

Big plans; execution to be key!

Mahindra Lifespace Developers (MLD) reported a weak H1FY21 performance. H1FY21 sales volume saw de-growth of ~41% YoY to 0.24 million square feet (msf) (~16% decline in Q2 at 0.16 msf) with sales of ₹ 154 crore, down ~32% YoY (~8% YoY growth in Q2 at ₹ 115 crore), with Covid-19 led impact on execution, labour availability. H1FY21 residential revenues de-grew 87.4% YoY to ₹ 69.1 crore with EBITDA loss of ₹ 42 crore. Integrated Cities & Industrial Clusters (IC & IC) segment revenues declined 24.9% YoY to ₹ 61.6 crore with EBITDA of ₹ 34 crore, down 12.8% YoY.

Looking to expand sales volume traction through land purchase

MLD clocked residential sales volume de-growth of ~41% YoY to 0.24 msf (~16% fall in Q2 at 0.16 msf) with sales of ₹ 154 crore, down ~32% YoY (~8% YoY growth in Q2). It launched *Happiest Palghar 2* project in Q2FY21 with ~485 units spread over 0.18 msf. Going forward, the company is planning to launch four new residential projects in H2, mainly in Mumbai (2), Pune (1) and Chennai (1) regions. Furthermore, it is looking to expand its residential offering through land purchase with sales potential of ~₹ 2000 crore and expects few definite agreement signings by Q4FY21. The focus regions would be Bangalore, Mumbai and Pune. In the NCR region, MLD is looking to complete *Luminare project* (one tower pending) before eyeing newer projects. It has guided for flattish YoY sales volume in FY21 (1.4 msf in FY20) and expects sales value worth ₹ 1000+ crore in FY22. Over the medium term of three to five years, the company has an aggressive target of attaining annual sales of ₹ 2500 crore.

Leases 10.1 acres in H1FY21 under IC & IC segment

MLD leased 10.1 acres in H1FY21 (~1.8 acres in MWC Chennai, ~8 acres in MWC Jaipur). According to the management, the deal pipeline is robust and is receiving lots of enquires from MNC players. However, the transactions are getting delayed with large restrictions on international travel (manufacturing/factory deals require physical presence and site visits). We note that majority of yet to be leased area (~613 acre) is in MWC Jaipur SEZ. We would like to see a meaningful improvement in the integrated cities and industrial cluster business to turn constructive on the same.

Valuation & Outlook

We like MLD given its strong parentage, the management's focus on expanding its overall scale of operation and a comfortable balance sheet. The new land purchases could enable it to scale up its residential business, which otherwise saw lethargic movement. However, we would await fructification of such deals and traction thereof, before turning constructive. Hence, we maintain our **HOLD** rating on MLD with a target price of ₹ 300.



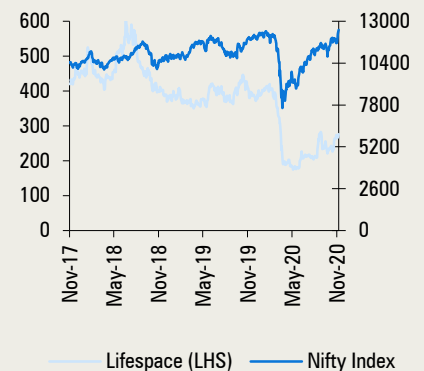
Particulars

Particular	Amount (₹ crore)
Market Capitalization	1,437.2
Total Debt	207.0
Cash and Investments	132.4
EV	1,511.8
52 week H/L (₹)	428 / 171
Equity capital	51.4
Face value	₹ 10

Key Highlights

- Looking to expand its residential offering through land purchase with sales potential of ~₹ 2000 crore. Expects few definite agreement signings by Q4FY21
- Maintain HOLD with target price of ₹ 300 per share

Price Performance



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Key Financial Summary

	FY18	FY19	FY20	FY21E	FY22E	FY20-22E CAGR (%)
Net Sales (₹ crore)	566.2	592.8	610.9	400.5	837.0	17.0
EBITDA (₹ crore)	57.4	25.8	(56.8)	(25.0)	102.2	LP
Net Profit (₹ crore)	101.0	119.7	(193.4)	43.7	143.3	LP
EPS - Diluted (₹)	19.7	23.3	(37.7)	8.5	27.9	
P/E (x)	14.2	12.0	(7.4)	32.9	10.0	
Price / Book (x)	0.7	0.7	0.8	0.8	0.8	
EV/EBITDA (x)	23.0	52.1	(26.6)	(59.1)	16.9	
RoCE	5.5	3.8	(1.5)	0.5	6.7	
RoE	4.9	6.2	(11.4)	2.5	8.3	

Source: Company, ICICI Direct Research

Other Highlights

- **Q2 residential business update:** MLD achieved net sales of ₹ 115 crore (0.16 msf) in Q2 largely contributed by mid-premium (80%) and affordable segment (20%). As per the management, the company is witnessing a sharp demand recovery across its project portfolio backed by a) buyers preferring better quality homes, b) sharp decline in interest rates, and c) stamp duty cuts in some particular states. Also, preference towards large organised players is facilitating better pricing. For Q2FY21, average price realisation for the company was at ₹ 7,150/ sq ft. Additionally, collection has improved to ₹ 134 crore (up 86% QoQ) with handing over of 60 units (up 100% QoQ)
- **Industry update:** After the disruption caused by Covid-19 pandemic, the industry is seeing a gradual recovery with new launches reaching 79% of pre-Covid levels in Q2FY21. Residential demand in the Mumbai region is also recovering partly aided by benefits from stamp duty cut announced by the Maharashtra government. Construction activity across industry has picked up pace with labour strength touching 65-70% of pre-Covid levels
- **Other highlights:**
 - *Luminare* project (in NCR region) witnessed robust demand with total sales of ₹ 51 crore in Q2FY21. In contrast, *Bloomdale (Nagpur)* project is witnessing lack of demand. The management expects another ~12-18 months for inventory to get exhausted in *Bloomdale* project
 - Labour strength has reached ~75% of pre-Covid levels across its project sites and is likely to improve in the coming months
 - Consolidated debt and cash at the end of September 2020 was at ₹ 307 crore and ₹ 150 crore, respectively
 - Cost of borrowing for the company has dropped from 8.7% in March 2020 to 7.35% currently. The management expects further improvement, going forward

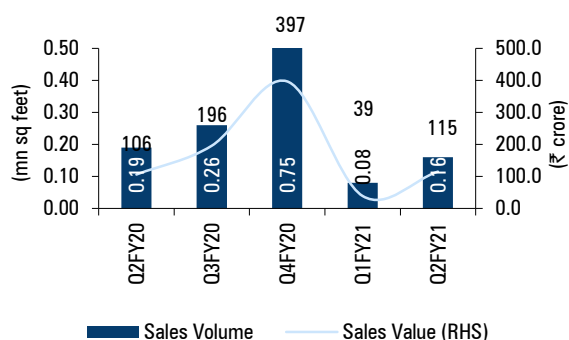
Company Analysis

Exhibit 1: Forthcoming project pipeline

	Location	Project	ESA (mn sft)
Existing projects new phases	MMR	Vicino	0.19
	MMR	Serenes	0.10
	MMR	Happinest Palghar	0.18
	NCR	Luminare #	0.36
	Chennai	Aqualily	0.08
	Chennai	Lakewoods	0.62
	Chennai	Happinest Avadi	0.01
	MMR	Sakinaka #	0.39
New Projects	Pune	New Project (Tathawade)	0.70
	Bengaluru	New Project (Kanakpura)	0.74
	Chennai	MWC Chennai Residential 21	0.41
Total Forthcoming projects			3.78
Land bank			10.44

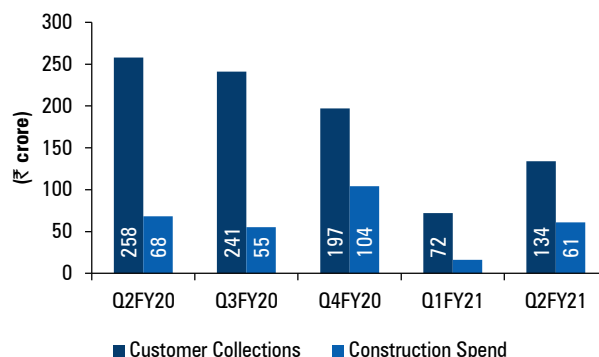
Source: Company, ICICI Direct Research

Exhibit 2: Quarterly sales volume



Source: Company, ICICI Direct Research

Exhibit 3: Quarterly collection and construction spends



Source: Company, ICICI Direct Research

Valuation & Outlook

We like MLD given its strong parentage, the management's focus on expanding its overall scale of operation and a comfortable balance sheet. The new land purchases could enable it to scale up its residential business, which has otherwise seen lethargic movement. However, we would await fructification of such deals and traction thereof, before turning constructive. Hence, we maintain our **HOLD** recommendation on the stock with a target price of ₹ 300/share.

Exhibit 4: Valuation

Project	NAV			NAV			Value /				
	Value	MLD (%)	Stake	value	Value / share	Multiple	Value	MLD (%)	Stake	value	share
Chennai	327.4			310.1	60.4		248.1			235.2	46
MWC - Chennai & North Chennai SEZ (in Acres)	46.7	89		41.5	8.1	0.8x	33.2	89		29.6	6
Canopy	13.7	89		12.2	2.4	0.8x	9.8	89		8.7	2
MITL	193.7	96		186.0	36.2	0.8x	148.8	96		142.8	28
MRDL	72.2	96		69.3	13.5	0.8x	55.5	96		53.2	10
Avadi	1.0	100		1.0	0.2	0.8x	0.8	100		0.8	0
Jaipur	873.5			646.4	125.9		517.1			382.7	75
MWC Jaipur SEZ (in Acres)	406.6	74		300.9	58.6	0.8x	240.7	74		178.1	35
Evolve IT park - Operational	167.0	74		123.6	24.1	0.8x	98.8	74		73.1	14
Evolve IT park - Development	300.0	74		222.0	43.2	0.8x	177.6	74		131.4	26
Ahmedabad	181.2	50*		90.6	17.6	0.8x	144.9	50		72.5	14
MMR	559.5			422.5	82.3		380.3			373.9	73
Andheri	350.3	100.0		350.3	68.2	0.9x	315.3	100.0		315.3	61
Kalyan	123.1					0.9x					
Kandivli	41.4	100.0		41.4	8.1	0.9x	37.3	100.0		37.3	7
Boisar	16.4	100.0		16.4	3.2	0.9x	14.8	100.0		14.8	3
Palghar	28.3	51.0		14.4	2.8	0.9x	13.0	51.0		6.6	1
Bengaluru	105.4	50		52.7	10.3	0.9x	94.8	50		47.4	9
NCR	686.6			531.8	103.6		478.7			381.5	74
Luminare	511.6	69.8		356.8	69.5	0.9x	321.2	69.8		224.0	44
Mahindra Tower	175.0	100.0		175.0	34.1	0.9x	157.5	100.0		157.5	31
Pune	127.4	100		127.4	24.8	0.9x	114.6	100		114.6	22
Nagpur	54.1	70		37.9	7.4	0.9x	34.1	70		23.9	5
Alibaug	18.9	100		18.9	3.7	0.9x	17.0	100		17.0	3
(Net Debt) / Cash	-99.0	100		-99.0	-19.3	1.0x	-99.0	100		-99.0	-19
NAV Valuation	2834.9			2139.3	416.8		1930.6			1549.6	302
Rounded off Target price											300

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
Net Sales	592.8	610.9	400.5	837.0
Other Income	61.0	35.0	39.4	44.1
Total operating income	653.9	645.9	439.9	881.1
Operating Expenses	427.7	483.0	231.5	531.1
Employee Expenses	74.0	82.2	86.3	90.6
Administrative Expenses	65.3	102.5	107.7	113.0
Total Operating Expenditure	567.0	667.8	425.4	734.8
EBITDA	25.8	(56.8)	(25.0)	102.2
Interest	12.5	7.6	9.1	9.0
Depreciation	3.8	7.7	4.5	5.1
Other income	61.0	35.0	39.4	44.1
Exceptional Items	-	(134.6)	-	-
PBT	143.3	(196.2)	62.2	198.9
Taxes	24.6	(1.7)	17.0	54.7
PAT before MI	118.7	(194.5)	45.3	144.3
Minority Interest	1.0	1.1	(1.6)	(1.0)
PAT	119.7	(193.4)	43.7	143.3
PAT Growth rate	18.5	(261.6)	(122.6)	227.8
EPS	23.3	(37.7)	8.5	27.9

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
Profit after Tax	119.7	(193.4)	43.7	143.3
Depreciation	3.8	7.7	4.5	5.1
Add: Interest	12.5	7.6	9.1	9.0
Other Income	(61.0)	(35.0)	(39.4)	(44.1)
Cash Flow before wc changes	99.5	(214.8)	34.8	167.8
Changes in Working Capital	112.4	(63.3)	15.4	(250.3)
Taxes Paid	(50.0)	(3.9)	(17.0)	(54.7)
Net CF from operating activities	162.0	(282.0)	33.3	(137.1)
(Purchase)/Sale of Fixed Assets	(5.1)	(13.5)	(12.3)	(5.0)
(Purchase)/Sale of Investment	238.5	139.5	-	-
Other Income	61.0	35.0	39.4	44.1
Net CF from Investing activities	294.5	161.0	27.1	39.1
Issue/(Repayment of Debt)	(30.4)	3.7	97.0	10.0
Changes in Minority Interest	(1.0)	(1.6)	-	-
Changes in Networth	(249.0)	(34.9)	(13.6)	(143.7)
Interest	(12.5)	(7.6)	(9.1)	(9.0)
Net CF from Financing activities	(292.9)	(40.4)	74.4	(142.7)
Net Cash flow	163.6	(161.3)	134.8	(240.7)
Opening Cash	130.2	293.8	132.4	267.2
Closing Cash/ Cash Equivalent	293.8	132.4	267.2	26.6

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
Equity Capital	51.4	51.4	51.4	51.4
Reserve and Surplus	1,878.2	1,649.9	1,680.1	1,679.7
Total Shareholders funds	1,929.5	1,701.3	1,731.4	1,731.0
Minority Interest	43.5	41.9	41.9	41.9
Total Debt	203.2	207.0	304.0	314.0
Deferred Tax Liability (Net)	13.4	7.7	7.7	7.7
Total Liabilities	2,376	2,190	1,958	2,085
Gross Block	30.2	33.5	45.9	50.9
Less Acc. Dep	22.6	22.5	27.1	32.1
Net Block	7.6	11.0	18.8	18.7
Goodwill on Consolidation	66.0	66.0	66.0	66.0
Capital WIP	9.8	12.2	12.2	12.2
Total Fixed Assets	83.5	89.3	97.1	97.0
Investments	926.3	687.8	548.2	548.2
Inventory	1,345.1	1,204.3	1,458.2	1,417.3
Sundry Debtors	138.9	114.4	97.2	157.0
Loans & Advances	23.7	83.4	57.9	73.1
Cash & Bank Balances	293.8	132.4	267.2	26.6
Other Current Assets	420.9	369.7	194.4	296.8
Total Current Assets	2,222.3	1,904.2	2,074.9	1,970.8
Other Current Liabilities	789.9	570.3	628.4	511.2
Provisions	14.0	13.5	6.7	10.1
Net Current Assets	1,418.4	1,320.4	1,439.8	1,449.4
Total Assets	2,376	2,190	1,958	2,085

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
	FY19	FY20	FY21E	FY22E
Per Share Data (₹)				
EPS - Diluted	23.3	(37.7)	8.5	27.9
Cash EPS	24.1	(36.2)	9.4	28.9
Book Value	375.9	331.4	337.3	337.2
Dividend per share	7.2	-	2.6	8.7
Operating Ratios (%)				
EBITDA / Net Sales	4.4	(9.3)	(6.2)	12.2
PAT / Net Sales	20.2	(31.7)	10.9	17.1
Return Ratios (%)				
RoE	6.2	(11.4)	2.5	8.3
RoCE	3.8	(1.5)	0.5	6.7
RoIC	1.2	(3.6)	(1.6)	4.7
Valuation Ratios (x)				
EV / EBITDA	52.1	NM	NM	16.9
P/E (Diluted)	12.0	(7.4)	32.9	10.0
EV / Net Sales	2.3	2.5	3.7	2.1
Market Cap / Sales	2.4	2.4	3.6	1.7
Price to Book Value	0.7	0.8	0.8	0.8
Solvency Ratios (x)				
Debt / Equity	0.1	0.1	0.2	0.2
Debt / EBITDA	7.9	(3.6)	(12.2)	3.1
Current Ratio	2.4	3.0	2.8	3.7
Quick Ratio	0.7	1.0	0.6	1.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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