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Q4FY22 results review

Real Estate

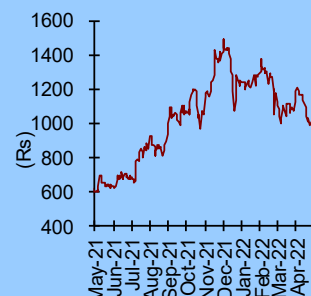
Target price Rs1,348

Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	88.5	82.2	82.2
Institutional investors			
MFs and others	9.8	16.5	16.4
FIs and Banks	0.5	0.4	0.4
FIIIs	0.0	0.0	0.0
FIIIs	9.3	16.1	16.0
Others	1.7	1.3	1.4

Source: BSE India

Price chart



Macrotech Developers Limited

BUY

Maintained

Record year for sales, outlook remains strong **Rs1,013**

Macrotech Developers (LODHA) achieved record Q4FY22 India business sales bookings of Rs34.6bn vs. Isec estimate of Rs32.5bn (up 37% YoY and 33% QoQ) and record FY22 sales bookings of Rs90.2bn (previous highest was Rs81.2bn in FY18). Buoyed by the strong FY22 performance, the company has given FY23E sales booking guidance of Rs115bn (Isec estimate of Rs110bn). We believe that the sales guidance is achievable given that the company has added new projects having total saleable area of 8.8msf with an estimated GDV of Rs146bn in FY22, majority of which are slated for FY23E launch. We retain our BUY rating with an unchanged target price of Rs1,348/share incorporating new JDA projects and value the company at a 30% premium to our Mar'22E NAV of Rs1,037/share. Key risks are a demand slowdown in the MMR market and rising interest rates in India.

► **Record quarter/year for sales bookings:** LODHA clocked Q4FY22 India business sales bookings worth Rs34.6bn vs. Isec estimate of Rs32.5bn (up 37% YoY and 33% QoQ) and it is the highest quarterly sales booking clocked by the company till date. For FY22 overall, this translates to Rs90.2bn of India sales bookings (up 52% YoY) and is in line with the company's guidance of Rs90bn of sales at the beginning of FY22. This is also the company's record annual sales bookings with the previous highest bookings being Rs81.2bn achieved in FY18. India business collections for Q4FY22 stood at Rs28.4bn (up 36% YoY and 34% QoQ) and the company has clocked FY22 collections of Rs86.0bn which is largely in line with sales bookings. Another positive was the company achieving Q4FY22 sales bookings of GBP173mn or Rs17bn in its London projects while FY22 London sales bookings stand at GBP531mn or Rs53bn.

► **Net debt reduced by Rs6.2bn QoQ to Rs93.1bn:** The company's India business net debt reduced by Rs25.5bn QoQ to Rs99.3bn in Dec'21 from Rs125bn in Sep'21. The company's net debt has reduced further by Rs6.2bn QoQ to Rs93.1bn which has been driven by improved collections. The company has guided for a pre-tax operational surplus of Rs60bn in FY23E, and post interest cost of Rs8bn and ~Rs20bn of business development spend, the company plans to utilize the balance surplus of over Rs30bn to bring down Indian business net debt levels to below Rs60bn excluding any surplus received from the UK in FY23E.

► **On track to achieve over Rs100bn of annual sales bookings over FY23-24E:** Post listing in Q1FY22, the company has added new projects having total saleable area of 8.8msf having an estimated GDV of Rs146.0bn in FY22, majority of which are slated for FY23E launch. Considering the strong launch pipeline and sustenance sales momentum, we estimate sales bookings of Rs110bn in FY23E vs. company guidance of Rs115bn (Rs105bn from core residential business and Rs10bn from non-core business) and Rs119bn in FY24E. The company is targeting adding new projects having GDV of Rs115bn in FY23E as well which augurs well for sales booking visibility in medium term.

► **Cost pressures emerge, but price hikes/inventory mix have mitigated the impact:** As per the company, construction cost for new projects have risen by 13.7% in FY22 of which 5% rise was till Dec'21 post which increase in prices across materials has had a near-term impact. However, with the company having taken price hikes of 6% in FY22 and ~35% of inventory being ready (no cost impact) and 20% at advanced stage (4% cost increase), overall cost impact is ~2.5% of sales value.

Market Cap	Rs453bn/US\$5.9bn
Bloomberg	LODHA IN
Shares Outstanding (mn)	447.3
52-week Range (Rs)	1490/580
Free Float (%)	17.8
FII (%)	16.0
Daily Volume (US\$/'000)	6,641
Absolute Return 3m (%)	(20.1)
Absolute Return 12m (%)	67.6
Sensex Return 3m (%)	(0.6)
Sensex Return 12m (%)	17.3

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs bn)	54.5	92.3	104.9	104.8
Adj. Net Income (Rs bn)	5.1	12.0	18.5	22.3
Adj. EPS (Rs)	12.9	25.0	38.6	46.4
% Chg YoY	NM	93.6	54.2	20.4
P/E (x)	NA	40.5	26.3	21.8
P/B (x)	NA	4.0	3.5	3.0
Adjusted EV/E (x)	NA	18.2	16.1	15.9
Dividend yield (%)	-	-	-	-
RoCE (%)	7.2	10.8	12.8	13.9
RoE (%)	11.2	14.4	14.2	14.8

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Table 1: Q4FY22 consolidated result snapshot

(Rs mn)*

	Q4FY22	Q4FY21	Q3FY22	YoY (%)	QoQ (%)
Total Operating income	34,446	25,336	20,594	36.0	67.3
Raw Materials	22,481	15,515	13,211	44.9	70.2
Personnel Cost	911	849	817	7.3	11.5
Other Expenses	2,341	888	1,709	163.6	37.0
Total Expenses	25,733	17,252	15,737	49.2	63.5
EBITDA	8,713	8,084	4,858	7.8	79.4
<i>EBITDA margin (%)</i>	25.3	31.9	23.6	(661.4)	170.6
Interest (Net)	1,218	3,147	1,573	(61.3)	(22.6)
Depreciation	190	170	187	11.8	1.5
Other Income	719	776	893	(7.4)	(19.5)
Exceptional items	-	-	-	NM	NM
Profit Before Tax	8,023	5,543	3,991	44.8	101.0
Taxation	2,643	2,423	1,131	9.1	133.7
Profit After Tax before MI/Associate	5,380	3,120	2,860	72.5	88.1
MI/Associate share	(26)	(14)	3	83.6	(855.9)
Reported PAT	5,355	3,106	2,864	72.4	87.0
<i>Net margin (%)</i>	15.5	12.3	13.9	NM	11.8

Source: Company data, I-Sec research, *as per INDAS 115 hence not comparable on YoY/ QoQ basis

Table 2: LODHA's India business key quarterly operating metrics

Details (Rs mn)	Q4FY22	Q4FY21	Q3FY22	YoY (%)	QoQ (%)	FY22
Pre-Sales (Sales Bookings)	34,560	25,310	26,080	36.5	32.5	90,240
Collections	28,430	20,890	21,270	36.1	33.7	85,970
India Business Net Debt	93,100	160,750	98,960	(42.1)	(5.9)	93,100

Source: Company, Isec research

Chart 1: Modest impact of cost inflation at 2.5% of sales at portfolio level

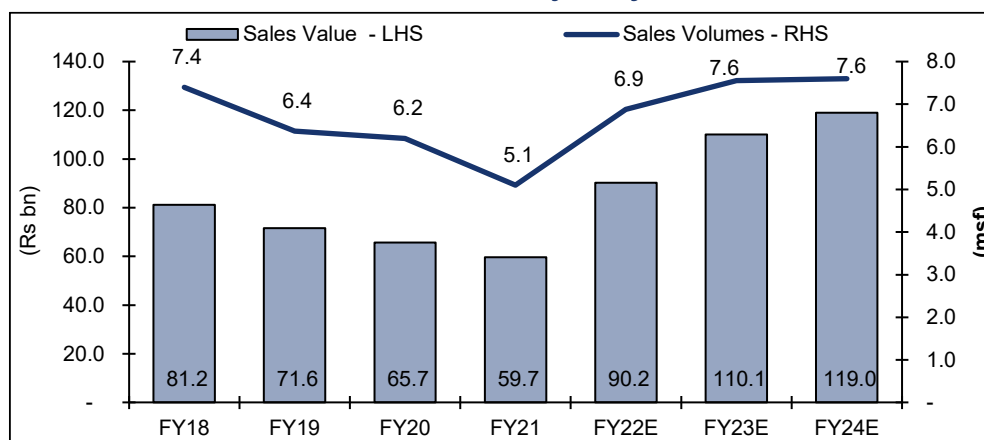
Inventory Type	%age of total inventory	Construction cost increase (% YoY)
Ready	~35%	NIL
Advanced Under-construction	~20%	~4%
Early Under-construction	~45%	~13.7% (detail on next slide)
Constr. cost increase at portfolio level (A)		~7%
Constr. Cost as %age of GDV (B)		~35%
Impact of commodity inflation on overall portfolio as % of sales (C) = (A X B)		~2.5%

Source: Company, Isec research

Chart 2: Construction cost inflation for company in FY22*

Commodity/Component	% Escalation YoY*	% Share in total cost	Total weighted impact %
Steel	35.1%	12.9%	4.5%
Flooring Tiles	23.9%	5.0%	1.2%
Electrical/Plumbing	10.1%	11.8%	1.2%
Labour	3.0%	34.4%	1.0%
External Windows	21.9%	3.9%	0.8%
RMC	6.3%	10.5%	0.7%
Lifts & Elevators	16.6%	3.3%	0.5%
Carpentry Materials	15.5%	3.5%	0.5%
Painting	13.1%	3.8%	0.5%
Cement	14.8%	0.4%	0.1%
Overall			~13.7%

Source: Company, Isec research, * Construction cost increased ~5% up to Jan-22 (vs. ~13.7% for FY 22)

Chart 3: Lodha's India business sales trajectory for FY18-24E

Source: Company, Isec research estimates

Table 3: SoTP Valuation of LODHA

Details	Amount (Rs bn)	Rs/share
Post-tax-Free Cash Flow (FY23-30E)	350.7	730
Add: Land bank @ market value	221.0	459
Add: UK proceeds	20.0	42
Total EV	592.0	1,231
Less: FY22E India Net Debt	93.0	193
FY22E NAV	498.9	1,037
Add: 30% premium to NAV	149.7	311
Target Price*	648.6	1,348

Source: Isec research estimates, * adjusted for QIP proceeds of Rs40bn raised in Q3FY22

Financial summary (consolidated)

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Net Sales	54,486	92,332	1,04,925	1,04,773
Operating Expenses	40,766	71,085	80,521	80,601
Reported EBITDA	13,720	21,247	24,404	24,172
% margins	25%	23%	23%	23%
Adjusted EBITDA*	17,110	32,430	34,245	32,172
% Adjusted EBITDA margins*	31%	35%	33%	31%
Depreciation & Amortisation	734	748	785	824
Interest expenses	11,257	6,803	7,873	3,951
Other Income	3,231	3,460	3,633	3,814
Exceptional items	(4,628)	-	-	-
PBT	9,587	17,156	19,378	23,211
Less: Taxes	(147)	5,080	807	854
PAT before				
Minority/Associate	9,734	12,075	18,571	22,357
Minority/Associate share	(4,624)	(52)	(25)	(30)
Net Income (Reported)	402	12,024	18,546	22,327
Net Income (Adjusted)	5,110	12,024	18,546	22,327

Source: Company data, I-Sec research, *Reclassification of interest costs

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	3,28,358	3,37,628	3,19,483	3,12,835
of which cash & cash eqv.	3,668	12,457	12,642	23,177
Total Current Liabilities & Provisions	1,38,145	1,30,040	1,29,913	1,29,599
Net Current Assets	1,90,213	2,07,588	1,89,571	1,83,236
Goodwill/Investments	21,261	11,128	11,528	11,728
Other Non-Current Assets	5,296	5,598	5,598	5,598
Net Fixed Assets	13,996	13,840	13,305	12,731
Capital WIP	63	-	20	40
Total Assets	2,30,829	2,38,153	2,20,021	2,13,332
Liabilities				
Borrowings	1,81,669	1,15,367	78,664	49,618
Equity Share Capital	3,959	4,815	4,815	4,815
Reserves & Surplus	42,031	1,16,235	1,34,781	1,57,108
Net Worth	45,990	1,21,050	1,39,596	1,61,923
Minority Interest	5,269	568	593	623
Deferred Taxes	(2,098)	1,168	1,168	1,168
Total Liabilities	2,30,829	2,38,153	2,20,021	2,13,332

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
PBT	9,587	17,156	19,378	23,211
Depreciation	734	748	785	824
Non-Cash Adjustments	(712)	(2,510)	(3,633)	(3,814)
Working Capital Changes	(1,218)	(13,565)	19,202	17,870
Taxes Paid	857	(1,778)	(807)	(854)
Operating Cashflow	9,248	51	34,925	37,237
Capital Commitments	65	(330)	(270)	(270)
Free Cashflow	9,313	(279)	34,655	36,967
Other investing cashflow	4,134	11,720	2,233	2,614
Cashflow from Investing Activities	4,199	11,390	1,963	2,344
Issue of Share Capital	-	63,466	-	-
Inc (Dec) in Borrowings	(10,325)	(72,916)	(36,703)	(29,046)
Dividend paid	-	-	-	-
Cashflow from Financing activities	(10,325)	(9,451)	(36,703)	(29,046)
Chg. in Cash & Bank balances	3,122	1,990	185	10,535

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)				
EPS	12.9	25.0	38.6	46.4
Cash EPS	14.8	26.5	40.2	48.1
Dividend per share (DPS)	0.0	0.0	0.0	0.0
Book Value per share (BV)	116.2	251.6	290.2	336.6
Growth (%)				
Net Sales	(56.2)	69.5	13.6	(0.1)
EBITDA	(28.1)	54.9	14.9	(0.9)
PAT	(29.7)	135.3	54.2	20.4
Valuation Ratios (x)				
P/E		40.5	26.3	21.8
P/BV	0.0	4.0	3.5	3.0
EV / Adjusted EBITDA		18.2	16.1	15.9
Dividend Yield	0.0	0.0	0.0	0.0
Operating Ratios				
Debt/EBITDA (x)	13.2	5.4	3.2	2.1
Net D/E	3.9	0.9	0.5	0.2
Profitability/Return Ratios (%)				
RoE	11.2	14.4	14.2	14.8
RoCE	7.2	10.8	12.8	13.9
EBITDA Margins	25.2	23.0	23.3	23.1
Net Income Margins	9.4	13.0	17.7	21.3

Source: Company data, I-Sec research

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