



## 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	✗	↔	✓

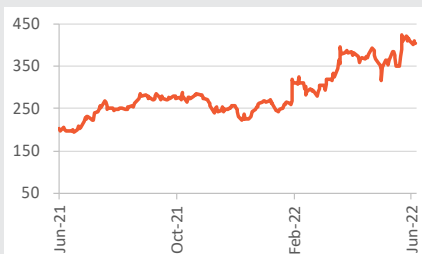
## Company details

Market cap:	Rs. 6,255 cr
52-week high/low:	Rs. 435 / 190
NSE volume: (No of shares)	67082
BSE code:	532313
NSE code:	MAHLIFE
Free float: (No of shares)	7.5 cr

## Shareholding (%)

Promoters	51
FII	10
DII	19
Others	20

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	12.2	27.0	74.1	98.1
Relative to Sensex	17.4	38.0	83.8	99.7

Sharekhan Research, Bloomberg

## Mahindra Lifespace Developers Ltd

## Sales bookings brush off macro headwinds

Real Estate	Sharekhan code: MAHLIFE		
Reco/View: Buy	↔	CMP: Rs. 405	Price Target: Rs. 485
↑ Upgrade	↔ Maintain	↓ Downgrade	

## Summary

- MLDL launched almost a million square feet across regions with an estimated sales value of over Rs. 1100 crore during Q1FY2023 till date and is believed to have evinced strong buyers' response.
- The recently launched projects at high gross margins are expected to provide a fillip to operational profitability aided by a recent correction in commodity prices and expected price rise in future phase launches.
- The project pipeline for the next twelve to eighteen months remains strong with launches expected in Pune, Chennai and Kandivali.
- We retain a Buy on the stock with a revised price target of Rs. 485, factoring higher sales run-rate led by strong project sales bookings.

**Mahindra Lifespace Developers Limited (MLDL) launched almost a 1msf in Q1FY2023 across regions (NCR, Pune, Bengaluru) with an estimated sales value of over Rs. 1100 crore (including GST) garnering a strong response from buyers. The company's historical strike rate of achieving 40-60% of sales during launch should lead to over Rs. 350 crore sales booking alone from two projects (Pune sales may contribute towards Q2FY2023 sales) apart from sustenance sales from other ongoing projects. The scale-up in sales booking is material considering Rs. 145 crore/Rs. 328 crore residential sales achieved during Q1FY2022/Q4FY2022. Further, as per RERA costing and current selling rates, NCR and Bengaluru projects are slated to achieve around 30% gross margins while Pune 33% (being its core market). The same would provide a major fillip to profitability as these projects gets delivered as currently legacy projects have been affecting financials (FY2022 gross margins at 8%). The opening up of booking for other projects (2-2.5 lakh sq ft in Tathawade, Pune and 0.23msf in Aquality, Chennai) in the near term and expected launches (0.2msf MWCC, Chennai, new projects in Kandivali and Pune) by Q1FY2024 would maintain the sales momentum.**

- Strong project launches in Q1FY2023 to boost sales booking:** MLDL received a strong response on sales booking for two major launches (0.26msf Luminaire, NCR and 0.4msf Eden, Bengaluru) executed during April 2022 with an estimated revenue potential of over Rs. 900 crore. The same is expected to contribute over Rs. 350 crore (at 40% strike rate) towards Q1FY2023 sales numbers. The strong response for its 0.26msf Nestalgia project in Pune (revenue potential of Rs. 224 crores) launched in mid-June 2022 may contribute to Q2FY2023 sales booking. Overall, it has launched 0.92msf with an estimated revenue potential of over Rs. 1100 crore during Q1FY2023 till date which at a strike rate of 40% would lead to over Rs. 350 crore sales from two projects apart from contribution from sustenance sales.
- New projects to revive gross margins:** The NCR and Bengaluru projects are expected to clock around 30% gross margins while the Pune project is expected to have 33% gross margins (being its core market) considering the costing provided by the company to State RERAs and current market rates. Post the strong response from the launches, we believe the company would be taking 5-10% price rise in future launches of the above projects which coupled with easing of steel and commodity prices would reflect in improving operational profitability.
- Launch pipeline remains strong post Q1FY2023:** MLDL is expected to launch the 0.23msf Aquality project in Chennai in a month's time period. It has opened bookings for 2-2.5 lakh square feet at Tathawade, Pune. The 0.2msf happiness MWCC project is expected to be launched in FY2023. The new projects in Kandivali (1.7msf) and Pune (2msf) are expected to be opened up in phases from Q4FY2023 or Q1FY2024. Hence, overall we expect the sales momentum to remain strong over the next 12 to 18 months.

## Our Call

**Valuation – Retain Buy with a revised PT of Rs. 485:** MLDL has been garnering strong buyer interest across regions which are expected to lead to scale up in sales booking during FY2023 and beyond. Further, it has been able to execute strong JD agreements and is further expected to maintain the momentum. We expect execution and operational profitability to follow led by a strong management team at the helm 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, favorable 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. 485 factoring in a higher sales run rate.

## Key Risks

A weak macroeconomic environment leading to a lull in the 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)	-	108.2	50.0	43.5
P/B (x)	3.8	3.5	3.3	3.0
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

### Luminare phase 3 - To be key contributor to Q1FY2023 sales

The company launched 0.26msf of the 0.43msf Luminare project (a joint development project with a 72.5% stake) in NCR in April 2022. The launched phase would comprise 140 units in one tower and is likely to be completed on August 23, 2026. As per industry sources, the company received a strong response from the buyers. We estimate revenue potential of close to Rs. 600 crore from the project which includes 5% GST. Adjusting for GST and 3% marketing related spends, we expect the launched phase of luminare project to generate close to 30% gross margins.

#### Luminare Project Detail

Project Name	Location	No of Apartments	No. of Towers
Luminare phase 3	Sector 59, Gurugram, Haryana	140 (128 – 150.875 carpet area in sq mt, 8 – 142.568 sq mt, 4 – 254.547 sq mt)	1

Source: RERA

#### Sales Potential

Apartment Type	RERA Area (sq mt)	RERA Area (sq ft)	Saleable Area (sft)	Selling Price (Rs cr)	Sale rate on RERA (Rs/sft)	Sale rate on saleable (Rs/sft)	Sales value (Rs cr)
3BHK A	150.875	1624	2300	4.12	25369	17910	527
3BHK B	142.568	1535	2178	4.49	29259	20618	36

Source: RERA, Industry sources, Sharekhan Estimates

#### Luminare Gross margin

Revenue assumption (Rs cr)	566
Project cost (Rs cr)	402
Gross margin (Rs cr)	164
Gross margin (%)	29.0

Source: RERA, Industry sources, Sharekhan Estimates

### Eden phase 1 - Bengaluru shows strong faith

The company had launched 0.4msf (Mahindra Eden phase I) of the 0.79msf Kanakpura project in Bengaluru on April 12, 2022. The project comprises 277 apartments of 1BHK to 3BHK configurations and is likely to be completed on March 30, 2027. As per industry sources, the company received strong response from the buyers. We estimate a revenue potential of over Rs. 300 crore from the project. Adjusting for 3% marketing-related spends, we expect the launched phase of the project to generate close to 31% gross margins.

#### Eden Phase I Project Detail

Project Name	Location	No of Apartments	No. of Towers
Mahindra Eden phase 1	Kanakpura Road, Bengaluru, Karnataka	277	2

Source: RERA

#### Sales Potential

Apartment Type	No. of Apts	RERA Area (sq ft)	Selling Price (ex-GST) (Rs cr)	Sale rate on RERA (Rs/sft)	Sales value (Rs cr)
3BHK Aqua	54	2013	1.65	8197	89
3BHK Greens	52	1771	1.4	7905	73
1BHK Meadows	56	605	0.47	7769	26
2BHK	57	1203	0.9	7481	51
3BHK	58	1653	1.3	7864	75
<b>Total</b>	<b>277</b>				<b>315</b>

Source: RERA, Industry sources, Sharekhan Estimates

#### Eden phase I Gross margin

Revenue assumption (Rs cr)	315
Project cost (Rs cr)	218
Gross margin (Rs cr)	97
Gross margin (%)	30.7

Source: RERA, Industry sources, Sharekhan Estimates

## Mahindra Nestalgia – A stronghold market to yield better gross margins

The company launched 0.26msf (Mahindra Nestalgia) of the 0.52msf Pune project in Maharashtra on June 15, 2022. The project comprises 249 apartments of 1BHK to 3BHK configurations and is likely to be completed on August 31, 2027. As per industry sources, the company has received strong response from the buyers. We estimate a revenue potential of over Rs. 213 crore from the project excluding GST. Adjusting for 3% marketing-related spends, we expect the launched phase of the project to generate around to 33% gross margins.

### Nestalgia Project Detail

Project Name	Location	No of Apartments	No. of Towers
Mahindra Nestalgia	Pimpri, Pune, Maharashtra	249	2

Source: RERA

### Sales Potential

Apartment Type	No. of Apts	RERA Area (sq ft)	Selling Price (Rs cr)	Sale rate on RERA (Rs/sft)	Sales value (Rs cr)
<b>Tower A</b>					
3BHK	53	877	1.2	13687	64
3BHK	10	873	1.1	12599	11
2BHK	21	671	0.85	12669	18
2BHK	2	660	0.85	12870	2
2BHK	2	655	0.85	12969	2
Total	88				96
<b>Tower C</b>					
Studio	4	344	0.4	11642	2
1BHK	23	474	0.55	11610	13
2BHK	111	671	0.85	12669	94
2BHK	23	674	0.85	12605	20
Total	161	877	1.2	13687	128
<b>Grand Total</b>	<b>249</b>				<b>224</b>

Source: RERA, Industry sources, Sharekhan Estimates

### Nestalgia Gross margin

Revenue assumption (Rs cr)	213
Project cost (Rs cr)	142
Gross margin (Rs cr)	71
Gross margin (%)	33.3

Source: RERA, Industry sources, Sharekhan Estimates

## Outlook and Valuation

### ■ Sector View – Residential market on a growth trajectory

The real estate sector, especially the residential market, is expected to be in the spotlight going ahead as it benefits from the Centre's and state governments' favourable 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 about 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 centres for its IC&IC business. The company has benefits of China plus one apart from the 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 the scale up of its residential business provides strong uptick.

### ■ Valuation – Retain Buy with a revised PT of Rs. 485

MLDL has been garnering strong buyer interest across regions which are expected to lead to scale up in sales booking during FY2023 and beyond. Further, it has been able to execute strong JD agreements and is further expected to maintain the momentum. We expect execution and operational profitability to follow led by a strong management team at the helm 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, favorable 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. 485 factoring in 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	2,126	138	Project NAV based valuation
Commercial	536	35	Valued at 8% cap rate
Gross Asset Value	4,641	336	
Net cash/(Debt)	55	4	
<b>Net Asset Value</b>	<b>4,696</b>	<b>332</b>	
Premium to NAV	2348	152	
<b>NAV post premium</b>	<b>7,044</b>	<b>485</b>	
<b>CMP (Rs.)</b>		<b>405</b>	
Upside (%)		20	

Source: 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 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

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## 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 deteriorating 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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by BNP PARIBAS

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