

Expanding residential portfolio with land buys...

About the stock: Mahindra Lifespace Developers (MLD) is the real estate and infrastructure development business of the Mahindra Group. It has 30 msf of completed, ongoing and forthcoming residential projects across seven cities and over 5,000 acres of ongoing and forthcoming projects under development at its integrated developments / industrial clusters across four locations.

- The company has outlined medium term guidance to achieve sales value of ₹ 2500 crore by FY25. For the same, it is targeting four land transactions every year totalling ~₹ 2,000 crores worth of sales potential

Q4FY22 Results: MLD reported decent Q4FY22 results.

- Residential sales volume, value was up ~25%, ~31% QoQ at 0.4 msf and ₹ 328 crore, respectively. Collections at ₹ 308 crore were up ~20.8% YoY. For FY22, sales volume, value was up ~20%, ~48% YoY at 1.28 msf and ₹ 1028 crore, respectively
- On financial front, revenues were up by 1.9x YoY at ₹ 161.8 crore on a benign base. PAT at ₹ 137.7 crore, was aided by one-time reversal of impairment of a subsidiary of ₹ 96.8 crore. On adjusted basis, PAT at ₹ 41 crore was led by profitability in industrial cluster segment (part of profit from associates/JV) wherein profit was ~₹ 24 crore, while residential segment had reported loss of ~₹ 16 crore

What should investors do? MLD share price has grown at ~18% CAGR over past five years (from ~₹ 159 in April 2017 to ~₹ 371 levels in April 2022).

- We maintain our BUY rating on the company

Target Price and Valuation: We value MLD at ₹ 430/share.

Key triggers for future price performance:

- Robust launch pipeline and unsold inventory with ₹ 3,180 crore of potential cash flow coupled with huge captive land bank and expansion plans to add land every year having potential to generate annual sales of ~₹ 2,000 crore
- IC& IC business to benefit from PLI/manufacturing push
- Borrowing cost lowest amongst the peers— a huge competitive advantage

Alternate Stock Idea: Besides MLD, we like Brigade in real estate space.

- Play on robust residential demand and office leasing
- BUY with a target price of ₹ 600

Key Financial Summary

| | FY20 | FY21 | FY22 | 5 yr CAGR (FY17-22) | FY23E | FY24E | 2 yr CAGR (FY22-24E) |
|----------------------|--------|--------|--------|---------------------|-------|---------|----------------------|
| Net Sales (₹ crore) | 610.9 | 166.3 | 393.6 | -12% | 566.7 | 1,037.3 | 62.4 |
| EBITDA (₹ crore) | (56.8) | (93.5) | (89.5) | NA | 53.8 | 105.7 | LP |
| Net Profit (₹ crore) | (58.8) | (71.7) | 57.7 | -11% | 82.4 | 106.1 | 35.6 |
| EPS - Diluted (₹) | (12.5) | (4.6) | 10.0 | | 5.3 | 6.9 | |
| P/E (x) | NM | NM | NM | | 69.5 | 54.0 | |
| Price / Book (x) | 3.4 | 3.5 | 3.2 | | 3.1 | 3.0 | |
| EV/EBITDA (x) | NM | NM | NM | | 113.0 | 57.6 | |
| RoCE | (1.5) | (4.1) | (4.0) | | 2.9 | 5.1 | |
| RoE | (3.5) | (4.4) | 3.2 | | 4.5 | 5.5 | |

Source: Company, ICICI Direct Research

Mahindra LIFESPACES

JOYFUL HOMECOMINGS

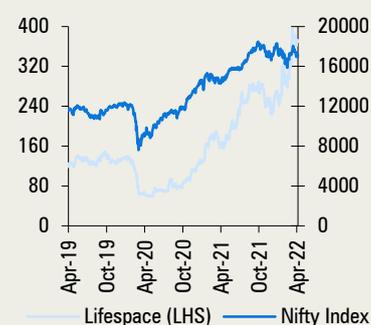
Particulars

| Particular | (₹ crore) |
|-----------------------|-----------|
| Market Capitalization | 5,727 |
| Total Debt (FY22) | 280 |
| Cash and Inv (FY22) | 225 |
| EV | 5,782 |
| 52 week H/L (₹) | 410 / 154 |
| Equity capital | 154.5 |
| Face value | ₹ 10 |

Shareholding pattern

| | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
|-----------|--------|--------|--------|--------|
| Promoters | 51.5 | 51.5 | 51.3 | 51.3 |
| DII | 15.8 | 15.7 | 17.0 | 18.5 |
| FII | 12.6 | 11.6 | 10.6 | 9.8 |
| Other | 20.2 | 21.2 | 21.0 | 20.4 |

Price Chart



Key Risks

Key Risk: (i) Slowdown in residential real estate; (ii) Extended pandemic impacting IC& IC business

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Lokesh Kashikar
lokesh.kashikar@icicisecurities.com

Key rationale and business highlight

Residential business expansion on track

MLDL has achieved net sales of ₹ 328 crore in the residential segment with sales volume reaching 0.4 mn sq ft during Q4FY22, largely in-line with robust real estate demand. Collection also stood healthy during Q4FY22 at ₹ 308 crore. For FY22, the company achieved healthy sales of ₹ 1,028 crore (1.28 mn sq ft) while collections improved to ₹ 1,153 crore. MLDL has finalised three land acquisitions during FY22 having development potential of 3.1 mn sq ft with estimated GDV of ₹ 3,800 crore. Additionally, the company has recently purchased 11.5 acres of land in the micro market of Pimpri (Pune). The land is estimated to have a developable potential of ~2 mn sq ft of saleable area and a GDV of ₹ 1,700 crore. Going forward, land pipeline having mix of outright sales, joint development (JD) agreements, society redevelopment and distress assets opportunities remains robust at ~₹ 4,500 crore. While it maintained its earlier guidance to add land bank with sales potential of ₹ 2000 crore, it is on track to acquire lands providing sales potential of ~ ₹ 3,500 - ₹ 4,000 crore, with one deal already done. The focus regions would be Mumbai, Navi Mumbai, Pune and Bengaluru. **We see sales value jumping more than ~2x from FY22 levels at ~₹ 2200 crore in FY24E, based on the launch pipelines, and new land addition.**

IC& IC business remained healthy...

For Q4FY22, the company leased 25 acres of land valued at ₹ 70 crore. For FY22, MLDL has leased 110.6 acres in industrial parks business (valued at ₹ 298 crore) during FY22 (vs 46.4 acres in FY21 worth ₹ 129 crore). The management expects to maintain the picked-up momentum for its Jaipur and Chennai IC&IC location with strong pipeline of enquiries being witnessed backed by a) expansion of PLI scheme, b) the softening of interest rates and credit availability, c) the lower tax rates for new manufacturing facilities, and d) the global realignment of manufacturing and supply chains favoring India as manufacturing destination. Traction in Origins Ahmedabad is currently subdued with the company scouting for correct anchor client (expects some development over next 6-9 months). We highlight that company has target of an annual leasing run rate of ~₹ 500 crore from IC&IC business by 2025.

Key conference call takeaways

- Industry update:** The real estate industry has continued to witness healthy traction during Q4FY22 mainly driven by a) improved affordability with decline in home loan to income ratio, b) rise in working population, c) lower interest rates, d) buyers preferring better quality homes and bigger apartments, e) higher house holding savings, and f) supply-side consolidations. Also, prices of flat/units have seen uptick on QoQ basis and likely to continue with robust underlying demand and input cost inflations
- Launch and pipeline:** MLDL has launched new value homes project at Kalyan, Mahindra Happinest Kalyan - 2 and further phases across Alcove and Vicino projects ad-measuring 0.96 mn sq ft during Q4FY22. Going forward, its project pipeline remains strong with company planning to launch a) one project in Kandivali and Dahisar location, and b) two projects in Pimpri (Pune). These are likely to get launched by FY23-end. Further, as per the management, the early response to Kanakpura (Bengaluru) projects stands healthy and the unit bookings are likely to begin in Q1FY23
- Debt & cost of borrowing:** Consolidated debt, cash at the end of Q4FY22 was at ₹ 280 crore, ₹ 225 crore vs. ₹ 199 crore, ₹ 156 crore in Q3, respectively. Cost of borrowing stood at 6.5%, 5.7% vs. 7.2%, 6.4% in Q3 at consolidated, standalone levels, respectively
- Input cost inflation and Margin:** MLDL has witnessed ~12-15% increase in overall construction cost (having 300-400 bps margin impact) mainly due to significant rise in most of key raw material prices such as steel, cement, plastics, plumbing, and electrical units. Further, the management is expecting ~8-10%

rise in construction cost in FY23. However, the company has undertaken several steps to mitigate rise in costs such as a) increase in design efficiencies and value engineering, b) sourcing of raw materials in bulk for better negotiated prices, c) systematic increase in flats prices and d) declining cost of borrowing, which are likely to off-set some of the margin impact. Overall, the management is targeting its margin in the residential business at mid-teen levels over medium term

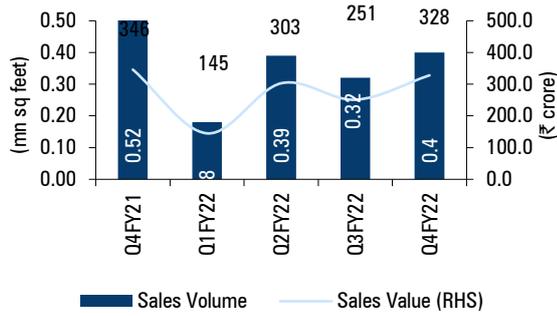
- **Price increase:** Flat/project pricing is largely dependent on a) input costs, b) land prices, c) macro-economic environment and d) competitive intensity. The company target 1.5-2% of flat/unit price increase on QoQ bas

Other Highlights:

- Mahindra Homes Pvt Ltd (MHPL), a joint venture company, is executing residential projects at NCR and Bengaluru. The residential project in NCR (Luminaire) is a Joint Development with the land owner. During the year, MHPL saw significant increase in sales with improvement in selling price, volumes and collections from the projects and there was a buyback of its equity shares. Pursuant to this, the company has evaluated the carrying value of its investment and on the basis of estimated Net Present Value of forecasted cash flows expected to be generated by MHPL, it has reversed an impairment loss of ₹ 96.8 crore
- Marketing expense for MLDL's project life cycle would be ~2.5-3% of overall sales

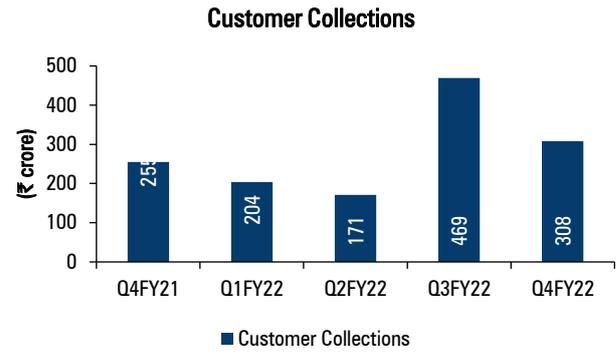
We like MLD given its strong parentage, management's focus on expanding its overall scale of operation and a comfortable balance sheet. MLDL has announced three land transactions for Pimpri (Pune), Dahisar and Kandivali (MMR) locations having total GDV of ₹ 3800 crore in FY22. The new land purchases could drive scalability of its residential business, going ahead. Hence, we maintain BUY recommendation with a revised target price of ₹ 430/share. We have lowered the discount on land bank and also build in better traction in IC and IC business, while maintain our 35% premium on the NAV given the growth optionality with new land buys.

Exhibit 1: Quarterly sales volume



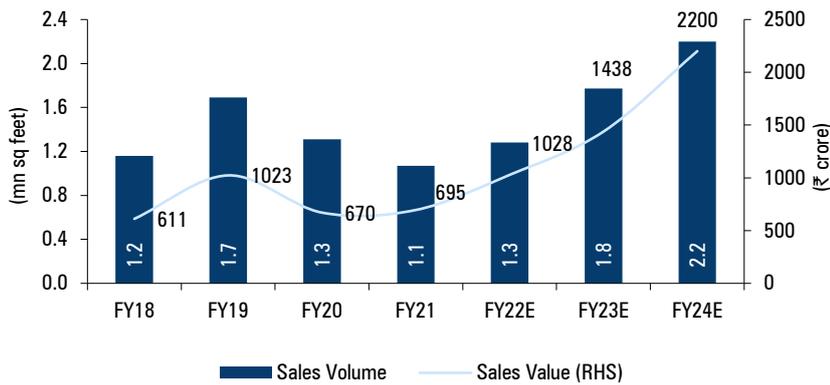
Source: Company, ICICI Direct Research

Exhibit 2: Quarterly collection



Source: Company, ICICI Direct Research

Exhibit 3: Annual Sales volume to grow



Source: Company, ICICI Direct Research

Exhibit 4: Cash Flow Potential

| Cash Flow Potential | | Value (₹ crore) |
|--|--|-----------------|
| CF from Launched Phases | Sales Completed | 2773 |
| | Amount Collected | 905 |
| | Balance Construction Cost to be spend | 1044 |
| | Net amount to be collected on future sales | 824 |
| CF from Future Phases (to be launched) | Sales Potential | 1793 |
| | Est. Construction Cost | 1026 |
| | Cashflow from future phases of ongoing projects | 767 |
| New Projects - To be Launched | Net Cashflow from new projects to be launched | 1589 |
| Total Potential Cash Flows | | 3180 |

Source: Company, ICICI Direct Research

Valuation & Outlook

We like MLD given its strong parentage, management's focus on expanding its overall scale of operation and a comfortable balance sheet. MLDL has announced three land transactions for Pimpri (Pune), Dahisar and Kandivali (MMR) locations having total GDV of ₹ 3800 crore in FY22. The new land purchases could drive scalability of its residential business, going ahead. Hence, we maintain BUY recommendation with a revised target price of ₹ 430/share.

Exhibit 5: Valuation

| Particulars | Stake value | Value / share | Comment |
|----------------------------------|-------------|---------------|--|
| Residential | 2290 | 148 | We have only taken projects which have been given as forthcoming projects by company incl. new project in Kandivali |
| IC& IC Business | 1843 | 119 | This includes the MWC Chennai (remaining land), MWC Jaipur (remaining land), Origins Chennai and Ahmedabad and rental assets like Evolve and Mahindra Tower in Delhi |
| Land Bank | 810 | 52 | Land bank like Murud, Pune and Thane at 10% discount to market value |
| NAV Valuation | 4943 | 320 | |
| 35% Premium for growth potential | 1730 | 112 | |
| Rounded off Target price | 6644 | 430 | |

Source: Company, ICICI Direct Research

Financial Summary

| Exhibit 6: Profit and loss statement | | | | |
|--|---------------|---------------|--------------|----------------|
| | ₹ crore | | | |
| (₹ Crore) | FY21 | FY22 | FY23E | FY24E |
| Net Sales | 166.3 | 393.6 | 566.7 | 1,037.3 |
| Other Income | 21.6 | 14.7 | 17.6 | 21.2 |
| Total operating income | 187.8 | 408.2 | 584.3 | 1,058.5 |
| Operating Expenses | 117.3 | 303.1 | 324.0 | 727.5 |
| Employee Expenses | 75.7 | 83.6 | 87.8 | 93.9 |
| Administrative Expenses | 66.8 | 96.3 | 101.1 | 110.2 |
| Total Operating Expenditure | 259.7 | 483.0 | 512.9 | 931.6 |
| EBITDA | (93.5) | (89.5) | 53.8 | 105.7 |
| Interest | 11.0 | 6.5 | 15.0 | 30.0 |
| Depreciation | 7.0 | 6.5 | 7.4 | 10.4 |
| Other income | 21.6 | 14.7 | 17.6 | 21.2 |
| Share In Profit/(Loss) from associates | 12.1 | 90.3 | 74.5 | 75.5 |
| Exceptional Items | - | 96.8 | - | - |
| PBT | (77.7) | 99.3 | 123.5 | 161.9 |
| Taxes | (6.3) | (62.4) | 31.1 | 40.8 |
| PAT before MI | (71.4) | 161.7 | 92.4 | 121.1 |
| Minority Interest | (0.3) | (7.2) | (10.0) | (15.0) |
| PAT | (71.7) | 154.5 | 82.4 | 106.1 |
| PAT Growth rate | NA | NA | NA | NA |
| EPS | (14.0) | 10.0 | 5.3 | 6.9 |

Source: Company, ICICI Direct Research

| Exhibit 7: Cash flow statement | | | | |
|---|---------------|---------------|----------------|---------------|
| | ₹ crore | | | |
| (₹ Crore) | FY21 | FY22 | FY23E | FY24E |
| Profit after Tax | (71.7) | 154.5 | 82.4 | 106.1 |
| Depreciation | 7.0 | 6.5 | 7.4 | 10.4 |
| Add: Interest | 11.0 | 6.5 | 15.0 | 30.0 |
| Other Income | (21.6) | (14.7) | (17.6) | (21.2) |
| Cash Flow before wc changes | (81.6) | 90.4 | 118.3 | 166.2 |
| Changes in Working Capital | 52.1 | 30.3 | (354.2) | (82.9) |
| Taxes Paid | (4.0) | (13.9) | (31.1) | (40.8) |
| Net CF from operating activities | (33.5) | 106.8 | (267.0) | 42.5 |
| (Purchase)/Sale of Fixed Assets | (2.7) | (8.4) | (7.9) | (5.0) |
| (Purchase)/Sale of Investment | (9.9) | (64.3) | - | - |
| Other Income | 21.6 | 14.7 | 17.6 | 21.2 |
| Net CF from Investing activities | 9.5 | (57.5) | 9.7 | 16.2 |
| Issue/(Repayment of Debt) | 36.4 | 37.1 | 94.4 | 5.1 |
| Changes in Minority Interest | 0.0 | 7.1 | - | - |
| Changes in Networth | 1.5 | 2.9 | (25.6) | (32.9) |
| Interest | (11.0) | (6.5) | (15.0) | (30.0) |
| Net CF from Financing activities | 27.0 | 40.6 | 53.9 | (57.8) |
| Net Cash flow | 3.0 | 90.0 | (203.5) | 0.8 |
| Opening Cash | 132.4 | 135.5 | 225.5 | 22.0 |
| Closing Cash/ Cash Equivalent | 135.5 | 225.5 | 22.0 | 22.8 |

Source: Company, ICICI Direct Research

| Exhibit 8: Balance Sheet | | | | |
|------------------------------|--------------|--------------|--------------|--------------|
| | ₹ crore | | | |
| (₹ Crore) | FY21 | FY22 | FY23E | FY24E |
| Equity Capital | 51.4 | 154.5 | 154.5 | 154.5 |
| Reserve and Surplus | 1,579.7 | 1,634.0 | 1,690.8 | 1,764.0 |
| Total Shareholders funds | 1,631.1 | 1,788.5 | 1,845.3 | 1,918.5 |
| Minority Interest | 42.0 | 49.1 | 49.1 | 49.1 |
| Total Debt | 243.4 | 280.5 | 374.9 | 380.0 |
| Deferred Tax Liability (Net) | (2.6) | (78.9) | (78.9) | (78.9) |
| Total Liabilities | 2,190 | 1,958 | 1,914 | 2,039 |
| Gross Block | 33.9 | 53.4 | 61.4 | 66.4 |
| Less Acc. Dep | 29.5 | 36.0 | 43.5 | 53.9 |
| Net Block | 4.4 | 17.4 | 17.9 | 12.4 |
| Goodwill on Consolidation | 66.0 | 66.0 | 66.0 | 66.0 |
| Capital WIP | 14.6 | 3.4 | 3.4 | 3.4 |
| Total Fixed Assets | 85.0 | 86.8 | 87.3 | 81.9 |
| Investments | 687.8 | 548.2 | 558.1 | 622.4 |
| Inventory | 1,344.7 | 1,441.9 | 1,693.1 | 1,825.6 |
| Sundry Debtors | 56.4 | 91.9 | 89.7 | 94.0 |
| Loans & Advances | 88.3 | 81.4 | 29.2 | 29.6 |
| Cash & Bank Balances | 135.5 | 225.5 | 22.0 | 22.8 |
| Other Current Assets | 281.7 | 388.7 | 177.5 | 177.5 |
| Total Current Assets | 1,906.6 | 2,229.3 | 2,011.5 | 2,149.5 |
| Other Current Liabilities | 640.7 | 902.8 | 550.7 | 605.0 |
| Provisions | 15.5 | 16.6 | 0.1 | 0.1 |
| Net Current Assets | 1,250.3 | 1,310.0 | 1,460.8 | 1,544.5 |
| Total Assets | 2,190 | 1,958 | 1,914 | 2,039 |

Source: Company, ICICI Direct Research

| Exhibit 9: Key ratios | | | | |
|-----------------------------|--------|--------|-------|-------|
| | FY21 | FY22 | FY23E | FY24E |
| Per Share Data (₹) | | | | |
| EPS - Diluted | (4.6) | 10.0 | 5.3 | 6.9 |
| Cash EPS | (12.6) | 10.4 | 5.8 | 7.5 |
| Book Value | 105.6 | 115.7 | 119.4 | 124.2 |
| Dividend per share | (4.3) | - | - | 2.1 |
| Operating Ratios (%) | | | | |
| EBITDA / Net Sales | (56.2) | (22.7) | 9.5 | 10.2 |
| PAT / Net Sales | (43.1) | 14.6 | 14.5 | 10.2 |
| Return Ratios (%) | | | | |
| RoE | (4.4) | 3.2 | 4.5 | 5.5 |
| RoCE | (4.1) | (4.0) | 2.9 | 5.1 |
| RoIC | (5.8) | (5.4) | 2.2 | 4.3 |
| Valuation Ratios (x) | | | | |
| EV / EBITDA | NM | NM | NM | 57.6 |
| P/E (Diluted) | NM | NM | NM | 54.0 |
| EV / Net Sales | 35.1 | 14.7 | 10.7 | 5.9 |
| Market Cap / Sales | 34.4 | 14.6 | 10.1 | 5.5 |
| Price to Book Value | 3.5 | 3.2 | 3.1 | 3.0 |
| Solvency Ratios (x) | | | | |
| Debt / Equity | 0.1 | 0.2 | 0.2 | 0.2 |
| Debt / EBITDA | NM | NM | NM | 3.6 |
| Current Ratio | 2.7 | 2.2 | 3.6 | 3.5 |
| Quick Ratio | 0.6 | 0.6 | 0.5 | 0.5 |

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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