

BRIGADE ENTERPRISES LIMITED

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Dear Sir,

Sub.: Transcript of Conference Call on the Company's Q2 FY-17 Earnings - 15th November, 2016

We are enclosing herewith the transcript of the Conference Call on the Company's Q2 and half year ended financial results for the financial year 2016-17 held on Tuesday, 15th November, 2016.

Kindly take the same on your records.

Thanking You,

Yours faithfully,

For Brigade Enterprises Limited

P. Om Prakash

Company Secretary & Compliance Officer

Encl.: a/a.



“Brigade Enterprises Limited Q2 FY-17 Earnings Conference Call”

November 15, 2016



**MANAGEMENT: MR. M. R. JAISHANKAR – CHAIRMAN AND MANAGING
DIRECTOR, BRIGADE ENTERPRISES LIMITED
MR. SURESH KRIS – EXECUTIVE DIRECTOR AND CHIEF
FINANCIAL OFFICER, BRIGADE ENTERPRISES LIMITED
MR. OM AHUJA – CHIEF EXECUTIVE OFFICER-
RESIDENTIAL, BRIGADE ENTERPRISES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY17 Earnings Conference Call for Brigade Enterprises Limited. We have with us on the call today Mr. M. R. Jaishankar – Chairman and Managing Director; Mr. Suresh Kris – Executive Director and CFO and Mr. Om Ahuja – CEO-Residential. As a reminder, all participants’ lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. M. R. Jaishankar – Chairman and Managing Director. Thank you and over to you, sir.

M R Jaishankar: Good afternoon, ladies and gentlemen. Welcome you all to this analyst call subsequent to announcement of our Q2 results. And I am happy to say the Q2 results as compared to Q1 the previous quarter are quite healthy. The revenues has gone up to Rs. 459 crores as compared to Rs. 466 crores previous quarter. I know there is a decrease of 2%, but the EBITDA has gone up to Rs. 137 crores as compared to Rs. 124 crores that means an increase of 10%. The margin has improved slightly from 26.7% to 30% Profit before tax has also improved significantly to Rs. 46 crores as compared to Rs.34 crores in the previous quarter and profit after tax is Rs. 30 crores as compared to Rs.22 crores in the previous quarter, a significant increase of 36%.

And of course if you compare with six months of FY 2016 there is a decrease in results and that of course our CFO will explain to you and everybody will be keen to know Brigade Group’s reaction on demonetization. Firstly, without hesitation and vehemently I would like to say Brigade Group welcomes the demonetization of Rs. 500 and Rs. 1000 currencies and the government’s intention is laudable and I am sure it will have a positive impact on the economy in the time to come.

Yes, there will be definitely some inconveniences to people and it may even affect certain businesses, a lot is mentioned in the media about its impact on real estate. I am not saying no it will, it may happen and it is likely to happen and the stock market has also adversely reacted in general and real estate in particular. But I think these are all things which I think the industry should take in its stride and as Brigade Group will take in its stride and this is I would say it is a game changing decision by the government and in the long-term interest of the country. So though it may affect in some cases, we should not hesitate to welcome the move. But as far as real estate is concerned there are also other major changes, legislative changes like Real Estate Regulatory Development Act (RERA) that also is a matter within once it is going to be implemented, and the expected date is 1st May 2017.

The Karnataka Government has already announced the rules and the discussions with the government are in progress. So it is a matter of time before it becomes applicable. We are with or without RERA by and large we are compliant to the requirements of RERA. We need to gear up a little bit more and our team is definitely working towards that. Then of course the major legislative change of GST is there that is also a very welcome move. Like

demonetization during the process of when it is introduced there is definitely likely some sectors may get impacted that is during the change period there will be lot of confusion, chaos all those things cannot be wished away.

And I think the best way is to face it and gear up to the challenges all these three major initiatives of the government whether it is GST or RERA or the demonetization is going to throw challenges. Accept the challenges and work towards facing those challenges is our policy. And towards that our team is fully geared up and we are confident of meeting this challenges in months ahead. So over to Suresh CFO and also Om Ahuja – CEO-Residential is here we will all be happy to answer your queries to the best of our abilities. And one last thing, I would like to say not to shy away from real estate stocks or real estate companies and this is shelter is the very basic need and it is a matter of time the industry will bounce back in a much bigger way. Thank you.

Suresh Kris:

Before we go and answer to the questions it is my duty to give explanation on our Investor presentation which we gave. It is very general answers before you ask us specific questions because this may answer some of the few questions you have in your mind. Even though the total turnover is around Rs. 925 crores versus Rs. 915 crores half year, because I would like to answer for half year to half year comparison instead of quarter to quarter because there are so many changes and then normally we cannot go and equate like a manufacturing company where it is sale purchase and trading of goods like that. Here it is based on the revenue recognition it may fluctuate. So at least we can go and compare especially the full year if it is not possible then at least year-to-date. So for about six months it is more or less equal may be 1% higher than the last year and when you see the profit before tax it is about Rs. 80 crores vis-à-vis Rs. 104 crores.

As I mentioned in the morning interview I mean there are certain few items which we have taken a one-time hit which is about Rs. 32.7 crores for half year and about Rs. 21.2 crores for Q2. This one-time hit may be like loss on sale of assets discarded assets, donation and interest cost which has come for the hotel and the commercial projects., I mean it has been capitalized during last year and have been charged to P&L during current year because they are operational now. So the depreciation is charged whereas it was not there earlier.

So this is about Rs. 32.7 crores for this six months. And then I mean if you go and calculate this then the profit before tax would have been 8% higher than the previous half year. It would be Rs. 112.9 crores and the profit after tax would have been 15% higher instead of 20% lower than last year. And we have the total unrecognized revenue of about Rs. 5,700 crores which I will explain to you later.

And we are publishing the results in **IND AS**, the effect of joint development agreements on revenue is Rs. 102 crores for six months and Rs. 41 crores for the quarter. Otherwise there is no big difference between the profitability of IND-AS as well as IGAAP anyway this has been given in our presentation. And I also mentioned that I mean there are certain expenses

which will go and affect the segmental profitability because earlier the interests or depreciation would not have been charged in hospitality and lease rental business. Now it has been charged hence the profitability of these two segments would have come down, whereas for the real estate projects would have been I would say slightly higher because of the good product mix which yields higher profitability.

As far as the cash flow and direct method is concerned, we have the net operating cash from the activities about I would say surplus is about Rs. 107 crores and the total receipt is about Rs. 517 crores majority is from real estate it is Rs. 408 crores and the lease rental about Rs. 76 crores and about Rs. 33 crores from hospitality. So this is the main contributor of the cash flow and our debt-to-equity ratio on a consolidated basis is 0.92 compared to 0.98 last time because of loan repayment and again availment at the lesser rate plus the profit contribution for the half year like that. And our average borrowing rate is 10.6% compared to 10.7% last quarter and then when we compare the same period last year it is September 2015 it was 11.2% and we enjoy the same rating that is A rating both from CRISIL as well as from ICRA.

The sales performance is around 1 million square feet for six months. I think may be around 28% lesser compared to the same period last year whereas the average realization has gone up it is around Rs. 5,700 compared to about Rs. 5,500 last year. And we have also given the total project analysis. We are developing around 19 million square feet, out of which around 17.35 million is an ongoing project and about 1.3 million square feet is our commercial capex project and balance **0.49 million is hospitality project.**

Then the total ongoing residential project of our share is about 15.14 million square feet of which we have sold close to around 7.89 million square feet balance to sell is about 7.25 million square feet. The total value of launch project is about Rs. 8,000 crores out of which more than Rs. 4,000 crores has been already sold out I mean close to Rs. 4,000 crores at the current value is there out of which we have now collected around Rs. 2,800 crores so far. So balance to be collected on the launched project is around Rs. 5,200 crores. Out of this sold project we have so far recognized around Rs. 2,300 crores as per the percentage completion. So the balance unrecognized revenue as of date is Rs. 5,700 crores over a period of three years. The gross operating cash flow is around Rs. 2,800 crores on the launched project. This is our total cash flow before the borrowing even when you go and deduct it, then it is around Rs. 1,700 crores pre-tax.

And out of the total leased area of both 2.16 million square feet close to around 2 million square feet has been leased out very few are there to be leased. Based on the hospitality side we have good occupancy rate again both from Grand Mercure as well as from Sheraton Grand. They are around 75% during this half year for Grand Mercure and 82% for Sheraton Grand. And our third hotel Grand Mercure Mysore it is in operation the asset has to also get stabilized. Maybe in Q4 onwards we will be able to have those data to be shared.

And total CAPEX commitment out of the total estimated CAPEX of about Rs. 868 crores we have incurred close to Rs. 485 crores. Balance Rs. 383 crores has to be spent in about one to one-and-a-half years' time. As far as our land bank is concerned, we have about 541 acres of land costing Rs. 1,785 crores out of which Rs. 1,335 crores has been paid out. So balance Rs. 450 crores is there. Majority of it is for the residential as well as commercial sale purpose close to around 387 acres and balance is for commercial lease, retail and hospitality projects. The total developable area is about 50 million square feet out of this 541 acres out of it our share is about 37 million and predominantly about 26 million is for the real estate sector. Out of this predominantly it is in Bangalore, next is in Chennai.

We have plan to launch for about 4 million square feet, out of which our share is around 2.5 million square feet which is for whatever real estate project which is meant for sale and about 2.69 million square feet of commercial projects out of which our share is 1.77 this is what we have planned. And then which may undergo some changes due to the present condition but again predominantly we will be able to launch maximum during this year. Again regarding the demonetization whatever total effect has to be seen but as and where the industry as well as Brigade is concerned even Brigade is also one of the participant into this fraternity so we cannot escape from our negative news on this. But again effect would also depends on the business model in which the company operates. Obviously there is no change even prior to demonetization or after that for Brigade Group because we are in to the same business model.

And again, price correction may happen only for the finished inventory of any unorganized market if any and again this will also depend on the business model. And the effect could be there for the land purchase are for the second sales, not for the primary sales of the amongst the developers. And I think correction maybe felt due to the high ticket I mean for predominantly when the stocks are on to those kinds of prices like Rs. 2 crores like that. And then I think there could be some kind of price correction but into the midterm as well as long term there is a company who are a bit high corporate governance and the company will be able to flourish.

So I think with this I wanted to conclude my explanation on the financials and if you have any other queries, you are free to ask.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Adhidev Chattopadhyay from Elara Capital. Please go ahead.

Adhidev Chattopadhyay: I have few questions. Firstly on your residential business. From the light of this demonetization so would you like to revise your guidance value of the lower and upper range for the volumes you target for this year which was 3 million square feet I believe earlier?

- M R Jaishankar:** I think it is too premature to see the impact of the demonetization of course the media will as usual blow things out of proportion and I think the best thing is before we either increase or decrease the guidance value it is best just to wait and watch for at least till 31st December if not little bit more. After 31st December we will see the true impact of the demonetization.
- Adhidev Chattopadhyay:** Okay but just to get an understanding prior to demonetization coming through so how has the festive season overall in terms of, did you see an improvement over last year or can you just give us a sense how the overall market mood was prior to this?
- M. R. Jaishankar:** See generally I think even during the last quarter analyst calls also we mentioned, that from I would say September, October of last year 2015 to now, the sentiments are not great. It is while the business I would say has dropped across real estate and particularly in Bangalore maybe to the extent of anywhere between 20% to 30% if not more depending on company to company and primarily we are talking about residential business. And the same thing is likely to happen or continue for the next three to six months but one thing positive thing we may expect from demonetization is once the government collects whatever lakh crores whether five or six or seven lakh crores we will all come to know only after 31st December.
- The banks will be flush with funds and it is in my opinion within six months if not earlier the interest rates are likely to drop by at least 100 basis points in which case it will have a positive impact on every industry including real estate industry.
- Adhidev Chattopadhyay:** Sure sir, fine. The second question is on the rental business we had done around Rs. 124 crores of top line in for the first half. So will you expect similar performance in the second half or you are seeing some uptick in the rental income and from which properties it would come in that case?
- M. R. Jaishankar:** I expect a slight uptick in that primarily because the World Trade Center, Kochi also stabilized rentals that will happen, though I may not have till the last square foot correct info. And also the Orion East Mall in Bangalore also will add some rental and our other two buildings which are recently completed the Nalapad Brigade Center and the Bhuvalka Icon they are also likely to contribute to some additional rental. Overall I would say H2 will have improved rental business.
- Adhidev Chattopadhyay:** Sir, lastly on the hotel business just wanted to understand how should we read the cash flow and the EBITDA which we have reported for this first half compared to last year and going ahead for this year and next year how do you see the business shaping up considering that we will have three hotels up and running by in another 12 months yes?
- M. R. Jaishankar:** Suresh will give you figures I am also happy to say that our fourth hotel also will become operational in Q4. We have received all the completion certificates and other permissions required so we are just gearing up to officially launch the hotel sometime in January. But that is the Holiday Inn Chennai and it is called Holiday Inn OMR IT Expressway. I must clarify

that there is a Holiday Inn Express on OMR which is about ten to fifteen kilometers away. That Holiday Inn Express is a three-star hotel, whereas our Holiday Inn is five-star hotel.

Adhidev Chattopadhyay: Okay just on the hotel, how we should read EBITDA means what one offs were there and how do you see it shaping up for next?

Suresh Kris: Total EBITDA for this first six months is around Rs. 14 crores which also includes the non-performance during the same six months or three months of GMM Mysore that is Grand Mercure, Mysore whereas last year it was around Rs. 40 crores to Rs. 50 crores last year. So during 2017-18 or I think in 2018-19 which you are asking that time we will be having five hotels. So the minimum EBITDA will be close to around Rs. 80 crores to Rs. 100 crores during this period. This is minimum.

Adhidev Chattopadhyay: So this is the reported EBITDA right, what we represent in the presentation on?

Suresh Kris: Correct, otherwise even with two hotels it could be around Rs. 50 crores to Rs. 60 crores per annum and then when we are now talking about 2017-18 or again 2018-19 for the full year basis with all five hotels which are in operation with Mercure it will be minimum of Rs. 100 crores.

Adhidev Chattopadhyay: Okay, sir then just to give a sense on our Bangalore hotels operational one, so how has the third quarter the start wind and heading into the wedding season how is the pipeline?

M. R. Jaishankar: Hotel?

Adhidev Chattopadhyay: Yes.

M. R. Jaishankar: No, I think Q3 receive whatever has been in our budget, when we are doing above budget to the extent of 4% to 5% so far and I think the hotel team will meet their budget as projected.

Moderator: Thank you. The next question is from the line of Samar Sarda from Kotak Securities. Please go ahead.

Samar Sarda: My first question is on your land payments for this quarter you paid around about Rs. 70 crores for new land or is this like some existing land payments you have done?

Suresh Kris: We are allotted 25 acres of by the State Government for an IT business, office business it is towards that this land payment is given.

Samar Sarda: So you have not added any new land in this quarter because the 5 acres was added in Bangalore also if I compare the land bank across first quarter and second quarter but the payment you are referring to is more of the KIADB land which was allotted to you?

- Suresh Kris:** That is 536 acres was there in the last quarter now it is 541 acres and then this about 5 acres is the movement in Brigade Enterprises Limited and then in the BCV Developers some more partially we have advanced. So again for that we have also paid those things and then there could be some kind of consumptions which has happen. But because there is no consumption during in this quarter there from the launches obviously there is no consumption. These are the movements. These includes the cost of stamp duty of this Perungudi land that is Nerolac and Cornerstone Properties like that.
- Samar Sarda:** Alright, now we have not had any launches or completions in the second quarter now some of your launches which was like mentioned got pushed to third quarter and fourth quarter. What is the status of the Chennai launch like would you launch it after 15th of Jan ?
- M. R. Jaishankar:** See currently that is exactly the date we have in mind 15th of Jan. I mean see the plans have been approved but there are subsequent approvals that was a lot of time was taken due to various changes in the administrative personnel and I would say it got over those issues and naturally we have been very keen to launch the Chennai project. It is taken much, much more time than one would have wished and also as you know in Chennai the administrative machines they have come to a standstill in the last couple of months that also has had an impact.
- And two other projects we have soft launched you can say that is the Buena Vista in Bangalore East it is a million square feet residential in the mid-income sector and Brigade 7 Gardens is also in Bangalore South, it is also residential of about 0.8 to 0.9 million of square feet. That also is soft launched. I think we will go for a formal launch in January itself. The work of these two projects has commenced already.
- Samar Sarda:** I have heard about Buena Vista also but somehow it does not show up in your presentation?
- Suresh Kris:** Yes because since it is not formally launched obviously, it will not come into the online projects.
- Samar Sarda:** Okay and it is not in the pipeline as well?
- M. R. Jaishankar:** No, we will go and add into the next quarter.
- Samar Sarda:** Okay and sir on the GST impact, now see stamp duty is a state subject I could not read anywhere like is that going to be changed and again VAT at least in the Western and the Northern markets is on the agreement value whereas in the Southern markets it is separate on construction, your construction agreement is separate. So from a buyers' perspective, once this gets implemented at least from the VAT side should I see a 3% increase in cost?
- M. R. Jaishankar:** See that is the big question mark we have ourselves. Today no consultant is in a position to give you know clarification with 100% certainty. See the way it is as far as the construction

cost I personally expect it to drop the impact of tax to drop by probably 3% to 4% I expect the impact of construction cost to come down. But if the government as per the GST rules if they also add land value into for GST then there could be an increase in the impact to the customer. That I think we will come to know only by maybe month end or subsequently. Currently there is no certainty.

Samar Sarda: Okay and sir any clarity on the stamp duty?

M. R. Jaishankar: Stamp duty is that will certainly continue to the best of our knowledge say 6.8% is the stamp duty incurred and registration charges in Karnataka that will continue.

Samar Sarda: And one final question is on your annuity projects. By when could we see the Brookfield property starting construction?

M. R. Jaishankar: We expect Brookfield property to start by middle of January.

Samar Sarda: And typically it is a big property for us would you usually want to prelease like 25%, 30% before starting construction or would you start construction and then like over the construction period or nearing completion start leasing it out?

M. R. Jaishankar: We will start construction and lease it during the period of completion. That is how we have with few exceptions that is how we have taken up all our annuity projects and we have not regretted for taking up those projects in that scenario. And one thing to be remembered is the Brookfield project is a SEZ project of about 3 million square feet plus of SEZ and plus connected facilities like maybe related offices or professionals and some neighborhood shopping and also serviced apartments to help the occupants of Brookfield and neighborhood. And since there is some set of clause for SEZ by March 2020 our intention and desire is to try and complete it as early as possible in by 2019 itself so that we will be in a position to meet the demand that comes up at that point of time.

Moderator: Thank you. The next question is from the line of Ihab Dalwai from ICICI Prudential. Please go ahead.

Ihab Dalwai: Sir, my question pertains to the finished inventory which is currently valued at Rs. 410 crores. So I just wanted a realistic assumption of how soon do you think you can liquidate this inventory in the current scenario?

Om Ahuja: So finished inventory what we are referring to is primarily inventory in Bangalore city and we have few of the inventories which we are seeing good momentum and South Bangalore is a portion what we are referring to. And that is the inventory we see we have started selling we have seen in this quarter we have seen good momentum. We are targeting by 31 March significant portion of this inventory should be sold. I am referring to Brigade Gardenia and

Brigade Millennium in the presentation what we shared. And with regard to Brigade Meadows and Brigade Exotica again we are seeing a good momentum there.

Ihab Dalwai: But this quarter we were able to sell only Rs. 33 crores worth of inventory?

Om Ahuja: Yes.

Ihab Dalwai: And sir, my second question relates to the leasing portfolio. The EBITDA margin has come off for the console from 72% to 62%. Any particular reason? Is it because of low occupancy in Kochi or what was the reason for that?

Suresh Kris: See I have mentioned during my initial remarks that we have taken some one term hit so we have sold some of the assets of the interiors from the mall side so which is at a last there was a onetime shift to which were taken that is why the EBITDA margin is less.

Ihab Dalwai: And sir, my last question is relating to the micro market where we operate. At what premium is our selling price to be ready reckoner rate currently?

M. R. Jaishankar: Sorry?

Ihab Dalwai: Sir, at what premium is our selling price to be ready reckoner rate in the micro market where we operate?

M. R. Jaishankar: See it is each place it could be different. There is no uniform, I would say in some cases the selling rate may be even 50% minimum to the full guideline here we call it as guideline value which is same as the ready reckoner rate. So in some cases it could be just 10%. So there is no hard and fast rule on that. And in most cases all our projects government has fixed a separate ready reckoner rate for projects for many I would say recognized projects of many developers. So if you take a particular project like say Brigade Millennium the ready reckoner will give a rate for Brigade Millennium which is higher than the neighborhood rates. Similarly for Brigade Gateway or for that matter all our projects without exception.

Om Ahuja: So it is a destination mixture. To answer you the ready reckoner has the Brigade project name specifically written as the guideline value.

Moderator: Thank you. The next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: Most of my questions have already been answered. Just one question on the hospitality assets. So we are planning to have our hospitality assets in to a separate entity. So have you firmed up the plans and when do we expect this to take place?

- M. R. Jaishankar:** You see the process is on and whatever formalities need to be done they are all being done. If all goes well with if we receive the High Court permission, we have not yet filed to the High Court. Once we file and then we hope it will be effective from 31 March 2017 or say 1 April 2017 if all goes well. And we think it will go well.
- Prem Khurana:** And have you firmed up a plan I mean how do we intend to go about and as we are planning to listed as a separately listed entity or you would want to bring in some private equity player or an IPO?
- M. R. Jaishankar:** See the intention is to bring a private equity player at this point of time. We do not intent listing immediately.
- Moderator:** Thank you. As there are no further questions, I would like to hand the floor over to Mr. Om Ahuja for closing comments. Please go ahead.
- Om Ahuja:** Thanks everybody for participating in the call today. Hope we answered all your questions. So just share little bit of views on the market what we believe at this point of time it is little early to comment upon what is going to happen in demonetization. But with the sequence of events lined up which is demonetization we will see RERA, we will see GST lot of things will only put organized players to benefit. I can see that lot of unorganized players who were into the plotted development or who were into a small developable area and stuff like that they basically who used to operate in a very unorganized world they would be impacted and with this business. But the market share for an organized or a branded player like us will only increase.
- And that is the benefit we are referring to in the near term to short term and that is the thing which we are looking forward to as an industry. I hope this is going to benefit the real estate sector in a big way and we all hope that this first step of the government is going to benefit the industry in a massive way. Thank you very much and look forward to participation in the next call.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Brigade Enterprises Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.