Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Mahindra Lifespace Developers Limited

Reinforcing the optimism

Real Estate | Sharekhan code: MAHLIFE | Event Update

Stock Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 549**	
Price Target: **Rs. 655**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 2,821 cr
52-week high/low:	Rs. 561/171
NSE volume: (No of shares)	9,840
BSE code:	532313
NSE code:	MAHLIFE
Free float: (No of shares)	2.5 cr

Shareholding (%)

FII	12
Institutions	14
Public & others	22
Promoters	52

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	11.1	66.7	123.1	77.0
Relative to Sensex	13.7	56.9	92.1	28.1

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Mahindra Lifespace Developers Limited (MLDL) with an unchanged price target of Rs. 655.
- Our interaction with the management reinforces our view on the company's change in approach towards being aggressive with a strong management team at the helm.
- The company is likely to reach a sales target of Rs. 2000 crore to Rs. 2500 crore sales target over next two to three years by building depth in three key cities. Low gearing to allow aggressive land acquisitions to build size.
- MLDL to benefit from strong momentum in residential market with inventory overhang lowering down, lower interest rate regime, consolidation, favourable government policies etc.

We interacted with Mr. Sumit Kasat, Head of Investor Relations at Mahindra Lifespace Developers Limited (MLDL) for an update on company's strategy and the future outlook. The company has changed its approach to be more aggressive with rejig at key top management team over the past one year. It would be focusing on Mumbai, Pune and Bangalore to build in depth and economic efficiencies (larger presence in selected locations). Realty market having gone through many regulatory changes like RERA, de-monetisation etc have seen multi-fold increase in accountability, consolidation and becoming end-user based market, which has lead to group's increased focus on the sector through MLDL. The inventory overhang has come down significantly from peak of 4 years to 24-30 months now. MLDL would be on a land acquisition spree over the next three years involving ~Rs. 1500 crore spends which would be financed through bonds or NBFC funding (~8% interest cost) leveraging the balance sheet (comfortable till 1x D/E, current net debt to equity of just 0.04x). MLDL is targeting two projects in three cities each mentioned above between mid-premium and affordable categories totaling 3-3.5msf which should lead to Rs. 2000 crore to Rs. 2500 crore sales over the next two to three years. MLDL would be launching 3 to 4 projects from its existing projects and 1 to 2 projects from the new acquired land bank, which would in aggregate allow the company with 2-2.5msf launches in FY2022.

The company is expected to be likely suitor for the group's redevelopment of Kandivali operational factory which could have 8-10msf development potential. The company would be launching project at Ghodbunder (60 acres land) by the end of next fiscal year. Its integrated cities and industrial clusters division, is witnessing strong demand for built-to-suit factories, warehouses, and data centres benefitting from China +1 strategy, domestic policies such as Atmanirbhar, PLI, and National Logistics Policy. It would be launching 500 acres phase I industrial park like Origins at Pune (till date 400 acres acquired) after three years. We believe MLDL is poised to generate strong pre-sales and execution ramp-up over the next two to three years, leading to uptick in NAV valuation.

Our Call

Valuation – Retain Buy with unchanged PT of Rs. 655: MLDL is expected to ramp up its sales and execution over the next two to three years with a strong focus on key Indian markets and aptly credited top management team. The positive changes brought about in real estate sector through government policies along with lower interest rate regime, rising affordability are expected to drive residential market benefiting MLDL. The company's low gearing can be utilised to raise debt to fund inorganic expansion and land acquisitions. MLDL trades at higher NAV discount to its peers, which we believe provides favourable risk reward ratio to investors. Hence, we maintain our Buy rating on the stock with an unchanged price target of Rs. 655.

Key risk

Weak macroeconomic environment leading to lull in industry growth trend.

Valuation (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	592.8	610.9	144.3	312.4	400.6
OPM (%)	4.4	-9.3	-52.6	-21.9	14.0
Adjusted PAT	119.7	-193.4	-68.7	-3.2	175.4
% Y-o-Y growth	*18.5*	-	-	-	-
Adjusted EPS (Rs.)	23.3	-37.6	-13.4	-0.6	34.1
P/E (x)	23.6	-	-	-	16.1
P/B (x)	1.5	1.7	1.7	1.7	1.6
EV/EBIDTA (x)	105.7	-	-	-	54.1
RoNW (%)	6.0	-10.7	-4.1	-0.2	10.2
RoCE (%)	3.6	-7.9	-3.3	-1.9	5.6

Source: Company; Sharekhan estimates

Key Conference call takeaways

- **Change in approach:** The company has had the requisite brand image which has been instrumental in achieving better sales of projects historically but had been lacking aggression. The sales and depth required in particular locations were lacking earlier. With the reshuffle at the top management, the company is now turning aggressive. It is looking towards having larger presence in a particular area. Hence, it has selected few cities like Mumbai, Pune and Bangalore and is now building depth in those locations.

- **Group focus on real estate:** The real estate sector has undergone many regulatory changes since 2017. RERA has brought in accountability which along with demonetization has had a lasting impact on the real estate sector. Pre-2015, realty market was investor driven which comprised 40-50% of sales leading to funding of the projects. Now the sector is much more investor driven. The consolidation in the sector is underway. The positive developments and increase in accountability multi-fold has lead to the group's focus on the real estate sector and Mahindra Lifespace particularly.

- **Stressed Assets:** About 80-90% of the stressed assets in the real estate sector are already around 30% sold, building plans and designs done, murkier deals involved, litigations with buyers etc. The public and large private banks go through auction route of stressed assets and do not undertake bilateral discussions for asset sale. Hence, the company sees undertaking of Greenfield projects more beneficial than going through the peril of stressed assets which can be very time consuming.

- **Sales target of Rs. 2000 crore to Rs. 2500 crore:** The company is targeting to reach Rs. 2000 crore to Rs. 2500 crore sales target per year over the next two to three years. The same would depend on land acquisitions done during this year and next year. It would be looking at project size of 0.5 to 2 msf with approval timeline of 6-12 months. The sales of Rs. 2000 crore to Rs. 2500 crore at an average realization of Rs. 6000-7000psf would mean 3-3.5msf sales (about 2 projects in three cities between mid-premium and affordable segment)

- **Integrated cities and industrial clusters:** Integrated cities and industrial clusters division, is witnessing strong demand for built-to-suit factories, warehouses, and data centres benefitting from China +1 strategy, domestic policies such as Atmanirbhar, PLI, and National Logistics Policy. It would be launching 500 acres phase I industrial park like Origins at Pune (till date 400 acres acquired) after three years.

- **Land acquisition funding:** The company would be spending Rs. 1500 crore over the next three years which would be funded either through bonds or NBFCs. Conservatively, it expects to raise funds at ~8% interest rate.

- **Inventory:** The overhang of inventory is still there but has come down significantly from the peak of 4 years to 24-30 months now.

- **Focus on Mumbai, Pune and Bangalore:** The company has selected these cities as Mumbai is a home market while Pune and Bangalore has multi-sectoral end user growth apart from the IT sector.

- **Group land bank:** The company is likely to be preferred choice for the development of the group's Kandivali operational factory land. The land area is 70-80 acres with development potential of 8-10 msf. The company would like to use it for mixed used development. The group has land bank in areas like Khopoli, North India and M.P. which the MLDL is not interested in developing.

- **Ghodbunder land:** The company has about 60 acres of land in Ghodbunder which will take 12-15 months time for getting approvals. It is expected to come for launch by the end of the next fiscal year .

- **Pune land:** The company has 400 acres of land. It would be acquiring further land bank to launch phase I of 500 acres as Industrial park like Origins. The project is three years away as it would be in planning stage for 1.5-2 years and one year would be required for getting environment clearance.

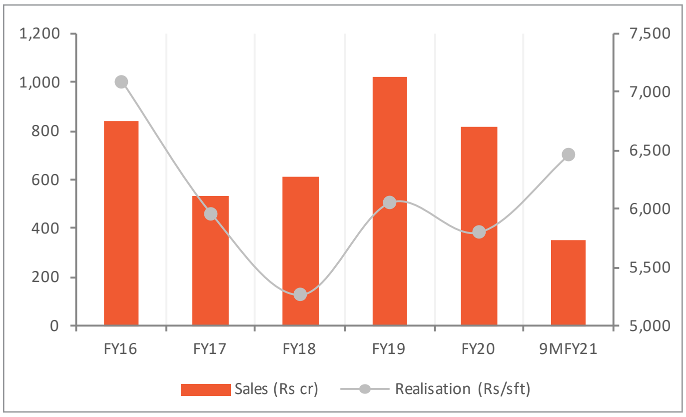
- **Murud land:** The company has 1000 acres of land at Murud which will be developed as Health and Wellness destination. Post the planning of the projects, it would be looking for local or global partners to execute the project.

- **Land cost to sales ratio:** At Kathwadi, the land cost is less that Rs. 100 crore while sales value is expected to be Rs. 700 crore plus. In Mumbai, the land cost is Rs. 200 crore while sales value could be Rs. 1000 crore. Generally, in Bangalore and Pune, the sales value to land cost is ~6x while in Mumbai it is ~4x.

- **Construction costs:** The company's construction cost for 40 floor building is Rs. 4000-4500 per square feet, less than 35 floor is Rs. 4000psf and less than 25 floors is Rs. 3500psf. The construction cost of affordable housing project is ~Rs. 2000psf.

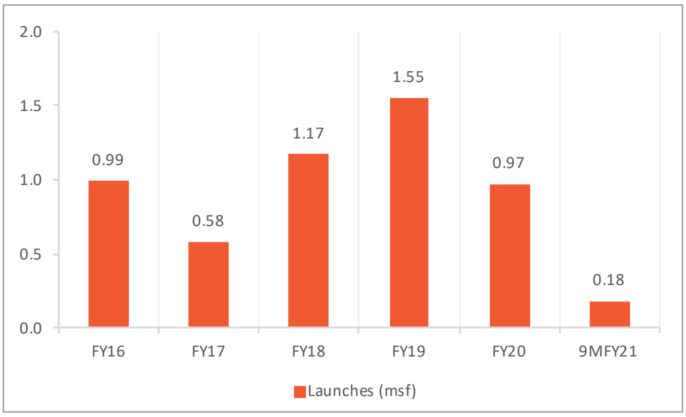
Financials in charts

Residential Sales/Realisation Trend



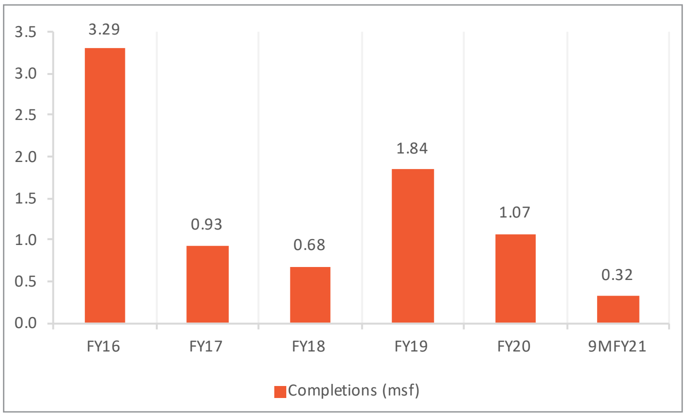
Source: Company, Sharekhan Research

Residential LaunchesTrend



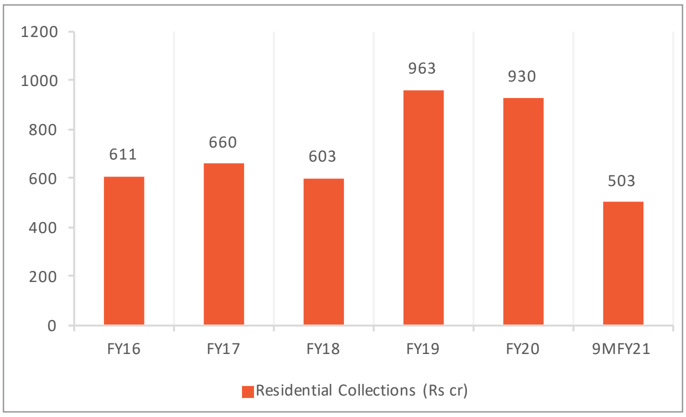
Source: Company, Sharekhan Research

Residential Completion Trend



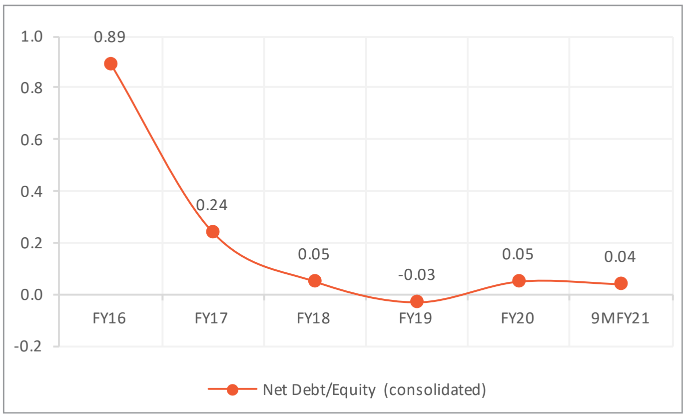
Source: Company, Sharekhan Research

Residential Collections Trend



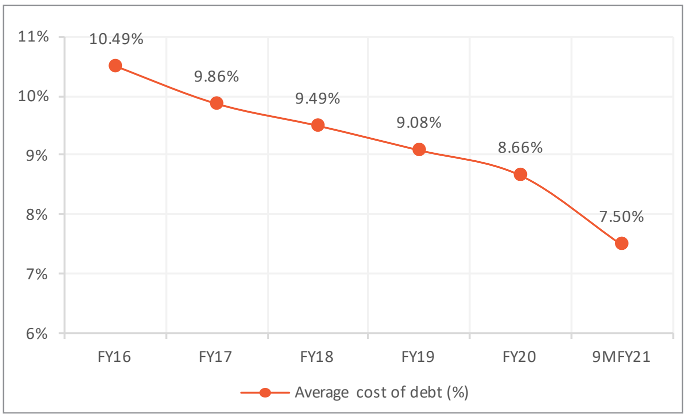
Source: Company, Sharekhan Research

Net Debt/Equity Trend



Source: Company, Sharekhan Research

Average Cost of Debt Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Residential market on a growth trajectory

The real estate sector, especially the residential market, is expected to be in limelight going ahead as it benefits from central and state government's favourable policies pertaining to the affordable housing segment.Rising income levels and affordability levels are expected to drive sales for quality organised developers. Further, organised players are expected to benefit from ample inorganic opportunities in the sector, which is leading to consolidation in the sector. The sector is also expected to benefit from low interest rates, which provides twin benefits in driving demand and reduced funding cost. Overall, we are positive on the residential segment of the real estate market for the reasons mentioned above.

■ Company Outlook – Strong growth tailwinds in both residential and IC&IC businesses

MLDL is scaling up its land acquisitions and approvals pipeline with a strong core management team across key functions. The company is gearing up to pre-sale over Rs. 2,000 crore per annum in the residential division over the next two to three years. The company's low gearing can lend support for aggressive land acquisitions. The company is witnessing strong demand for built-to-suit factories, warehouses, and data centers for its IC&IC business. The company has benefits of China +1 apart from increasing government's focus on attracting manufacturing investment in the country, production-linked incentive schemes for its IC&IC vertical. Overall, growth outlook is positive for the company as IC&IC vertical is a cash cow and scale up of its residential business provides strong uptick.

■ Valuation – Retain Buy with unchanged PT of Rs. 655

MLDL is expected to ramp up its sales and execution over the next two to three years with a strong focus on key Indian markets and aptly credited top management team. The positive changes brought about in real estate sector through government policies along with lower interest rate regime, rising affordability are expected to drive residential market benefiting MLDL. The company's low gearing can be utilised to raise debt to fund inorganic expansion and land acquisitions. MLDL trades at higher NAV discount to its peers, which we believe provides a favourable risk reward ratio to investors. Hence, we maintain our Buy rating on the stock with an unchanged price target of Rs. 655.

Valuation

MLD NAV Valuation	Rs. crore	Value per share(Rs.)	Comments
IC&IC	810	158	DCF based valuation
Land bank	1,350	263	Market value of land
Residential	1,119	218	Project NAV based valuation
Commercial	568	110	Valued at 8.5% cap rate
Gross Asset Value	**3,279**	**749**	
Net cash/(Debt)	480	93	
Net Asset Value	**3,759**	**655**	
CMP (Rs.)		**549**	
Upside (%)		19	

Source: Company; Sharekhan Research

Peer valuation

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Mahindra Lifespaces	-	16.1	-	54.1	1.7	1.6	-	10.2
Oberoi Realty	22.0	18.0	17.1	14.1	2.0	1.8	9.0	9.3
Godrej Properties	97.8	61.5	145.3	71.6	7.0	6.3	7.3	10.8
DLF	47.9	42.7	42.3	43.7	2.2	2.1	4.4	4.8
Sobha	14.2	11.0	7.5	7.1	1.8	1.4	12.8	13.0
Phoenix Mills	37.9	28.1	17.4	14.2	2.7	2.5	6.9	9.2
Prestige Estates	27.4	21.7	8.9	7.9	2.0	1.9	8.0	9.3

Source: Sharekhan Research

About company

Established in 1994, MLDL is the real estate and infrastructure development business of theMahindraGroupin India. The company operates in residential developments under the 'Mahindra Lifespaces' and 'MahindraHappinest' brands; and through its integrated cities and industrial clusters under the 'Mahindra World City' and 'Origins byMahindra World City' brands.The Company's development footprint spans 25.7 million sq. ft. (2.4 million sq. m.) of completed, ongoing and forthcomingresidential projects across seven Indian cities; and over 5000 acres of ongoing and forthcoming projects underdevelopment/management at its integrated developments / industrial clusters across four locations.

Investment theme

MLDL is scaling up its land acquisitions and approvals pipeline with strong core management team across key functions. The company is gearing up to pre-sale over Rs. 2000 crore per annum in residential division over the next two to three years. The company's low gearing can lend support for aggressive land acquisitions. The company is witnessing strong demand for built to suit factories, warehouses and data centers for its IC&IC business. It has benefits of China +1 apart from increasing government's focus on attracting manufacturing investment in the country, production linked incentive schemes for its IC&IC vertical. Overall, the growth outlook is positive for the company as IC&IC vertical is a cash cow and scale up of its residential business provides strong uptick.

Key Risks

- Slowdown in macro-economic environment percolating to real estate sector slowdown.
- Delay in execution, inability to maintain sales, rising interest rates, rising commodity prices.

Additional Data

Key management personnel

Mr. Arun Nanda	Chairman
Mr. Arvind Subramaniam	MD & CEO
Mr. Vimal Agarwal	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mahindra & Mahindra Ltd	51.5
2	ICICI Prudential Asset Management	9.5
3	Mitsubishi UFJ Financial Group Inc	4.2
4	FIRST STATE INDIAN SUB FD	4.2
5	Kotak Mahindra Asset Management Co	4.0
6	First State Investments ICVC	3.3
7	CAISSE DE DEPOT ET PLACEME	2.4
8	Caisse de Depot et Placement du Qu	2.3
9	Goldman Sachs Group Inc/The	1.1
10	Dimensional Fund Advisors LP	0.9

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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