



## 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	✓	↔	✓

## Reco/View

Change

Reco: Buy	↔
CMP: Rs. 660	
Price Target: Rs. 795	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

## Company details

Market cap:	Rs. 3,390 cr
52-week high/low:	Rs. 684/194
NSE volume: (No of shares)	67,082
BSE code:	532313
NSE code:	MAHLIFE
Free float: (No of shares)	2.5 cr

## Shareholding (%)

FII	14
Institutions	14
Public & others	21
Promoters	51

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	12.7	32.4	65.5	204.3
Relative to Sensex	13.0	24.5	59.7	161.6

Sharekhan Research, Bloomberg

## Mahindra Lifespace Developers Limited

## Regional markets gaining traction

Real Estate

Sharekhan code: MAHLIFE

Company Update

## Summary

- We retain Buy on Mahindra Lifespace Developers Limited (MLDL) with a revised PT of Rs. 795, owing to strong growth outlook and valuation comfort.
- Property registrations in Mumbai and Maharashtra show encouraging signs in Q1FY2022 and July till date. Unsold inventory stable q-o-q and down y-o-y during Q1FY2022.
- Healthy traction in MLDL's region of operations indicates Q1FY2022 sales to be around H1FY2021 and significantly higher y-o-y. Collections to be much better y-o-y, owing to low base and lesser impact of COVID-19 second wave on consumers.
- We expect new launches from Q2FY2022, which along with improving realty market would aid in healthy pre-sales for FY2022. The company is actively pursuing Rs. 4,500 crore worth of land deals for future growth.

Mahindra Lifespace Developers Limited (MLDL) is expected to benefit from strong traction being witnessed in property sales in Mumbai and Maharashtra during Q1FY2021 and July till date. Property registration data in Mumbai and Maharashtra in Q1FY2022 shows encouraging trends, especially seen in the wake of the period getting affected by the second wave of COVID-19. The number of sales documents registered in Mumbai for Q1FY2022 stood at 23,351, which is up 80% compared to H1FY2021 (12,947 documents registered). While Q1FY2021 had severe impact of COVID-19, leading to an 87% q-o-q decline in the number of documents registered at Mumbai, impact of the second wave had been less on Q1FY2022, where the number of documents registered a decline of 39% q-o-q. The sequential decline can also be attributed to high base of Q4FY2021, which had major sales push, led by stamp duty reduction. July month till date has already surpassed the July 2020 numbers, indicating continued momentum in Mumbai sales. The number of documents registered in Maharashtra in Q1FY2022 are lower by 22% compared to H1FY2021 and down by 41% q-o-q. July month till date is 64% of July 2020 numbers for Maharashtra. As per Anarock, units sold in MMR during Q1FY2022 formed almost 60% of sales done in H1FY2021, while unsold inventory remained almost flat q-o-q and down 6% y-o-y. We expect the company to achieve Q1FY2022 sales around H1FY2021 level (Rs. 154 crore in H1FY2021) and significantly higher than Q1FY2021 (Rs. 39 crore), considering healthy traction in MLDL's operational regions. As the impact of the second wave of COVID-19 on customers has been much lesser than the first wave, we expect collections to be much better than Q1FY2021 (Rs. 72 crore) with very few cancellations. Integrated cities and integrated clusters (IC&IC) business had already gathered pace, with lease of 27.8 acres (up 21% y-o-y, up 61.5% q-o-q) in Q4FY2021 despite restrictions on international travel. The company's IC&IC business is expected to do well with demand for built-to-suit factories, warehouses, and data centres benefitting from China +1 strategy, domestic policies such as AtmaNirbhar Bharat Abhiyaan, PLI scheme, and National Logistics Policy. MLDL has not done any new launches during Q1FY2022, in-line with the industry's weak launches. We expect the company to commence launching new projects from Q2FY2022 (target to launch 2msf+ in FY2022 out of total 4.71msf launch pipeline). We believe MLDL is on the right track to achieve its Rs. 2,500 crore sales per annum target by FY2025 as it sees demand migrating to the formal sector, led by consumer preference, while it has been able to receive strong response from its major launches (80%+ sold over 6-9 month period). MLDL had acquired three land parcels worth less than Rs. 300 crore and targets of doing four land transactions per annum having sales potential of Rs. 2,000 crore. It is in active talks with land deals worth Rs. 4500 crore currently. Overall, we believe MLDL is poised to generate strong pre-sales and execution ramp-up over the next 2-3 years, leading to uptick in NAV valuation. Hence, we retain Buy on the stock with a revised PT of Rs. 795.

## Our Call

**Valuation – Retain Buy with a revised PT of Rs. 795:** 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 its 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 0.07x with 7.1% cost of debt) can be utilised to raise debt to fund inorganic expansion and land acquisitions. Overall, we believe MLDL is poised to generate strong pre-sales and execution ramp-up over the next 2-3 years, leading to uptick in NAV valuation. Hence, we retain Buy on the stock with a revised PT of Rs. 795.

## Key risk

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

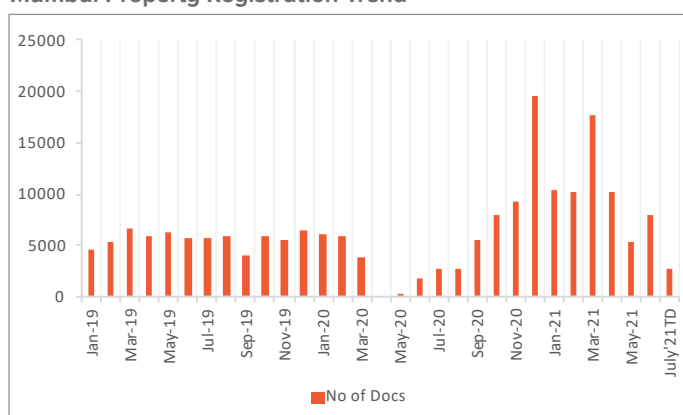
## Valuation (Consolidated)

	Rs cr			
Particulars	FY20	FY21	FY22E	FY23E
Revenue	610.9	166.3	313.3	376.0
OPM (%)	-9.3	-56.2	-19.7	13.7
Adjusted PAT	-193.4	-71.7	3.4	171.9
% Y-o-Y growth	-	-	-	-
Adjusted EPS (Rs.)	-37.6	-14.0	0.7	33.4
P/E (x)	-	-	-	19.7
P/B (x)	2.0	2.1	2.1	1.9
EV/EBIDTA (x)	-	-	-	68.1
RoNW (%)	-10.7	-4.3	0.2	10.0
RoCE (%)	-7.9	-4.1	-1.5	5.3

Source: Company; Sharekhan estimates

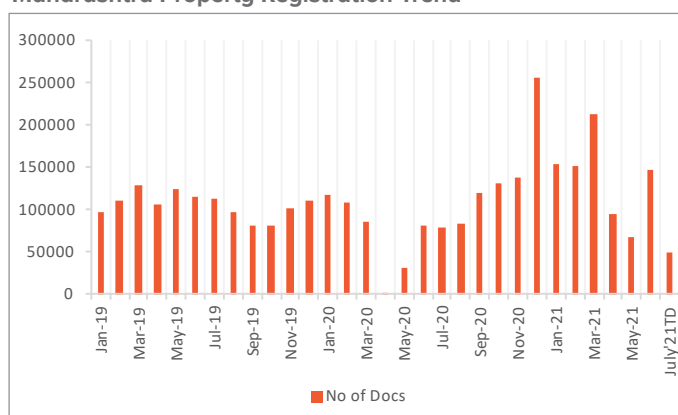
**Sales momentum in the region of operations picking up:** Property registration data in Mumbai and Maharashtra in Q1FY2022 shows encouraging trends, especially seen in the wake of the period getting affected by the second wave of COVID-19. The number of sales documents registered in Mumbai for Q1FY2022 stood at 23,351, which is up 80% compared to H1FY2021 (12,947 documents registered). While Q1FY2021 had a severe impact of COVID-19, leading to an 87% q-o-q decline in the number of documents registered at Mumbai, the impact of second wave had been less on Q1FY2022, where the number of documents registered are down 39% q-o-q. The sequential decline can also be attributed to high base of Q4FY2021, which had major sales push, led by stamp duty reduction. July month till date has already surpassed July 2021 numbers, indicating continued momentum Mumbai sales. The number of documents registered in Maharashtra in Q1FY2022 is lower by 22% compared to H1FY2021 and down by 41% q-o-q.

**Mumbai Property Registration Trend**



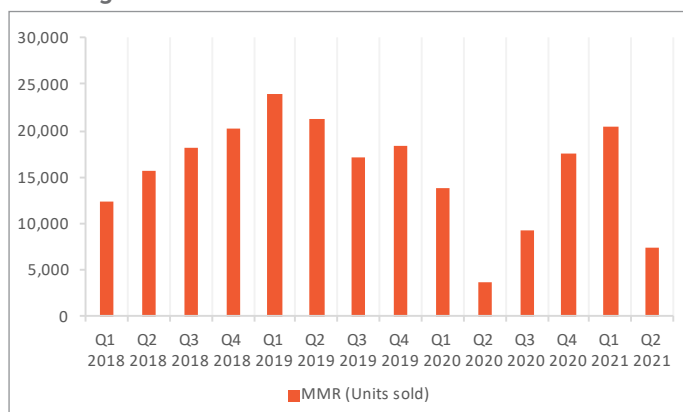
Source: Industry, Sharekhan Research

**Maharashtra Property Registration Trend**



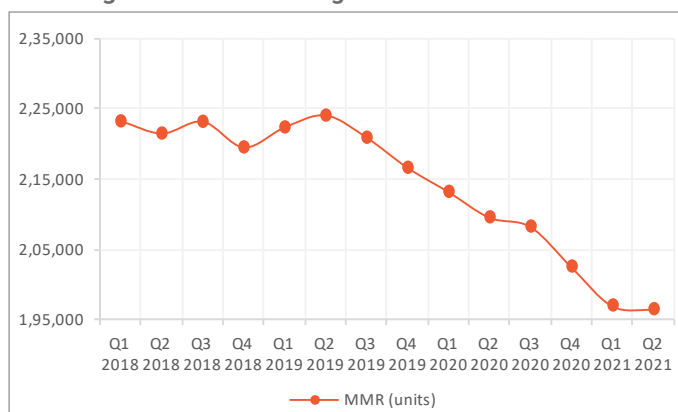
Source: Industry, Sharekhan Research

**MMR Region Sales Trend**



Source: Anarock, Sharekhan Research

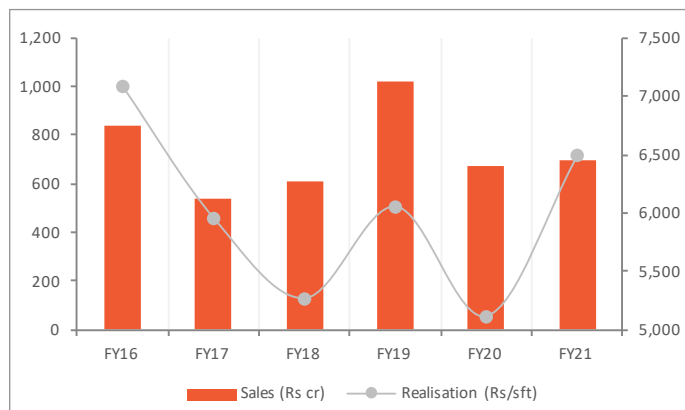
**MMR Region Unsold Inventory Trend**



Source: Anarock, Sharekhan Research

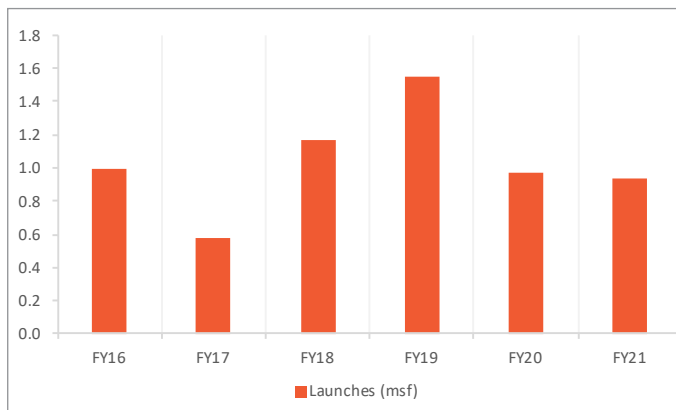
## Financials in charts

### Residential Sales/Realisation Trend



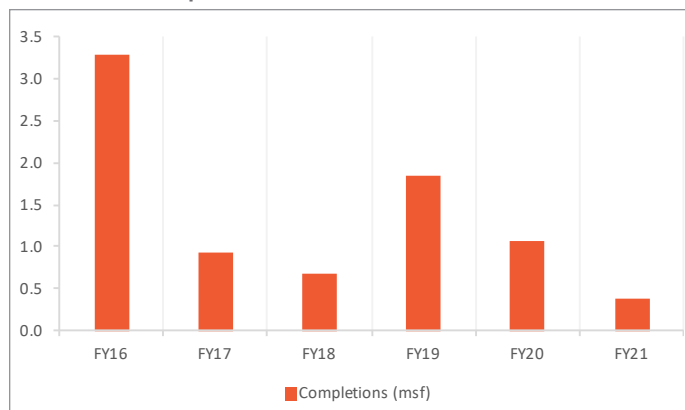
Source: Company, Sharekhan Research

### Residential Launches Trend



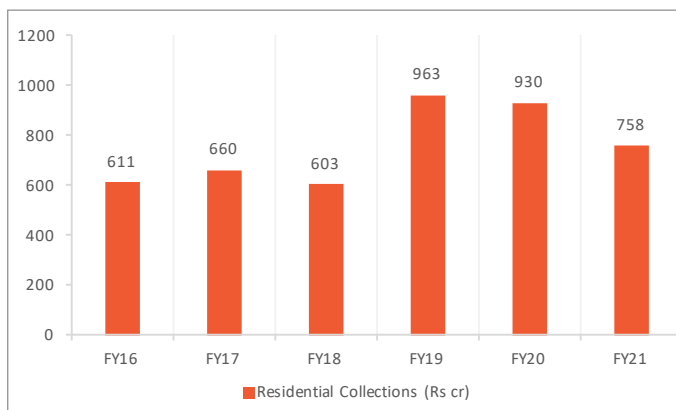
Source: Company, Sharekhan Research

### Residential Completion Trend



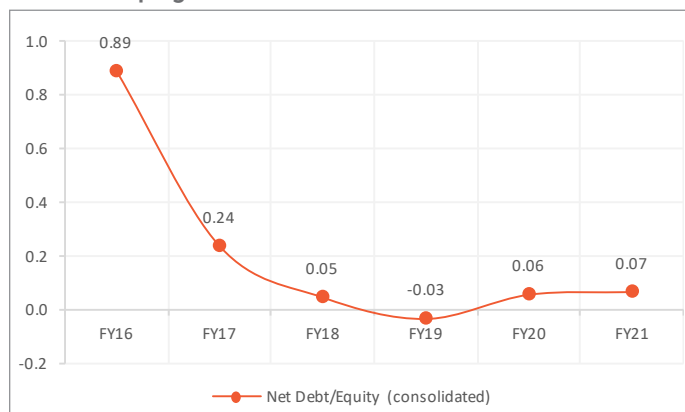
Source: Company, Sharekhan Research

### Residential Collections Trend



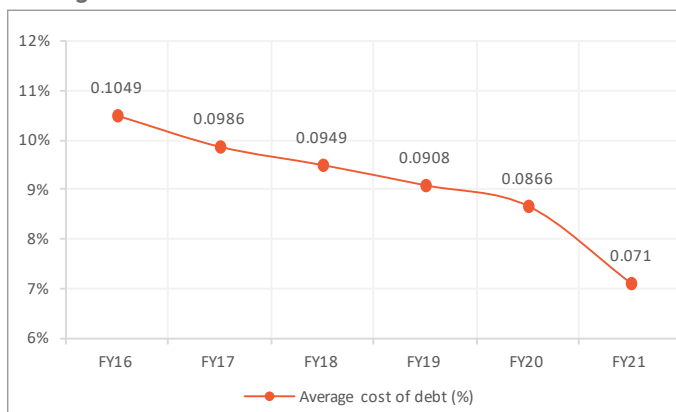
Source: Company, Sharekhan Research

### 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 to 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 +1 apart from increasing the government's focus on attracting manufacturing investment in the country, led by AtmaNirbhar Abhiyan and 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 – Retain Buy with a revised PT of Rs. 795

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 0.07x with 7.1% cost of debt) can be utilised to raise debt to fund inorganic expansion and land acquisitions. Overall, we believe MLDL is poised to generate strong pre-sales and execution ramp-up over the next 2-3 years, leading to uptick in NAV valuation. Hence, we retain Buy on the stock with a revised PT of Rs. 795.

#### Valuation

MLD NAV Valuation	Rs. crore	Value per share(Rs.)	Comments
IC&IC	845	164	DCF based valuation
Land bank	1,350	263	Market value of land
Residential	663	129	Project NAV based valuation
Commercial	447	87	Valued at 9% cap rate
<b>Gross Asset Value</b>	<b>2,858</b>	<b>643</b>	
Net cash/(Debt)	108	21	
<b>Net Asset Value</b>	<b>2,966</b>	<b>622</b>	
<b>Premium to NAV</b>	<b>890</b>	<b>173</b>	
<b>NAV post premium</b>	<b>3,856</b>	<b>795</b>	
<b>CMP (Rs.)</b>		<b>660</b>	
Upside (%)		21	

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 5,000 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 its 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 to aggressive land acquisitions. The company is witnessing strong demand for built-to-suit factories, warehouses, and data centres for its IC&IC business. It has benefits of China +1 apart from increasing the government's focus on attracting manufacturing investment in the country, led by AtmaNirbhar and 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 the real estate sector slowdown.
- ♦ Delay in execution, inability to maintain sales, rising interest rates, and rising commodity prices.

## Additional Data

### Key management personnel

Mr. Arun Nanda	Chairman
Mr. Arvind Subramaniam	MD and 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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