Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

Reco/View
Reco: **Buy**
CMP: **Rs. 524**
Price Target: **Rs. 655**

↑ Upgrade ↔ Maintain ↓ Downgrade

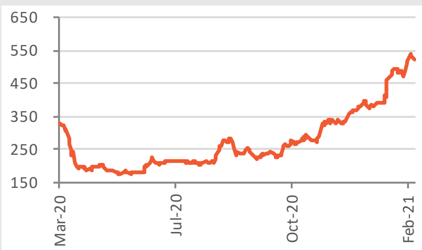
Company details

Market cap:	Rs. 2,694 cr
52-week high/low:	Rs. 561 / 171
NSE volume: (No of shares)	68,549
BSE code:	532313
NSE code:	MAHLIFE
Free float: (No of shares)	2.5 cr

Shareholding (%)

Promoters	12
FII	14
DII	22
Others	51

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.1	53.3	120.2	59.9
Relative to Sensex	13.0	42.3	89.0	25.7

Sharekhan Research, Bloomberg

Mahindra Lifespace Developers Limited

Scaling up with aggressive approach

Real Estate	Sharekhan code: MAHLIFE	Company Update

Summary

- We re-initiate coverage on Mahindra Lifespace Developers Limited (MLDL) with a Buy rating and price target of Rs. 655, owing to high discount to NAV and strong growth outlook.
- MLDL has formed a formidable core management team over a year having credible experience from leading real estate firms to boost sales and execution.
- The company targets to achieve pre-sales target of over Rs. 2,000 crore per year over the next two to three years from Rs. 500 crore to Rs. 1,100 crore range during FY2016-FY2020.
- The company's low gearing is likely to aid in land acquisitions.The company is likely to benefit from the government's affordable housing focus, inorganic opportunities, and favourable state government's policies to name a few.

Mahindra Lifespace Developers Limited (MLDL) has geared up itself to boost sales and execution over the next two to three years by restructuring top management and key management personnel over the past one year. The company has elevated Mr. Arvind Subramaniam, MD and CEO of MLDL (prior CEO of Mahindra Happinest, its affordable housing platform), who has strengthened the company's core functions through hiring and elevating personnel. Key positions such as Chief Legal Officer (prior experience in Lodha, Tata Housing, Wadia Group, for land acquisitions), Chief Project Officer (from Sobha to ramp up execution), Chief Marketing Officer (from Lodha), and Chief Sales Officer (elevated from Happinest) to boost sales are expected to alter MLDL's conservative approach to an aggressive approach over the next two to three years. The company is targeting to move towards Rs. 2,000 crore plus pre-sales annual run-rate in the residential segment over the next two to three years from the current range of Rs. 500 crore to Rs. 1100 crore during FY2016-FY2020. Land outlay for the acquisitions is estimated to be at Rs. 400 crore-500 crore per year, which can be comfortably financed through internal accruals and debt raising (current net debt to equity of just 0.04x with 7.5% cost of debt). The company's cost of debt is 130bps lower than the average cost of debt of its peers. Low gearing in the balance sheet can be utilised to raise debt to fund inorganic expansion or acquisitions of land going ahead.Evidently, it has been looking at concluding land deals across its key markets viz. Mumbai, Pune, and Bengaluru. The company has 4.39msf pipeline of forthcoming projects (1.61msf from existing projects and 2.78msf from new projects) apart from land inventory of 10.44msf. In value terms, its residential portfolio has estimated cash flows of Rs. 2,327 crore (Rs. 997 crore from ongoing and completed projects, Rs. 627 crore from future phases on ongoing projects, and Rs. 703 crore from new projects). In its Integrated cities and industrial clusters division, the company has leasable area of 3,586 acres, out of which it has leased 2,012 acres as of December 2020 and is left with 1,574 acres (1,157 acres in MWC, Jaipur),which would provide cash flows over the next 10 to 15 years. The company's IC&IC business is witnessing strong demand for built-to-suit factories, warehouses, and data centres benefitting from China +1 strategy, domestic policies such as Atmanirbhar, PLI, and National Logistics Policy. Overall, we believe MLDL is poised to generate strong pre-sales andexecution ramp-up over the next two to three years, leading to uptick in NAV valuation.

Our Call

Valuation – Re-Initiate with Buy, assigning a PT of Rs. 655

MLDL is poised to scale up its sales and execution over the next two to three years 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 in the sector. The company's low gearing (current consolidated net debt to equity at just 0.04x with 7.5% cost of debt) can be utilised to raise debt to fund inorganic expansion and land acquisitions. MLDL trades at higher NAV discount to its peers, where companies such as Godrej Properties trade at a high premium to NAV, DLF,and Sobha near NAV, Phoenix, Oberoi and Prestige. We have valued MLDL on SOTP basis, arriving at a PT of Rs. 655. We re-initiate coverage on the stock with a Buy rating.

Key Risks

Weak macroeconomic environment leading to lull in industry growth trend.

Valuation (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	592.8	610.9	144.3	312.4	400.6
OPM (%)	4.4	-9.3	-52.6	-21.9	14.0
Adjusted PAT	119.7	-193.4	-68.7	-3.2	175.4
% Y-o-Y growth	*18.5*	-	-	-	-
Adjusted EPS (Rs.)	23.3	-37.6	-13.4	-0.6	34.1
P/E (x)	22.5	-	-	-	15.4
P/B (x)	1.4	1.6	1.7	1.7	1.5
EV/EBIDTA (x)	100.7	-	-	-	51.9
RoNW (%)	6.0	-10.7	-4.1	-0.2	10.2
RoCE (%)	3.6	-7.9	-3.3	-1.9	5.6

Source: Company; Sharekhan estimates

Restructuring organisation over the past 1 to 2 years to build a formidable team

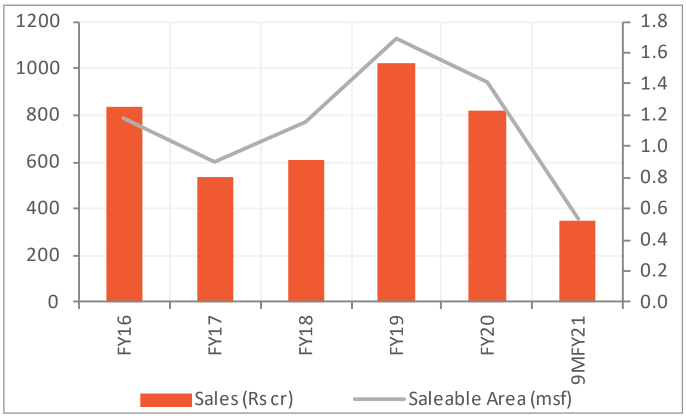
Over the past two years, MLDL has been restructuring its top management and key management personnel to build a formidable team to increase its sales and execution capabilities. Under the leadership of the current MD and CEO, Mr. Arvind Subramaniam (elevated from CEO of Mahindra Happinest and COO of MLDL; has prior experience as the regional head of Lodha Group), the company has built a strong team from leading real estate companies. Miss Parveen Mahtani joined as Chief Legal Officer in July 2020 to oversee new land acquisitions and has prior experience in Tata Housing, Wadia Group, Lodha, and IF&FS. Mr. K.R. Sudharshan joined as Chief Project Officer in December 2020 end; he has over 20 years of experience in Sobha and would be focusing on the company's execution. Mr. Viral Oza joined MLDL in July 2020 as Chief Marketing Officer and has prior experience in Lodha Group, HUL, Nokia, and Times of India.Mr. Vimalendra Singh has been elevated from Chief Sales Officer at Happinest to MLDL in the same position and has prior experience in Lodha Group.

Focus on residential markets in Mumbai, Pune, and Bengaluru

The company is planning to do up to 3 to 4 land deals in Q4FY2021 with overall sales potential of Rs. 2,000 crore and overall outlay of Rs. 400 crore to be paid overtime. The two land deals are in western suburbs in Mumbai and one in the central suburbs having total area of 1.5 million square feet. Of the three land deals, the company targets to launch one or two projects in FY2022. Apart from MMR, the companyis looking at couple of deals in Pune and Bengaluru, which are in pipeline for FY2023. The company would be launching ~2.8msf projects across Sakinaka, Chennai, and Bengaluru in phases. The company's low gearing can be leveraged to buy land especially at lower interest costs of 8%-9%.

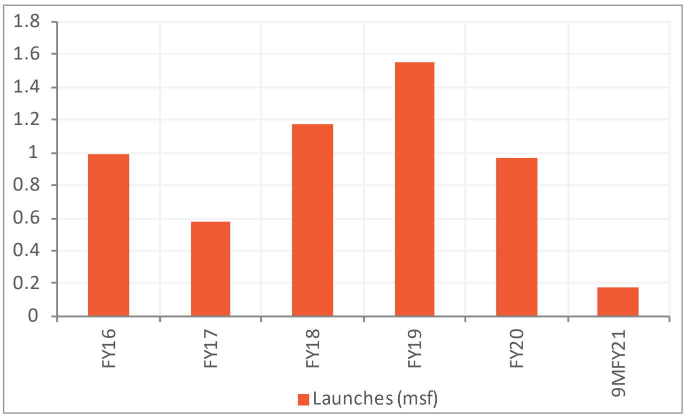
Launch Pipeline – Forthcoming projects

Residential sales Value/Area trend



Source: Company, Sharekhan Research

Residential project launch trend



Source: Company, Sharekhan Research

Location	Category	Project	Saleable area (msf)
Existing projects phases			
MMR	Mid Premium	Vicino	0.19
	Mid Premium	Serenes	0.1
	Affordable	Happinest Palghar 2	0.18
NCR	Mid Premium	Luminare	0.43
Chennai	Mid Premium	Aqualily	0.08
	Mid Premium	Lakewoods	0.62
	Affordable	Happinest Avadi	0.01
Total Existing project phases			**1.61**
New projects			
MMR	Mid Premium	Sakinaka	0.39
Pune	Affordable	Tathawada	1.19
Bengaluru	Mid Premium	Kanakpura	0.79
Chennai	Affordable	MWC Chennai	0.41
Total new projects			**2.78**
Total Forthcoming projects			**4.39**
Land inventory			**10.44**

Source: Company; Sharekhan Research

IC&IC business to remain cash cow

As the industrial land inventory in MWC Chennai is exhausted, Origins Chennai and MWC Jaipur will drive industrial leasing activity in this segment. The company is also developing its second industrial cluster project — Origins (Ahmedabad), Gujarat. The company is witnessing strong demand for built-to-suit factories, warehouses, and data centres, which is being actively pursued. The company has large deals of 40-50 acres in the pipeline. The company 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.

Integrated Cities & Industrial Clusters

Particulars	MWC, Chennai	MWC, Jaipur	Orgins, Chennai	Origins, Ahmedabad
Stake (%)	89	74	60	50
Leasable Area (acres)	1145	2011	209	221
Leased Area (acres)	1120	854	38	
Balance Inventory (acres)	25	1157	171	221

Source: Company; Sharekhan Research

IC&IC trend — Rs cr

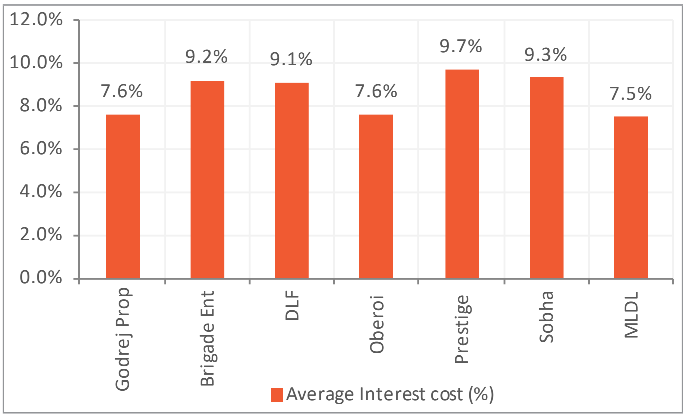
Particulars	FY17	FY18	FY19	FY20	9MFY21
Area leased (acres)					
MWC, Chennai	7.5	17.6	24.1	4.2	10
MWC, Jaipur	66.8	44	46.2	23.3	17.7
Orgins, Chennai			15	15.1	
Total Area leased (acres)	**74.3**	**61.6**	**85.3**	**42.6**	**27.7**
Average price (Rs cr/acre)					
MWC, Chennai	3.3	3.2	3.1	3.9	3.5
MWC, Jaipur	2	1.9	2	2.5	2.6
Orgins, Chennai			2.5	2.7	
Blended realisation (Rs/acre)	**2.1**	**2.3**	**2.4**	**2.7**	**2.9**
Sales Value (Rs cr)					
MWC, Chennai	25	56	75	16	35
MWC, Jaipur	134	84	92	58	46
Orgins, Chennai			38	41	
Total Sales Value (Rs cr)	**158**	**140**	**205**	**116**	**81**

Source: Company; Sharekhan Research

Low borrowing cost a differentiator among peers

MLDL's consolidated net debt at the end of Q3FY2021 stood at Rs. 66.3 crore with net debt/equity ratio of just 0.04x. The company's average consolidated cost of debt is 7.5%, while standalone cost of debt is 4.9%. The company's cost of debt is 130bps lower than the average cost of debt of its peers. The low gearing in the balance sheet can be utilised to raise debt to fund inorganic expansion or acquisitions of land going ahead. As the company is looking to buy land in the range of Rs. 400 crore-500 crore per year, payments of which would be done in a staggered manner depending on execution milestones and approvals taken. Hence, the balance sheet of MLDL is expected to remain strong despite accruing land over the next two to three years.

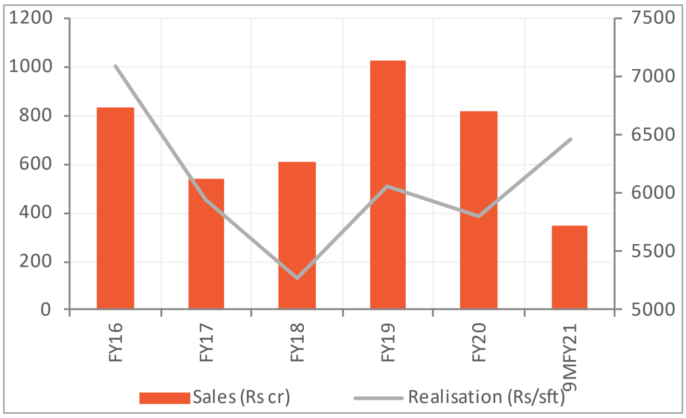
Average Interest cost (%)



Source: Company, Sharekhan Research

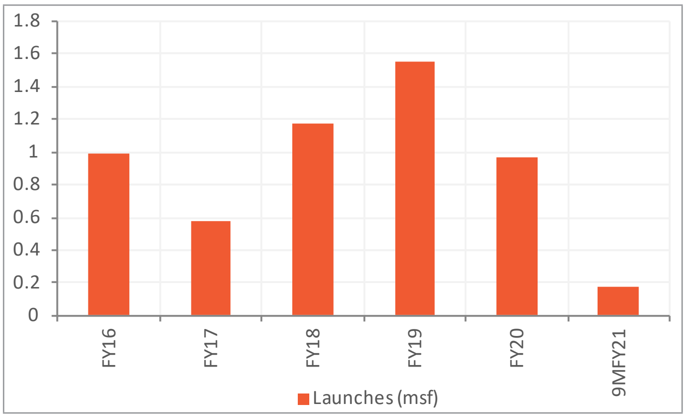
Financials in charts

Residential Sales/Realisation trend



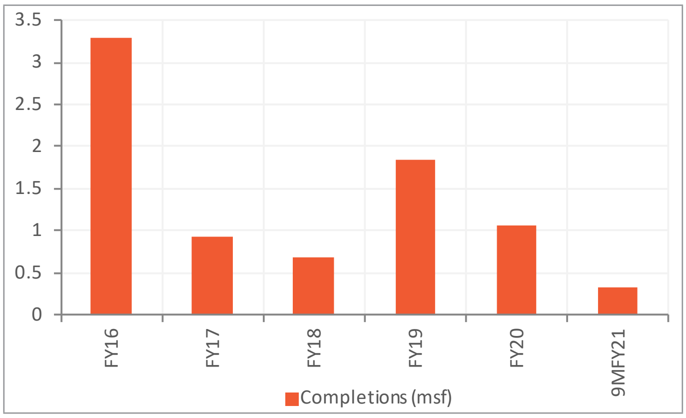
Source: Company, Sharekhan Research

Residential Launches trend



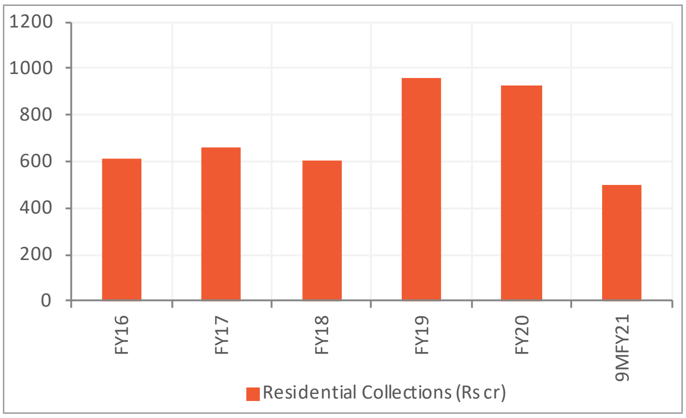
Source: Company, Sharekhan Research

Residential completion trend



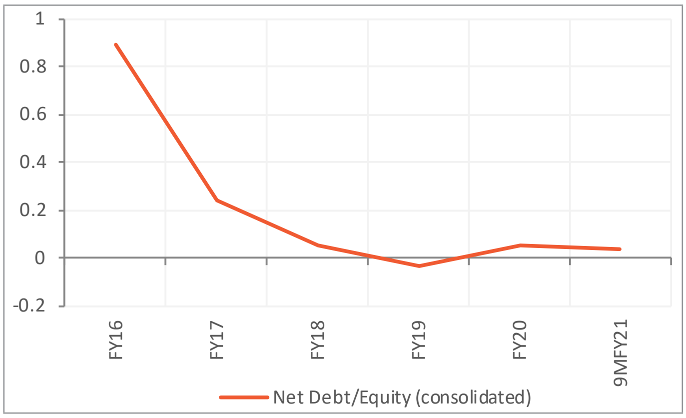
Source: Company, Sharekhan Research

Residential collections trend



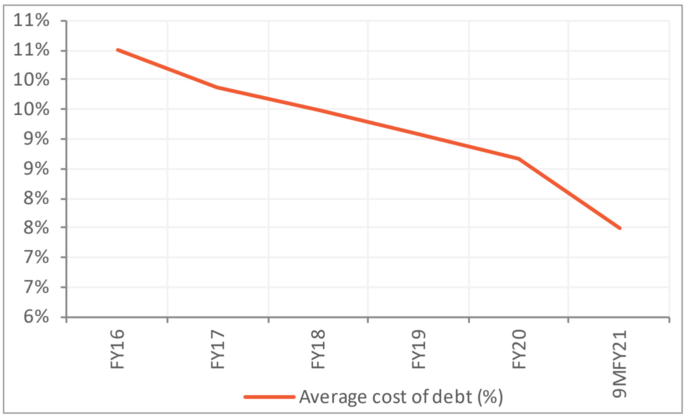
Source: Company, Sharekhan Research

Net Debt/Equity trend



Source: Company, Sharekhan Research

Average cost of debt trend



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 limelight going ahead as it benefits from central and state government's favourable policies pertaining to the affordable housing segment.Rising income levels and affordability levels are expected to drive sales for quality organised developers. Further, organised 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 twin benefits in driving demand and reduced funding cost. 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 pre-sale over Rs. 2,000 crore per annum in the 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. The company 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, 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 - Re-initiate coverage with Buy and PT of Rs. 655

MLDL is poised to scale up its sales and execution over the next two to three years with a strong management team at the helm of having a 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 in the sector. The company's low gearing (current consolidated net debt to equity at just 0.04x with 7.5% cost of debt) can be utilised to raise debt to fund inorganic expansion and land acquisitions. MLDL trades at higher NAV discount to its peers, where companies such as Godrej Properties trade at a high premium to NAV, DLF, and Sobha near NAV, Phoenix, Oberoi, and Prestige. We have valued MLDL on SOTP basis, arriving at a PT of Rs. 655. We re-initiate coverage on the stock and a Buy rating.

Valuation

MLD NAV Valuation	Rs in crore	Value per share	Comments
IC&IC	810	158	DCF based valuation
Land bank	1,350	263	Market value of land
Residential	1,119	218	Project NAV based valuation
Commercial	568	110	Valued at 8.5% cap rate
Gross Asset Value	**3,279**	**749**	
Net cash/(Debt)	480	93	
Net Asset Value	**3,759**	**655**	
CMP		**524**	
Upside (%)		25	

Source: Company; Sharekhan Research

Peer valuation

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Mahindra Lifespaces	-	15.4	-	51.9	1.7	1.5	-	10.2
Oberoi Realty	22.0	18.0	17.1	14.1	2.0	1.8	9.0	9.3
Godrej Properties	97.8	61.5	145.3	71.6	7.0	6.3	7.3	10.8
DLF	47.9	42.7	42.3	43.7	2.2	2.1	4.4	4.8
Sobha	14.2	11.0	7.5	7.1	1.8	1.4	12.8	13.0
Phoenix Mills	37.9	28.1	17.4	14.2	2.7	2.5	6.9	9.2
Prestige Estates	27.4	21.7	8.9	7.9	2.0	1.9	8.0	9.3

Source: Sharekhan Research

About company

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

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

Sharekhan

by BNP PARIBAS

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