Almost 60% of these assets are located in East Bangalore (Whitefield, OMR), which currently has healthy dynamics, with 15-16% vacancy. These assets are likely to add INR1.3b (BRGD's share: INR0.9b) of annuity income at current rentals; the capex involved would be INR5b over FY15-18. We expect systematic scale-up to keep return ratios (EBITDA-based) at 13-16%.

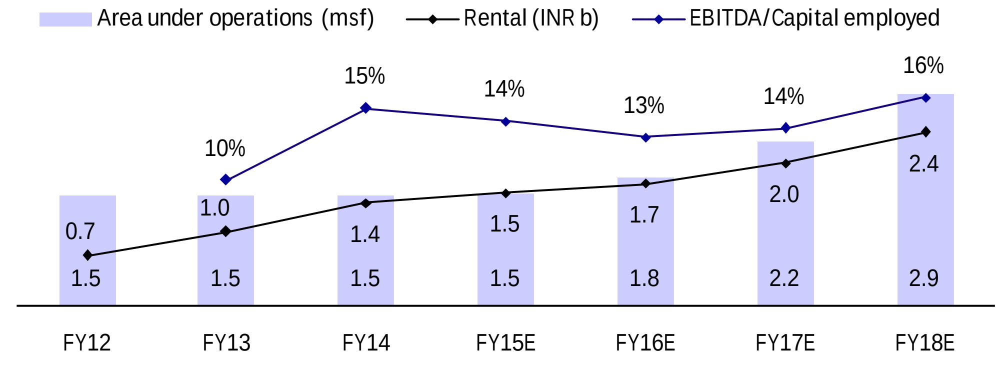
BRGD needs to incur ~INR5b of capex over FY15-18 on its ongoing rental portfolio, which should…

Exhibit 30: Execution focus high on annuity assets to scale-up portfolio by 2.5x over FY15-19

Projects	Locations	Year	Area (msf)	Rental (INR m)	BRGD's stake (%)
Nalapada Centre	Mahadevapura	FY17	0.46	210	50
Orion East, **Retail**	Banaswadi	FY16	0.27	248	56
Vantage, Mysore	OMR, Chennai	FY16	0.13	76	50
Vantage, Chennai	Mysore	FY17	0.13	60	50
Bhuwalka Icon	Whitefield	FY17	0.28	129	50
Bhuwalka **Retail**	Whitefield	FY17	0.08	36	50
Golden Triangle **Retail**	Devenahalli	FY19	0.35	160	70
InfoPark (WTC)	Kochi	FY18	0.35	158	100
Brigade Opus, **Retail**	Old Madras Road	FY18	0.32	254	100
Ongoing and upcoming projects			**2.37**	**1,331**	
BRGD's stake of assets (msf)			1.6		
BRGD's stake of rentals (INR m)				**918**	

Source: Company, MOSL

Exhibit 31: BRGD to reach 2.2msf of area and INR2b of lease rentals by FY17-exit



Source: Company, MOSL

...lead to 15%+ CAGR in rental income over FY15-18, and consistent (EBITDA-based) RoCE of 13-16%

Hospitality – success in past due to good locations and cost control

Strong location advantages along with reputed operators have resulted in quick ramp-up in occupancy, ARR, and profitability of hotel properties

BRGD has pioneered the concept of professionally-managed serviced apartments (Homestead Serviced Residences) in Bangalore. It has gradually moved into rated assets. It owns two main hotel properties, Grand Mercure and Sheraton Bangalore, with 356 keys. Both these properties are located in Bangalore and are operated by world-leading hotel operators. Grand Mercure is managed by Accor Group, while Sheraton Bangalore is managed by Starwoods. Both hotels are centrally located within the primary catchments of key business centers and IT parks of North and West Bangalore. Hotel Sheraton is situated in the enclave of Gateway, which also houses World Trade Center. Strong location advantages along with reputed operators have resulted in quick ramp-up in occupancy, ARR, and profitability.

Hospitality partner to manage asset at ~5% of revenue and performance based incentives (profit share) as under management fees for long term contract of about 25-30 years

The hotel business has proven dynamics for long payback period. BRGD has been controlled in its capex approach for the hospitality segment. The management has shared that the typical cost standard is INR3.5m-4m/key for a 3-star property, INR4.5m-5m/key for a 4-star property, and ~INR6m/key for a 5-star property. Rational project cost along with good profitability has led to healthy capital efficiencies for both its running assets. Grand Mercure has demonstrated a payback period of 4-5 years.

Exhibit 32: Running assets are successful due to attractive locations

	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15
Grand Mercure										
No of Keys	126	126	126	126	126	126	126	126	126	126
Occupancy (%)	84%	85%	78%	82%	84%	92%	85%	86%	80%	81%
ARR (INR)	6707	6502	6535	6682	6,707	6,465	6399	6558	6,740	6,744
GOP (%)	50%	50%	53%	51%	50%	51%	50%	51%	49%	46%
Sheraton										
No of Keys	230	230	230	230	230	230	230	230	230	230
Occupancy (%)	53%	59%	64%	63%	74%	74%	71%	75%	69%	70%
ARR (INR)	7111	7132	7036	7603	7,346	7,289	7688	7633	7,114	7,222
GOP (%)	29%	32%	32%	33%	43%	42%	39%	41%	40%	35%

Source: Company, MOSL

We expect BRGD to reach 753 keys by FY18, with its economic stake at 629 keys and revenue at INR1.9b (1.6x FY15E revenue)

Strong scale-up plan: BRGD sees huge potential in the hospitality vertical in the backdrop of Bangalore's (and South India's) growing business and tourism importance. It targets four hotels (672 keys) with expansion of footprint to Chennai and Mysore. Total capex required is INR3.4b-3.5b (average INR5m/keys), of which it plans to incur the balance INR2.5b over FY15-18. We expect BRGD to reach 753 keys by FY18 (1,028 keys by FY19), with its economic stake at 629 keys (904 keys by FY19), and core revenue at INR1.9b by FY18 (~1.6x FY15E revenue) and INR2.4b by FY19 (~2x FY15E revenue).

Total capex required is INR3.4b-3.5b (average INR5m/keys), of which it plans to incur the balance INR2.5b over FY15-18

Exhibit 33: Ongoing hotel assets where execution is in progress

Hotels	Expected	Expected ARR	F&B Income	Expected No. of Rooms	
Holiday Inn - Chennai	Q1 FY 2016-17	INR6000	30%	35%	202
Holiday Inn Express, BLR	Q2 FY 2017-18	INR5500	20%	55%	275
Grand Mercure, Mysore	Q3 FY 2015-16	INR5500	30%	45%	150
Brigade Orchards, Signature	Q1 FY 2015-16	INR3000	35%	30%	45

Exhibit 34: Control on cost to help maintain superior payback

	FY12	FY13	FY14	FY15E	FY16E	FY17E	FY18E
Revenue (INR b)	0.7	1.1	1.2	1.2	1.3	1.7	1.9
Area under operations (msf)	356	356	356	356	401	753	753
EBITDA/Capital employed (%)		14	19	14	12	14	14

Source: Company, MOSL

Agreement with InterContinental Hotels for 10 properties

BRGD and InterContinental Hotels (IHG) have signed an agreement under which BRGD will develop and own up to 10 Holiday Inn Express properties by 2020. These would be classified as 3-star hotels and would be spread across South India. The first hotel (275 keys) under this partnership is expected to open in Bangalore by FY17/18 (as mentioned in the above table). The remaining hotels are scheduled to open gradually in the next few years.

Consolidated revenue to multiply ~2x, PAT ~3x in three years

BRGD's ongoing projects have INR15b of unrecognized revenue from presold units and INR20b+ of unsold inventories, aiding strong P&L visibility

BRGD's conservative accounting practice has resulted in outstanding un-recognized revenue of ~INR15b from ongoing projects' presold units in real estate segment as at September 2014. In addition to this, a healthy launch pipeline and our expectation of steady growth in presales and annuity should deliver strong scale-up in P&L over FY15-18. We estimate (a) revenue CAGR of ~27%, (b) EBITDA CAGR of ~32%, and (c) PAT CAGR of ~40% over FY14-18. EBITDA margin is likely to remain sub-normal in FY15 due to contribution from Orchard, which had weaker margin in initial phases. Our forecast factors in 12-15% CAGR of its lease rental and hospitality segment driven by periodic ramp-up in ongoing capex assets.

Exhibit 35: Expect BRGD's revenue to multiply ~2x in the next three years

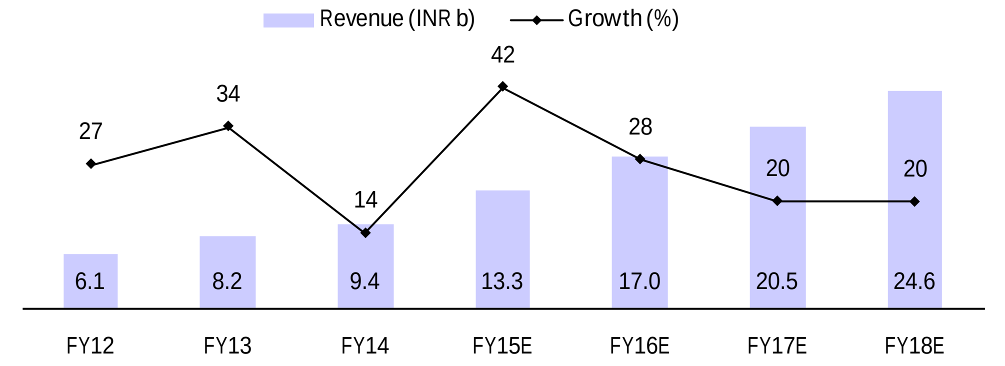
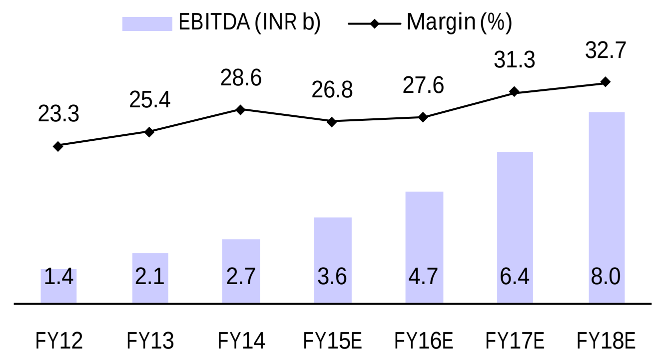
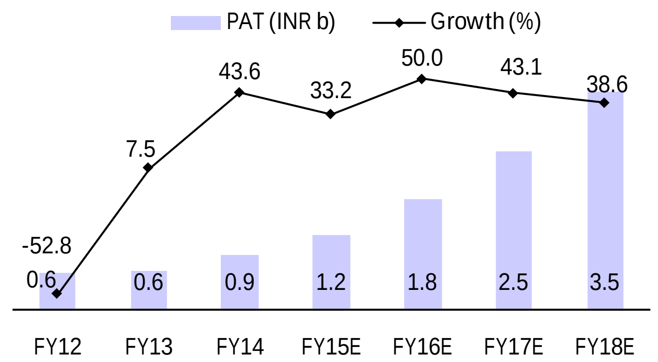


Exhibit 36: EBITDA margin to expand from FY16, with maturing assets and benefits of positive operating leverage



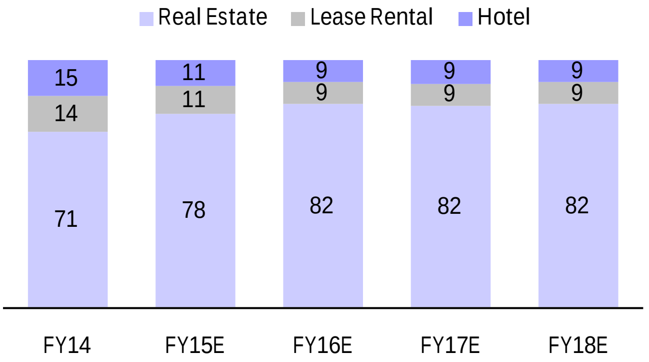
Source: Company, MOSL

Exhibit 37: We expect ~40% CAGR in PAT over FY14-18



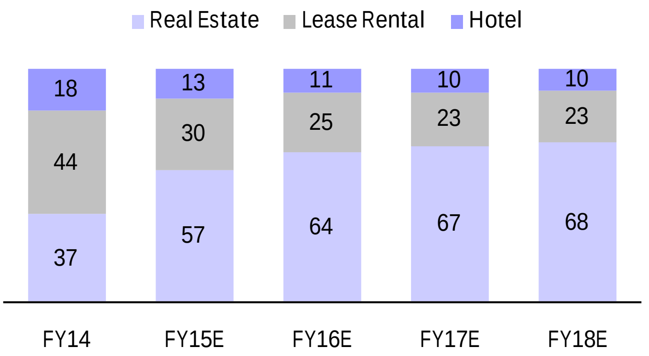
Source: Company, MOSL

Exhibit 38: Revenue mix (%)



Source: Company, MOSL

Exhibit 39: EBITDA mix (%)



Source: Company, MOSL

Real estate vertical would account for ~80% of revenue and 68% of EBITDA FY17 onwards

Quality play

Strong brand I Diversification I Good governance

- **If the key attributes that determine a developers' operational success are derived from (a) quality of products, and hence, customer preference, (b) execution – on-time delivery track record, and (c) diversified product categories, then BRGD scores high.**
- **An established brand in Bangalore and Mysore, BRGD is expanding its presence to other cities as well. Governance standards of Indian real estate companies are much criticized.**
- **Examining BRGD in this perspective, we find that it has a relatively simple corporate structure, conservative accounting practices, no major anomaly in critical balance sheet items, and good payout track record.**

Being one of the leading property developers in south India, BRGD has established its premium brand with over ~30 years of rich operating track record and credit of several destination developments in Bangalore. In the following illustration, we highlight major building blocks of company's brand repute.

Successful destination developments in Bangalore

BRGD's marquee developments have received numerous awards

BRGD is the pioneer of integrated lifestyle in Bangalore. Its ability to develop destinations within the city has elevated its reputation. Its integrated enclave projects offer self-contained urban neighborhoods by combining residential, social, business and commercial zones within the enclave. So far, BRGD has developed five such enclaves, which have evolved in terms of size, asset classes, complexity, etc, over time and stand as benchmarks. These marquee creations have established respective micro-markets as sought after real estate destinations in Bangalore. BRGD's track record of successfully transforming nascent micro-locations into mature markets bolsters our conviction in its ongoing integrated projects – Orchard (Devanahalli), Meadows (Kanakapura Road), Golden Triangle (Old Madras Road), etc.

Exhibit 40: Key completed and ongoing integrated enclave projects

Completed	Location	Completion Year	SBA (msf)	
Brigade Millennium	JP Nagar, Bangalore	2006	1.6	
Brigade Gardenia	JP Nagar, Bangalore	2006	1.4	
Brigade Metropolis	Whitefield, Bangalore	2010	3.5	
Brigade Gateway	Malleshwaram,	2012	4.8	
Ongoing		**Start Year**		**Expected Completion**
Brigade Orchards	Devanhalli, Bangalore	2012	6.0	2020
Brigade Meadows	Kanakpura Road,	2012	3.6	2015
Brigade Golden	Old Madras Road,	2013	1.8	2017

Source: Company, MOSL

Snapshot of select enclave projects

Exhibit 41: Summit (Commercial at Metropolis Enclave)

Exhibit 42: Apartment blocks at Metropolis Enclave

Exhibit 43: Apartment blocks at Gateway Enclave

Source:Company

Exhibit 44: Brigade World Trade Centre and Orion Mall at Gateway Enclave

Source: Company

Superior quality and execution

Partnerships with globally renowned entities add significant value to quality of offerings

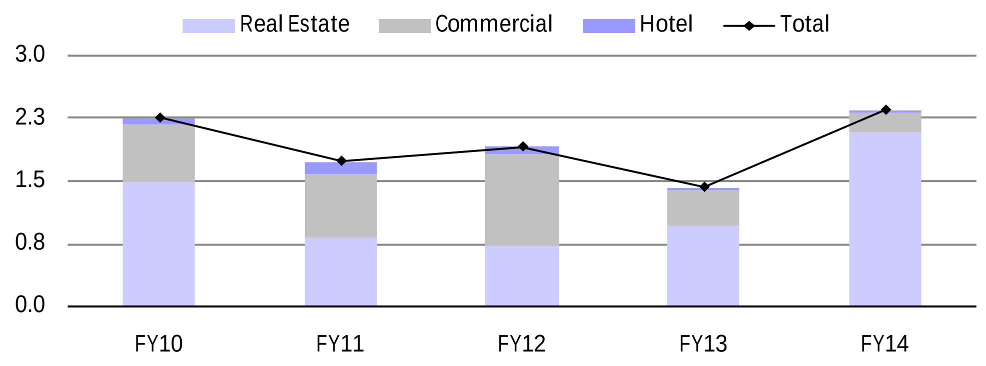
BRGD has made significant efforts and investments to adopt global best practices on design and architecture. Execution has also improved meaningfully over the last five years (FY10-14), when it delivered ~10msf of projects out of the total ~24msf in its 28-year history.

BRGD has 20msf+ of ongoing and upcoming projects to be delivered over the next 4-5 years. Given its experienced professional leadership and strong operational and financial support from internationally reputed partners, we are confident about its product quality and execution ramp-up.

Exhibit 45: Strong support of reputed partners

Architects, design partners	Partnership with globally renowned architects viz. HOK (New York), NBBJ (Seattle), RTKL (London), Bentel (South Africa), Ricardo Bofill (Spain)
Hospitality Operators	Starwood, InterContinental Hotel Group, Accor
Brand awarded	World Trade Centers Association, USA, awarded the license for World Trade Center for the city of Bangalore to BRGD's commercial property in Gateway Enclave. In 2013, World Trade Centers Association (WTCA) New York awarded WTC Bangalore its Certification of Excellence.
Office clients	Amazon, ABB, Samsung, KPMG, Embassy of Canada, Siemens, etc
Retail mall clients	PVR, Westside, Star Bazaar, Landmark, and Zara
Construction partners	Shapoorji Group, JMC, Simplex etc.
Financial partners	INR15b of SPV with GIC and strong Banking relationship

Exhibit 46: BRGD has delivered ~10msf over FY10-14



Source: Company, MOSL

Experienced leadership and strong support from internationally reputed partners bolster conviction on execution ramp-up and product quality

We interacted with BRGD's sales teams on the market outlook and BRGD's sales and marketing strategies. Our key takeaways:

- **Ongoing market dynamics:** There has been a dip in momentum in FY15 owing to political uncertainty in the early part of the year and high interest rate being an overhang on sentiment. However, medium-term growth outlook is robust; growth should accelerate once interest rates begin declining. East Bangalore (Whitefield) has been the best performing, North Bangalore (Devenahalli) has been stable, while South Bangalore (Kanakapura Road) has been comparatively slow due to lack of economic activity. Product ranges of INR4m-6m (Orchard, Meadows) and INR6m-10m (North Ridge) are offering the highest volumes.
- **Buyer mix:** The buyer profile for BRGD's projects in Whitefield (largely IT/ITES), North Bangalore (~50% IT/ITES), and South Bangalore (IT, BFSI, Manufacturing, etc) is mixed, though the IT industry is the anchor driver.
- **Marketing efforts:** Currently customers are taking more time to make their purchasing decisions. Therefore, marketing strategy is now more push-centric. Developers are trying to lure customers with various schemes (discounts, payment holidays, 20:80 schemes, etc). BRGD is also following a few of the schemes in ongoing projects, though the extent of discount is limited to 2-3%.
- **Marketing partners – going online:** Typically, the broker network accounts for 20% of overall sales, while 80% is through direct marketing. E-commerce platforms like GOSF 2014 (Google's Great Online Shopping Festival), Prop Tiger,

etc are gaining popularity as marketing partners. BRGD's annual expo organized in July-August (2014 was sixth in series) helps increase visibility.

- **Product preference and uniqueness:** BRGD enjoys strong customer patronage due to differentiating factors like (a) unparallel value addition by integrated development, which offers first-of-its-kind synergistic proposition, and (b) innovative designs as evident from unique architectural prowess delivered.
- **Pricing and volume strategy – systematic de-risking:** BRGD aims to monetize 15-20% at prelaunch and the balance throughout the construction life cycle, with steady price appreciation (~1% per month thumb rule). Focus on monetization helps it to have low unsold inventory post completion. It follows phasing of sales to the extent of protecting cost push.

Diversification – products, and gradually, markets too

BRGD is well diversified across product type, income segment, and market mix

BRGD is well entrenched in the residential segment across the budget range – penthouses, villas, value homes, and retirement homes. It is among the few developers that have also developed Grade-A commercial properties – The World Trade Center, software and IT parks, SEZs, and standalone offices. Retail malls, hotels, service apartments, schools, hospitals, etc, render further diversity.

BRGD is an established brand in Bangalore and Mysore, with over 90% of its completed and ongoing projects located in these two cities. Gradually, it is expanding its presence to other south Indian cities – Mangalore, Chennai, Hyderabad and Kochi. Bangalore and Mysore would account for ~77% of its future land bank. It has also entered the Gujarat market through GIFT City project, and is evaluating several proposals in Hyderabad and Chennai.

Exhibit 47: ~25% of land bank set aside for annuity assets

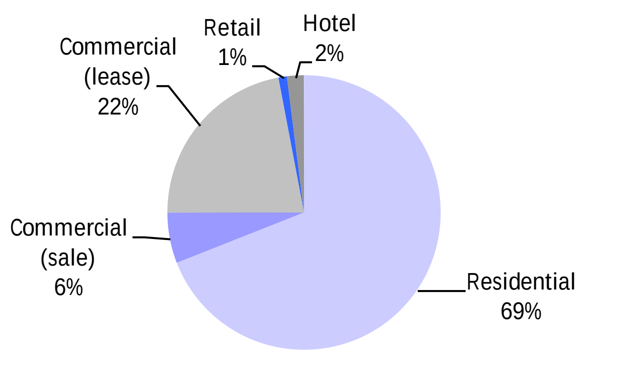
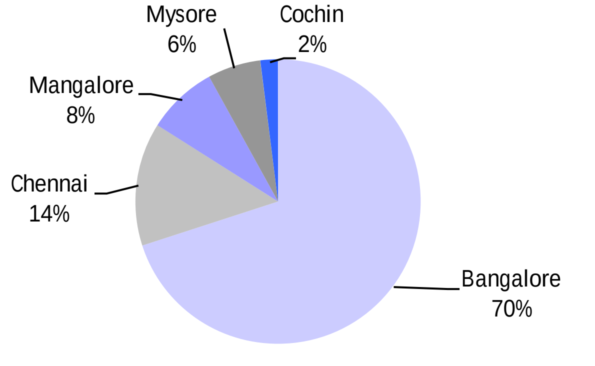


Exhibit 48: Regional diversification among southern cities...



Balance mix of product price range aids resilience to salability

Exhibit 49: ...and income segments

Price range (INR/sf)	<4000	4000-6000	>6000	Total
East Bangalore	0.0	3.1	2.8	5.9
South Bangalore	0.3	1.0	0.3	1.6
North Bangalore	2.7	1.1	0.0	3.8
Chennai			0.5	0.5
Mysore	0.5	0.7		1.2
Hyderabad			0.01	0.0
Mangalore		0.4		0.4
Total	**3.5**	**6.3**	**3.6**	**13.3**
As % of total	26	47	27	100

Source: Company, MOSL

Gift City Development Project

On the back of successful track record of integrated project, BRGD has been awarded development rights for 1.1msf to develop commercial (0.26msf), residential (0.32msf), retail mall (0.4msf) and hotel projects (0.1msf) in the prestigious Gujarat government project, 'GIFT City. Proximity to the fast growing Delhi Mumbai Industrial Corridor (DMIC) and government support would generate strong demand.

Efficient capital allocation

BRGD has demonstrated a well-strategized and controlled track record in allocating capital

Efficient capital allocation is essential for companies with diversified businesses. BRGD has classified its operations into three large segments – Real Estate, Hotel and Lease Rental (retail and office properties rented out). It has demonstrated a well-strategized and controlled track record of allocating capital. Increase in allocation in any segment has subsequently resulted in a rise in absolute profit and RoCE within a reasonable time period. Capital efficiency in the rental segment has been largely at par with peers (namely, Prestige), while the Hotel vertical has posted superior return ratios on account of attractive locations and efficient cost management. Going ahead, the management intends to maintain capital mix as 50:50 between Real Estate and Annuity (Lease Rental and Hospitality).

Exhibit 50: Capital allocation has largely been stable (%)

Capital Employed mix	FY12	FY13	FY14	1HFY15
Real Estate	47	46	51	53
Hotel	13	14	12	10
Lease	40	40	36	37

Exhibit 51: Higher allocation in hotel in FY12/13 led to rise in EBIT mix subsequently (%)...

Revenue mix	FY12	FY13	FY14	1HFY15
Real Estate	78	74	71	68
Hotel	10	14	13	15
Lease	11	12	15	17
EBIT mix				
Real Estate	71	62	50	45
Hotel	4	8	11	14
Lease	25	30	39	41

Source: Company, MOSL

BRGD's hotel and annuity assets offer superior RoCEs compared to peers, real estate segment under-reported with high unrecognized revenues

Exhibit 52: ...and uptick in return ratios, that helped in reducing gearing in FY14/15 from peak of FY13

Debt : Equity (x)	FY13	FY14	1HFY15
Real Estate	0.63	0.51	0.54
Hotel	1.12	0.5	0.49
Lease	0.97	1.02	1.03

EBIT/Capital Employed (%)	FY13	FY14	1HFY15
Real Estate	8.8	8.8	8.0
Hotel	3.6	8.5	12.6
Lease	4.9	9.6	10.6

Source: Company, MOSL

Simpler structure, relatively high governance standards

Governance standards of Indian real estate companies are much criticized. Examining BRGD in this perspective, we find that it has a relatively simple corporate structure, conservative accounting practices, no major anomaly in critical balance sheet items, and a good dividend policy.

Subsidiaries are largely engaged in asset management services, with only 5-8% contribution to capital employed and revenue

Exhibit 53: BRGD's corporate structure

Company	BRIGADE ENTERPRISES LTD		
Segments	Real Estate	Hospitality	Lease rentals

100% Subsidiaries	Brigade Hospitality Services Ltd.	Orion Mall Management Company Ltd.	WTC Trades & Projects P. Ltd.	Prosperita Hotel Ventures Ltd.	Brigade Tetrarch P. Ltd.	B.Infrastructure & Power P. Ltd.	B.Estates & projects P. Ltd.

Joint Venture/ SPV	BCV Developers P. Ltd.	BCV Estates P. Ltd	C V Properties (Bangalore) P. Ltd.	Brigade Properties P. Ltd.

Source: Company

Corporate structure – simpler: BRGD carries a lean corporate structure, with seven wholly-owned subsidiaries and four joint ventures. The joint ventures are related to its two projects, Cosmopolis (51:49 with GIC) and Orchard (50:50 with Classic and Valmark group).

BRGD follows a unique accounting trigger, where revenue booking at any stage is lower than actual cash flow received from customers

Accounting practices – conservative: It is a normal industry practice for real estate developers to book revenue for a project when the following thresholds are crossed (a) >=25% construction spending, (b) >=25% of presales booked, and (c) 10% of collections of booked presales received. BRGD follows a more conservative revenue recognition policy, with an additional trigger: (d) revenue booking at any stage is lower than actual cash flow received from customers. This has resulted in significantly low debtors in the balance sheet and high quality of revenue in the P&L account.

Exhibit 54: Debtors as % of revenue for Bangalore developers (%)

	FY10	FY11	FY12	FY13	FY14
PURVA	23	19	24	25	28
BRGD	2	3	6	2	4
SOBHA	39	31	28	37	30
PEPL	35	61	81	41	28

Source: Company, MOSL

Loans and advances – largely towards JDA and mobilization: 45-50% of BRGD's loans and advances are towards business development (refundable or non-refundable deposits of ~1.7b) and various mobilization advances. As at the end of FY14, deposits with the government stood at 21% of total loans and advances (v/s 43% in FY13). These include (a) ~INR270m advances to KIABD for ~8msf of land at Devanahalli, and (b) various VAT and service tax advances, including ~INR170m under dispute. ~13% of loans and advances (~INR0.6b) are towards related parties – Brigade Foundation in lieu of sale of two schools; the consideration would be realized over the next 4-5 years

Exhibit 55: Trends of loans and advances (INR m)

	FY10	FY11	FY12	FY13	FY14
Loans and advances	3,915	5,084	3,891	4,903	4,729
As % of revenue		**105**	**63**	**60**	**50**
Deposits to Government		820	901	2106	1017
As % of L&A		**16**	**23**	**43**	**21**

Source: Company, MOSL

Contingent liabilities – largely for construction commitments: Contingent liabilities are at 4-5% of net worth. Capital commitment towards ongoing construction is in a declining trend due to steady execution progress.

Exhibit 56: Contingent liabilities have been at 3-6% of net worth

	FY11	FY12	FY13	FY14
Claims from Govt departments	121	243	292	437
Capital commitment	2896	7129	10094	4277
Bank guarantees	191	55	199	355
Contingent Liabilities	3207	7427	10585	5069
As % of net worth	**29**	**64**	**87**	**40**
As % of net worth (ex construction)	**3**	**3**	**4**	**6**

Source: Company, MOSL

Board structure and auditors – conforming to SEBI's guidelines: BRGD has a prudent board structure, which is fairly independent (4 out of 8 directors are independent). The directors are well qualified, experienced and have a good understanding of the company's business and processes. Conforming to SEBI regulations, SR Batliboi & Associates have been appointed as statutory auditors in place of its long tenure auditors – Narayanan, Patil & Ramesh.

Divided – track record of 20%+ payout: BRGD has largely maintained dividend payout at 20-30%, which is fairly attractive considering its capex commitments. Despite strong scale-up plans in each business vertical, the management is committed to maintaining ~20% payout ratio on the back of commensurately high cash flow generation, despite robust growth plan.

Exhibit 57: Comparative trend in dividend payout among Bangalore peers (%)

BRGD has consistently maintained healthy dividend payout

	FY08	FY09	FY10	FY11	FY12	FY13	FY14
BRGD	20	22	41	16	34	33	30
Sobha	21	7	18	16	24	32	29
Prestige				31	56	17	20
Puravankara	21	0	17	21	18	13	33

Source: Company, MOSL

Growth ambition, B/S strength can co-exist

JV with GIC augments financial muscle

- **BRGD's growth ambitions are unlikely to put its financials under stress, given (a) healthy surplus cash from real estate business (overall FCFE of INR9.5b-10b over FY15-18 v/s capex plan of ~INR7.5b), (b) prudent mix of JV-JDA route for land aggregation, and (c) JV with GIC affiliate, which would add meaningful financial muscle.**
- **Also, GIC's choice of BRGD while making a commitment as large as INR15b bolsters the company's brand and image.**

Growth to self-sustain with healthy cash flow

Capex segments require upfront investment of INR7b-7.5b (lease rental and hotel) over FY15-18

BRGD is poised for scale-up in each of its business segments. While the residential vertical operates on negative working capital cycle, the capex segments require upfront investment of INR7b-7.5b (lease rental and hotel) over FY15-18. Moreover, BRGD has consciously followed a strategy of carrying 5-6 years of land bank to avoid over-capitalization of its balance sheet. It holds 359 acres of land (BRGD's share at 24msf v/s its annual execution run-rate of 3.5-4msf). To keep growth visibility intact, it is imperative for BRGD to consistently replenish its land bank.

Surplus cash generation of INR9.5b-10b over FY15-18 would be utilized towards capex and INR4b-5b of land outgo, resulting in INR2b-3b increase in net debt

Exhibit 58: Surplus cash in residential vertical offers healthy support to growth plan

	FY14	FY15E	FY16E	FY17E	FY18E
Dev Co					
Collections	9.6	10.7	13.5	16.0	18.7
Constructions	5.8	7.8	9.4	11.6	13.1
Land payment (net of adjustments)	0.0	0.3	1.0	1.0	2.0
Dev Co cash EBITDA	**3.8**	**2.6**	**3.1**	**3.4**	**3.6**
Rent Co					
Rental	1.3	1.4	1.6	1.9	2.3
Opex	0.2	0.1	0.2	0.2	0.2
Capex	0.8	1.4	1.7	1.2	0.4
Rent Co cash EBITDA	**0.3**	**-0.1**	**-0.3**	**0.5**	**1.7**
Hotel Co					
Revenue	1.4	1.4	1.5	1.9	2.2
Opex	0.9	0.9	0.9	1.1	1.3
Capex	0.3	0.9	0.9	0.3	0.4
Hotel Co cash EBITDA	**0.2**	**-0.3**	**-0.3**	**0.4**	**0.5**
SG & A	0.9	1.2	1.3	1.4	1.6
Total cash EBITDA	**3.3**	**1.1**	**1.2**	**2.8**	**4.2**
Total cash EBITDA (ex Capex and land)	**4.5**	**3.6**	**4.8**	**5.3**	**6.9**
Tax expense	0.3	0.6	0.9	1.4	1.9
Interest cost	1.1	1.0	1.2	1.3	1.4
CoD	*12%*	*12%*	*12%*	*12%*	*12%*
Dividend	0.3	0.3	0.4	0.5	0.7
FCFE (ex Capex and land)	**2.7**	**1.7**	**2.3**	**2.1**	**3.0**
FCFE	**1.6**	**-0.9**	**-1.3**	**-0.4**	**0.2**
Cash EBITDA	3.3	1.4	2.2	3.8	6.2

Source: Company, MOSL

We expect BRGD to witness steady improvement in operating cash flow in the real estate segment (DevCo), aided by robust launch pipeline and scale-up in presales velocity. Surplus cash generation of INR9.5b-10b over FY15-18 would be utilized towards ~INR7.5b of capex and INR4b-5b of land outgo, resulting in INR2b-3b increase in net debt.

JV with GIC crucial for growth

The JV with GIC is meaningful, as it significantly augments BRGD's ability to pursue growth without over-stretching its balance sheet

BRGD's growth ambitions are unlikely to put its financials under stress, given (a) prudent mix of JV-JDA route for land aggregation, (b) JV with GIC affiliate, which would add meaningful financial muscle, and (c) healthy surplus cash from real estate business. BRGD signed a 51:49 private equity partnership with GIC affiliate, Reco Begonia, through an SPV for the development of the 9.5-acre residential project, Cosmopolis in Whitefield (acquired from Hindustan Unilever for INR1.25b). Following this, it has entered into an umbrella JV with GIC for joint investment of INR15b in various projects, of which a few are in advanced stage of evaluation. This JV is meaningful, as it significantly augments BRGD's ability to pursue growth without over-stretching its balance sheet. Also, GIC's choice of BRGD while making such a large commitment bolsters the company's brand and image.

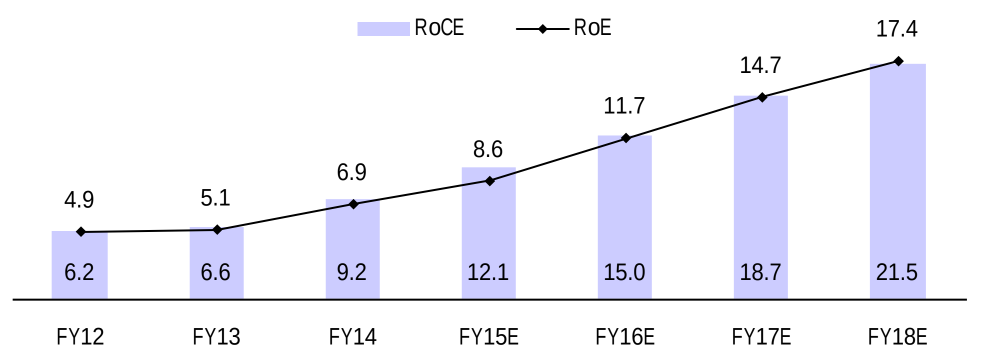
RoE to improve 8-10pp by FY17; balance sheet comfortable

Real estate revenue is likely to drive overall RoE/RoCE in FY15-17, with annuity verticals being under check on higher capex

BRGD's strong capex plan in the annuity and hospitality businesses is likely to keep respective return ratios under check till FY17 (refer Exhibit 19 and 20). However, scale-up in real estate revenue is likely to drive 8-10pp expansion in overall RoE/RoCE over FY14-17.

As illustrated in Exhibit 47, based on our assumptions of INR7.5b capex and INR4b-5b land outgo, we expect INR2b-3b of increase in net debt to ~INR11b by FY17 (v/s INR8.5b as at September 2014), implying net debt-equity of 0.6x and net debt-EBITDA of 1.7x, which is comforting in the context of BRGD's operational mix. Our forecast on leverage trend carries the risk of higher land outgo during the period. However, we do not see BRGD under stress even in such a case, given (a) prudent management approach demonstrated in the past, (b) robust operational outlook, and (c) avenues like unutilized LRD of INR2.25b, and potential REIT listing, with growing set of rental assets.

Exhibit 59: Scale-up in profit to boost return ratios meaningfully (%)



Source: Company, MOSL

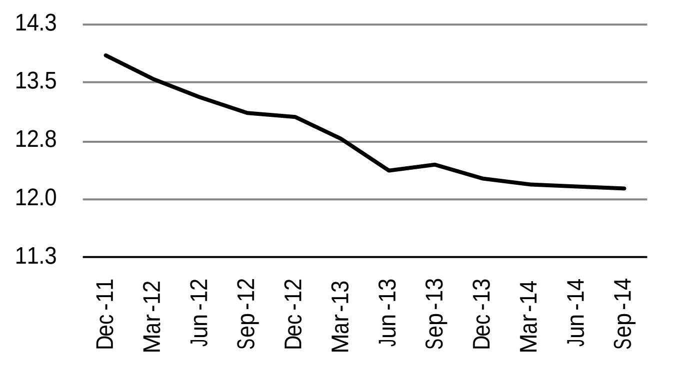
BRGD enjoys highly competitive borrowing cost at 12.14% and a CRISIL A rating, while unutilized LRD facilities/REIT listing offer further scope of improvement

Exhibit 60: Leverage profile: BRGD unlikely to be under stress during capex cycle

	FY12	FY13	FY14	FY15E	FY16E	FY17E	FY18E
Net debt (INR b)	8.0	10.0	8.0	8.9	10.3	10.9	10.7
Net DER (x)	0.7	0.8	0.6	0.7	0.7	0.6	0.6
Net debt/EBITDA	5.6	4.8	3.0	2.5	2.2	1.7	1.3
Current Debt Mix	**Net debt**	**Net DER**					
Real Estate	4.1	0.5					
Lease Rental	4.1	1.0					
Hotel	0.7	0.5					

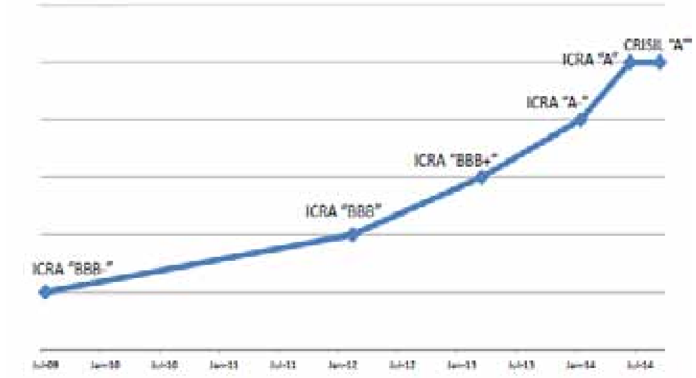
Source: Company, MOSL

Exhibit 61: Borrowing cost has declined from 13.8% in FY11 to 12% as of 2QFY15



Source: Company, MOSL

Exhibit 62: Consistent improvement in credit rating has been driven by robust operational visibility



Source: Company, MOSL

Matured assets valued greater than EV

Initiate coverage with Buy

- **Our SOTP value for BRGD is ~INR31b, which translates into a fair value of INR273/share. We set our target price at INR232/share, ~15% discount to SOTP value.**
- **Our target price translates into an EV of 9.0x FY17E total cash EBITDA – 10%/25% discount to the current trading multiples of Sobha/Prestige.**
- **Completed annuity assets (Orion Mall, WTC, two hotels) account for ~73% of the EV of INR26b. BRGD trades at (a) 10x/7x FY16/17E EPS, (b) 1.2x/1x FY16/17E BV, and (c) 6.9x FY17E Cash EBITDA. Strong operational scale-up should drive re-rating.**

SoTP value at ~INR31b; set target price at INR232

We estimate the enterprise value (EV) of the real estate segment at INR13.7b; the stock is available at an EV of 5.5x FY17E cash EBITDA

Our SOTP value for BRGD is ~INR31b, which translates into a fair value of INR273/share. We set our target price at INR232, ~15% discount to SOTP value. In our SOTP calculation, we value cash flow from BRGD's ongoing and upcoming real estate projects (~16msf) at FY16E-based NAV, while future land banks are valued to the extent of cash advances paid for the land. We avoided using NAV for future land bank to factor in the possible risk attached to the land parcels for which full payment has not been made and titles are yet to be transferred to BRGD. Such land payment largely appears in short-term loans and advances on the balance sheet (instead of inventories). Effectively, the EV of the real estate segment is INR13.7b, which implies 5.5x FY17E EV/cash EBITDA.

We value BRGD's lease rental business at an EV of 11x FY17E rent EBITDA

For the lease rental segment, we have used 13% WACC and 10% cap rate for operational and ongoing assets to arrive at our FY16E-based NAV, and added land cost paid for future projects. Effectively, the NAV translates into 11x FY17E EV/EBITDA of rental business. Considering the marquee assets, rental CAGR of 13-14%, and RoCE (EBITDA/Capital Employed) of 13-15%, we consider this valuation to be justified.

We value BRGD's hotel business at 10x FY17E EBITDA

For the hotel business, we value BRGD's operational and ongoing assets on the minimum of FY16E-based NAV and 10x FY17E EBITDA, as a large portion of the ongoing hotel rooms will begin yielding revenue FY18 onwards.

We derive our target price of INR232/share based on 15% discount to SOTP value. We have attached this discount to factor in any unforeseen uncertainties deterring BRGD's operational scale-up expectation. It also translates into an EV of 9x FY17E total cash EBITDA – 10%/25% discount to the current trading multiples of Sobha/Prestige. Moreover, BRGD's ongoing capex plan will keep cash EBITDA (calculated net of capex) sub-normal over FY15-17, and commencement of operations of these assets is expected boost cash flow FY18 onwards.

Our valuation excludes (1) the recently entered GIFT City projects, as clarity over concrete monetization process is yet to emerge, and (2) possible upside from turnkey project addition through the GIC JV, which could be a strong financial support for BRGD's operational scale-up plan.

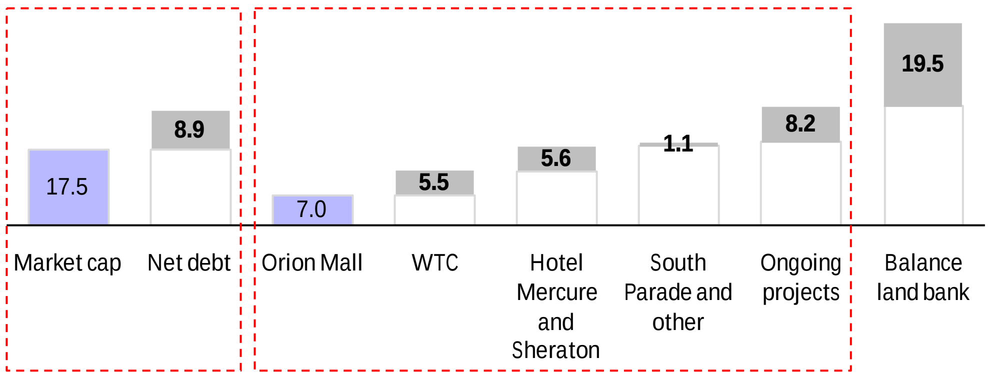
Our SoTP-derived target price implies an EV of 9.0x FY17E total cash EBITDA – 10%/25% discount to the current trading multiples of Sobha/Prestige

Exhibit 63: We set our target price for BRGD at INR232/share – 15% discount to SOTP value of INR273/share

Particulars	INR m	NAV/sh	Valuation Basis
Real Estate Segment	**13,734**	**121**	
Dev Co (Standalone)		96	
Ongoing		61	FY16 based NAV with WACC 13%
Upcoming		28	FY16 based NAV with WACC 13%
Future		7	1x land cost paid
Dev Co (JV)	2,847	25	
Ongoing		11	FY16 based NAV with WACC 13%
Future		14	FY16 based NAV with WACC 14%
Dev Co FY17E cash EBITDA	**2,489**		
Implied cash EV/EBITDA (x)	**5.5**		~30% discount to Sobha
Lease rental segment	**18,639**	**164**	FY16 based NAV with WACC 13%, cap rate
FY17E EBITDA			Implied EV/EBITDA of 11x
Implied EV/EBITDA (x)_	**11**		
Hotel segment	**7,534**	**66**	Minimum of (a) FY16 based NAV with WACC 13%, cap rate 10% and (b) 10x FY17E EBITDA
FY17E EBITDA			
EV/EBITDA (x)			
Implied EV	**7,534**		
Less: Net Debt (FY15E)	8,872	78	
SoTP CALCULATION	**31,035**	**273**	
Target Price at ~10% discount to	**26,380**	**232**	
Net Cash EBITDA (FY17E)	3,818		
Implied EV/Cash EBITDA (x)	9.0		

Completed annuity assets (Orion malls, WTC, two hotels) account for ~73% of current EV of INR26b..

Exhibit 64: NAV break-up (INR b): Operational annuity assets capture ~73% of current EV; strong upside potential from upcoming and future assets across verticals



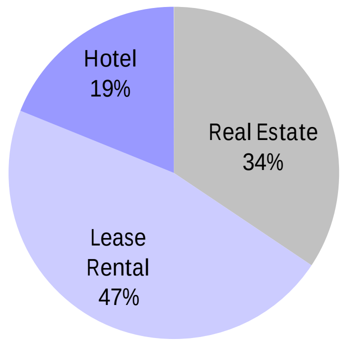
Source: MOSL

Exhibit 65: SOTP Sensitivity to WACC, cap rates, and property price CAGR assumptions

WACC	Cap rate					Price CAGR (%)				
	8%	**9%**	**10%**	**11%**	**12%**	**(3)**	**0**	**3**	**5**	**7**
11%	320	310	302	296	290	150	197	255	302	358
12%	302	294	287	281	276	144	188	243	287	339
13%	287	279	**273**	268	264	136	180	232	**273**	321
14%	273	266	260	256	252	127	173	221	260	305
15%	260	254	249	245	241	120	164	212	249	291

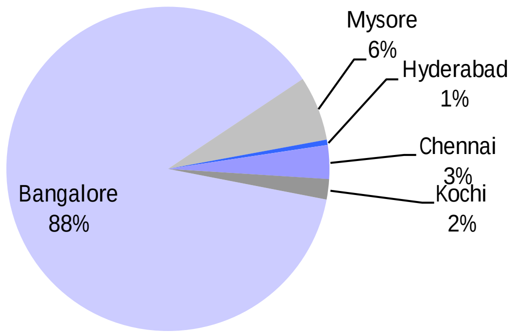
Source:

Exhibit 66: SOTP break-up across segments



Source: MOSL

Exhibit 67: Derives ~88% value from Bangalore



Source: MOSL

Operational scale-up to drive re-rating; initiate with Buy

BRGD trades at (a) 10x/7x FY16/17E EPS, (b) 1.2x/1x FY16/17E BV, and (c) 6.9x FY17E Cash EBITDA. Strong operational scale-up should drive re-rating.

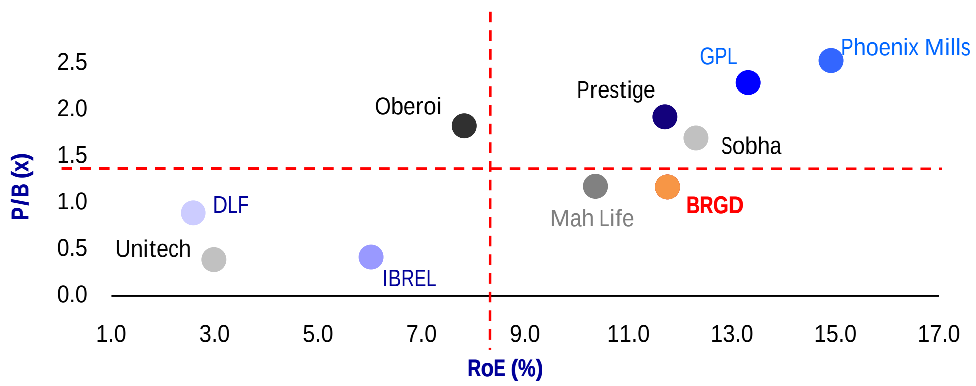
BRGD is poised to leap to the next growth orbit, which warrants contraction of valuation discount

As illustrated in Exhibit 52, BRGD's completed annuity assets (Orion Mall, WTC, two operational hotels) account for ~73% of its current EV of INR26b. Adding the value of launched residential projects (which are 50%+ presold), the contribution stands higher than current EV. This clearly suggests that current stock price does not factor in the huge upside potential from upcoming and future assets across all verticals, that is, the land bank of ~24msf (BRGD's share).

BRGD's real estate vertical is likely to scale up ~1.5-2x over FY15-17, while annuity verticals (lease rental and hotels) are gearing up for near doubling of rentals over the next 4 years. We believe BRGD is poised for a strong leap of growth to enter the next league, which deserves gradual valuation re-rating. We initiate coverage with a Buy rating and a target price of INR232 – upside of ~50%.

Based on comparative valuations (RoE v/s P/B), we find BRGD attractively positioned

Exhibit 68: BRGD trades at value-quadrant, with P/B at discount to peers with similar RoE potential



Key near term triggers

- Acceleration of growth in the Bangalore real estate market coupled with favorable interest rate cycle should lead to faster decision making by buyers. This could result in better than expected operational boost for BRGD.
- BRGD is evaluating various projects with the GIC-led SPV. This JV renders strong financial support and option value to acquire turnkey projects, which could be instrumental in its growth strategy. Addition of any such value accretive projects would be a key positive.

Key risk factors

- **Replication of success in new markets:** BRGD is expanding its real estate business outside Bangalore. Its dependence on Bangalore is likely to decline from ~90% in FY14 to ~77% in FY17/18. If it fails to replicate the success it has had in Bangalore, its overall operations would be adversely impacted.
- **Replication of success in hospitality business:** BRGD has ambitious growth plans in the hospitality business. This is a capital intensive business, with high payback period and low capital efficiency if it does not gain critical mass. While BRGD has been performing remarkably well in this segment, with highly successful assets at good locations and efficient cost management, any unsuccessful venture could create a drag on overall RoCE.
- **Slowdown in IT hiring:** BRGD derives ~88% of its value from Bangalore real estate, which is significantly dependent on IT/ITES hiring for both commercial leasing and housing demand. While the IT industry is expected to grow at 12-14%, higher productivity and automation could lead to sub-normal growth in hiring. Success in BRGD's projects in Whitefield (largely IT/ITES), North Bangalore (~50% IT/ITES), and South Bangalore (IT, BFSI, manufacturing) is linked to demand from IT Industry.
- **Execution ramp-up crucial:** BRGD has delivered ~10msf of projects over the last five years (FY10-14). Its ongoing and upcoming projects imply delivery of ~22msf over the next 4-5 years. This requires significant scale-up in execution. Any major delays would have an adverse impact on profitability and valuations. However, 100% outsourcing model mitigates sourcing risk.

Management Profile

Brigade Enterprises (BRGD) is one of South India's leading property developers, promoted by Mr M.R. Jaishankar in 1986. The promoter group owns 57.7% of the company and has been stable since its IPO in FY08.

Exhibit 69: Key management profile

M.R. Jaishankar Founder, Chairman & Managing Director 	ü Founder of the company. He holds a Bachelor of Science degree in agriculture and a Master of Business Administration. ü His commitment to quality and passion for innovation has seen Brigade Group grow from a single-building, small-scale private enterprise to a diverse multi-domain Company which is into all verticals of Real Estate. ü Under his leadership Brigade Group has scaled new heights and this has been recognised by the many awards Brigade Group has received over the years.
Githa Shankar, Wholetime Director 	ü She has over 30 years of experience in the fields of advertising, stock broking, insurance, education and real estate. ü She is the Managing Trustee of Brigade Foundation which started and runs The Brigade Schools in Bangalore.
M.R. Gurumurthy, Director 	ü He has over 40 years of business experience and manages coffee estates and is a past President of the Rotary Club of Chikmagalur
M.R. Shivram, Director 	ü Master of Science degree in electronics from New York University. He has over 30 years of business experience and is also the Managing Director of Capronics Private Limited.
P.M. Thampi, Independent Director 	ü Former Chairman and MD of BASF and presently on the Board of HDFC Asset Management Company Limited and Strides Arcolab Limited.

P.V. Maiya, Independent Director 	ü Former Chairman and MD of ICICI Banking Corporation Limited. Founding managing director of Central Depository Services (India) Limited from 1998 to 1999. ü Former Director of Canara Bank and is a Director of Neuland Laboratories Limited.
Aroon Raman, Independent Director 	ü Promoter of of Raman FibreScience, a research & innovation company in the area of technical non-wovens and composites. Former Chairman of CII, Karnataka State Council for 2010-11. ü Recipient of the State's highest civilian honour - the Karnataka Rajyotsava Award for 2010.
Dr. Srinivasa Murthy, Independent Director 	ü Former director of the IIM, Bangalore. Member of the Disinvestment Commission of the Government of India from 2000 to 2006. ü Currently on the Board of Directors CMC Ltd., National Stock Exchange of India Ltd. and Himatsingka Seide Ltd.
K Suresh CFO	ü CFO for Brigade since Dec 2011 with 22+ years of experience across varied industries

Financials and valuations

Income Statement						(INR Million)
Y/E March	2012	2013	2014	2015E	2016E	2017E
Net Sales	**6,130**	**8,227**	**9,402**	**13,311**	**17,043**	**20,494**
Change (%)	27.2	34.2	14.3	41.6	28.0	20.2
Construction expenses	3,558	4,618	5,035	7,892	10,268	11,739
Staff Cost	595	757	778	856	941	1,035
Selling & Adm. exp	549	764	900	990	1,138	1,309
EBITDA	**1,429**	**2,088**	**2,690**	**3,574**	**4,696**	**6,411**
% of Net Sales	23.3	25.4	28.6	26.8	27.6	31.3
Depreciation	532	773	827	890	990	1,249
Interest	604	898	882	1,032	1,132	1,232
Other Income	380	119	225	145	103	146
PBT	**673**	**536**	**1,234**	**1,796**	**2,676**	**4,075**
Tax	103	-65	345	629	937	1,386
Rate (%)	15.4	-12.1	28.0	35.0	35.0	34.0
Adjusted PAT	**569**	**612**	**879**	**1,171**	**1,756**	**2,528**
Change (%)	-52.8	7.5	43.6	33.2	50.0	43.9

Balance Sheet						(INR Million)
Y/E March	2012	2013	2014	2015E	2016E	2017E
Share Capital	1,123	1,123	1,135	1,135	1,135	1,135
Reserves	10,496	10,999	11,587	12,482	13,813	15,957
Net Worth	**11,618**	**12,121**	**12,722**	**13,617**	**14,948**	**17,093**
Minority	0	55	0	7	0	172
Loans	8,510	10,549	9,322	10,322	11,322	12,322
Deffered Tax Liability	205	244	342	342	342	342
Capital Employed	**20,333**	**22,968**	**22,387**	**24,289**	**26,613**	**29,929**
Gross Fixed Assets	6,079	12,265	14,835	14,835	16,501	20,819
Less: Depreciation	1,000	1,733	2,503	3,393	4,383	5,633
Net Fixed Assets	**5,080**	**10,532**	**12,332**	**11,442**	**12,118**	**15,187**
Capital WIP	9,250	3,886	2,446	4,646	5,549	2,933
Investments	18	74	825	825	825	825
Curr. Assets	**13,314**	**15,074**	**17,393**	**21,791**	**24,744**	**28,302**
Inventory	6,689	9,099	11,320	14,643	17,725	20,494
Debtors	356	198	374	399	341	307
Cash & Bank Balance	489	470	507	626	202	635
Loans & Advances	5,780	5,307	5,192	6,123	6,476	6,865
Current Liab. & Prov.	**7,292**	**6,597**	**10,609**	**14,044**	**15,850**	**15,944**
Sundry creditors	6,389	6,208	10,058	13,444	15,253	15,370
Provisions	904	389	551	599	596	574
Net Current Assets	**6,022**	**8,477**	**6,784**	**7,748**	**8,894**	**12,358**
Application of Funds	**20,369**	**22,968**	**22,387**	**24,289**	**26,613**	**29,929**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2012	2013	2014	2015E	2016E	2017E
Basic (INR)						
Adjusted EPS	**5.1**	**5.5**	**7.7**	**10.3**	**15.5**	**22.1**
Growth (%)	-52.8	7.5	41.9	33.2	50.0	43.9
Book Value	104	108	112	120	132	151
DPS	1.5	1.5	2.0	2.0	3.0	4.0
Payout (incl. Div. Tax.)	34.4	32.8	29.7	23.3	23.5	20.3
Valuation (x)						
P/E			19.9	14.5	10.0	7.0
EV/EBITDA			9.5	7.4	5.9	4.4
EV/Sales			2.7	2.0	1.6	1.4
Price/Book Value			1.4	1.3	1.2	1.0
Dividend Yield (%)			1.3	1.3	1.9	1.9
Profitability Ratios (%)						
RoE	4.9	5.1	6.9	8.6	11.7	14.8
RoCE	6.2	6.6	9.2	12.1	15.0	18.8
Leverage Ratio						
Debt/Equity (x)	0.7	0.8	0.6	0.7	0.7	0.6

Cash Flow Statement (INR Million)

Y/E March	2012	2013	2014	2015E	2016E	2017E
PBT before Extraordinary Items	**673**	**536**	**1,234**	**1,796**	**2,676**	**4,075**
Add : Depreciation	532	773	827	890	990	1,249
Interest	604	898	882	1,032	1,132	1,232
Less : Direct Taxes Paid	103	-65	345	629	937	1,386
(Inc)/Dec in WC	-2,394	2,474	-1,730	845	1,570	3,031
CF from Operations	**4,099**	**-202**	**4,328**	**2,523**	**2,669**	**2,675**
(Inc)/Dec in FA	-2,385	-821	-1,131	-2,200	-2,568	-1,702
(Pur)/Sale of Investments	-7	-56	-750	0	0	0
Others	-184	26	-122	101	15	237
CF from Investments	**-2,576**	**-851**	**-2,003**	**-2,099**	**-2,553**	**-1,465**
(Inc)/Dec in Networth	-28	128	84	0	0	0
(Inc)/Dec in Debt	-694	2,038	-1,226	1,000	1,000	1,000
Less : Interest Paid	604	898	882	1,032	1,132	1,232
Dividend Paid	196	197	265	272	409	545
CF from Fin. Activity	**-1,522**	**1,071**	**-2,288**	**-305**	**-541**	**-777**
Inc/Dec of Cash	**1**	**18**	**37**	**120**	**-425**	**433**
Add: Beginning Balance	451	452	470	507	626	202
Closing Balance	**452**	**470**	**507**	**626**	**202**	**635**

E: MOSL Estimates

NOTES

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