Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Mahindra Lifespace Developers Ltd

Strong building blocks

Real Estate	Sharekhan code: MAHLIFE	
Reco/View: Buy ↔	CMP: **Rs. 408**	Price Target: **Rs. 485** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

Summary

- MLDL reported strong performance in terms of residential sales and IC&IC lease for Q1FY2023. Residential operating loss continued as per expectation. Net earnings boosted by one-off items.
- The company added Rs. 1700 crore GDV project during Q1FY2023 and has a land deal pipeline of Rs. 5000 crores for balance fiscal. It expects to close Rs. 1000 crore land deals over 2-3 months.
- The company has strong project launch pipeline of Rs. 1250 crore to Rs. 1500 crore for balance fiscal. It expects to foray into society redevelopment in current fiscal.
- We retain a Buy on stock with an unchanged price target of Rs. 485, considering its strong growth potential in both residential and industrial leasing businesses.

Mahindra Lifespace Developers Limited (MLDL) reported its best ever residential quarterly sales of Rs. 602 crore (up 315% y-o-y, up 83.5% q-o-q) for Q1FY2023 led by two key launches (Eden, Bengaluru and Luminaire, Gurgaon) apart from sustenance sales in existing projects. The industrial leasing stood at Rs. 118 crores compared to Rs. 298 crores done in FY2022. It also added a 2.1msf developable project in Pune having GDV of Rs. 1700 crore. However, lower completions during the quarter led to consolidated revenues of just Rs. 95 crores (down 36% y-o-y and 41.5% q-o-q) and an operating loss of Rs. 32 crores (against operating losses of Rs. 24 crore/Rs. 36 crores in Q1FY2022/Q4FY2022). Reported consolidated PAT at Rs. 75.4 crore was led by higher other income and reversal of impairment loss in the Luminare project. The company has a strong launch pipeline of Rs. 1250 crore to Rs. 1500 crore for the balance fiscal. Further, it has Rs. 5000 crore of business development deals in the pipeline.

Key positives

- Residential sales booking grew 315% y-o-y, collections grew by 33% y-o-y while industrial leasing rose 8x y-o-y.
- New land parcel acquired in Pune having 1.2msf development potential and gross development value of Rs. 1700 crore.

Key negatives

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

Management Commentary

- The company launched 250 units in Nestalgia project, Pimpri in Pune earlier this month where it sold over 50%. It also launched Aqualily, Chennai earlier this month. It would be launching two new phases of projects in Chennai in two to three months. Further, it would launch the project in Pimpri, Pune and Kandivali in 2HFY2023 while Dahisar project launch is expected in Q1FY2024.
- It expects to close a couple of land transactions totalling Rs. 1000 crore by end of the current quarter or the beginning of the next quarter. It would be doing its maiden foray into society redevelopment during this year.
- The consolidated debt as per IND AS accounting stands at Rs. 327 crores while cash is Rs. 202 crores. The consolidated and standalone cost of debt is 6.9% and 6.3% respectively.

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

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 485: MLDL has been able to ramp up its sales booking while has a strong launch pipeline of projects for the balance fiscal. On the other hand, it has also added new projects with further land deals in the pipeline. The company's low gearing can be utilised to raise debt to fund land acquisitions. The company is expected to foray into society redevelopment during the current fiscal. The Development of Enterprise and Service Hubs (DESH) bill is expected to provide further traction to its IC&IC business. We retain a Buy on the stock with an unchanged PT of Rs. 485 considering the strong growth potential in its residential and industrial leasing business.

Key Risks

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

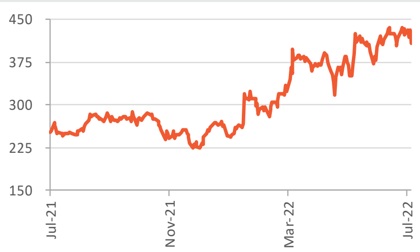
Company details

Market cap:	Rs. 6,304 cr
52-week high/low:	Rs. 458 / 219
NSE volume: (No of shares)	0.67 lakh
BSE code:	532313
NSE code:	MAHLIFE
Free float: (No of shares)	7.5 cr

Shareholding (%)

Promoters	51
FII	11
DII	19
Others	19

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.7	7.7	62.7	61.9
Relative to Sensex	-7.9	8.1	64.7	53.9

Sharekhan Research, Bloomberg

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	57.7	131.3	143.4
% Y-o-Y growth	-	-	*6.9*	*-13.1*
Adjusted EPS (Rs.)	-4.7	3.7	8.5	9.3
P/E (x)	-	-	47.9	43.8
P/B (x)	3.9	3.5	3.3	3.0
EV/EBIDTA (x)	-	-	-	-
RoNW (%)	-4.3	3.4	7.1	7.2
RoCE (%)	-4.1	0.8	4.2	1.7

Source: Company; Sharekhan estimates

Strong sales and business development

Mahindra Lifespace (MLDL) reported its best ever quarterly sales of Rs. 602 crores (up 315% y-o-y, up 84% q-o-q) for Q1FY2023 led by the strong response to its new launches – Mahindra Eden, Bengaluru and Luminare, Gurgaon apart from strong sustenance sales across its portfolio. The industrial leasing stood at Rs. 118 crores (up 8x y-o-y, up 67% q-o-q). Collections from residential business increased 33% y-o-y (down 12% q-o-q) at Rs. 271 crore. It acquired a new land parcel in Pune with 2.1msf development potential and an estimated GDV of Rs. 1700 crore. For Q1FY2023, the consolidated revenues were down 36% y-o-y (down 41.5% q-o-q) at Rs. 94.6 crore with completions of just 0.02msf (0.06msf/0.56msf in Q1FY2022/Q4FY2022). It reported an operating loss of Rs. 32 crores versus operating losses of Rs. 24 crores in Q1FY22. The company reported other income of Rs. 23 crore and reversed impairment loss of Rs. 34 crores in Luminare project leading to a reported consolidated net profit of Rs. 75 crores versus reported loss of Rs. 14 crores in Q1FY2022 and net profit of Rs. 137 crore in Q4FY2022. Adjusting for exceptional items, consolidated net profit stood at Rs. 42 crores.

New business development to continue

The company acquired 11.5 acres of land parcel in Pune having a development potential of 2.1msf and GDV of Rs. 1700 crores. It has Rs. 5000 crore land deals in pipeline at various stages. Mumbai and Pune regions are expected to account for 40% each and Bangalore 20% of the business development. It expects to close a couple of transactions totalling Rs. 1000 crore by end of the current quarter or the beginning of the next quarter. It would be doing its maiden foray into society redevelopment during this year. The company has a strong launch pipeline of Rs. 1250 crore to Rs. 1500 crore for the balance fiscal led by two key launches at Pimpri, Pune and Kandivali. Out of the total GDV of Rs. 1700 crore of Pune, it would be launching one-third and of the Rs. 2300 crore GDV of Kandivali, it would be launching one-fourth during 2HFY2023.

Key Conference Call Takeaways

- **Q1FY23 performance:** The company reported strong residential sales of Rs. 602 crores (over 3 fold rise y-o-y and over 80% q-o-q) led by key launches – Eden, Bengaluru and Luminare, Gurgaon (final 3rd tower launch) apart from contribution from Happinest Tathawade, Pune and sustenance sales in ongoing projects. New launches comprised 75% of the overall sales.
- **Launches:** The company launched 250 units in Nestalgia project, Pimpri in Pune earlier this month. It has sold over 50% of the launched portion till date. It also launched Aqualily, Chennai earlier this month. It would be launching two new phases in Chennai (Lakewoods and balance of Happinest MWCC) in two to three months. Further, it would be launched project in Pimpri, Pune and Kandivali in 2HFY2023 while the Dahisar project launch is expected in Q1FY2024. Out of the total GDV of Rs. 1700 crore of Pune, it would be launching one-third and of the Rs. 2300 crore GDV of Kandivali, it would be launching one-fourth during 2HFY2023. Overall, it targets to launch Rs. 1250 crore to Rs. 1500 crore GDV projects during the balance fiscal.
- **Business Development:** The company acquired 11.5 acres of land parcel in Pune having a development potential of 2.1msf and GDV of Rs. 1700 crores. It has Rs. 5000 crore land deals in pipeline at various stages. Mumbai and Pune regions are expected to account for 40% each and Bangalore 20% of the business development. It expects to close a couple of transactions totalling Rs. 1000 crore by end of the current quarter or the beginning of the next quarter. It would be doing its maiden foray into society redevelopment during this year. The company spent Rs. 240 crores and Rs. 30 crores in residential and IC business for land. It expects to incur another Rs. 200-300 crore for the balance fiscal.
- **IC&IC:** The company did industrial leasing of Rs. 118 crore in Q1FY2023 as against Rs. 297 crores done in FY2022. It is awaiting an anchor client at Ahmedabad industrial cluster. It has built up a leasing pipeline for Chennai IC. The Pune IC leasing is still 24 months away.
- **Debt:** The consolidated debt as per IND AS accounting stands at Rs. 327 crores while cash is Rs. 202 crores. The consolidated and standalone cost of debt is 6.9% and 6.3% respectively.
- **Pricing:** The company has moved to yield-based pricing from time-bound pricing.
- **DESH:** The Development of Enterprise and Service Hubs (DESH) bill is expected to provide a significant upside to its Jaipur IC. However, the rules regarding the same are yet to be formed.

Results (Consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Net sales	**94.6**	**148.2**	**-36.2%**	**161.8**	**-41.5%**
Other income	22.8	6.0	-	-6.7	-
Total income	117.3	154.2	-23.9%	155.0	-24.3%
operating expenses	126.5	172.4	-26.6%	197.4	-35.9%
Operating profit	**-32.0**	**-24.2**	**-**	**-35.7**	**-**
Depreciation	2.4	1.5	62.7%	2.3	8.4%
Interest	1.8	1.2	43.9%	1.5	15.7%
Exceptional item	33.8	0.0	-	96.8	-65.1%
Share of JV	62.5	1.6		26.5	
PBT	**83.0**	**-19.3**	**-**	**77.1**	**7.6%**
Taxes	7.6	-5.4	-	-59.7	-112.7%
RPAT	75.4	-13.9	-	136.8	-44.9%
Onetime items	33.8	0.0		96.8	
APAT	**41.6**	**-13.9**	**-**	**40.0**	**4.0%**
EPS	**2.7**	**-0.9**	**-**	**2.6**	**4.0%**
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 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 provide 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. 2,500 crores per annum in the residential division in FY2025. 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 the IC&IC vertical is a cash cow and scale-up of its residential business provides a strong uptick.

■ Valuation – Retain Buy with an unchanged PT of Rs. 485

MLDL has been able to ramp up its sales booking while having a strong launch pipeline of projects for the balance fiscal. On the other hand, it has also added new projects with further land deals in the pipeline. The company's low gearing can be utilised to raise debt to fund land acquisitions. The company is expected to foray into society redevelopment during the current fiscal. The Development of Enterprise and Service Hubs (DESH) bill is expected to provide further traction to its IC&IC business. We retain a Buy on the stock with an unchanged PT of Rs. 485 considering the strong growth potential in its residential and industrial leasing business.

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)	125	8	
Net Asset Value	**4,766**	**328**	
Premium to NAV	**2431**	**158**	
NAV post premium	**7,196**	**485**	
CMP (Rs.)		**408**	
Upside (%)		19	

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 a strong core management team across key functions. The company is gearing up to pre-sale over Rs. 2000 crore per annum in the residential division over the next two to three years. The company's low gearing can lend support 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 Atma Nirbhar, production linked incentive schemes for its IC&IC vertical. Overall, the growth outlook is positive for the company as the IC&IC vertical is a cash cow and scale-up of its residential business provides a 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

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