

Strong showing on record realisation and buoyant demand

Revenue for Brigade Enterprises (BRGD) fell 22% YoY to INR1,072cr in Q2FY25 due to a 32% dip in realty sales to INR727cr on lower deliveries. EBITDA margin expanded by 346bp YoY to 27.2% on higher share of leasing revenue. Pre-sales in the real estate segment grew 46% YoY to INR1,821cr on a 45% growth in average realisation led by a better product mix. Volume was flat YoY. Sequentially, pre-sales grew 68% led by a 47% growth in volume on higher launches. Leasing revenue grew 27% YoY and 14% QoQ to INR297cr on near optimal occupancy and better rental rates. Hospitality revenue grew 13% YoY to INR125cr on domestic demand. Led by healthy performance across segments, collections surged by 35% YoY and 21% QoQ to a record INR1,937cr, driving a 51% YoY and 65% QoQ growth in OCF (post interest) to INR553cr. Net D/E ratio improved to 0.15x from 0.64x QoQ on strong OCF and funds raised via QIP. Over the next 12 months, BRGD plans to launch 12.9mn sq. ft., with a GDV of ~INR12,000cr. Planned launches, along with unsold inventory of 4.7mn sq. ft. in ongoing projects and a land bank of ~41mn sq. ft. (realty segment), will ensure continuity in growth. It is targeting a 30% growth in pre-sales in FY25. It expects full occupancy in its operational leasing assets by FY25-end. Accounting for the newly added residential projects, QIP, and higher equity base, we upgrade our TP to INR1,561 (INR1,541 earlier, 1.4x FY25E NAV), a 43% upside from its CMP.

Lower deliveries hit revenue; higher annuity income boosts margin

Revenue/EBIT in the realty space fell 32%/49% YoY on lower deliveries and a high base (property registrations due in Q1FY24 spilled over to Q2FY24 due to glitches in Karnataka Govt. software). Leasing/hospitality revenue grew 27%/13% YoY on improved occupancy (up ~9pp) and healthy ARR. Consolidated revenue/EBITDA fell 22%/10% YoY to INR1,072cr/INR292cr. The decline in EBITDA was arrested at 10% YoY on higher contribution from the leasing segment. EBITDA margin expanded by 346bp YoY to 27.2%. PAT fell 11% YoY to INR119cr. Sequentially, revenue and EBITDA was flat while PAT grew 42% on lower interest and higher other income.

Strong pre-sales on best-ever realisation; volume expands QoQ as launches pick up

Pre-sales grew 46% YoY to INR1,821cr (residential/commercial: INR1,712cr/INR109cr) led by a sharp 45% growth in average realisation to a record INR10,832/sq. ft. on premiumisation of the portfolio (30–35% of pre-sales were contributed by Insignia — a premium project). Volume was flat YoY at 1.68mn sq. ft. Sequentially, volumes grew 47% on a pickup in launches (~4mn sq. ft. v/s ~1.5mn sq. ft. in Q1FY25), leading to a 68% QoQ growth in pre-sales (realization grew 14%). Around 47–50% of pre-sales accrued from launches. To capitalise on growing demand, it plans to launch 12.9mn sq. ft. over the next 12 months (GDV: ~INR12,000cr). Inventory in its launched products stood ~4.7mn sq. ft. It expects pre-sales to grow by 30% in FY25.

Near optimal occupancy and healthy rental rates drive growth in the leasing segment

With regulation for floor-wise de-notification in place and a healthy demand from GCCs, SEZ assets saw a surge in leasing activity in H2FY24. Occupancy touched 97% in FY24 and stayed elevated in Q2FY25. Led by higher occupancy (9pp YoY) and a 13% growth in rental rates, revenue/EBIT grew 27%/48% to INR297cr/INR167cr. EBIT margin expanded by 783bp YoY to 56.4%. It has set aside a land bank of ~11mn sq. ft. for future commercial development. Of this ~11mn sq. ft., 2.54mn sq. ft. is already under construction across five assets.

Maintain 'BUY' with a SoTP-based TP of INR1,561

BRGD reported strong operational performance across verticals in Q2FY25. We see it delivering sustainable growth aided by: i) a robust launch pipeline in the realty segment (12.9mn sq. ft.); ii) a sizeable annuity portfolio under development (~2.54mn sq. ft.), iii) a land bank of over 420 acres; and iv) scale up in business development. A healthy Balance Sheet and QIP proceeds of INR1,500cr provide additional comfort (net debt-to-equity ratio of ~0.15x). We maintain 'BUY' but upgrade our TP to INR1,561 (INR1,541 earlier) based on 1.4x FY25E NAV.

Key financials

Year to March	FY23	FY24	FY25E	FY26E
Sales volume (mn sq. ft.)	6.3	7.69	8.7	10.1
Sales value (INR cr)	4,898	6,433	8,086	10,032
Average realisation (INR cr)	7,740	8,361	9,270	9,922
Operating cash flow (INR cr)	685	234	1,533	1,379
OCF per share	29.7	10.1	62.8	56.5
Net debt (INR cr)	3,071	3,599	102	(1,010)
Net debt/equity ratio (x)	0.95	0.99	0.02	(0.15)

CMP: INR1,094

Rating: BUY

Target price: INR1,561

Upside: 43%

Date: November 17, 2024

Bloomberg:	BRGD:IN
52-week range (INR):	705/1,452
Shares in issue (cr):	24.4
M-cap (INR cr):	26,729
Promoter holding (%)	41.37



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Quarterly Income Statement

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Net sales	1,072	1,367	(22)	1,078	(1)
Operating expenses	780	1,042	(25)	785	(1)
EBITDA	292	325	(10)	293	0
Depreciation	69	76	(9)	68	1
EBIT	223	249	(10)	225	(1)
Interest	123	110	11	152	(19)
Other income	66	41	59	36	85
PBT	166	180	(8)	108	53
Tax	51	68	(24)	28	84
PAT	115	113	2	81	43
Minority interest after net profit	(4)	(21)	81	(3)	(22)
P&L from an associate company	-	-	-	-	-
PAT after minority interest and share of associate	119	134	(11)	84	42
Exceptional items	-	-	-	-	-
RPAT	119	134	(11)	84	42
EPS	4.9	5.8	(15)	3.6	36
EBITDA margin (%)	27.2	23.8		27.1	
PAT margin (%)	11.1	9.8		7.8	
Tax rate (%)	30.8	37.6		25.7	

Operating parameters

Residential	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Pre-sales (mn sq. ft.)	1.68	1.67	0	1.15	47
Pre-sales (INR cr)	1,821	1,249	46	1,086	68
Average realisation (INR)	10,832	7,466	45	9,483	14
Hospitality	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue (INR cr)	125	110	13	118	6
EBIT (INR cr)	29	24	21	22	33
EBIT margin (%)	23.6	22		18.8	
Leasing	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Leased area (mn sq. ft.)	8.7	7.8	12	n.a.	1
Occupancy (%)*	98	89		n.a.	
Total revenue (INR cr)	297	233	27	259	5
EBITDA (INR cr)	167	113	48	155	18
EBITDA margin (%)	56.4	48.5		59.6	

*Occupancy not reported for Q1FY25, assumed at 97% (similar to Q4FY24)

Takeaways from the management interaction

- BRGD is seeing healthy demand for mid-income and aspirational houses in South India. A better product mix and a greater preference for branded inventory across markets boosted prices. The leasing segment is seeing strong traction on healthy demand from flex space operators, GCCs, and IT companies with a preference for Grade A inventory.
- It aims to demerge and list its hospitality business. It has filed a DRHP for its subsidiary housing the hotel business. It plans to raise INR900cr via the IPO and intends to use it to de-leverage, acquire land parcels, and expand the portfolio. Outlook for the hospitality segment is healthy on strong domestic demand led by recovery in MICE activity and healthy leisure spending. Our fair value estimate for hotel segment is INR2,770cr.
- To maintain the growth momentum in the residential segment, the management has: i) planned launches of 12.9mn sq. ft. (6.18mn sq. ft. launched in FY24) over the next 12 months, which will be spread across Bengaluru (~7.9mn sq. ft.), Chennai (~3mn sq. ft.), and Hyderabad (~2mn sq. ft.); ii) added a total developable area of ~12mn sq. ft. since the beginning of Q3FY24 to enhance its future launch pipeline; and iii) prioritised liquidation of ~4.7mn sq. ft. of unsold inventory. We expect these factors to drive the targeted 20% CAGR in pre-sales over the near-to-medium term.
- It is targeting 30% pre-sales growth in FY25. The company reported a pre-sales growth of 29% YoY in H1FY25, led by a 43% growth in average realisation (premiumisation), even as volumes dipped by 10%.
- BRGD is facing delay in securing approvals in Karnataka, which is impacting its launch schedule. It was targeting ~9.5mn sq. ft. in launches in H2FY25, which may be impacted due to delays in securing approvals. If the launch pipeline for H2FY25 is severely impacted, pre-sales could take a hit.
- As of June-end, four commercial assets (Brigade Tech Boulevard/Brigade Twin Towers/Brigade Padmini Tech Valley Block B/Brigade Square: 0.8mn sq. ft./1.3mn sq. ft./0.7mn sq. ft./0.2mn sq. ft.) are under construction, with a balance capex of INR715cr (total estimated capex: INR1,131cr).
- The proceeds from QIP will be used to add projects in the residential segment. Bengaluru, Chennai and Hyderabad are key cities of focus.

Cash flows impress on strong operational performance

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Inflow								
Total collections (A)	1,937	1,439	35	1,607	21	3,544	2,683	32
Outflow								
Construction	582	540	8	618	(6)	1,200	1,108	8
Landowner payments	266	161	66	230	16	496	310	60
Overheads	243	145	68	150	62	393	285	38
Statutory payments	180	142	26	175	3	355	262	36
Sub-total (B)	1,271	987	29	1,173	8	2,444	1,964	24
Operating cash flow (A-B)	666	452	47	435	53	1,100	719	53
Finance cost (net)	(113)	(86)	(31)	(100)	(13)	(213)	(169)	(26)
Operating cash flow after interest	553	366	51	334	65	887	550	61
Cash flow from investing activities	(1,830)	(406)	(350)	(299)	(513)	(2,129)	(649)	(228)
Cash flow from financing activities	1,394	149	834	(103)	1,456	1,292	92	1,307
Net surplus/(shortfall)	117	109	7	(67)	274	50	(7)	779
Interim dividend	(46)	(46)	-	-	-	(46)	(46)	-
Net surplus/(shortfall)	71	63	12	(67)	205	3	(53)	106

Valuation

We arrive at our SoTP-based TP of INR1,561, valuing BRGD's real estate, commercial, and retail operations at 1.4x FY25E NAV. We valued its hotels by discounting future cash flows. The commercial and retail assets include its operating and ongoing properties. We assign a 40% premium to its SoTP-based fair value.

Particulars	Amount (INR cr)	Methodology
Residential	11,436	Based on 1x FY25E NAV
Commercial	10,737	Based on 1x FY25E NAV
Retail	2,392	Based on 1x FY25E NAV
Hotels	2,770	DCF
Total	27,333	-
Less: Debt	4,837	Debt as of FY25
Add: Cash	4,735	Cash as of FY25
Total	27,231	
Number of shares (cr)	24	
Fair value per share (INR)	1,115	
TP at a 40% premium (INR)	1,561	

Rationale for assigning a 40% premium to its NAV:

- i) Scale up in business development and a shift in the product mix towards premium categories.
- ii) A robust commercial annuity portfolio which lends greater visibility to growing its rental income.
- iii) An upcoming expansion in commercial and hospitality assets to expand its annuity income.
- iv) A lean Balance Sheet and an improving cash flow trajectory.
- v) BRGD being a premium brand must command an equity investment scarcity premium.

Financials

Income Statement					(INR cr)
Year to March	FY23	FY24	FY25E	FY26E	
Income from operations	3,445	4,897	6,164	7,275	
Direct cost	1,763	2,738	3,325	4,047	
Employee cost	268	318	349	402	
Other expenses	554	646	711	818	
Total operating expenses	2,586	3,702	4,385	5,266	
EBITDA	859	1,194	1,779	2,008	
Depreciation and amortisation	315	302	415	494	
EBIT	544	892	1,364	1,514	
Interest expenses	434	491	445	445	
Other income	119	167	167	167	
Profit before tax	229	569	1,087	1,237	
Provision for tax	56	168	359	408	
Core profit	173	401	728	829	
Extraordinary items	(45)	-	-	-	
Profit after tax	218	401	728	829	
Minority interest	69	51	51	51	
Share from associates	4	-	-	-	
Adjusted net profit	291	452	779	879	
Equity shares outstanding (cr)	23	23	24	24	
Basic EPS (INR)	13	20	32	36	
Diluted shares (cr)	23	23	24	24	
Fully diluted EPS (INR)	13	20	32	36	

Common size metrics as a percentage of net revenue

Year to March	FY23	FY24	FY25E	FY26E
Operating expenses	75	76	71	72
Depreciation	9	6	7	7
Interest expenditure	13	10	7	6
EBITDA margin	25	24	29	28
Net profit margin	6	8	12	11

Growth metrics (%)

Year to March	FY23	FY24	FY25E	FY26E
Revenue	15	42	26	18
EBITDA	12	39	49	13
PBT	488	148	91	14
Net profit	252	55	72	13
EPS	251	55	63	13

Q2FY25 Result Update

Brigade Enterprises

Balance Sheet

As of March 31	FY23	FY24	FY25E	(INR cr) FY26E
Share capital	231	231	244	244
Reserves	3,014	3,418	5,684	6,563
Shareholders' funds	3,245	3,649	5,928	6,807
Minority interest	(101)	(91)	(142)	(193)
Borrowings	4,549	5,337	4,837	4,837
Trade payables	735	760	1,096	1,334
Other liabilities and provisions	4,898	5,946	5,946	5,946
Total liabilities	16,570	19,250	23,593	25,539
Net block	5,384	5,790	5,004	4,870
Intangible assets	37	35	35	35
Total fixed assets	5,422	5,825	5,040	4,906
Non-current investment	56	47	47	47
Cash and cash equivalents	1,478	1,737	4,735	5,846
Sundry debtors	462	500	593	699
Inventories	7,327	7,736	9,284	11,421
Other assets	1,825	3,405	3,895	2,619
Total assets	16,570	19,250	23,593	25,539

Ratios

Year to March	FY23	FY24	FY25E	FY26E
RoE (%)	7	12	16	13
RoCE (%)	7	10	13	13
Inventory days	1,050	920	780	800
Receivable days	60	45	35	35
Payable days	145	110	120	120
Cash conversion cycle (days)	965	855	695	715
Gross D/E ratio (x)	1.40	1.46	0.82	0.71
Net D/E ratio (x)	0.95	0.99	0.02	(0.15)
Interest coverage ratio (x)	1.25	1.82	3.07	3.40

Valuation parameters

Year to March	FY23	FY24	FY25E	FY26E
Diluted EPS (INR)	12.6	19.5	31.9	36.0
Diluted P/E ratio (x)	37.5	49.0	34.3	30.4
Price/BV ratio (x)	3.4	6.1	4.5	3.9
EV/EBITDA ratio (x)	16.2	21.4	15.0	12.7

Q2FY25 Result Update Brigade Enterprises

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