

## Brigade Enterprises Ltd.

<b>Price Band</b>	: Rs351 - 390 per share	<b>December 10, 2007</b>
<b>Issue open between</b>	: <b>December 10 - 13, 2007</b>	
<b>Recommendation</b>	: <b>Subscribe with a long term view</b>	
<b>Book Running Lead Managers</b>	: <b>JP Morgan, Enam, ICICI Securities</b>	
<b>To List on</b>	: <b>NSE and BSE</b>	
<b>Market Cap post-listing</b>	: <b>Rs44.2bn or \$1.1bn (based on the cap price)</b>	

**IPO of 19.12mn equity shares of Rs10 each, aggregating to Rs746Cr or \$189mn (at the cap price), including the green shoe option**

### Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue			
			Assuming Green shoe option is			
	No. of shares	% Holding	Not exercised		Exercised in full	
No. of shares			% Holding	No. of shares	% Holding	
Promoters	32,233,134	34.2%	32,233,134	29.1%	32,233,134	28.4%
Promoter Group	32,118,373	34.1%	32,118,373	29.0%	32,118,373	28.3%
Others	29,855,228	31.7%	29,855,228	26.9%	29,855,228	26.3%
QIBs excluding MF	0	0.0%	9,419,090	8.5%	9,419,090	8.3%
Mutual funds	0	0.0%	495,742	0.4%	495,742	0.4%
Non-Institutional Investors	0	0.0%	1,652,472	1.5%	1,652,472	1.5%
Public	0	0.0%	4,957,416	4.5%	4,957,416	4.4%
Green shoe option	0	0.0%	0	0.0%	2,493,708	2.2%
Employees	0	0.0%	100,000	0.1%	100,000	0.1%
<b>Total</b>	<b>94,206,735</b>	<b>100.0%</b>	<b>110,831,455</b>	<b>100.0%</b>	<b>113,325,163</b>	<b>100.0%</b>

### Recommendation - Subscribe with a long term view

- Brigade Enterprises Ltd. (BEL), a Bangalore-based real estate company, is focused on development of residential, commercial and hospitality properties in South India.
- It is one of the early developers to introduce the innovative concept of lifestyle enclaves in Bangalore. Lifestyle enclaves provide all facilities along with basic accommodation. This segment is likely to contribute to major revenues, going forward.
- Its land bank of 403 acres, spread across 7 cities in South India, translates into a developable area of 44mn sq. ft. due to FSI benefit. The land bank will increase to 445.3 acres post-IPO, through acquisition of additional land in Bangalore and Kerala. However, it would still be much smaller vis-à-vis players like Puravankara Projects and Kolte-Patil Developers.
- Order book of ongoing projects of 12.5mn sq. ft. of developable area, likely to get completed by FY09. The breakup of its order book is as follows: 59% residential, 35% commercial and 6% hospitality projects.
- Going forward, the main concern would be the timely execution of the order book. In order to ensure timely execution, BEL has tied up with reputed contractors to whom the construction activities are outsourced.
- 91% of the IPO proceeds shall be utilized to construct and develop ongoing and forthcoming projects. Rest of the proceeds will be for acquiring additional land.
- BEL has managed to grow topline and bottomline at a CAGR of 70.2% and 88.1% respectively. EBITDA margin expansion from 18.4% in FY04 to 32.1% in FY07.
- It follows the strategy of selling residential property and leasing non-residential property. This in our view gives more visibility to the revenue streams, as the company will generate revenues from both selling and leasing properties. 40% of the developable area of ongoing projects will generate revenues from lease rentals.
- It plans to expand in other tier 1 and tier 2 cities in India which will help de-risk its business model. Going forward, it plans to develop an SEZ too.

- It has an accounting policy of recognizing revenues on percentage of completion method, as the aggregate of the profits earned on the projects completed/under completion and the value of construction work done during the period.
- We compared BEL with Kolte-Patil and Puravankara, the real estate companies which recently went public. Following are our comments (Refer comparatives on Pg.6)
  - very low land bank compared to Kolte-Patil, Puravankara and other listed real estate players.
  - In spite of Bangalore being an IT city, BEL's revenues from IT parks is too minimal.
  - higher tax provision of 32% compared with Kolte-Patil of 22.8% and Puravankara of 11.8% in FY07.
  - very low PAT margins of 17.4% (Kolte-Patil 36.3% and Puravankara 31.3% in FY07), because of higher interest expenditure and tax provisions.
  - The debt equity ratio is on par; however, post-issue, the debt-equity ratio would be 2.06.
  - BEL has a price/NPV of 0.99x per share compared to peers – Puravankara 1.06x and Kolte-Patil 0.77x.
- IPO valuation at 41.5x FY08E and 20.2x FY09E is in line with peers (Sobha developers at 19.4x FY09E, Kolte-Patil at 6.9x FY09E and Parsvanth developers at 7x FY09E). NPV valuation is Rs 394 per share, translating into price/ NPV multiple of 0.99x. We recommend subscribing with a long term view.

#### Company & Promoter Background

BEL was established as a partnership firm by Jaishankar and Gita Shankar in 1990. Its became a private limited company in 1995. The status of company was changed to a public limited company in June 2007.

Jaishankar, Chairman, MD and promoter has over 2 decades of experience in real estate development.

#### Industry Overview

The real estate sector in India is on high growth path. Several government initiatives have contributed to this high-growth environment namely liberalization of FDI norms in real estate in 2005, introduction of the SEZ Act, allowing private equity funds into real estate and repeal of Urban Land Ceiling Act. Real estate industry is cyclical in nature.

#### Real estate market in Bangalore

Bangalore is defined as the Silicon Valley of India. The unprecedented boom of the early 1980s saw the real estate market turn topsy-turvy. But such a vertical growth oriented market cycle could not be sustained indefinitely. And so it proved, with a drastic reversal in the late 80s. The following years, all the way till the late 90s were not easy for the real estate sector.

Today, most if not all commercial space in the central business district has been taken up. The demand is towards suburbs and is IT driven. The emphasis will be to build-to-suit projects with a minimum lead time, and those who are geared up to service this trend will reap major gains.

#### Overview of Operations

BEL is focused on development of residential, commercial and hospitality projects.

Lines of business	
Residential	Integrated lifestyle enclaves and apartment buildings
Commercial	Commercial office space, software, IT parks, schools, hospitals and retail space
Hospitality	Serviced residences, hotels, resorts, spas, recreational clubs and convention centers

## Subsidiary

To focus exclusively on the hospitality operations, BEL has created a 100% subsidiary Brigade Hospitality Services Pvt. Ltd (BHSPL) in 2004.

It operates this through the brand 'Brigade Homestead'. It operates service residences, hotels and resorts through arrangements with international hotel operators, such as Starwood, Inter Continental, Banyan Tree and Accor.

## Revenue-Mix

	FY05	FY06	FY07
Residential	79.8%	80.6%	90.6%
Commercial	7.2%	0.5%	0.4%
IT parks	7.8%	10.8%	3.8%
Hospitality	4.4%	5.7%	3.0%
Retail	0.8%	2.4%	2.2%

## Land Reserves

Broadly classified into land for ongoing and forthcoming projects.

### As on November 2007

City	Land Area		Developable Area		Saleable Area	
	mn sq ft	% of aggregate area	mn sq ft	% of aggregate area	mn sq ft	% of aggregate area
Bangalore	9.94	56.5	33.41	75.7	26.3	73.7
Mysore	3.28	18.7	6.96	15.8	6.07	17.0
Mangalore	1.31	7.5	3.04	6.9	2.78	7.8
Chennai	0.06	0.3	0.29	0.7	0.14	0.4
Hyderabad	0.06	0.3	0.16	0.4	0.08	0.2
Chickmagalur	2.14	12.2	0.2	0.5	0.2	0.6
Kottayam	0.79	4.5	0.1	0.2	0.1	0.3
<b>Total</b>	<b>17.58</b>	<b>100.0</b>	<b>44.16</b>	<b>100.0</b>	<b>35.67</b>	<b>100.0</b>

### Mix of various projects (as on Nov 2007)

#### Completed projects

	No. of Properties	Developable Area (mn sq. ft.)	% of property type	Saleable Area (mn sq.ft.)	% of property type
Residential	41	4.79	71.1%	4.23	74.6%
Commercial	21	1.72	25.5%	1.21	21.3%
Hospitality	5	0.23	3.4%	0.23	4.1%
<b>Total</b>	<b>67</b>	<b>6.74</b>	<b>100.0%</b>	<b>5.67</b>	<b>100.0%</b>

#### Ongoing Projects

	No. of Properties	Developable Area (mn sq. ft.)	% of property type	Saleable Area (mn sq.ft.)	% of property type
Residential	12	8.36	60.4%	7.34	58.6%
Commercial	0	4.68	33.8%	4.41	35.2%
Hospitality	2	0.8	5.8%	0.78	6.2%
<b>Total*</b>	<b>16</b>	<b>13.84</b>	<b>100.0%</b>	<b>12.53</b>	<b>100.0%</b>

\* includes 2 lifestyle enclave projects namely Brigade Metropolis and Brigade Gateway with a combined developable area of 11.89mn sq. ft and combined saleable area of 10.83mn sq. ft.

### Forthcoming Projects #

	No. of Properties	Developable Area (mn sq. ft.)	% of property type	Saleable Area (mn sq.ft.)	% of property type
Integrated lifestyle enclaves	4	15.14	49.9%	10.95	47.3%
Residential	16	8.61	28.4%	6.24	27.0%
Commercial	9	5.77	19.0%	5.15	22.3%
Hospitality	5	0.8	2.6%	0.8	3.5%
<b>Total</b>	<b>34</b>	<b>30.32</b>	<b>100.0%</b>	<b>23.14</b>	<b>100.0%</b>

# Properties that are in planning stage, where approvals are in the process of being obtained but construction has not begun yet.

### Investment view

#### Strengths

- Experienced management team
- Operates in multiple real estate business namely residential, commercial and hospitality.
- Innovative projects. In Bangalore, it was one of the early developers of integrated lifestyle enclaves.
- Established brand for real estate in Bangalore
- Global clientele includes Cisco Systems, Mahindra Engineering, Mindtree Consulting, Spice Communications and Tata Coffee

#### Distinct business model

- It outsources construction activities and design, which helpsto reduce operation costs and capex. For a few projects, it has tied up with a US-based real estate consultancy firm. It has entered into tie-ups with architects and reputed contractors like Shapoorji.
- It does not award turnkey projects. Instead, it does procurement of raw materials like cement and steel. This ensures quality in projects.
- It has a large team engineers and architects to oversee development of projects.
- Mixed strategy of building and selling real estate properties as well as leasing commercial properties.

#### Strategies

- Focus on hospitality segment. It intends to set up food courts and mall management operation by entering into agreements with Starwood, Inter Continental, Accor and Banyan Tree. Going forward, this segment shall constitute a substantial proportion to the total income.
- Expansion into various cities in South India. It is in the process of acquiring additional land in various cities such as Chennai, Chickmagalur, Hyderabad, Kochi and Mangalore.
- Focus on outsourcing to scale operations and reduce capital investments.
- Focus on development of lifestyle enclaves. This segment will help to get more revenues.

#### New projects to add value

	Brigade Gateway	Brigade Metropolis
Project type	Lifestyle enclave	Lifestyle enclave
Year of development	FY05	FY05
Year of commencement	FY09	FY09
Developable area (mn sqft)	7.23	4.66
Flats pre-sold (Nov 2007)	75%	67%

## Concerns

- 74.6% of the land bank located in Bangalore which exposes them to single city risk.
- Compared to other real estate players, it has got a very small land bank. Going forward, if it plans to increase the same, it will have to incur high costs to acquire quality space.
- Timely execution of the ongoing and forthcoming projects is a concern.
- It has a mixed strategy of selling residential real estate properties as well as leasing commercial properties. A decision to lease rather than sell any property would reduce cash flows in the short term and increase the number of periods over which cash would be recovered from such properties.
- Increasing cost of construction materials like steel, cement, etc is likely to affect margins.

## Project Cost

Particulars	Total cost	Amount paid as in Nov 2007	Balance payable	To finance from IPO proceeds	Balance to be funded	Utilisation of proceeds		
						FY08	FY09	FY10
Land acquisition	135.61	87.64	47.97	47.97	0.00	47.97	-	-
Develop Ongoing Projects	1129.55	126.09	1003.46	512.04	491.42	373.29	105.00	33.75
<b>Total</b>	<b>1265.16</b>	<b>213.73</b>	<b>1051.43</b>	<b>560.01</b>				

## Means of Finance

It will be funded from IPO proceeds. Out of balance amount to be financed of Rs491.42Cr, Rs343.01Cr shall be funded through debt. Further shortfalls, if any, shall be met by internal accruals.

## Keynote Capitals's Earning estimates & valuations

	FY08E	FY09E
Sales (RsCr)	697.10	1096.08
Net Profit (RsCr)	106.40	218.71
EBITDA margin	31.2%	32.7%
EPS (Rs)	9.39	19.30
P/e (x)	41.5	20.2

## NPV valuation

(RsCr)

Residential (ongoing)	616.20
Residential (forthcoming)	1224.12
Commercial (ongoing)	1169.08
Commercial (forthcoming)	1203.91
<b>Total present value</b>	<b>4213.31</b>
(-) Debt	308.85
(-) Advances	192
(+) Cash	6.99
(+) IPO Proceeds	746
<b>NPV after adjustments</b>	<b>4465.45</b>
No. of shares	11.33
<b>NPV per share (Rs)</b>	<b>394.04</b>
Cap price (Rs)	390
<b>Cap price to NPV</b>	<b>0.99</b>

**Valuation table**

	Parsvnath	Sobha Developers	Kolte-Patil	BEL
EPS FY08E (Rs)	29.65	33.30	12.29	9.39
EPS FY09E (Rs)	54.40	46.08	20.95	19.30
P/E FY08E (x)	13.4	26.9	11.8	41.5
P/E FY09E (x)	7.3	19.4	6.9	20.2

**Industry Comparison**

(RsCr)

Company Name	Parsvnath Devp.	Sobha Devp.	Puravankara Projects	Kolte-Patil	BEL
Land bank (acres)	N.A.	3500	3456	1254	403
Developable area (mn sq ft)	160	137	107	39	44
Sales Turnover	1441.31	1248	416.86	230.28	411.21
Adjusted Net Profit	371.51	204.60	130.4	83.56	71.50
Paid-up Equity cap.	184.70	72.90	106.74	75.25	113.33
Price (7-Dec-2007)	382	909	450.05	145.00	390
Market Cap	7053	6628	9608	1091	4420
EPS (Rs)	20.11	28.07	6.11	14.86	26.56
Book Value (Rs)	79.19	111.87	50.03	32.13	54.36
P/E (x)	19.0	32.4	73.7	9.8	14.7
P/B (x)	4.8	8.1	9.0	4.5	7.2
P/S (x)	4.9	5.3	23.0	4.7	10.7
EBITDA margin	34.1%	24.6%	32.0%	40.1%	32.1%
52 Week High (Rs)	545	1179	509	-	-
52 Week Low (Rs)	222	620	348	-	-
FVPS (Rs)	10	10	5	10	10

FY07 consolidated numbers except TTM for Parsvnath and Sobha  
BEL includes green shoe option

**BEL vis-à-vis real estate companies which recently went public**

	Puravankara	Kolte-Patil	BEL
Year of Inception	1986	1991	1990
Project Portfolio	Residential, Commercial	Residential, Commercial, townships, IT parks	Residential, Commercial, Hospitality
Land Bank (acres)	2456	1254	403.45
Major concentration of land bank	78% Bangalore	92% Pune	75% Bangalore
Saleable area (mn sqft)	107	39	36
EBITDA margin	32.0%	40.1%	32.1%
Tax Provision	11.7%	22.8%	32.0%
PAT margin	31.3%	36.3%	17.4%
Debt-equity ratio	1.46	0.82	1.64
ROE	58.2%	46.2%	48.9%

Financials are as of FY07 except the recently available data points

# KEYNOTE

## Consolidated Profit & Loss Statements

(RsCr)

For y.e.	31.03.04	31.03.05	31.03.06	31.03.07	30.09.07
Contract & Other receipts	83.44	164.12	203.87	411.21	228.73
<b>Expenditure</b>					
Project Exps	54.87	110.58	115.93	227.15	110.45
Personnel Exps	3.24	5.24	9.70	18.26	14.97
Admin and Selling Exps	10.12	15.89	15.90	34.01	15.13
<b>Total Expenditure</b>	<b>68.23</b>	<b>131.72</b>	<b>141.52</b>	<b>279.42</b>	<b>140.55</b>
<b>EBITDA</b>	<b>15.21</b>	<b>32.40</b>	<b>62.35</b>	<b>131.80</b>	<b>88.18</b>
Interest	1.89	6.07	9.66	16.56	17.25
<b>PBDT</b>	<b>13.32</b>	<b>26.33</b>	<b>52.69</b>	<b>115.24</b>	<b>70.92</b>
Depreciation	1.20	4.16	5.84	10.04	4.84
<b>PBT</b>	<b>12.12</b>	<b>22.17</b>	<b>46.85</b>	<b>105.20</b>	<b>66.08</b>
Current tax	-1.303	-3.41	-4.11	-34.74	-22.00
Deferred tax	-0.05	0.96	-0.64	1.24	-0.02
FBT	0	0.00	-0.12	-0.21	-0.09
<b>Profit before EO</b>	<b>10.77</b>	<b>19.72</b>	<b>41.98</b>	<b>71.50</b>	<b>43.98</b>
Diminution in value of investments	0	0.00	0.00	-0.26	0.00
Share of associates	-0.035	0.16	0.32	0.26	0.40
<b>Profit after EO</b>	<b>10.74</b>	<b>19.88</b>	<b>42.31</b>	<b>71.50</b>	<b>44.37</b>
<b>EBITDA margins</b>	<b>18.2%</b>	<b>19.7%</b>	<b>30.6%</b>	<b>32.1%</b>	<b>38.6%</b>
<b>NPM</b>	<b>12.9%</b>	<b>12.1%</b>	<b>20.8%</b>	<b>17.4%</b>	<b>19.4%</b>
<b>EPS (Rs)</b>	<b>29.91</b>	<b>18.46</b>	<b>15.72</b>	<b>26.56</b>	
<b>Book value (Rs)</b>	<b>71.91</b>	<b>40.16</b>	<b>29.98</b>	<b>54.36</b>	

## Consolidated Balance Sheets

(RsCr)

As at	31.03.04	31.03.05	31.03.06	31.03.07	30.09.07
<b>Sources of funds</b>					
Share capital	3.59	10.77	26.92	26.92	94.21
Reserves and Surplus	22.22	32.47	53.77	119.39	96.47
<b>Total Shareholders funds</b>	<b>25.81</b>	<b>43.24</b>	<b>80.69</b>	<b>146.31</b>	<b>190.68</b>
Secured loans	28.66	107.16	100.73	240.20	296.67
Unsecured loans	2.40	2.11	1.79	0.00	12.18
<b>Total Debt</b>	<b>31.07</b>	<b>109.27</b>	<b>102.52</b>	<b>240.20</b>	<b>308.85</b>
Preliminary Exp	0.00	0.00	0.00	0.01	1.55
Deferred Revenue Exp	0.00	0.00	0.06	0.99	1.56
<b>Total Liabilities</b>	<b>56.87</b>	<b>152.51</b>	<b>183.15</b>	<b>385.51</b>	<b>496.42</b>
<b>Applications of funds</b>					
Gross Block	20.97	42.72	48.75	104.93	109.66
Less: Depreciation	3.24	5.86	11.64	21.65	26.09
Net Block	17.73	36.86	37.12	83.28	83.57
Capital Work in Progress	10.90	23.30	43.36	47.93	60.77
Investments	0.26	0.44	0.82	1.06	1.46
<b>Curr. Assets, Loans &amp; Adv.</b>					
Inventories	46.11	212.89	268.16	398.62	539.83
Sundry debtors	3.07	9.90	7.80	17.76	13.07
Cash and bank balances	5.33	12.92	21.17	22.47	6.99
Loans and advances	59.65	56.03	80.59	165.81	152.05
<b>Total current assets</b>	<b>114.16</b>	<b>291.74</b>	<b>377.72</b>	<b>604.66</b>	<b>711.94</b>
Current liabilities	84.10	196.13	269.64	317.47	322.99
Provisions	2.19	4.78	6.66	35.63	39.99
<b>Total current liabilities</b>	<b>86.30</b>	<b>200.91</b>	<b>276.30</b>	<b>353.10</b>	<b>362.98</b>
<b>Net current assets</b>	<b>27.86</b>	<b>90.83</b>	<b>101.42</b>	<b>251.56</b>	<b>348.97</b>
Deferred Tax Asset	0.11	1.07	0.43	1.68	1.66
<b>Total Assets</b>	<b>56.87</b>	<b>152.51</b>	<b>183.15</b>	<b>385.51</b>	<b>496.42</b>

**Keynote Capitals Ltd.**

**Member**

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**Ratings structure**

Subscribe & Hold	:	subscribe for listing gains, hold for further appreciation
Subscribe for listing gains	:	expect decent appreciation on listing
Subscribe with a medium term view	:	stock can deliver only over 6-8 months after listing
Subscribe with a long term view	:	value can only be realised over 12-18 months
Await listing	:	good fundamentals; consider valuations on listing

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