



## 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

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 278	
Price Target: Rs. 340	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

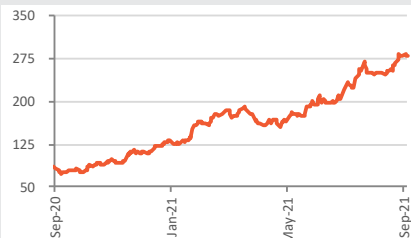
## Company details

Market cap:	Rs. 4291 cr
52-week high/low:	Rs. 294 / 73
NSE volume: (No of shares)	67,082
BSE code:	532313
NSE code:	MAHLIFE
Free float: (No of shares)	7.5 cr

## Shareholding (%)

Promoters	51
Public & others	20
Institutions	16
FII	13

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	11.9	31.5	51.8	228.5
Relative to Sensex	6.2	19.6	35.2	179.1

Sharekhan Research, Bloomberg

## Summary

- We retain a Buy on stock with a revised price target of Rs. 340, led by industry growth tailwinds and strong balance sheet
- Residential demand in MMR, NCR and Pune remain healthy across price categories post Q1FY2022. Expect to launch three projects over next six months.
- Land accretion to be focus area in residential segment to prop up sales and execution. Expect to conclude 1-2 land deals in near term.
- IC&CS business to gain traction over a year with easing travel restrictions, pick up in manufacturing activities, manufacturing push through PLI. IC&CS contribution can lead to overall net profitability in FY2023.

Our interaction with the management of Mahindra Lifespace Developers Limited (MLDL) indicates a healthy residential demand environment post Q1FY2022 in key markets viz. MMR, NCR and Pune across different price categories. It expects 1-2 land deals getting finalized out of 3-4 deals under evaluation. Over the next six months, three projects (Bangalore, Pune & MMR) would be launched. Sales booking target of Rs. 2500 crore and 18% RoE remain intact over next 4-5 years.

- Healthy demand in Residential segment:** MLDL sees healthy sales traction in Luminaire (Gurgaon) along with pricing improvement (from Rs. 10,300psf to Rs. 11,500psf plus) for larger area (3500sqft). It was able to achieve decent sales in Alcove (MMR) in last month. It is gearing up for one project launch each quarter with an aim to achieve Rs. 2500 crore sales per annum over next 4-5 years.
- Land accretion to be focus area:** MLDL has lagged in execution with residential land availability being a key bottleneck. The company is currently evaluating 3-4 land deals out of which 1-2 are expected to be finalised in near term. It also has an option of developing group's industrial land (as done in the past in Antheia and Centralis in Pune) if it falls in its region of operations..
- IC&I business to pick up over a year:** MLDL's IC&I business had suffered from Covid-led challenges (travel restrictions), low economic activities, removal of SEZ tax benefits over the last two years. It expects the business to improve over a year with easing of travel restrictions, pick up in manufacturing activities, manufacturing push through PLI schemes etc. The segment's contribution can lead to overall consolidated profitability in FY2023.

## Our Call

**Valuation – Retain Buy with a revised PT of Rs. 340:** 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. 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. 340.

## Key Risks

A weak macroeconomic environment leading to a lull in residential and industrial demand.

## Valuation (Consolidated)

Particulars	Rs cr			
	FY21	FY22E	FY23E	FY24E
Revenue	166.3	314.0	379.7	437.2
OPM (%)	-56.2	-19.5	14.2	34.5
Adjusted PAT	-71.7	3.9	173.8	246.3
% Y-o-Y growth	-	-	-	41.8
Adjusted EPS (Rs.)	-4.7	0.3	11.3	16.0
P/E (x)	-	-	24.7	17.4
P/B (x)	2.6	2.6	2.4	2.1
EV/EBIDTA (x)	-	-	81.4	28.4
RoNW (%)	-4.3	0.2	10.1	12.8
RoCE (%)	-4.1	-1.5	5.4	9.2

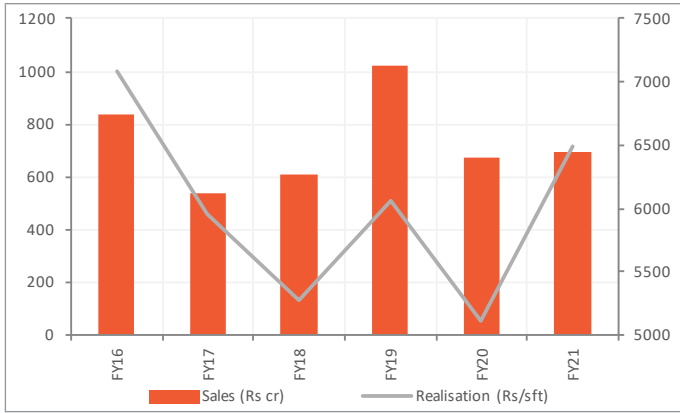
Source: Company; Sharekhan estimates

## Key Management Call Takeaways

- ◆ **Land deals:** The company is pursuing 3-4 land deals actively out of which it expects to finalise 1-2 land deals in the short term.
- ◆ **Launch pipeline:** The company would be launching three projects over the next six months in Bangalore, Pune and MMR. It aims to launch one project each quarter.
- ◆ **Sales booking:** The company has witnessed healthy demand post Q1FY2022 till date. The luminaire project saw healthy demand with pricing moving up from Rs. 10,300psf to Rs. 11,500psf plus. The demand for larger area size of 3500 square feet is healthy. The Alcove project in Sakinaka, Mumbai saw decent booking last month.
- ◆ **Buyers mix:** The company has seen demand coming from both professionals and businessman. In Luminaire, it witnessed CXOs booking the flats. Overall, 40-45% of the buyers are availing bank loans which can be service professionals.
- ◆ **Execution:** The company's execution has been declining owing to the inability to acquire land in the past. Over the next year, the execution would remain less than 1msf. However, as it acquires land the execution run-rate would be picking up.
- ◆ **Residential schemes:** The company does not have schemes like 10:90 or 20:80 barring 1-2 projects. The payment is linked to construction schedule and it has been able to collect in a timely manner.
- ◆ **Land bank:** The large part of 2262 acres land bank is industrial land. The company has the option to develop the group's industrial land. In the past, it has developed project on group's land in Pune. The company only enters into land agreement if it fits its regional criteria.
- ◆ **IC&CS leasing:** The company gets 20-30% premium on government's pricing on land lease for its IC&CS business. It has acquired industrial land in the range of Rs. 20 lakh to Rs. 70 lakh per acre. The IC&CS business had been affected by travel related challenges during covid, slowing down of economic activities, withdrawal of tax incentives on SEZ and inability to sell inventory meant for specific purpose. It expects the segment to take time of an year post which it should benefit from easing travel restrictions, picking of economic activities, manufacturing push through PLI schemes etc.
- ◆ **Target over 4-5 years:** The company is targeting to achieve sales booking of Rs. 2500 crore over 4-5 years. The group's intensity of involvement in the company has increased. The company is aiming to achieve 18% RoE target over 5 years period which is the benchmark set for all the group companies.

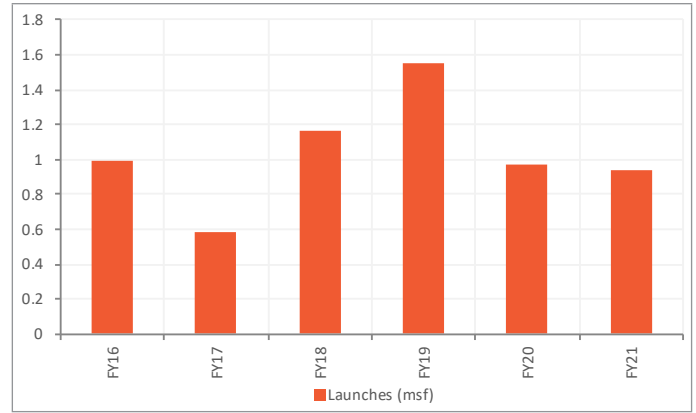
**Financials in charts**

**Residential Sales/Realisation Trend**



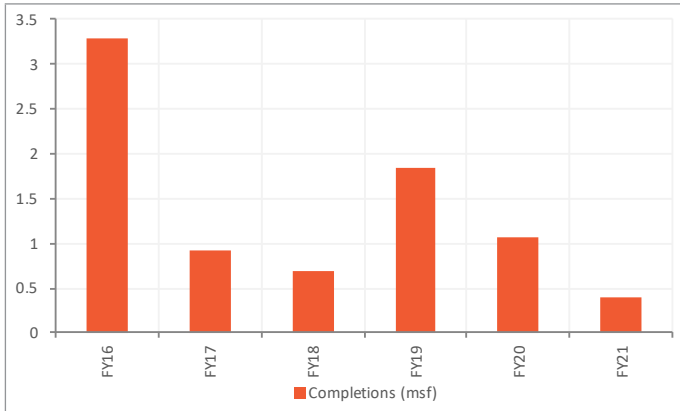
Source: Company, Sharekhan Research

**Residential Launches Trend**



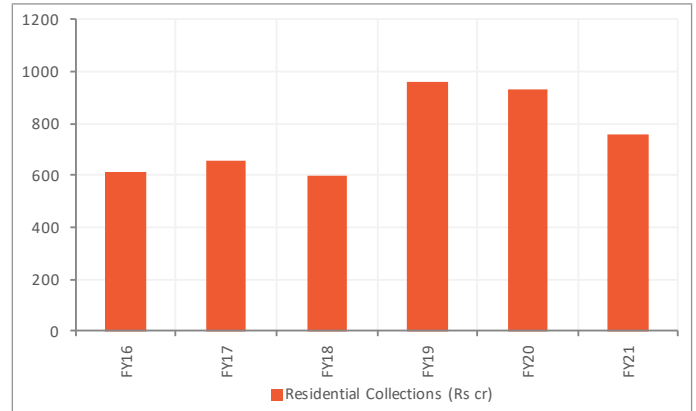
Source: Company, Sharekhan Research

**Residential Completion Trend**



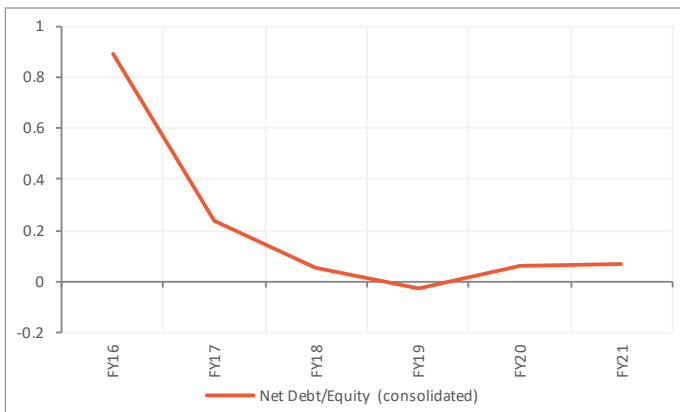
Source: Company, Sharekhan Research

**Residential Collections Trend**



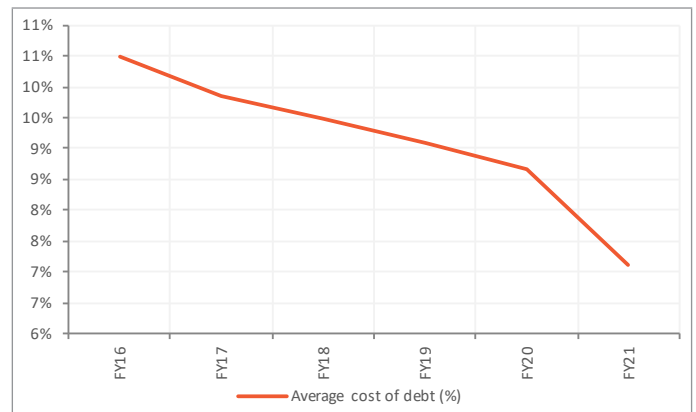
Source: Company, Sharekhan Research

**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 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, 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 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. 340

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. The company's low gearing can be utilised to raise debt to fund land acquisitions. Hence, we retain Buy on the stock with a revised PT of Rs. 340.

#### 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	943	61	Project NAV based valuation
Commercial	473	31	Valued at 9% cap rate
Gross Asset Value	3,458	255	
Net cash/(Debt)	108	7	
<b>Net Asset Value</b>	<b>3,565</b>	<b>248</b>	
Premium to NAV	1426	93	
<b>NAV post premium</b>	<b>4,992</b>	<b>340</b>	
CMP (Rs.)		278	
Upside (%)		22	

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 Happiness' 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 is 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 PLACEMENT	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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