Sharekhan by BNP PARIBAS

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Mahindra Lifespace Developers Ltd

Strong project additions to drive cash flows

Real Estate	Sharekhan code: MAHLIFE
Reco/View: Buy ↔	CMP: Rs. 367
	Price Target: Rs. 450 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result 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		↔	

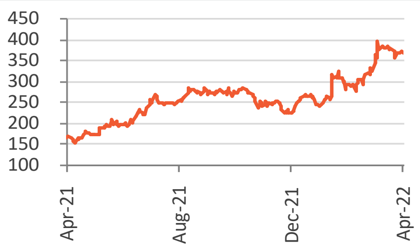
Company details

Market cap:	Rs. 5671 cr
52-week high/low:	Rs. 411/152
NSE volume: (No of shares)	0.6 lakh
BSE code:	532313
NSE code:	MAHLIFE
Free float: (No of shares)	7.5 cr

Shareholding (%)

FII	10
Institutions	19
Public & others	20
Promoters	51

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.1	47.5	35.3	121.3
Relative to Sensex	1.9	48.3	38.3	105.7

Sharekhan Research, Bloomberg

Summary

- MLDL reported healthy performance in terms of residential sales, collections and IC&IC lease for Q4FY2022. Residential operating loss continued as per expectation. Net earnings boosted by one-off items.
- The company added Rs. 5500 crore GDV during FY2022 till date and expects GDV additions of Rs. 3800 crore achieved in FY2022 to sustain in FY2023.
- The company has strong project pipeline of 6.72msf. Looking at society redevelopment projects in Mumbai along with stressed assets acquisitions.
- We retain a Buy on stock with a revised price target of Rs. 450, factoring higher sales run-rate lead by strong project additions.

Mahindra Lifespace Developers Limited (MLDL) reported healthy residential sales of Rs. 328 crore (up 31% q-o-q, down 5% y-o-y), collections of Rs. 308 crore (up 21% y-o-y, down 34% q-o-q) and Industrial Cities & Industrial Clusters (IC&IC) lease of Rs. 70.5 crore (up 7% y-o-y, down 49% q-o-q) for Q4FY2022. In accounting terms, the company reported consolidated income of Rs. 162 crore (up 3x y-o-y), an operating loss of Rs. 35.7 crore and net profit of Rs. 138 crore (led by Rs. 97 crore impairment reversal for Luminaire project and deferred tax credit of Rs. 65 crore). The company finalised four land acquisitions having development potential of 5.1 msf with estimated gross development value (GDV) of Rs. 5,500 crore during FY2022 till date. The management is hopeful of maintaining GDV addition in FY2023 as achieved in FY2022 (Rs. 3800 crore). The company has forthcoming project pipeline of 6.72 msf including future phases of ongoing projects (2.85msf) and new projects (3.87 msf).

Key positives

- Residential sales booking grew 31% q-o-q with average realizations up 4.5% q-o-q
- Gross margins in Residential business improved to 11% in Q4FY2022 as compared to 3% in Q3FY2022.

Key negatives

- Residential operating loss continued due to lower revenue booking and under absorption of fixed costs.

Management Commentary

- The company would like to maintain GDV addition done in FY2022 (Rs. 3800 crore) in FY2023. The company is eyeing gross margins in the mid-teen and IRRs in the low 20s going ahead.
- For FY2023, it expects Chennai MWC picking up with momentum in Jaipur sustaining. For Origins Ahmedabad, the management is still under wait and watch mode for couple of more quarters.
- The construction costs have increased by 12-15% having 300-450 bps effect on margins. It has been taking 1.5-2% q-o-q price increase. It has taken 4-14% price increase across projects over last year.
- In FY2023, it does not see capital raising and would look into it in FY2024.

Revision in estimates – We have fine tuned our net earnings estimates for FY2023-FY2024E.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 450: MLDL has been able to execute strong JD agreements and is further expected to maintain the momentum. It is poised to scale up its sales and execution with a strong management team at the helm of having credible experience in their respective fields. Further, the company is expected to benefit from the government's relentless focus on affordable housing segments, rising affordability levels, favourable state government policies for real estate and ample inorganic growth opportunities. The company's low gearing can be utilised to raise debt to fund land acquisitions. Hence, we retain a Buy on the stock with a revised PT of Rs. 450 factoring a higher sales run-rate.

Key Risks

A weak macroeconomic environment leading to a lull in industry growth trend.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	166.3	393.6	471.0	498.4
OPM (%)	-56.2	-22.7	4.5	4.2
Adjusted PAT	-71.7	154.5	124.9	143.4
% Y-o-Y growth	-	-	-19.2	14.9
Adjusted EPS (Rs.)	-4.7	3.7	8.1	9.3
P/E (x)	-	98.1	45.3	39.4
P/B (x)	3.5	3.2	3.0	2.8
EV/EBIDTA (x)	-	-	-	-
RoNW (%)	-4.3	3.4	6.7	7.2
RoCE (%)	-4.1	0.8	1.6	1.7

Source: Company; Sharekhan estimates

One-off items boost net profit

Mahindra Lifespace (MLDL) achieved healthy sales of Rs. 328 crore (up 31% q-o-q, down 5% y-o-y) in Q4FY2022 in its residential business. The company collected Rs. 308 crore in its residential business, which was up 21% y-o-y (down 34% q-o-q. In its integrated cities segment, it leased an area of 24.9 acres (down 10% y-o-y, down 51% q-o-q) for Rs. 139 crores (up 7% y-o-y, down 49% q-o-q). The consolidated revenues were up 2.9x y-o-y (up 6.6x q-o-q) at Rs. 162 crore. The company reported an operating loss of Rs. 35.7 crore versus operating losses of Rs. 37.1 crore in Q4FY21. The company reversed impairment loss in a JV company, which is executing residential projects in NCR and Bengaluru which led to reported net profit of Rs. 138 crore (also aided by deferred tax credit of Rs. 65 crore) versus a net loss of Rs. 27.8 crore in Q4FY2021. Adjusting for impairment loss reversal, adjusted net profit stood at Rs. 40.8 crore.

Strong land acquisition expected to sustain

The company finalised four land acquisitions having development potential of 5.1msf with an estimated gross development value (GDV) of Rs. 5500 crore during FY2022 till date. The management is hopeful of maintaining GDV addition in FY2023 as achieved in FY2022 (Rs. 3800 crore). The company has forthcoming project pipeline of 6.72msf including future phases of ongoing projects (2.85msf) and new projects (3.87 msf). The company is excited about Society redevelopment projects in Mumbai. It is also looking at stresses projects of ARCs and bank portfolio. In its IC&IC business, for FY2023, it expects Chennai MWC picking up with momentum in Jaipur sustaining. For Origins Ahmedabad, the management is still under wait and watch mode for couple of more quarters.

Key Conference Call Takeaways -

- **Guidance:** The company would like to maintain GDV addition done in FY2022 (Rs. 3800 crore) in FY2023. The company is eyeing gross margins in the mid-teen and IRR in the low 20s going ahead.
- **Lead indicators:** The management tracks four lead indicators 1) collections 2) technology 3) pre-sales (Rs. 1028 crore in FY2022 with 90% comprising sustenance sales) and 4) Land acquisition (Rs. 5500 GDV acquired over thirteen months).
- **Trailing indicators:** As per management, the trailing indicators is the financial reporting which is expected to improve going ahead.
- **Cash flows:** The collections of Rs. 1100 crore in FY2022 led to operating cash flows of Rs. 600 crore.
- **Industrial leasing:** The industrial leasing stood at Rs. 298 crore for FY2022 led by strong traction in Jaipur MWC. For FY2023, it expects Chennai MWC picking up with momentum in Jaipur sustaining. For Origins Ahmedabad, the management is still under wait and watch mode for couple of more quarters.
- **Impairment reversal:** The company did reversal of impairment of Rs. 97 crore for its luminaire project on account of strong sales velocity, higher prices and strong collections.
- **Debt:** The consolidated debt stands at Rs. 280 crore, cash and cash equivalents at Rs. 225 crore. The cost of debt at consolidated level is 6.5% while at standalone level it is 5.7%. In near term, it will build little debt. In FY2023, it does not see capital raising and would look into it in FY2024.
- **Cost inflation:** The key inputs have risen by 50-100%. The construction costs have increased by 12-15% having 300-450 bps effect on margins. The company is focusing on value engineering, procurement & contracting and selling prices to contain cost inflation. It has been taking 1.5-2% q-o-q price increase. It has taken 4% to 14% price increase across projects over last year.
- **Pune project:** The company paid reasonable part of cash in FY2022 towards acquisition of the Pune project.
- **Other interests:** The company is excited about Society redevelopment projects in Mumbai. It is also looking at stresses projects of ARCs and bank portfolio.
- **Bangalore re-entry:** Over next 3-4 quarters, the company is expected to reopen Bangalore and expects to convert deals by FY2023 end or early FY2024.
- **Land payment:** It has Rs. 300-400 core land payment outstanding for 3-4 transactions out of which Rs. 150 crore pertains to Kandivali project, which is expected to be done in FY2023.
- **Project launch:** The company would built upon performance for its Kalyan project. The Kanakpura project is expected to start booking this weekend. Ghodbunder project is expected in Q1FY2024. During FY2023, it will bring to market projects in Pimpri, Pune, Kandivali and Dahisar.

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	YoY %	Q3FY22	QoQ %
Net sales	**161.8**	**56.0**	**188.9%**	**24.3**	**564.6%**
Other income	-6.7	2.1	-	9.0	-
Total income	155.0	58.1	166.7%	33.3	365.2%
operating expenses	197.4	93.1	112.1%	63.1	212.7%
Operating profit	**-35.7**	**-37.1**	**-**	**-38.8**	**-**
Depreciation	2.3	1.7	33.9%	1.4	63.0%
Interest	1.5	1.9	-17.7%	1.7	-9.5%
Exceptional item	96.8	0.0	-	0.0	-
Share of JV	27.3	4.9		49.8	
PBT	**78.0**	**-33.6**	**-**	**16.9**	**361.8%**
Taxes	-59.7	-5.8	-	-8.0	-
RPAT	**137.7**	**-27.8**	**-**	**24.9**	**453.7%**
Onetime items	96.8	0.0		0.0	
APAT	**40.8**	**-27.8**	**-**	**24.9**	**64.2%**
EPS	**2.6**	**-1.8**	**-**	**1.6**	**64.2%**
Margin (%)					
OPM	-22.1%	-66.2%	-	-159.4%	-
NPM	25.2%	-49.6%	-	102.1%	-
Effective tax rate	-76.6%	17.3%	-	-47.3%	-

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 spotlight going ahead as it benefits from the Centre's and state governments' favorable policies pertaining to the affordable housing segment. Rising income levels and affordability levels are expected to drive sales for quality organised developers. Further, organized 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 the twin benefit of driving demand and reducing funding costs. 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 clock pre-sales of over Rs. 2,000 crore per annum in the residential division in 2-3 years. The company's gearing can support 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 plus one apart from government's increasing focus on attracting manufacturing investment in the country led by AtmaNirbhar Abhiyan, 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.

■ Valuation - Retain Buy with a revised PT of Rs. 450

MLDL has been able to execute strong JD agreements and is further expected to maintain the momentum. It is poised to scale up its sales and execution with a strong management team at the helm of having credible experience in their respective fields. Further, the company is expected to benefit from the government's relentless focus on affordable housing segments, rising affordability levels, favourable state government policies for real estate and ample inorganic growth opportunities. The company's low gearing can be utilised to raise debt to fund land acquisitions. Hence, we retain a Buy on the stock with a revised PT of Rs. 450 factoring a higher sales run-rate.

Valuation

Particulars	Rs. Crore	Value per share(Rs.)	Comments
IC&IC	931	60	DCF based valuation
Land bank	1,583	103	Market value of land
Residential	1,772	115	Project NAV based valuation
Commercial	536	35	Valued at 8% cap rate
Gross Asset Value	4,286	313	
Net cash/(Debt)	55	4	
Net Asset Value	**4,341**	**309**	
Premium to NAV	**2171**	**141**	
NAV post premium	**6,512**	**450**	
CMP (Rs.)		**367**	
Upside (%)		23	

Source: Company, Sharekhan Research

About company

Established in 1994, MLDL is the real estate and infrastructure development business of the Mahindra Group in India. The company operates in residential developments under the 'Mahindra Lifespaces' and 'Mahindra Happinest' brands; and through its integrated cities and industrial clusters under the 'Mahindra World City' and 'Origins by Mahindra World City' brands. The Company's development footprint spans 25.7 million sq. ft. (2.4 million sq. m.) of completed, ongoing and forthcoming residential projects across seven Indian cities; and over 5000 acres of ongoing and forthcoming projects under development/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 led by Atma Nirbhar, 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

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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