

Macrotech Developers

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Operating scale resetting higher

- We believe Macrotech's scale of operations is geared for a reset following the sooner-than-anticipated Rs40bn capital raise. Over the next 12-18 months, the developer plans to deploy a majority of the capital in joint development agreements (JDAs) amounting to Rs400bn in gross development value (GDV). This implies a quarterly GDV run rate of Rs60-65bn of new JDAs vs. the previously envisaged run rate of Rs20-30bn per quarter.
- **Going deep into new micro markets remains the core strategy.** Macrotech enjoys a leadership position in its existing micro-markets with a ~15-30% market share. It aims to replicate a similar market share performance in new markets. In our view, a faster turnaround in terms of both launches and absorption of recently signed JDAs supports the company's market share ambitions. Notably, the sales-to-launch ratio in Pune/Kandivali has been in the range of 15-60% in 3-4 months after a soft launch.
- **We raise our Dec'22 TP to Rs1,600 (vs. Rs1,250 previously),** valuing the development NAV at ~Rs1,000 per share and a development NAV premium of Rs600 per share. **Key factors driving our TP change** include: 1) annual JDA assumption of ~Rs160bn through FY23 to FY27 vs. Rs110bn earlier; adding Rs74 per share to NAV; and 2) development NAV premium of 60% (vs. 35%) arrived by using our proprietary NAV premium framework.
- **Operating scale geared for a reset:** Since listing in Apr'21, Macrotech has already signed ~4msf of JDAs amounting to Rs46bn as of H1FY22. The listing was followed by a Rs40bn capital raise, which in our view is largely growth capital as we believe Macrotech's large fast-churning ready inventory and receivables amounting to >Rs200bn are sufficient to address the company's deleveraging exercise and growth opportunities in the existing portfolio. The developer plans on deploying the capital over the next 12-18 months in JDAs amounting to Rs400bn in GDV, implying a quarterly GDV run rate of Rs60-65bn of new JDAs vs. previously envisaged at Rs20-30bn per quarter. As of H1FY22, we note that the company already has proposals worth Rs70-100bn lined up for H2FY22. We forecast Macrotech achieving sales targets of Rs140bn/Rs200bn well ahead of its guidance for FY24/FY26.
- **The TP increase factors in the higher scale in existing markets and the expansion into new cities.** We raise our annual JDA assumption to ~Rs160bn through FY23 to FY27 from Rs110bn, adding Rs74 per share to NAV. We now also build Bangalore in our JDA assumption with a cumulative market share of ~2% through FY23-FY27. Overall, the blended market share (basis market size in msf) for Macrotech in the three markets (MMR, Pune, Bangalore) is estimated to be ~6.5% for FY23-FY27. For our NAV premium framework (forecast starting FY28), we also include Noida in our assumption with a blended market share of 10% across four markets vs. 8.8% previously for MMR+Pune.

Financial Snapshot (Consolidated)

(Rs bn)	FY20	FY21	FY22E	FY23E	FY24E
Sales (including JDAs)	65.7	59.7	114.9	156.4	209.7
Revenues (recognized)	124.4	54.5	80.9	88.2	94.2
EPS (Rs)	18.4	12.7	19.0	27.3	35.7
ROE (%)	17.3	11.0	11.0	10.4	12.1
Net Debt/Equity (x)	4.00	3.89	0.68	0.48	0.18
P/BV (x)	11.8	11.7	5.5	4.9	4.4
FCFE yield (%)	1.1%	1.2%	4.7%	2.6%	5.4%

Source: Company, Emkay Research

CMP	Target Price
Rs 1,359 as of (November 29, 2021)	Rs 1,600 (▲) 12 months
Rating	Upside
BUY (■)	17.7 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(8.7)/1.1
Target Price change (%)	28
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	19.0	27.3
Consensus	24.2	33.4
Mean Consensus TP (12M)	Rs 1,241	

Stock Details

Bloomberg Code	LODHA IN
Face Value (Rs)	10
Shares outstanding (mn)	447
52 Week H/L	1,482 / 421
M Cap (Rs bn/USD bn)	608 / 8.12
Daily Avg Volume (nos.)	521,222
Daily Avg Turnover (US\$ mn)	7.9

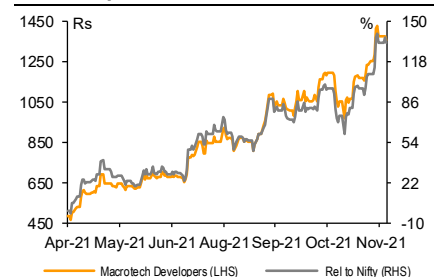
Shareholding Pattern Sep '21

Promoters	88.5%
FIIIs	8.7%
DIIIs	1.1%
Public and Others	1.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	28	57	117	-
Rel. to Nifty	38	53	95	-

Relative price chart



Source: Bloomberg

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Higher operating scale and new market entry driving TP change

We believe Macrotech's scale of operations is geared for a reset following the sooner-than-anticipated Rs40bn capital raise. The developer expects to deploy a majority of the capital over the next 12-18 months in JDAs amounting to Rs400bn in GDV. This implies a quarterly GDV run rate of Rs60-65bn (equating to 5.5-6msf @ blended average price of Rs11k /sf) of new JDAs vs. previously envisaged at Rs20-30bn per quarter. We note that the developer already has a JDA pipeline (in GDV) of Rs70-100bn in H2FY22 vs. Rs46bn signed in H1FY22.

We increase our annual JDA assumption to ~Rs160bn through FY23 to FY27 from Rs110bn previously, adding Rs74 per share to NAV. Given that Macrotech is also exploring opportunities in Bangalore, we are now including Bangalore in our JDA assumption with a cumulative market share of ~2% through FY23-FY27. Overall, the blended market share (basis market size in msf) for Macrotech in the three markets (MMR, Pune, Bangalore) is estimated to be ~6.5% for FY23-FY27.

Exhibit 1: JDA assumptions (FY23 onward)

	New	Old	change %
Annual area (in msf)	14.5	8.0	81%
Blended average starting price / sf (Rs)	11,000	14,000	-21%
Annual price inflation	4%	3%	
Annual GDV (in Rs mn)	159,500	112,000	42%

Volume market mix

MMR	68%	65%	
Pune	24%	35%	
Bangalore	8%	0%	
GAV (in Rs mn)	87,043	51,684	68%

Source: Emkay Research

Exhibit 2: JDAs signed by Macrotech in H1FY22

Micro-market	Saleable Area (msf)	Est. GDV (Rs mn)	Lodha's Commercial interest	Est. Launch
MMR - Western Suburbs	1.2	15,000	Attributable PBT at 20% of GDV	H2FY22
Pune	1.5	10,000	67.5% of Revenue	Q2FY22
MMR - Western Suburbs	0.4	6,000	Attributable PBT at 20% of GDV	H2FY22
MMR - Eastern Suburbs	0.3	4,500	Attributable PBT at 18% of GDV	H2FY22
MMR - Eastern Suburbs (signed during Q2)	0.6	10,500	69% of Revenue	Q2FY22
Total	4.0	46,000		

Source: Company, Emkay Research

Development NAV premium increased to 60% from 35%

Our development NAV premium framework now builds in a blended market share of 12.5% in MMR + Pune vs. 8.8% previously. We also factor in a 5% market share each in Bangalore and Noida. This translates into annual sales/execution of 26msf and a blended market share across all four markets of 10%.

We also raise our terminal growth assumption to 4% vs. 3%, capturing Macrotech's ability to increase penetration in markets of presence and in line with its strategy of capturing a 15-20% market share. The 1pps increase factors market share in Pune, Bangalore and Noida increasing by 2pps, 5pps and 5pps respectively between FY28 and FY34. Our forecasts assume each market would see expansion (by sales value) at a 3.0% CAGR, driven by price alone. Thus, any additional expansion driven by an increase in market volumes (msf) would imply upside risk to our terminal growth assumption.

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Key upside risks to our estimates include higher average pricing, existing market size expansion and forays into new cities. We note that the developer has received proposals from across geographies, including Hyderabad and Kolkata, where other regional players are also looking to expand. We believe the expansion into new markets will be key to achieving management's vision of executing 50,000 homes annually by the end of this decade.

Exhibit 3: NAV Premium (old vs. new)

<i>Rs mn, unless otherwise stated</i>	Old	New
Market and project assumptions		
Markets for continuing business	MMR, Pune	MMR, Pune, Bangalore, Noida
Starting Year (Yr-1)	FY28	FY28
Recurring project size (msf)	90.0	156.0
Project cycle (years)	6	6
Annual sales or delivery (msf)	15.0	26.0
Estimated market size (msf) [a]	170	260
Implied market share (%)	8.8%	10.0%
Average value share in core market (%)	6.6%	6.6%
Continuing business valuation		
Average price in Yr-1 (Rs/sf)	14,000	12,500
Revenue share paid (toward land)	32%	32%
Land cost		
Construction & SG&A costs	50%	50%
OCF margin (after construction, land and SG&A cost)	18%	18%
Levelized post-tax FCF	19,332	32,481
WACC %	11.0%	11.0%
Terminal growth of LFCF %	3.0%	4.0%
Value of continuing business [CB] [A]	139,716	268,276
CB value in Rs/share	312	558
Annual average sales / delivery implicit in NAV (msf) [b]	13.0	15.0
Development NAV (Dec'22E) [B]	409,836	481,457
Implied premium to NAV [A] / [B]	34%	56%
Actual NAV premium in Dec'22 TP	35%	60%

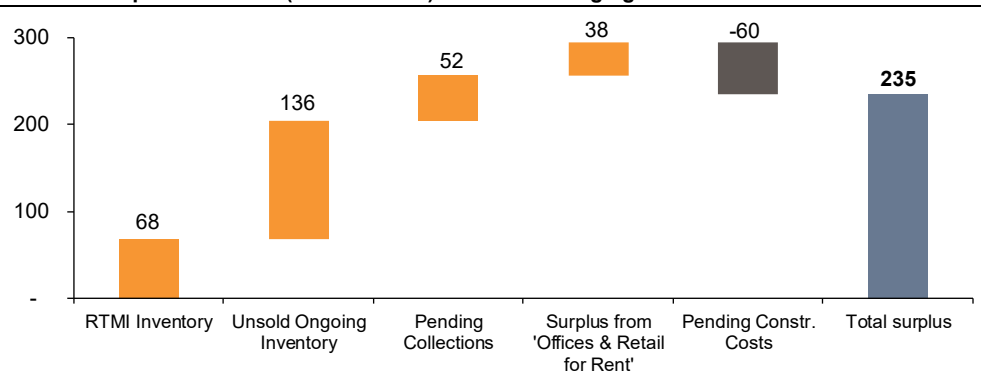
Note: [a] Roughly amounting to last three-year average market size; [b] ex-inventory sales and average for FY23E-FY26E

Source: Emkay Research

Exhibit 4: Key senior management hiring to support expansion strategy

Segment	Name	Designation	Background
'For Sale' business	Rajib Das	CEO – Eastern Suburbs & Navi Mumbai	Ex-Godrej Properties
Offices & Retail (for Rent)	Joanna DeSouza	Business Head – Leasing	Ex-Bennett Property Holdings
Digital Infrastructure Park	Veeresh Rao	Technical Head	Ex-Allcargo

Source: Company, Emkay Research

Exhibit 5: Surplus cash flow (as of Q2FY22) to aid deleveraging exercise


Source: Company, Emkay Research

Exhibit 6: Macrotech: Key assumptions and forecasts

In Rs mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total sales	71,627	65,700	59,680	114,863	156,403	209,692
Sales growth	-12%	-8%	-9%	92%	36%	34%
Share of ready inventory + land				27%	21%	14%
Trailing 3-Yr moving average		72,875	65,669	80,081	110,315	160,319

Key Financials

OCF after tax before NWC changes	54,714	41,714	26,457	19,216	20,507	21,796
NWC changes	(59,363)	(3,994)	(1,218)	22,091	3,609	18,653
OCF (before interest paid)	(4,649)	37,720	25,239	41,307	24,115	40,449
Net interest paid	(29,423)	(30,069)	(17,316)	(9,116)	(6,346)	(3,556)
FCFE (pre debt repayment, dividends)	(34,072)	7,651	7,924	32,191	17,770	36,892
FCFE yield (%)	-5%	1%	1%	5%	3%	5%

Net Worth	38,443	45,523	45,990	119,818	132,943	150,080
Net Debt	230,098	182,315	178,674	81,886	64,220	27,433
ND / Equity	599%	400%	389%	68%	48%	18%
ROE	36%	17%	1%	11%	10%	12%
Core ROE (estimated) [a]	43%	18%	7%	12%	11%	13%

Source: Company, Emkay Research. [a] adjustments include revaluation benefit, surplus cash & equivalents, exceptional items and interest income

Exhibit 7: Change in estimates

Rs mn	FY22E			FY23E			FY24E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Sales (including JDAs, ex land)	107,974	108,863	1%	144,076	148,903	3%	193,662	201,592	4%
Revenue	80,934	80,934	0%	86,554	88,175	2%	91,637	94,173	3%
EBITDA	22,557	22,338	-1%	25,133	24,997	-1%	27,068	27,658	2%
PAT	9,290	9,129	-2%	12,077	13,125	9%	15,958	17,137	7%
Net Debt	113,290	81,886	-28%	81,139	64,220	-21%	35,217	27,433	-22%

Source: Company, Emkay Research

Exhibit 8: SOTP summary

SOTP	Value (Rs mn)	Rs/share	% GAV	Comments
Ongoing + Planned	172,712	359	31%	DCF, WACC of 11%
Ready Inventory & Receivables	61,836	129	11%	DCF, WACC of 11%
Potential JDAs	87,043	181	16%	Assuming c.Rs160bn in annual JDAs signed between FY23-FY27; Macrotech economic share at 68%
Land Bank	213,879	445	39%	basis monetization upto FY50; WACC 11.5%
UK subsidiaries	14,624	30	3%	Cumulative net cashflow amounting to Rs20bn discounting back at a WACC of 11% basis a three year horizon
Total GAV	550,093	1,144	100%	
Net Debt	68,637	143		
NAV	481,457	1,002		
Shares outstanding (mn)	481			
NAV / share (Rs)	1,002			
Development NAV premium	60%			
Premium / share (Rs)	601			
Target NAV (Rs/share)	1,603			
Target Price (Rs/share)	1,600			

Source: Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	124,426	54,486	80,934	88,175	94,173
Expenditure	105,353	40,766	58,596	63,179	66,515
EBITDA	19,073	13,720	22,338	24,997	27,658
Depreciation	2,924	734	830	834	839
EBIT	16,149	12,985	21,508	24,162	26,819
Other Income	1,184	3,231	2,551	2,412	1,319
Interest expenses	7,304	11,257	11,667	8,758	4,875
PBT	10,029	4,959	12,392	17,816	23,263
Tax	2,615	(147)	3,123	4,490	5,862
Extraordinary Items	2	(4,628)	0	0	0
Minority Int./Income from Assoc.	139	77	140	202	263
Reported Net Income	7,276	402	9,129	13,125	17,137
Adjusted PAT	7,274	5,029	9,129	13,125	17,137

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	3,959	3,959	4,807	4,807	4,807
Reserves & surplus	41,564	42,031	115,011	128,136	145,273
Net worth	45,523	45,990	119,818	132,943	150,080
Minority Interest	5,192	5,269	5,409	5,611	5,875
Loan Funds	184,142	181,669	116,669	71,669	36,669
Net deferred tax liability	1	1	1	1	1
Total Liabilities	234,857	232,928	241,897	210,224	192,624
Net block	20,209	19,463	18,736	18,006	17,272
Investment	15,529	15,794	15,075	15,075	15,075
Current Assets	371,124	357,761	383,609	369,469	397,195
Cash & bank balance	1,185	2,276	34,782	7,448	9,236
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	172,069	160,153	175,586	192,388	236,980
Net current assets	199,055	197,608	208,023	177,080	160,215
Misc. exp	0	0	0	0	0
Total Assets	234,857	232,928	241,897	210,224	192,624

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	8,845	1,729	9,841	15,404	21,944
Other Non-Cash items	0	0	0	0	0
Chg in working cap	40,758	2,538	22,091	3,609	18,653
Operating Cashflow	37,720	25,239	41,307	24,115	40,449
Capital expenditure	(1,984)	12	(104)	(104)	(105)
Free Cash Flow	35,736	25,251	41,203	24,011	40,344
Investments	(1,480)	(265)	719	0	0
Other Investing Cash Flow	4,397	1,221	0	0	0
Investing Cashflow	2,117	4,199	3,167	2,308	1,214
Equity Capital Raised	0	0	64,700	0	0
Loans Taken / (Repaid)	(49,482)	(2,473)	(65,000)	(45,000)	(35,000)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	14,901	(14,621)	0	0	0
Financing Cashflow	(41,884)	(28,351)	(11,967)	(53,758)	(39,875)
Net chg in cash	(2,047)	1,087	32,507	(27,334)	1,788
Opening cash position	3,525	1,185	2,276	34,782	7,448
Closing cash position	1,185	2,276	34,782	7,448	9,236

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	15.3	25.2	27.6	28.3	29.4
EBIT Margin	13.0	23.8	26.6	27.4	28.5
Effective Tax Rate	26.1	(3.0)	25.2	25.2	25.2
Net Margin	6.0	9.4	11.5	15.1	18.5
ROCE	6.8	6.9	10.1	11.8	14.0
ROE	17.3	11.0	11.0	10.4	12.1
RoIC	6.8	6.0	10.6	12.7	15.1

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	18.4	12.7	19.0	27.3	35.7
CEPS	25.8	14.6	20.7	29.0	37.4
BVPS	115.0	116.2	249.3	276.6	312.2
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	74.0	107.0	71.6	49.8	38.1
P/CEPS	52.8	93.4	65.6	46.8	36.4
P/BV	11.8	11.7	5.5	4.9	4.4
EV / Sales	5.8	13.2	9.1	8.1	7.2
EV / EBITDA	37.8	52.3	32.9	28.7	24.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	4.0	3.9	0.7	0.5	0.2
Net Debt/EBIDTA	9.6	13.1	3.7	2.6	1.0
Working Cap Cycle (days)	580.4	1,308.5	781.3	702.2	585.2

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4.5	(56.2)	48.5	8.9	6.8
EBITDA	(39.5)	(28.1)	62.8	11.9	10.6
EBIT	(45.7)	(19.6)	65.6	12.3	11.0
PAT	(55.6)	(94.5)	2,173.3	43.8	30.6

Quarterly (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue	9,008	15,141	25,336	16,054	21,238
EBITDA	1,444	4,727	8,084	3,759	3,918
EBITDA Margin (%)	16.0	31.2	31.9	23.4	18.4
PAT	(3,626)	2,317	3,122	1,608	2,234
EPS (Rs)	(36.6)	23.4	31.5	13.4	18.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-99	Apr-21	Apr-21	Jun-21	Sep-21
Promoters	-	88.5	88.5	88.5	88.5
FIIIs	-	7.8	7.8	8.7	8.7
DIIIs	-	1.0	1.0	1.7	1.1
Public and Others	100.0	2.7	2.7	1.1	1.7

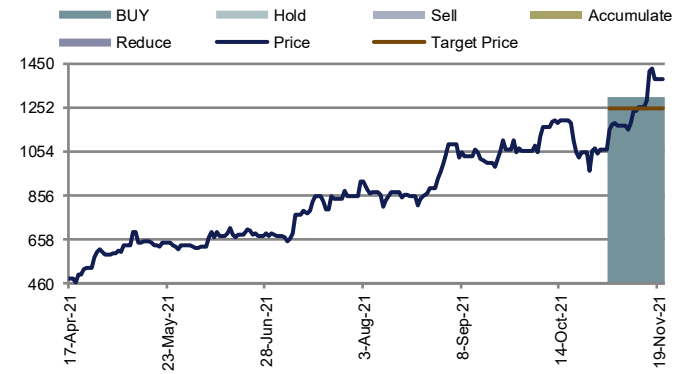
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
15-Nov-21	1,285	1,250	12m	Buy	Rahul Jain
1-Nov-21	1,150	1,250	12m	Buy	Rahul Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 29 Nov 2021 21:45:22 (SGT)

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