



# BODHI CAPITAL

An Initiative of ABC | INVESTMENTS 

# Company Name: **Brigade Group Ltd.**

Current Price: 229.25 at 4:15 pm

Market Capitalisation: 4,668.76 Cr

Face Value: Rs. 10/

Analyst Take: Buy

Target Price: Rs. 220-250

Credit Rating: CRISIL 'A', ICRA 'A'

Date: 23rd January 2020.

Analysts: Satvik Agarwal, Hardik Arora, and Saumin Agarwal

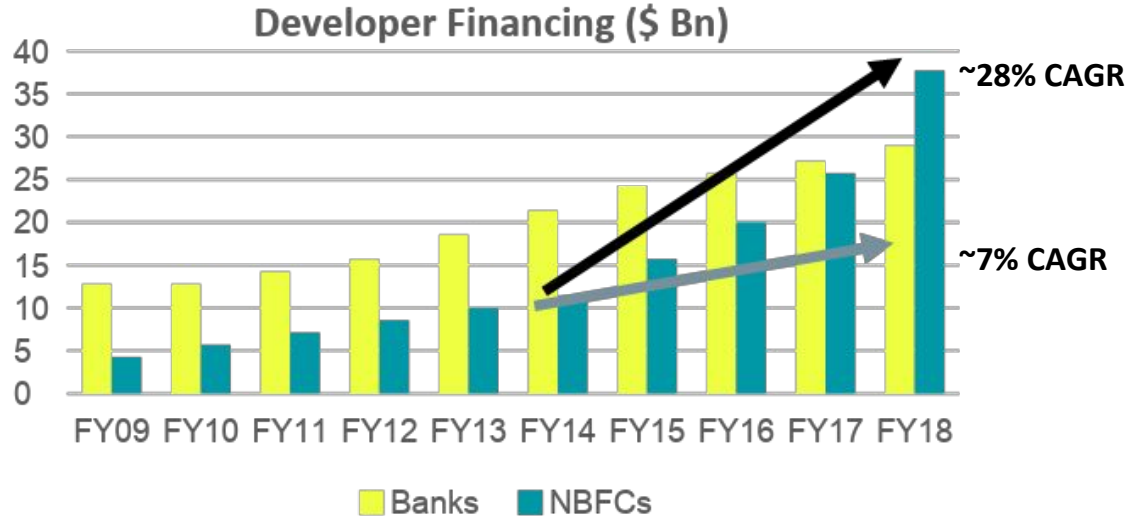


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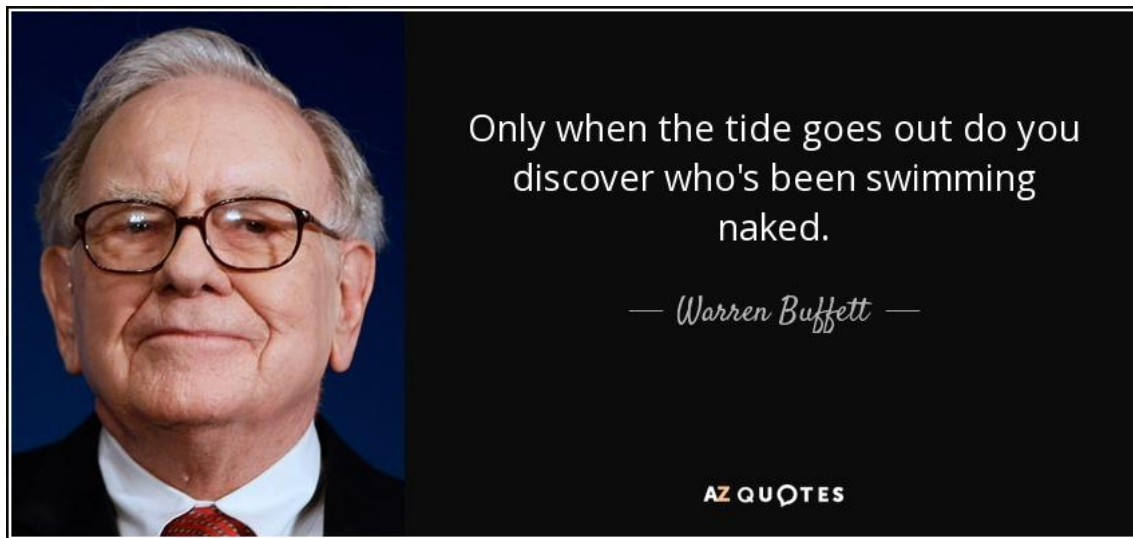
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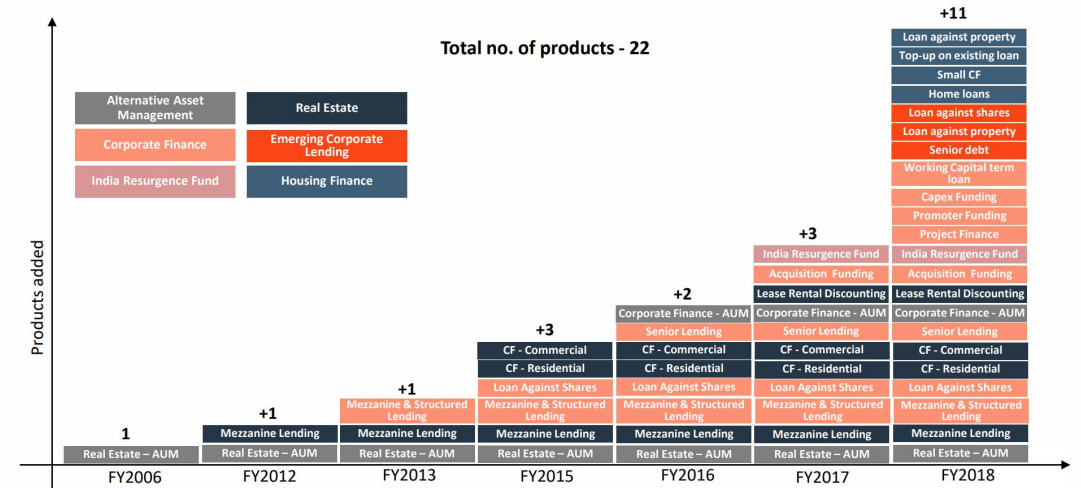
# Real Estate: A Sectoral Thesis (1/2)



**Sectoral concentration of capital: Mispriced Risk**



....through consistently expanding product portfolio



**As evidenced by Increased Lender Risk Appetite\***



**Developer Finance focused NBFCs majorly de-rated**



Source: HDFC Securities, \*Piramal Enterprises Q1FY19 investor presentation

# Real Estate: A Sectoral Thesis (2/2)

## Asset Base

- Loan Book degrowth (refinance); Reduction in wholesale RE exposure by NBFCs
- Tier-2 & 3 Developers left with no access to capital

## Liquidity

- ALM Mismatch prompting reduced short-term borrowings = Higher borrowing costs & yield
- Smaller developers facing higher borrowing costs thereby squeezing margins

## Risk Appetite

- Loss of RE wholesale credit risk appetite by listed NBFCs
- Tier-2 developers left with stalled projects; Tier - 1 developers may cherry pick assets

## RE Landscape

- Tier 1 developers continue to borrow from banks at historical cost of borrowing
- Higher inventory pricing, lower cost of capital, inflow of patient capital in commercial RE and high yield sub-letting opportunities (co-living, co-working) prompting sectoral consolidation

**Sectoral Consolidation + Changing Investment Climate (REITs, Subletting etc) + “Blood on the Streets”= BUY**



# Company Overview

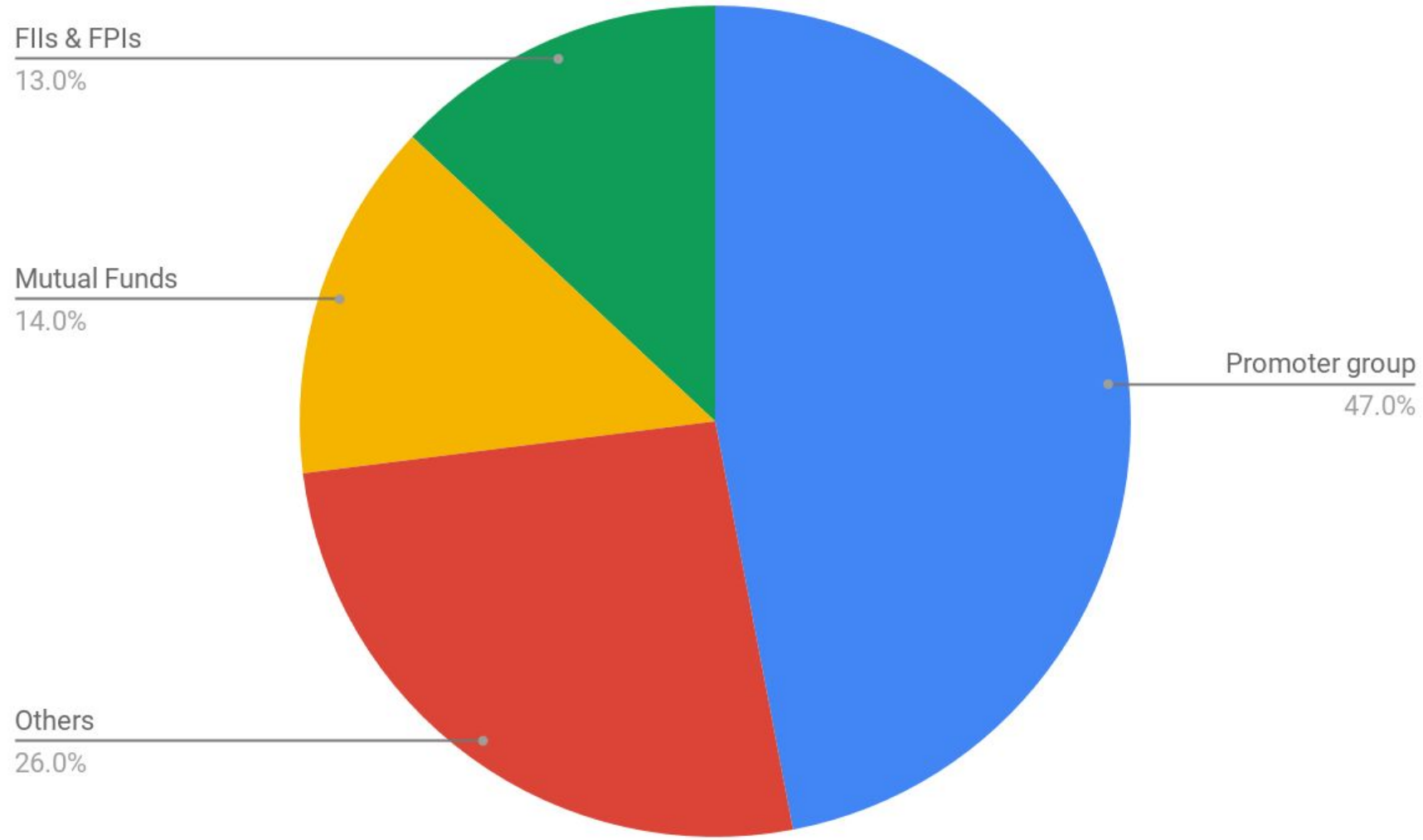
- Brigade is a leading property developer in South India and is headquartered at Bangalore.
- Their projects extend across several major cities in South India including Apartments and Villas in Bangalore, Chennai, Chikmagalur, Hyderabad, Kochi, Mangalore and Mysore.
- Real Estate space aggregating to 2.96 mn. sqft. with total value of 1,644 crores was sold during the financial year 2018-19.
- The area sold is 89% higher as compared to the previous financial year.



BRIGADE



# Shareholding Pattern



# Major Projects

- Brigade currently has complete and operating projects in 5 states (Karnataka, Tamil Nadu, Kerala, Telangana, and Gujarat). These projects range across residential, commercial (sale and lease) as well as hotels.
- The company has also diversified within residential sector with offerings in both affordable and luxury housing. The track record of the company allows it to hold a prestige amongst its competitors when it comes to project completion and meeting the deadlines. In total the company has delivered 250 buildings across 41 projects aggregating to 66 million sqft.





# Economies of Scale

- Brigade group has as many as 28 operational projects in Bangalore alone showing its dominance in the region.
- On a more macro level it also has presence in the cities of Mysore, Mangalore, and Chikmagalur making it a prominent player in Karnataka.
- With its high presence comes its goodwill in the market which it also owes to its timely completion of projects making it a reliable brand in the region.
- The huge number of projects centered around the same area also allows Brigade to reap the advantages of economies of scale.
- The real estate sector has many fixed costs to deal with in terms of machinery and equipment. With these fixed costs come the opportunity for Brigade to minimize the per project fixed costs. Thus, taking the advantage of economies of scale in the Bangalore area.



# Key Commercial Clients

Major customers of Brigade's commercial properties include:

- 1) Coca Cola Company
- 2) Cisco
- 3) ABB
- 4) Capgemini
- 5) E&Y
- 6) HDFC Bank
- 7) Honeywell
- 8) Metlife
- 9) PWC
- 10) Paypal
- 11) Nvidia



- It is important to note that most of the commercial clients of Brigade are American companies which have mostly either bought or leased out floorspace in order to run their back-offices in India. Because of this the dependence of Brigade on the performance of the American economy is relatively high. Any downturn or slump in the American economy could cause clients of Brigade such as Nvidia or Metlife to pull out of shut down/ reduce their operations in India thereby reducing business for Brigade.
- Although the chances of such an event to occur can be speculated to be low, other events such as stricter regulations on outsourcing in America/ tax incentives for American companies to cut back on outsourcing could lead to the same result.



# Affordable/ Mid Income Housing

- Brigade is also known to have a well diversified approach to real estate with focus on both affordable and luxury housing projects. This is important for Brigade as the luxury housing sector in India is known to be stagnating with high supply and low demand.
- Most real estate companies in India focus on high end luxury housing projects given their higher profit margins and are willing to wait for long periods of time in order to turnover their inventory.
- Although luxury housing did see a slump post demonetisation in 2017, since then it has bounced back and grown triple in size upto Q2 2019.
- Brigade turns this dynamic around by having focus on the mid income housing projects as well offering affordable houses with the price range of within Rs. 1 crore.



# Hospitality Sector

- Apart from residential and commercial, Brigade also has reputable presence in the hospitality sector with some high class hotels and others in the pipeline. To manage the hospitality wing better, Brigade Hospitality Services Ltd. (BHSL) was formed in 2004. BHSL currently operates a growing number of clubs, hotels, resorts, and convention centers.
- The management is also looking to increase the number of keys in the hospitality sector from 1,350 in 2019 to 2,000 by 2021.
- In order to achieve this target it has taken a strategic investment from GIC and is looking for more private equity investors to join on board.
- With these developments, the hospitality wing could potentially provide the answer to some of Brigade's problems such as liquidity (discussed later in the report).



# GIFT (Gujarat International Finance Tech-City)

- GIFT is India's First Global Financial & IT Services Hub. The 900 acre project aims to be at par with global financial powerhouses of London and Singapore. With the scale of the project and its potential, the city could turn out to be a key real estate market.
- Brigade already operates the Brigade Financial International Center within the GIFT city and also has a hotel under construction within the premises of the city
- Although, area wise it is a very small percentage of all the commercial projects operated by Brigade, with the importance given to the GIFT city project by the central government and the competition amongst real estate developers to get a share in this project, it shows the ability of the company to procure profitable government contracts with potentially huge upside.



# ONGOING PROJECTS

The group is currently having ongoing real estate projects aggregating to 18.74 mn. sqft. of saleable area, residential projects aggregating to 12.92 mn. sqft. commercial projects aggregating to 5.47 mn. sqft. and hospitality projects aggregating to 444 Keys.

Projects	Project Area	Co Share	LO/JV share
Real Estate projects	8,057	6,087	1,970
Brigade Orchards *	1,823	912	911
Brigade Cornerstone Utopia*	2,363	1,571	792
Brigade El Dorado*	516	516	-
<b>Total Real Estate (A)</b>	<b>12,759</b>	<b>9,086</b>	<b>3,673</b>
Brigade Orion OMR	268	268	-
Brigade Southfield	345	204	141
Brigade Tech Gardens*	3,200	1,632	1,568
WTC, Chennai*	2,000	1,020	980
<b>Total Commercial (B)</b>	<b>5,813</b>	<b>3,124</b>	<b>2,689</b>
Grand Mercure – GIFT City*	145	145	-
Holiday Inn Express & Suites Bengaluru OMR	88	88	-
Ibis Styles, Mysore*	110	110	-
<b>Total Hospitality (C)</b>	<b>343</b>	<b>343</b>	<b>-</b>
<b>Total (A+B+C)</b>	<b>18,915</b>	<b>12,553</b>	<b>6,362</b>



# Regulation

What is an Escrow account under RERA?

The promoter/developer of a real estate development firm will have to maintain a separate escrow account for each project. A minimum of 70 percent of the total funds collected for a specific project will have to be deposited in that account and used only for the construction or land cost pertaining to the same project.

How does the Act promote transparency in the realty industry?

- RERA mandates all builders to submit original, approved plans of their ongoing projects to the regulatory authority, including the details about the alterations made later.
- Builders also have to furnish details of revenue collected from allottees and utilisation of funds, along with and construction, completion and delivery timelines certified by an authorised engineer, architect or a practising chartered accountant.
- In order to enable homebuyers to make informed decisions, the real estate regulatory authorities will have to ensure publication of information relating to each builder's profile, track record, litigation details, advertisements and prospectus of their projects, details of plots and apartments, details of registered agents, consultants and promoters, status of approvals, layout plans etc.
- The failure to register a project would attract a penalty of 10 percent of the total project cost or imprisonment of up to three years.
- Real estate agents, facilitating the sale or purchase of realty projects, too, will have to register themselves with the authority.



# IND Accounting Standard 115

- In India, real estate sector had been calculating revenue on the basis of a 'Percentage Completion Method' and not the 'Project Completion Method'. In the former, the developers treated payments received from the home buyers for purchase of under-construction flats, as turnover of the company and the net income generated from such projects, was treated as profit.
- However, with the Indian Accounting Standard IND AS 115 coming into effect from April 1, 2018, real estate developers are now being forced to show the payments made by home buyers in an ongoing project, as loans and not as income from sales.
- Developers can no longer book profits on the 'Percentage Completion Method' and it has to be accounted as per the 'Project Completion Method' in accordance with global standards. Any buyer in an under-construction project can exit and seek a refund.
- Standard business accounting, calculates any payment received before the transaction as an advance payment or loan. Henceforth, buyers' payments in under-construction projects, would be treated as loans.



# Key Business Segments

- Hospitality Segment
- Hotels under leading global brands such as Sheraton, Grand Mercure, Holiday Inn, Clubs & Conventional centres
- Lease rental
- Office Spaces
- Retail Spaces
- Real Estate Segments
- Residential Spaces
- Office Space on outright sale

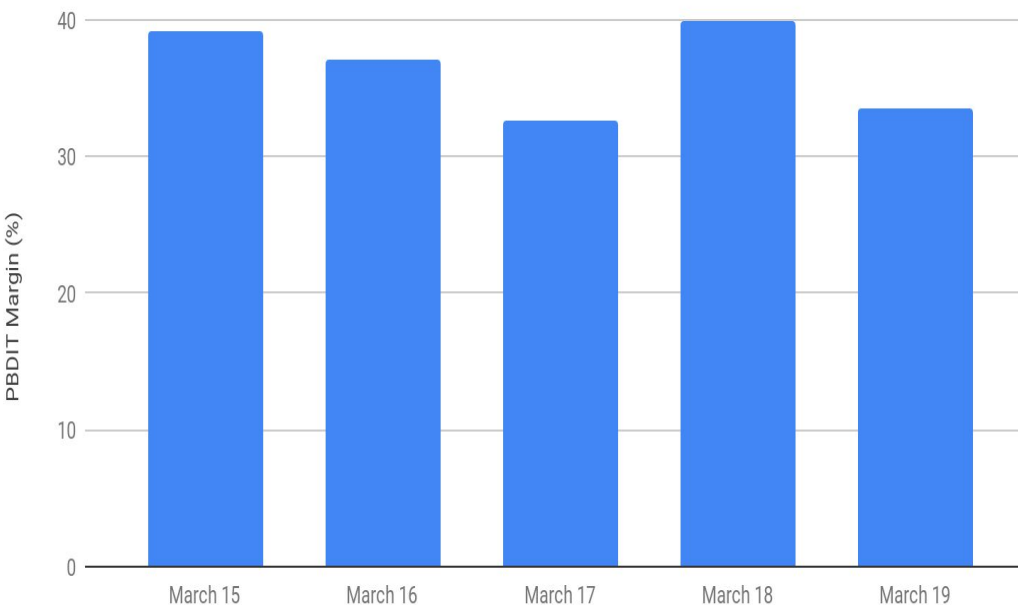
Out of total land area under Brigade, 71% is for residential purposes, 24% is leased for commercial use, 4% is sold for commercial use and remaining 1% is for Hotels.



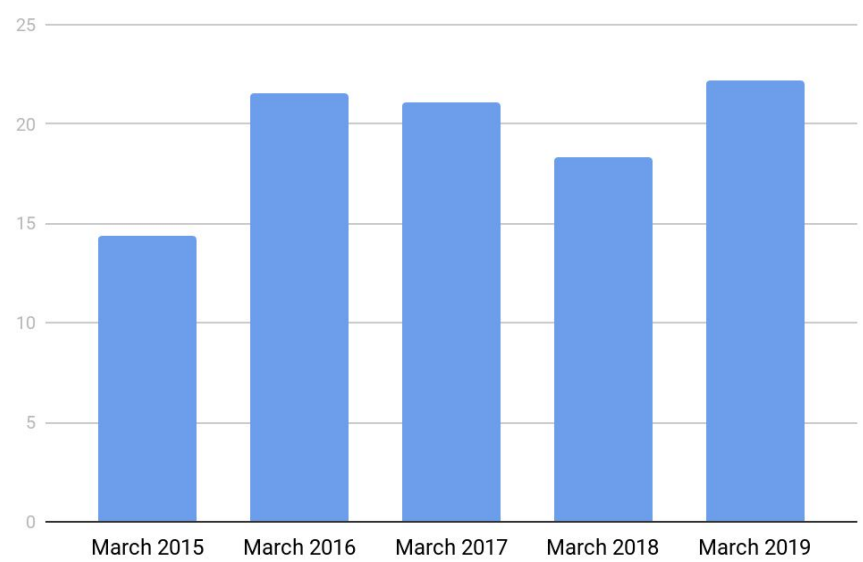
# RATIO ANALYSIS



PBDIT Margin (%)

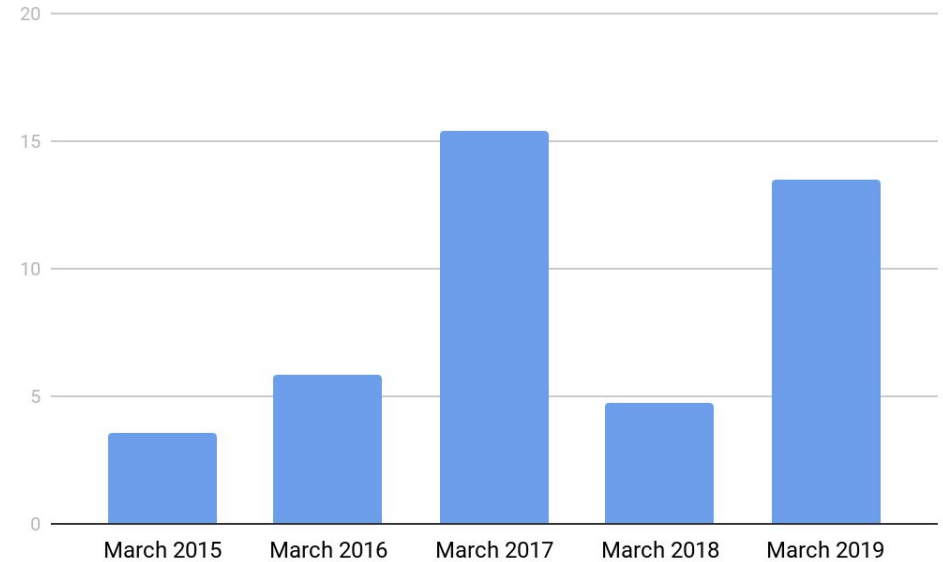


CASH EPS

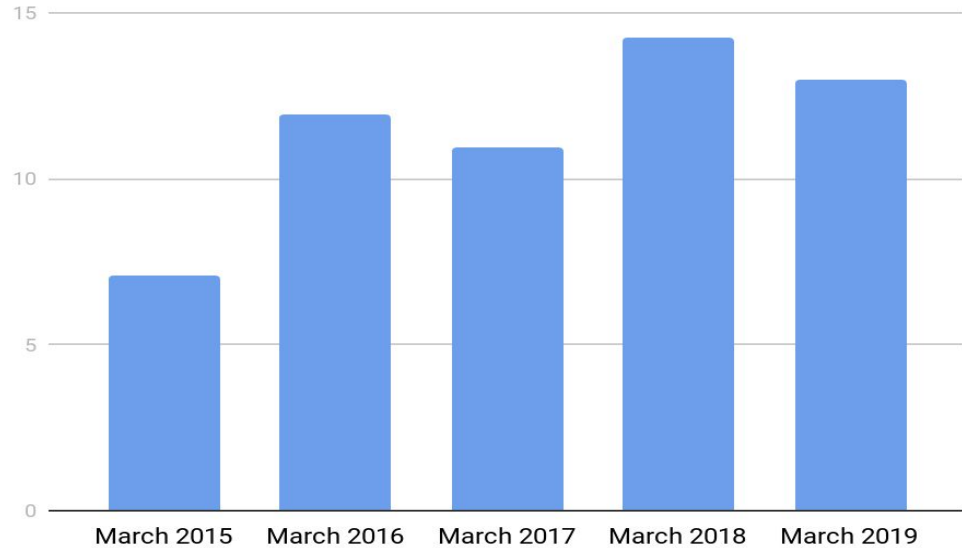


PROFITABILITY

Return on capital employed

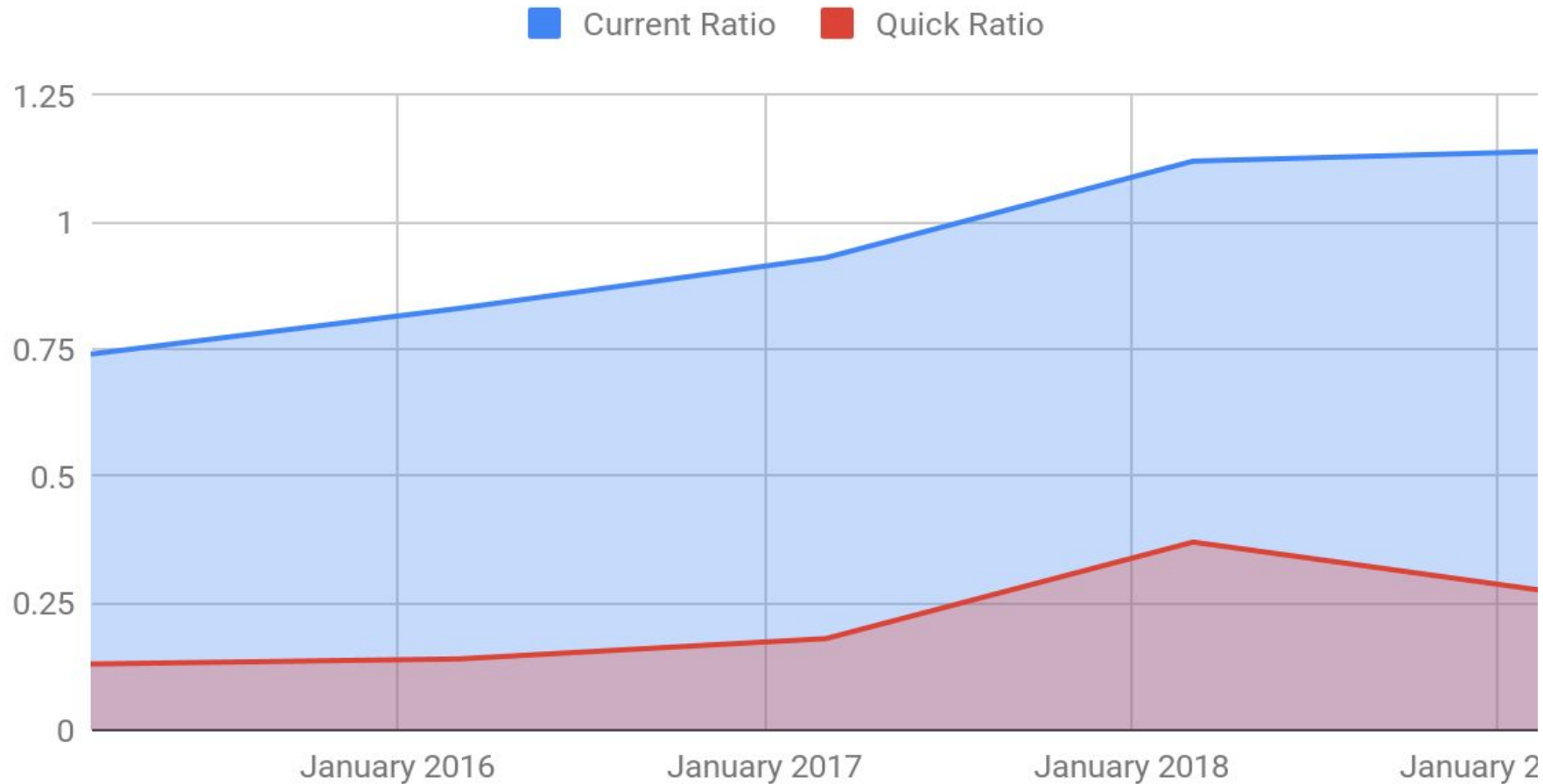


Net Profit Margin



# Liquidity

## Current Ratio and Quick Ratio



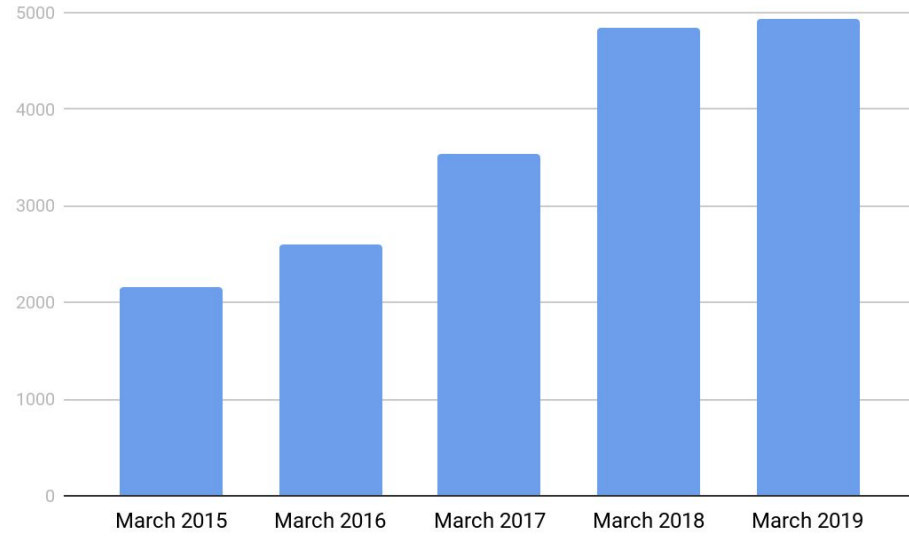
Ideal current ratio is 2:1  
Brigade's current ratio is a little above 1, which means that its short term assets are not necessary enough to meet its short term obligations.

Ideal quick ratio is 1:1  
Brigade's quick ratio is 0.27, which shows its inability to meet its very short term financial obligations.

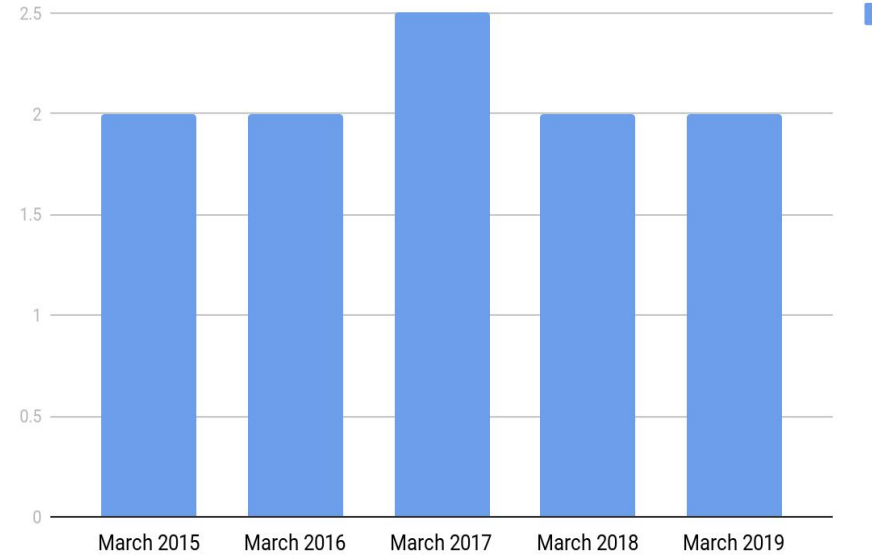


# Other ratios

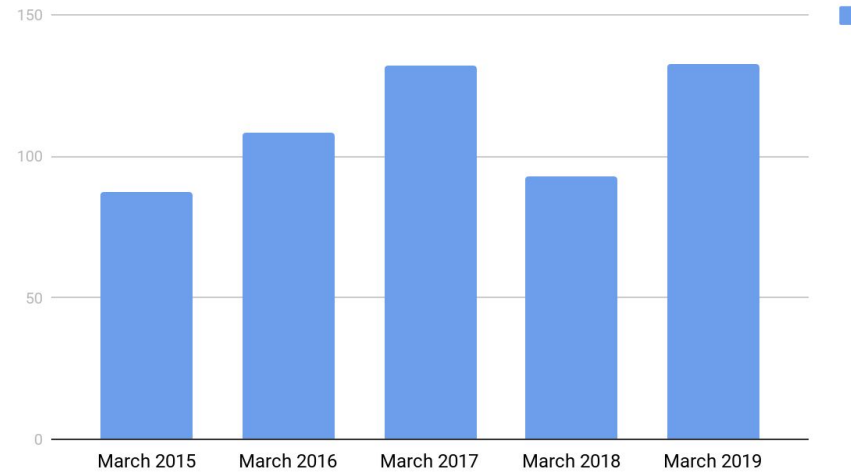
Enterprise Value



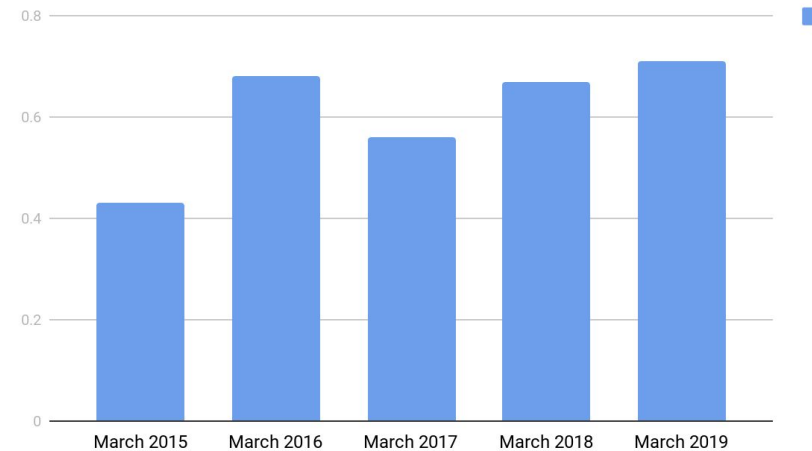
Dividend/share



Revenue from operations/share



Total Debt/Equity



- The enterprise value shows consistent growth.
- The total debt/equity ratio at 0.7 is decent, considering high levels of long term debt in the industry



# SWOT Analysis

## Strength

- Established position in Bangalore real estate market
- Diversified revenue portfolio with presence in residential, commercial and hospitality segments
- Stable cash flows from commercial leasing segment
- Healthy uptick in pre-sales volumes in residential segment

## Weakness

- Sizeable ongoing and planned capex
- Moderation in coverage indicators for hospitality segment in FY2019
- High concentration on Bangalore real estate market

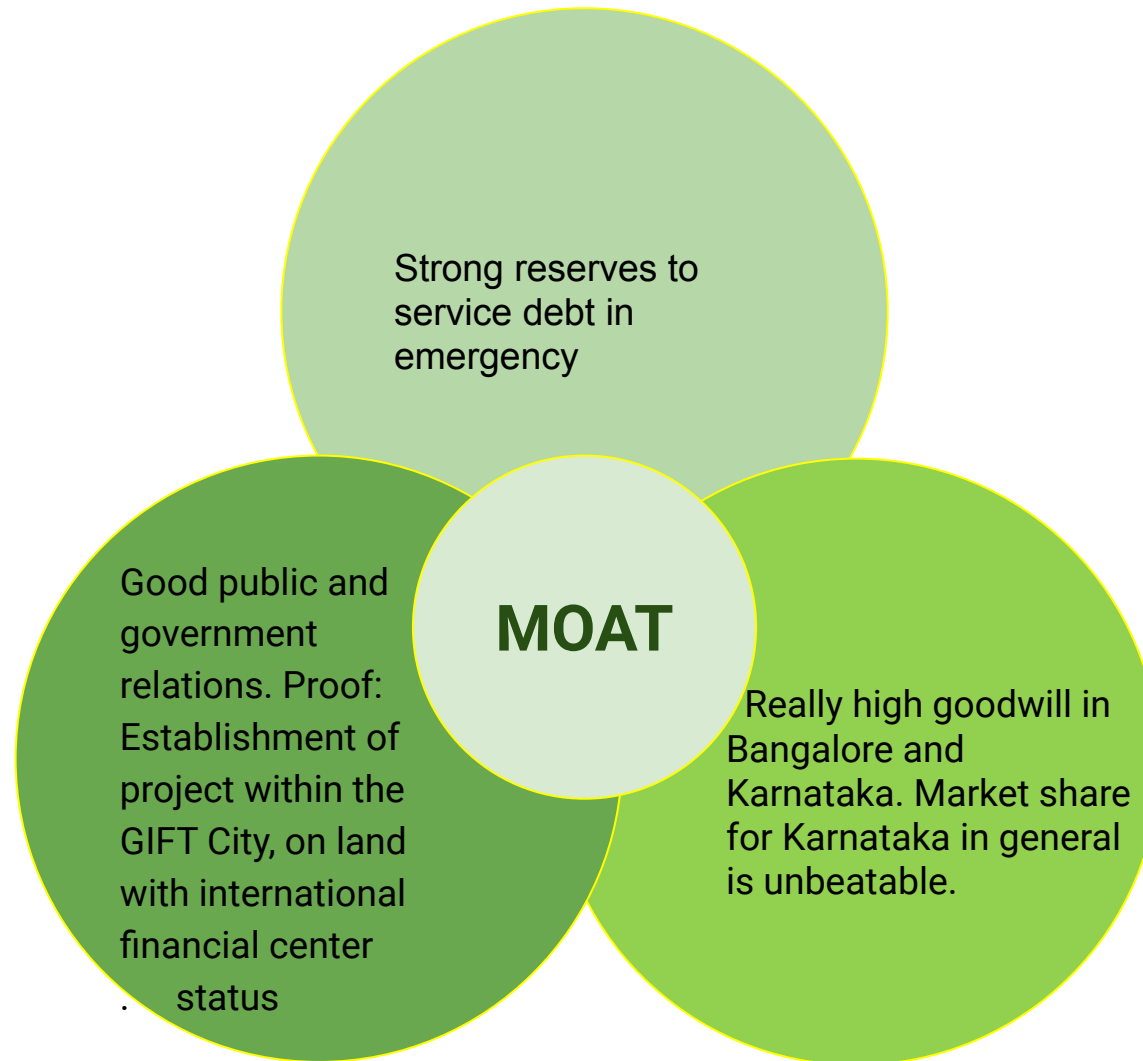
## Opportunity

- Undertaking projects in other markets to mitigate risk

## Threat

- Dependence on Bangalore market





*"In business, I look for economic castles protected by unbreachable moats."  
–Warren Buffet*





# Management

- Brigade is a professionally managed company with 10 directors including 5 independent directors.
- Mr. M.R. Jaishankar the founder of the company is currently the chairman and managing director of the firm and has been so since the last 25 years. This works as a double sided sword as on one hand it does show stability in management, however, it also means that there could be stagnation of talent amongst the managers.
- The board of directors are also 40% female showing good diversity and ethics within the management of the company
- Nepotism does exist within the management though, with three directors belonging to the Shankar family which could lead to a conflict of interest in the management of the company, however at the same time almost all directors are well suited for the job with top quality education and/ or an excellent track record in the real estate industry.



# Quantitative Analysis

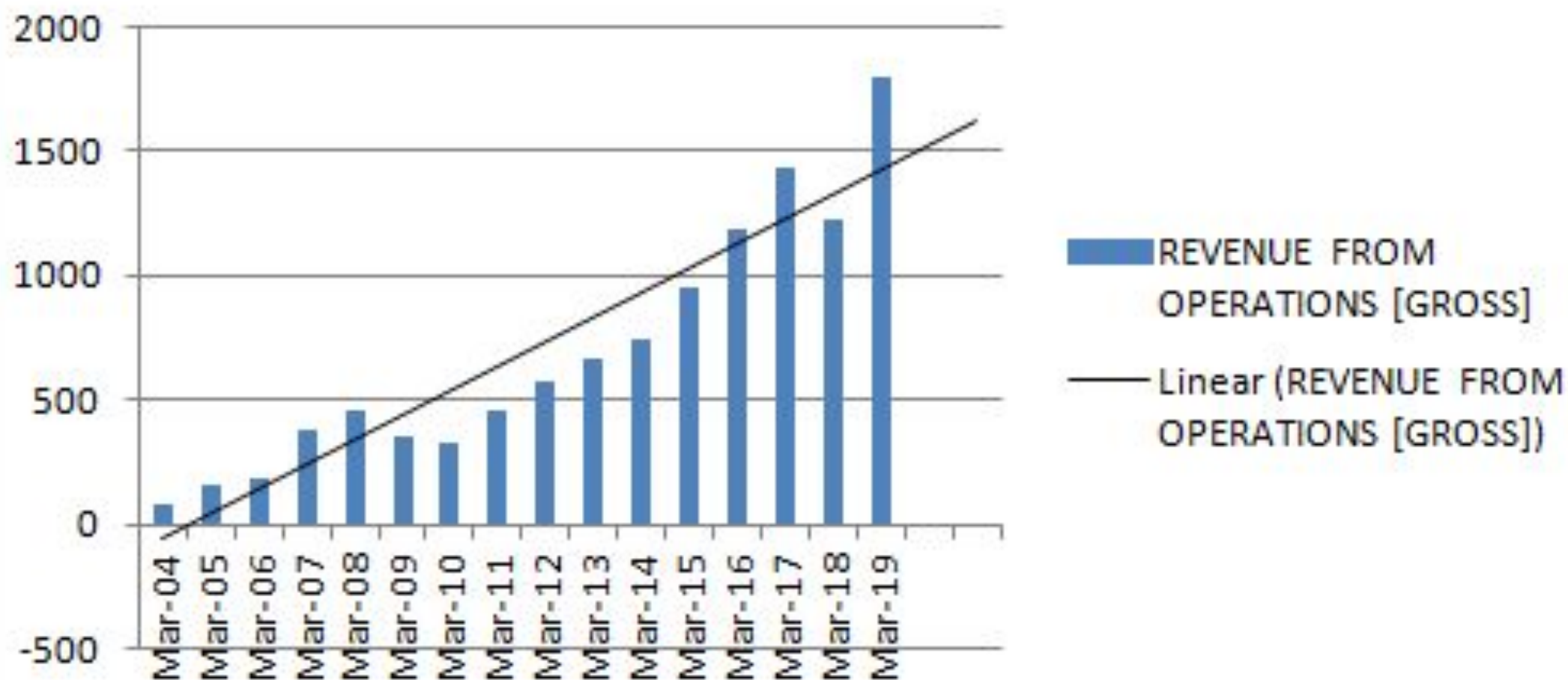


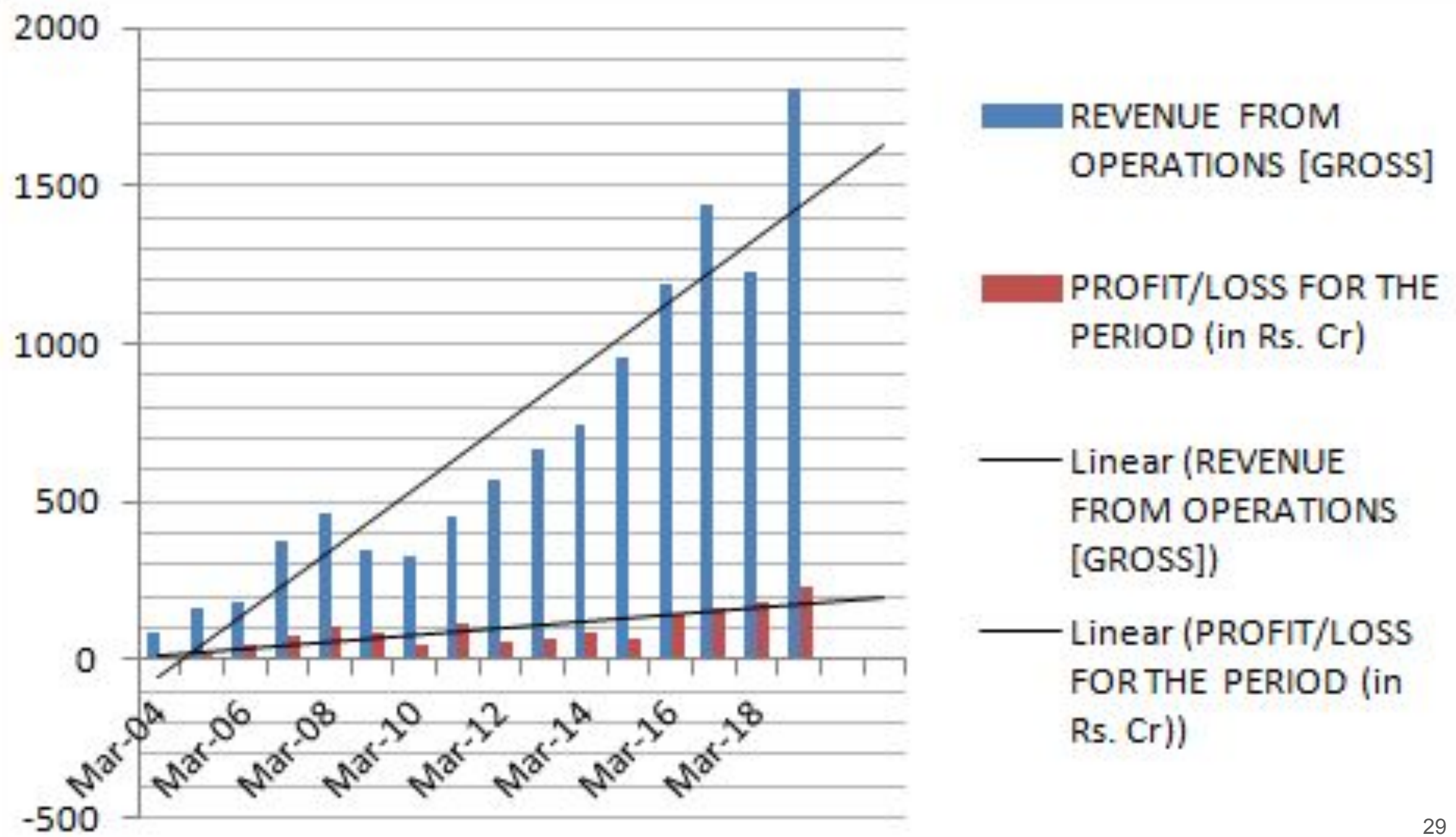
# Profit and Loss Statement

- Revenue from operations have consistently increased at a promising trend
- Profit from operations have consistently increased at a promising trend
- The profit margin remains low and an opportunity for improvement



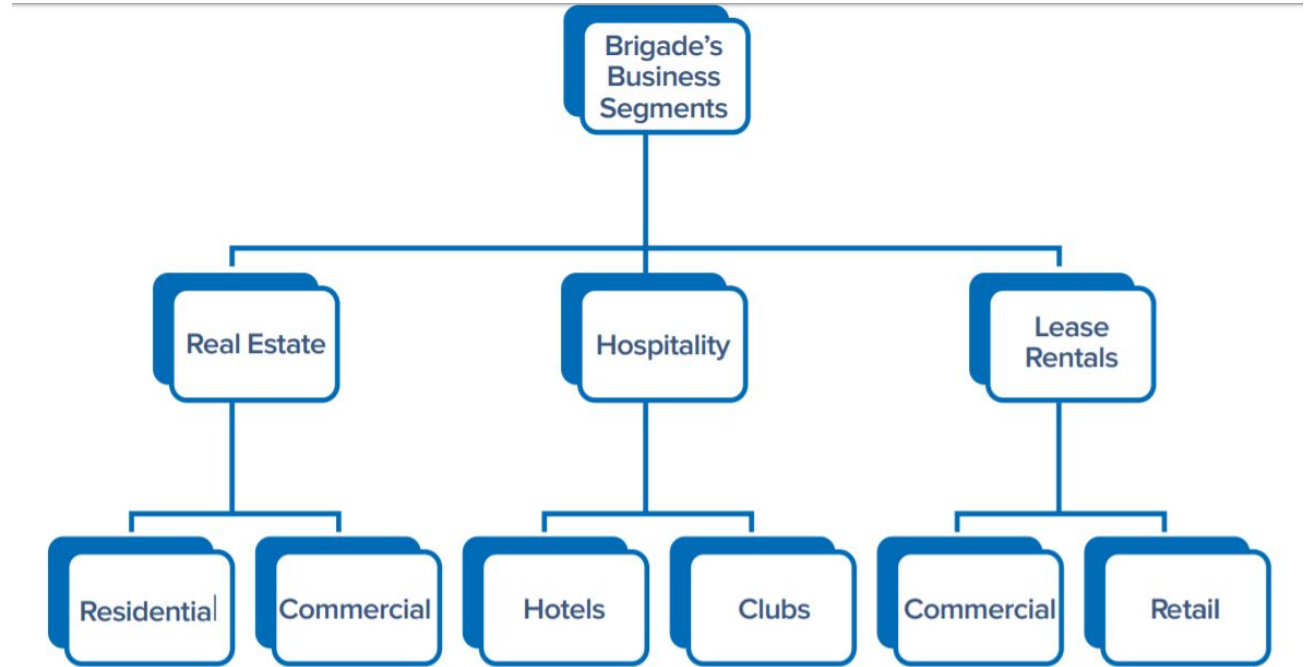
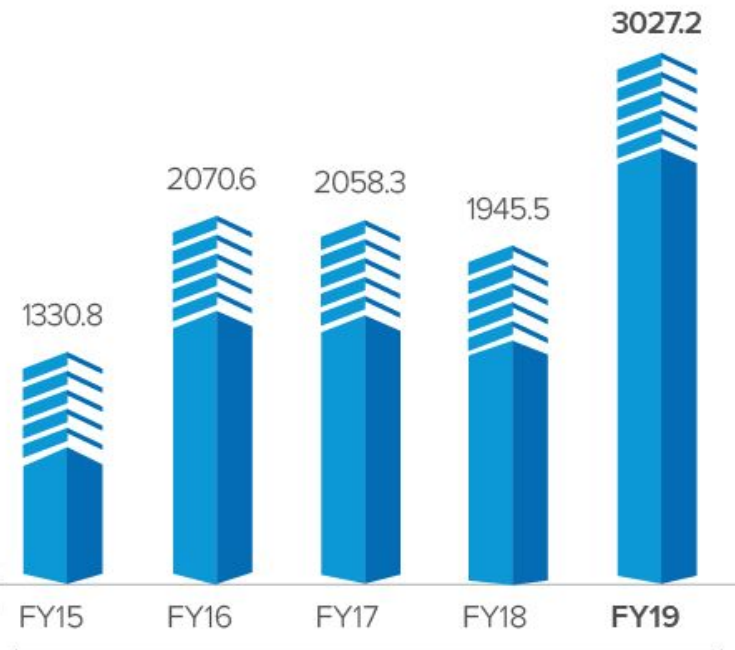
# REVENUE FROM OPERATIONS [GROSS] in Rs. Cr.



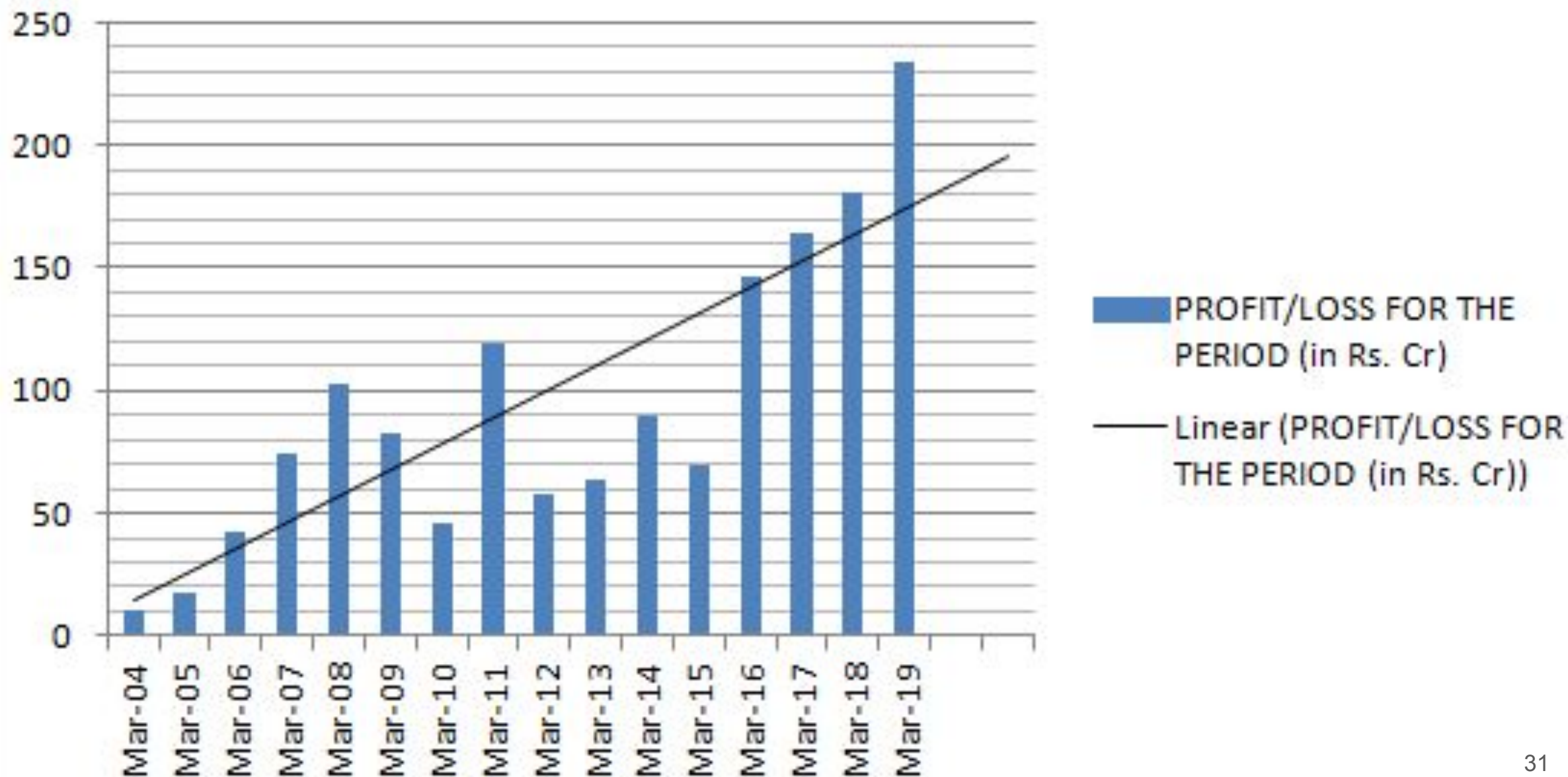


# Revenue Growth and Break-Up of Business

Revenue (₹ Cr)



# PROFIT/LOSS FOR THE PERIOD (in Rs. Cr)



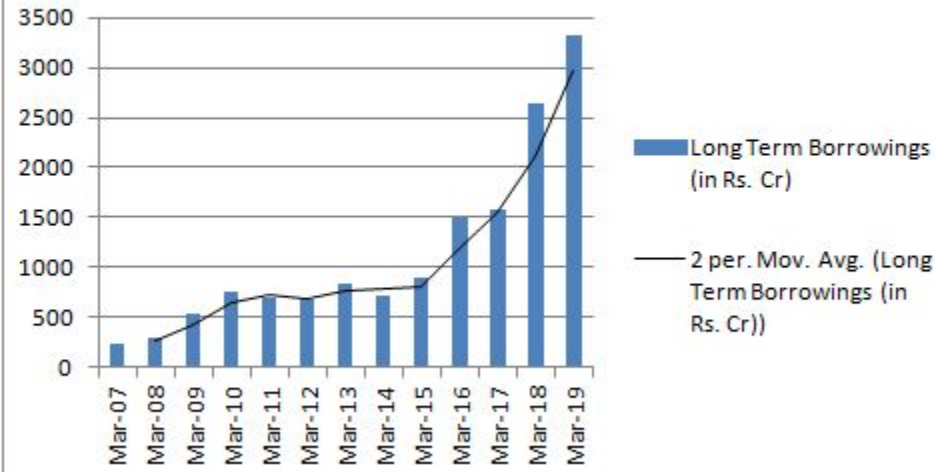
# Balance Sheet

- Long term borrowings have consistently increased at a steep rate due to which Debt to Equity ratio annual growth is also increasing
- Tangible assets show a sharp rise since 2013 which indicates the utilisation of debt to build infrastructure optimally
- Consistently increase in the reserves over time has developed the financial strength to service debt in ad hoc situation
- Capital work in progress (new projects under development) consistently increased as well which implies a scale in operations

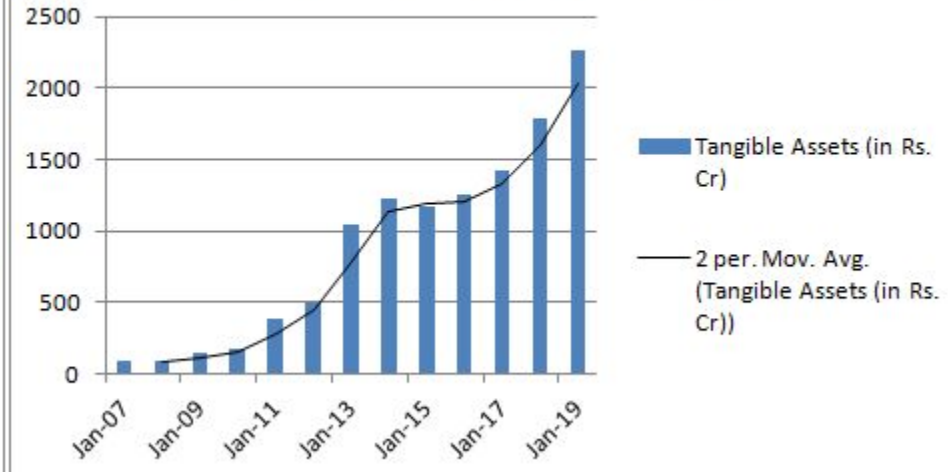




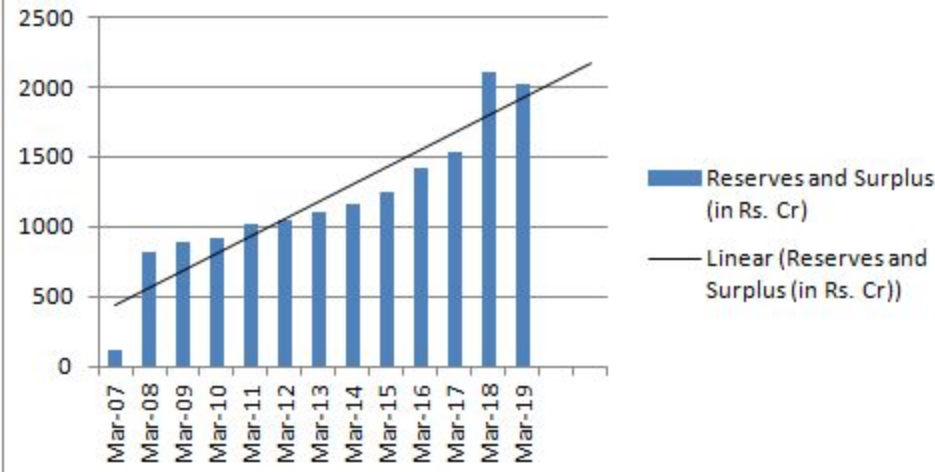
### Long Term Borrowings (in Rs. Cr)



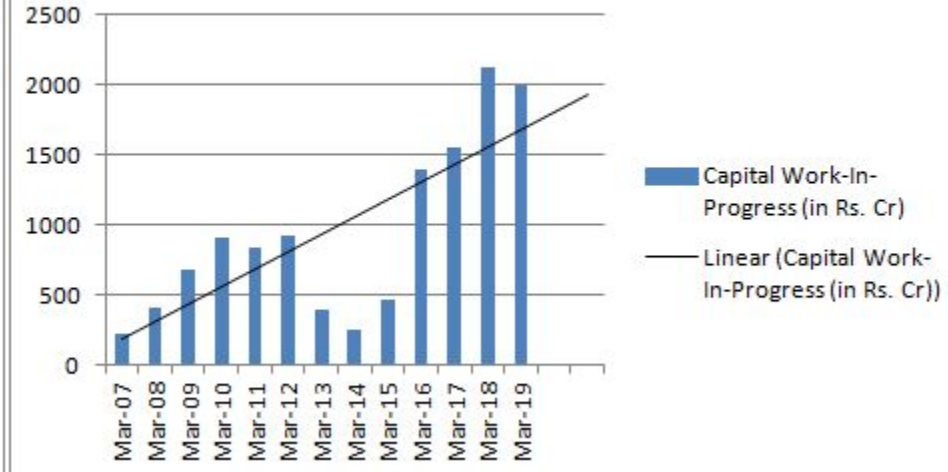
### Tangible Assets (in Rs. Cr)



### Reserves and Surplus (in Rs. Cr)



### Capital Work-In-Progress (in Rs. Cr)

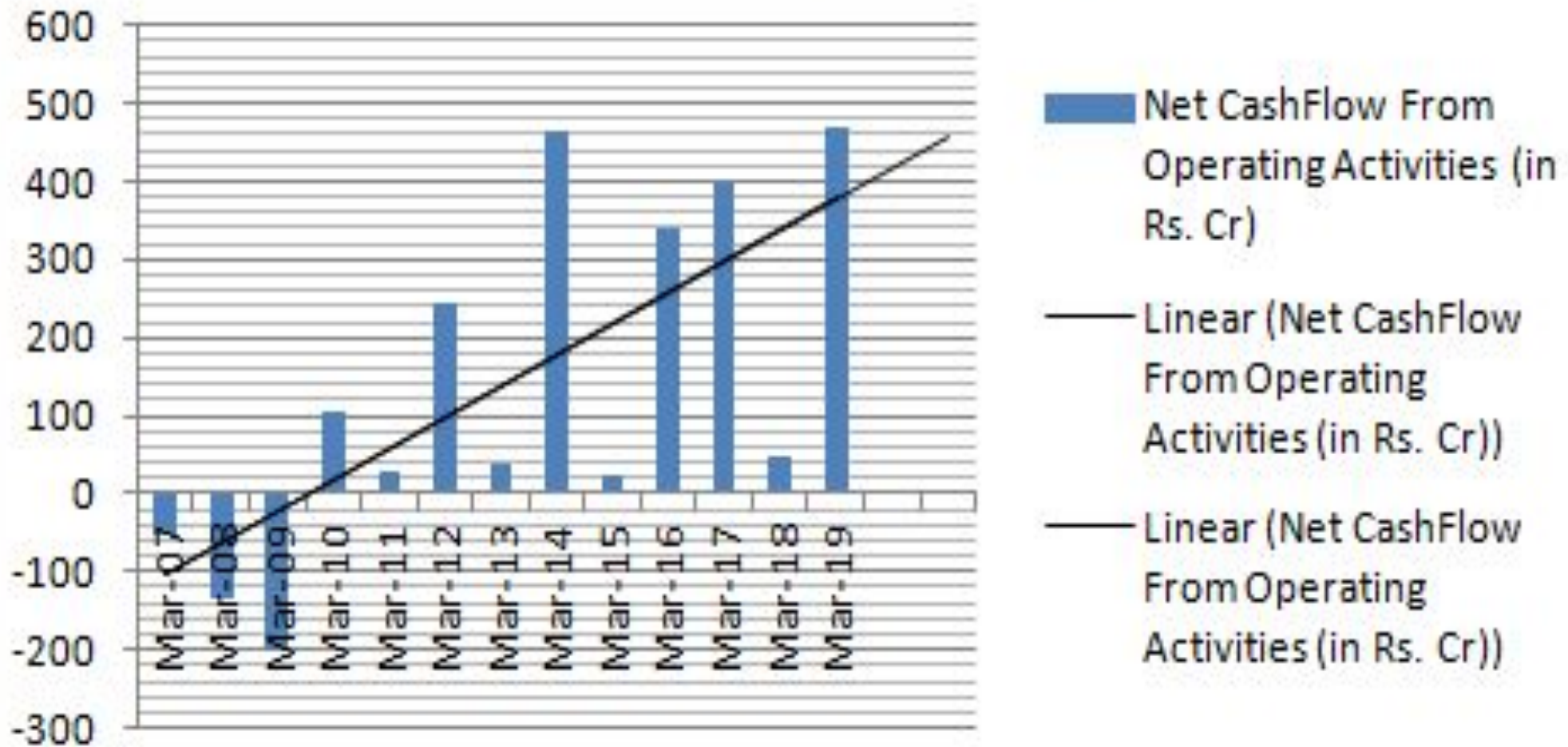


# Cash Flow Statement

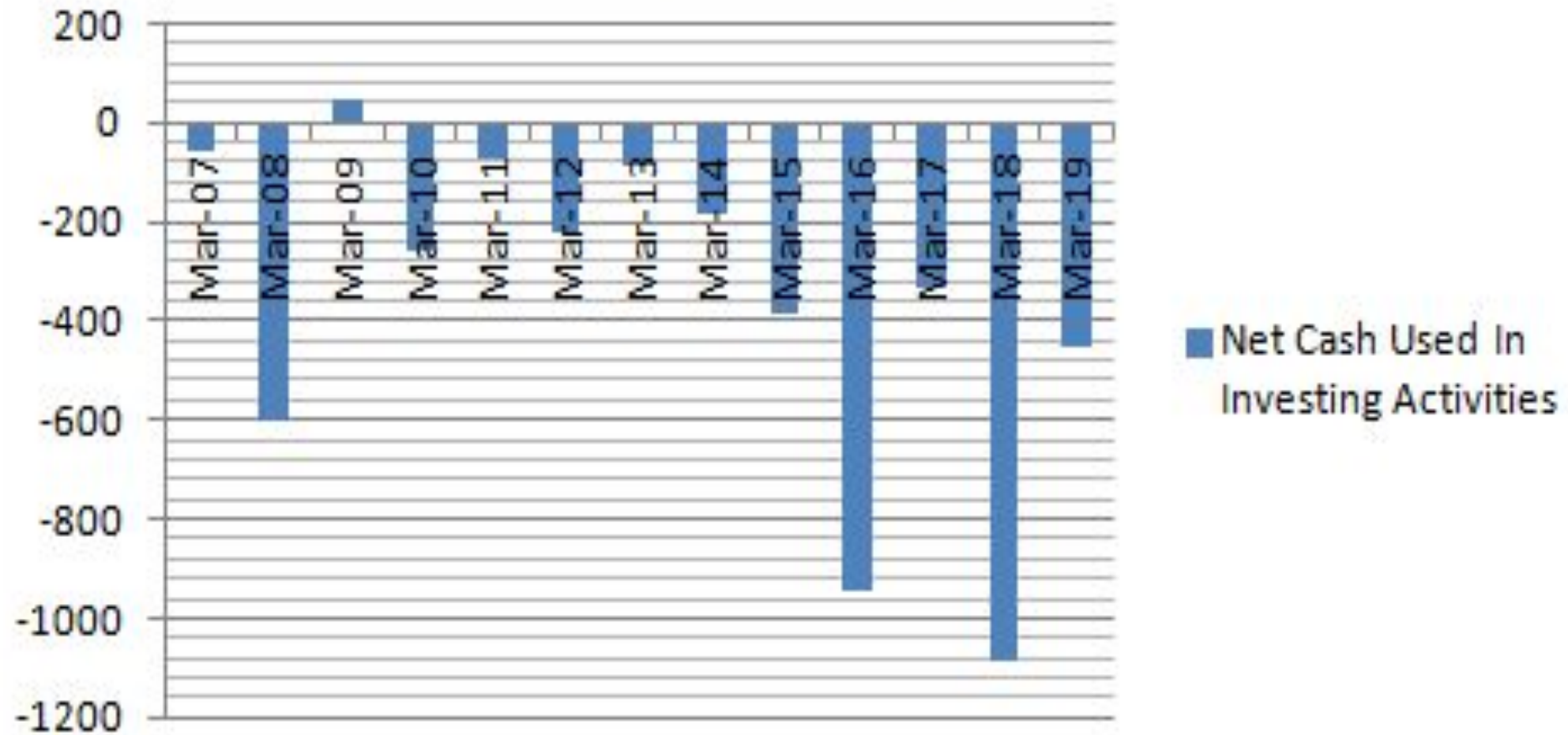
- Cash flow from operations have been inconsistent
- Linear forecast of cash flow from operation of 13 years show a consistent growth
- Cash flow from investing activities averaged over a period of 13 years is negative.
- After reading the statement, the cash flow from investing activities is negative due to heavy costs incurred on investments and tangible assets.
- Cash and Cash Equivalents at the end of the year have consistently risen for the past 13 years.



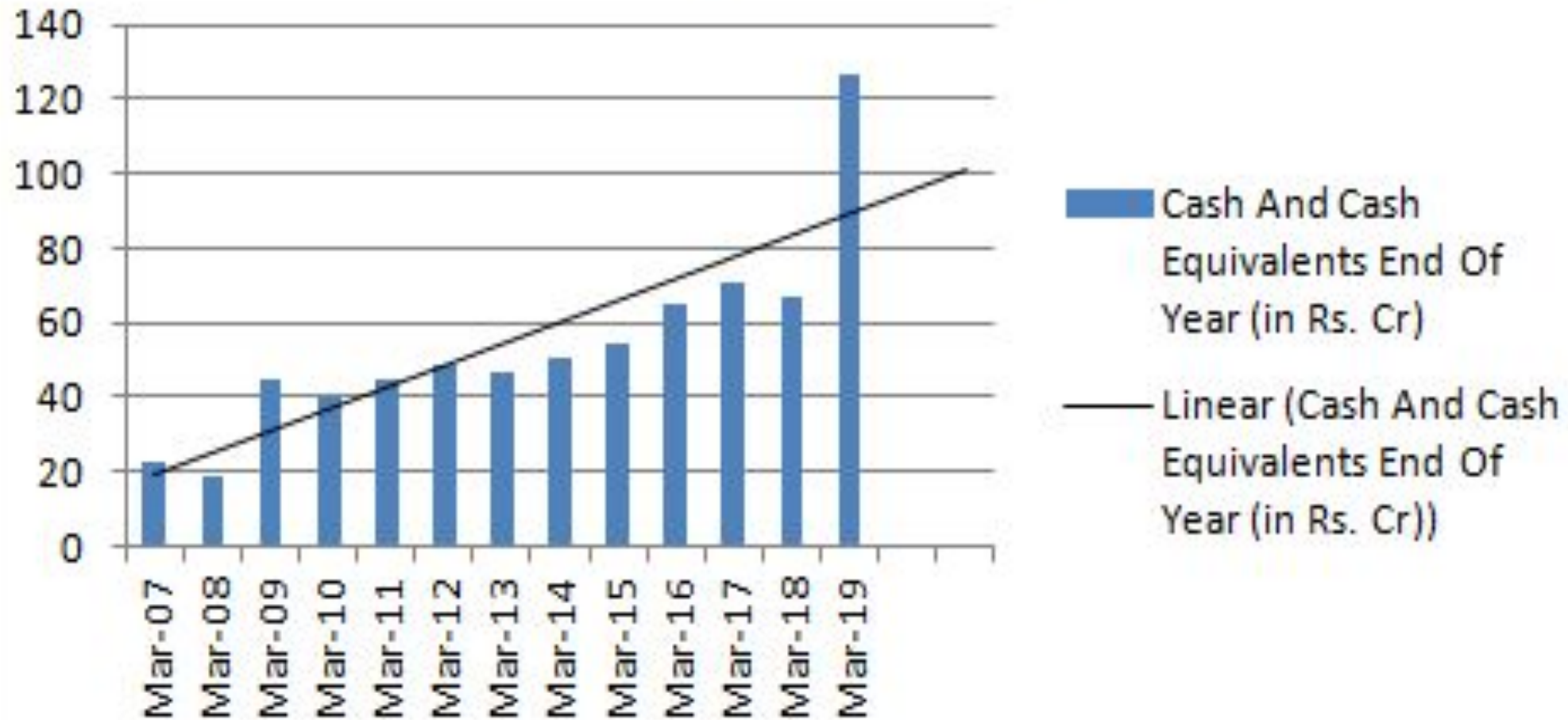
# Net CashFlow From Operating Activities (in Rs. Cr)



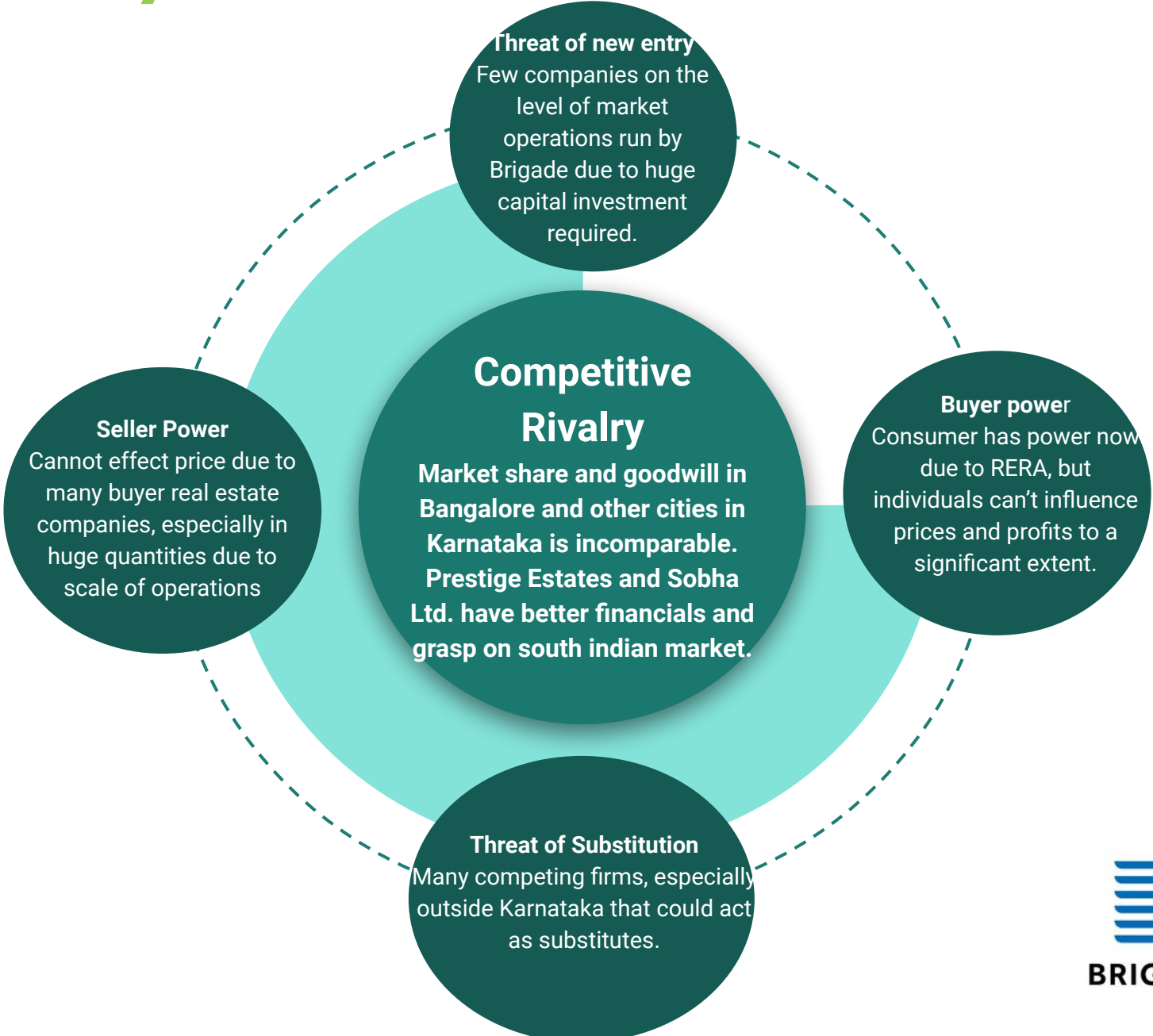
# Net Cash Used In Investing Activities (in Rs. Cr)



## Cash And Cash Equivalents End Of Year (in Rs. Cr)



# Competitor Analysis- Qualitative



# Competitor Analysis- Quantitative

- Main competitors for Brigade in the South Indian real estate market are Prestige and Sobha.
- Market capitalisation of Brigade is 4689 Cr, which although is equivalent to Sobha's 4230 Cr, it does not stand close to Prestige's 15,600 Cr market cap.
- P/E of Brigade is quite low at 18.55 as compared to Prestige's 36.93, but Sobha has the lowest P/E at 12.23. Sobha maintains such a P/E at the price of 450, as compared to Brigade's 229, which shows that Brigade has much lower earnings.
- The earning per share of Brigade and Prestige is quite low at 12 and 10 Rs, but Sobha has an EPS of 36.49, which is triple the EPS of Brigade.
- Dividend % of earnings of Brigade is 20 and Prestige 15. While Sobha gives a whopping 70% dividend to shareholders.
- Overall, Brigade isn't doing good in comparison, especially to Sobha Ltd.

