

**Brigade Enterprises Ltd. - Company Note**

**Price (July 7, 2008): Rs110.15**

**July 8, 2008**

**Market Cap: Rs12.4bn (\$285mn)**

**52 wk High/Low: 428 / 96**

**Rating: Not Rated**

Brigade Enterprises Ltd. (BEL) is a leading real estate developer in Bangalore. The company was incorporated in 1990 and has delivered around 67 projects aggregating about 6.7mn sqft of space (comprising residential 71%, commercial 26% and hospitality ventures 3% of the total developed area). While the company has been focused on the Bangalore region, it is expanding in other cities in the South including Mysore, Hyderabad and Chennai.

BEL has a land bank of 39mn sq ft to be developed by FY13. Bangalore accounts 73% of total land area. Around 66% of the total developable land has been earmarked for commercial real estate development.

**Quarterly results snapshot**

(RsCr)

	Q3FY08	Q4FY08	Q-O-Q (Growth)
<b>Net Sales</b>	<b>118.86</b>	<b>128.11</b>	<b>7.8%</b>
<b>Total Expenditure</b>	<b>67.20</b>	<b>123.11</b>	<b>83.2%</b>
<b>EBITDA</b>	<b>51.66</b>	<b>5.00</b>	<b>-90.3%</b>
Other Income	8.50	23.16	172.5%
Interest	11.33	1.79	-84.2%
<b>PBDT</b>	<b>48.83</b>	<b>26.37</b>	<b>-46.0%</b>
Depreciation	2.44	2.83	16.0%
<b>Profit Before Tax</b>	<b>46.39</b>	<b>23.54</b>	<b>-49.3%</b>
Tax	9.68	2.59	-73.2%
<b>Profit After Tax</b>	<b>36.71</b>	<b>20.95</b>	<b>-42.9%</b>
<b>EBITDA margin</b>	<b>43.5%</b>	<b>3.9%</b>	<b>-39.6%</b>
<b>EPS (Rs)</b>	<b>3.31</b>	<b>1.87</b>	<b>-43.7%</b>
<b>Paid Up Equity Capital</b>	<b>110.83</b>	<b>112.25</b>	<b>1.3%</b>

**Q4FY08 and FY08 results analysis**

- BEL has not recognized a large part of its project revenues in Q4FY08 which resulted in flat revenue growth and decline in the profitability.

Accounting policy regarding recognition of revenue: Revenue is recognized based on the percentage completion method. Project revenues on new projects are recognized when the stage of completion of each project reaches a significant level, which is estimated at a minimum 25%.

- In Q4FY08 the company recorded 7.8% revenue growth and 42.9% decline in net profits. Its EBITDA margin eroded by 39.6%.
- In FY08, the company's turnover increased by 21.8% and net profit by 47.2%.

**Key positives**

- 66% of its land bank has been earmarked for commercial real estate development which can be a differentiating factor vis-à-vis other realty players, which have a much smaller contribution of commercial projects in their portfolios.
- While 73% of its land bank is located in the Bangalore region, the company has embarked on regional diversification into cities like Mysore, Hyderabad and Chennai.
- BEL's projects pipeline includes luxury and semi-luxury residential projects (development of 2 townships), 2 IT SEZs, hospitality projects (agreement with Banyan Tree, Intercontinental Hotels, and Starwood Asia-Pacific Hotels to use their brands) which includes plans for 3 hotels and 2 resorts.
- The low leverage of is 0.3:1, vis-à-vis approx. 1:1 for the industry, is a positive and leaves scope for raising further debt for projects undertaken.
- The company has not recognized most of its revenues of the ongoing projects due to accounting policies which leads to better visibility of revenue growth in FY09 and FY10. Consensus estimates for the company's revenue growth is at a CAGR of 65.3% over FY08-11.

- Stock trades at 69% discount to its NAV of Rs355/share, which is attractive vis-à-vis other mid segment real estate players (please see table on Page 3).

#### Key negatives

- Small size of land bank vis-à-vis other listed players. As brought out in the table below, BEL will run out of developable land much sooner than other players will, by virtue of its smaller land bank. Therefore, new land addition for BEL may be at much higher price points vis-à-vis other companies, which may have purchased land 3-4 years back at lower rates.

Name of Company	Total land bank Mn Sq Ft (A)	Ongoing projects Mn Sq Ft (B)	%(B/A)
Brigade Ent.	39	14	36%
Purvankara Projects	125	19	15%
Sobha Developers	225	12	5%

- BEL has recently confirmed that volumes have declined by 20% in Bangalore. Its focus on Bangalore region (73% of total land bank) is also a matter of concern.
- The company also confirmed that construction costs rose by 7-10% due to higher steel and cement prices. The recent increase in cement prices by Rs3-4 per kg in spite of dull monsoon season, indicates that increasing price trends may not correct in the near future.
- We have serious reservations about the promoters' remuneration. For FY08, the two main promoters were paid an aggregate remuneration of Rs15.15Cr, or 12% of PAT before such remuneration.

#### Our view

- Investor sentiment for the real estate sector (post Sub Prime Mortgage crisis) has been negative. The sector has also been impacted by negative news flows, including consistent increase in inflation and interest rates and the slowing economic growth. The BSE realty index recorded a fall of 64.3% since January 1, 2008, while BEL stock fell by 72.4%. The 69% discount to NAV, and low financial leverage vis-à-vis other realty players make it attractive at current levels.
- **Strengths of the company:** strong management capabilities (executed 67 projects of 6.9mn sqft of land), well-entrenched board of directors which comprises professionals as non-executive directors from various fields related to real estate sector.
- **Strategy:** In our view, the stock has a limited downside (trades at discount of 69% to NAV) from the current levels. We see strong visibility on revenue growth. However, we also believe that the stock price performance will be in line with the realty sector performance. Positive triggers can only come from economy which includes inflation under control and declining interest rate scenario. We believe value investors may consider this stock from a medium term perspective.

## Peer group Comparison

	Market Cap (RsCr)	NAV (Rs)	Price (Rs)	Prem / (Disc) to NAV	Land (mn sqft)	Presence
DLF	72,627	790	426.00	-46%	751	Pan India
Unitech	27,192	318	167.50	-47%	612	Pan India
HDIL	9,013	970	420.65	-57%	192	Mainly in Mumbai
Puravankara Projects	3,592	288	168.25	-42%	125	Southern Region (Bangalore, Chennai, Hyderabad, Cochin, Mysore)
Omaxe	2,204	160	127.00	-21%	149	Mainly in Northern region (Expansion plans for Eastern and Western regions)
Sobha Developers	1,822	800	249.90	-69%	149	Southern Region
<b>Brigade Enterprises</b>	<b>1,236</b>	<b>355</b>	<b>110.15</b>	<b>-69%</b>	<b>39</b>	<b>Southern Region</b>

(Consensus analyst estimates)

## Financial Snapshot

(RsCr)

Particulars	31.3.04	31.3.05	31.3.06	31.3.07	31.3.08
Net Sales	83.44	164.12	203.87	378.17	460.71
<i>Growth</i>	-	96.7%	24.2%	85.5%	21.8%
Net Profit	10.77	19.88	42.31	75.53	111.17
<i>Growth</i>	-	84.6%	112.8%	78.5%	47.2%
EBITDA margin	18.2%	19.7%	30.6%	26.6%	32.2%
EPS (Rs)	30.00	18.46	15.72	28.06	9.90
Book Value (Rs)	71.89	40.15	29.97	54.35	82.53
P/E (x)	-	-	-	-	13.0
P/S (x)	-	-	-	-	3.1
P/B (x)	-	-	-	-	1.6
ROE	41.7%	46.0%	52.4%	51.6%	12.0%
ROCE	24.6%	18.6%	31.0%	32.6%	15.1%
Debt to EBITDA	2.0	3.4	1.6	2.4	2.0
D/E (x)	1.2	2.5	1.3	1.6	0.3

## Consensus Analyst Estimates

	FY09E	FY10E	FY11E
Net Sales (RsCr)	908.00	1400.00	2080.00
PAT (RsCr)	180.00	280.00	430.00
EBITDA margin	27.5%	32.1%	33.2%
EPS (Rs)	16.04	24.94	38.31
P/E (x)	6.9	4.4	2.9

**Profit & Loss Statements****(RsCr)**

For year to,	31.3.04	31.3.05	31.3.06	31.3.07	31.3.08
<b>Net Sales</b>	<b>83.44</b>	<b>164.12</b>	<b>203.87</b>	<b>378.17</b>	<b>460.71</b>
<b>Expenditure</b>					
Power and Fuel	0.00	0.00	0.00	18.77	24.71
Employee Costs	3.24	5.24	9.70	18.26	34.03
Other Exp. (development costs)	64.99	126.48	131.81	240.43	253.70
<b>Total Expenses</b>	<b>68.23</b>	<b>131.72</b>	<b>141.51</b>	<b>277.46</b>	<b>312.44</b>
<b>EBITDA</b>	<b>15.21</b>	<b>32.40</b>	<b>62.36</b>	<b>100.71</b>	<b>148.27</b>
Other Income	0.00	0.16	0.32	35.28	46.97
Interest	1.89	6.07	9.66	16.57	39.61
<b>PBDT</b>	<b>13.32</b>	<b>26.49</b>	<b>53.02</b>	<b>119.42</b>	<b>155.63</b>
Depreciation	1.20	4.16	5.84	10.04	10.10
<b>Profit Before Tax</b>	<b>12.12</b>	<b>22.33</b>	<b>47.18</b>	<b>109.38</b>	<b>145.53</b>
Tax	1.35	2.45	4.87	33.85	34.36
<b>Profit After Tax</b>	<b>10.77</b>	<b>19.88</b>	<b>42.31</b>	<b>75.53</b>	<b>111.17</b>
<b>EBITDA margin</b>	<b>18.2%</b>	<b>19.7%</b>	<b>30.6%</b>	<b>26.6%</b>	<b>32.2%</b>
<b>EPS (Rs)</b>	<b>30.00</b>	<b>18.46</b>	<b>15.72</b>	<b>28.06</b>	<b>9.90</b>
<b>Book Value (Rs)</b>	<b>71.89</b>	<b>40.15</b>	<b>29.97</b>	<b>54.35</b>	<b>82.53</b>
<b>Paid Up Equity Cap</b>	<b>3.59</b>	<b>10.77</b>	<b>26.92</b>	<b>26.92</b>	<b>112.25</b>

**Balance Sheets****(RsCr)**

As at,	31.3.04	31.3.05	31.3.06	31.3.07	31.3.08
<b>Sources of Funds</b>					
<b>Eq. Share Capital</b>	<b>3.59</b>	<b>10.77</b>	<b>26.92</b>	<b>26.92</b>	<b>112.25</b>
Reserves and Surplus	22.22	32.47	53.77	119.39	814.13
<b>Shareholders' Funds</b>	<b>25.81</b>	<b>43.24</b>	<b>80.69</b>	<b>146.31</b>	<b>926.38</b>
Secured Loans	28.67	107.16	100.73	240.20	297.49
Unsecured Loans	2.40	2.11	1.79	0.00	0.00
<b>Total Debt</b>	<b>31.07</b>	<b>109.27</b>	<b>102.52</b>	<b>240.20</b>	<b>297.49</b>
<b>Total Liabilities</b>	<b>56.88</b>	<b>152.51</b>	<b>183.21</b>	<b>386.51</b>	<b>1223.87</b>
<b>Applications of Funds</b>					
<b>Gross Block</b>	<b>20.97</b>	<b>42.73</b>	<b>48.75</b>	<b>104.98</b>	<b>123.59</b>
<b>Net Block</b>	<b>17.73</b>	<b>36.87</b>	<b>37.11</b>	<b>83.33</b>	<b>92.77</b>
CWIP	10.91	23.29	43.37	220.59	406.03
Investments	0.26	0.44	0.82	1.06	405.82
<b>Net Current Assets</b>	<b>27.86</b>	<b>90.83</b>	<b>101.45</b>	<b>78.85</b>	<b>285.82</b>
Other Assets	0.12	1.08	0.46	2.68	33.43
<b>Total Assets</b>	<b>56.88</b>	<b>152.51</b>	<b>183.21</b>	<b>386.51</b>	<b>1223.87</b>

**Stock return vis-à-vis BSE Realty Index**

	<b>BEL</b>	<b>BSE Realty Index</b>
1 Week	6.7%	10.6%
1 Month	-38.2%	-25.0%
3 Months	-34.8%	-37.1%

**Keynote Capitals Ltd.**

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**Registered Office**

4th Floor, Balmer Lawrie Building,  
5, J. N. Heredia Marg,  
Ballard Estate, Mumbai 400 001.  
Tel Nos. 022-22694322-25

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