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### 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	■	↔	■

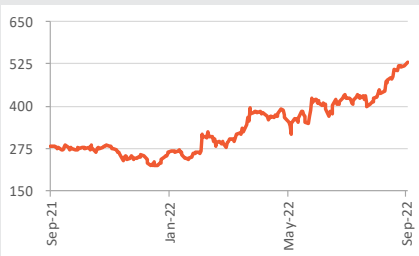
### Company details

Market cap:	Rs. 8,207 cr
52-week high/low:	Rs. 540 / 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	18.8	27.5	79.4	89.3
Relative to Sensex	17.3	19.6	70.2	87.0

Sharekhan Research, Bloomberg

## Mahindra Lifespace Developers Ltd

On track to achieve FY25 targets

Real Estate	Sharekhan code: MAHLIFE		
Reco/View: Buy	↔	CMP: Rs. 531	Price Target: Rs. 640 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

### Summary

- We retain a Buy on the stock with a revised price target of Rs. 640, factoring in increased traction in IC&IC leasing and residential sales along with assigning higher land value.
- Our interaction with the management indicates a strong launch pipeline built up post Q1FY2023 led by a couple of large new projects along with phases of ongoing projects aggregating to around 3msf.
- Its IC&IC business continue to see leasing closures post Q1FY2023 although there could be quarterly unevenness. Overall pipeline continues to be good and it is at final stages for closure of one to two large leasing deals.
- It expects to close business development deals of Rs. 500 crores in couple of months out of strong BD pipeline of Rs. 5000 crore post Q1FY2023. It is likely to foray into society redevelopment initially with smaller projects.

We interacted with the management of Mahindra Lifespace Developers Limited (MLDL). Despite a strong Q1FY2023, the management has retained annual residential sales booking and IC&IC lease at Rs. 2500 crores and Rs. 500 crores respectively by FY2025. It has a strong launch pipeline of around 3msf post Q1FY2023 which comprises phases of ongoing projects along with two key new project launches in Kandivali, Mumbai, and Pimpri, Pune. On its IC&IC business, leasing closures are expected to continue going ahead (closures of 1-2 large leasing deals at advanced stages) although there may be quarterly unevenness. On society redevelopment, it is at the discussion stage for couple of projects. It may initially test the waters by undertaking one or two small to mid-size projects. On business development, it expects to conclude Rs. 500 crore projects in couple of months (versus earlier September) while BD pipeline visibility stands at Rs. 5000 crores. The group's focus on the company remains sharp, it being one of the targeted three unicorns within the group companies.

- Strong launch pipeline for balance FY2023:** MLDL had achieved a rare feat of Rs. 602 crore residential sales booking in Q1FY2023 (Rs. 1028 crore in FY2022). It has lined up key large new project launches (one-third each of 1.7msf/2.14msf at Kandivali/Pimpri) along with phases of ongoing projects aggregating to around 3msf of launches post Q1FY2023 (1.05msf/1.27msf launched in Q1FY2023/FY2022) which is expected to drive sales booking for FY2023. However, the management continued to maintain conservative guidance of achieving Rs. 2500 crore residential sales by FY2025, which we believe can be achieved earlier.
- IC&IC business to see a pick up in momentum:** MLDL saw a strong scale up in leasing during Q1FY2023 which stood at Rs. 118 crores (Rs. 298 crore in FY2022) led by MWC Jaipur. The leasing closures are expected to continue going ahead although there may be quarterly unevenness. It is at final stages of closing one to two large leasing deals. Despite positive tailwinds like the government's push on domestic manufacturing, DESH bill, china plus one strategy, Make in India push etc, the management stayed conservative by setting a Rs. 500 crore annual lease target by FY2025.
- Business development and foray into society redevelopment:** MLDL has a business development pipeline of Rs. 5000 crores out of which it expects to close Rs. 500 crore deals in a couple of months. It continues to maintain strong cash balance (Rs. 202 crores as on Q1FY2023) for business development while it has the leeway to leverage its balance sheet for large project acquisitions. It will also be venturing into society redevelopment projects by initially undertaking one to two small to mid-size projects. It is already under discussion for few of redevelopment projects.

### Our Call

**Valuation – Retain Buy with a revised PT of Rs. 640:** MLDL has been able to ramp up its sales booking while it 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 utilized 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 a revised PT of Rs. 640 factoring in increased traction in IC&IC leasing and residential sales along with assigning higher land value.

### Key Risks

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

### Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	166.3	393.6	479.0	498.4
OPM (%)	-56.2	-22.7	5.5	4.2
Adjusted PAT	-71.7	57.7	135.5	143.4
% Y-o-Y growth	-	-	135.1	5.8
Adjusted EPS (Rs.)	-4.7	3.7	8.8	9.3
P/E (x)	-	-	60.4	57.1
P/B (x)	5.0	4.6	4.3	4.0
EV/EBIDTA (x)	-	-	308.2	395.1
RoNW (%)	-4.3	3.4	7.3	7.2
RoCE (%)	-4.1	0.8	4.4	1.7

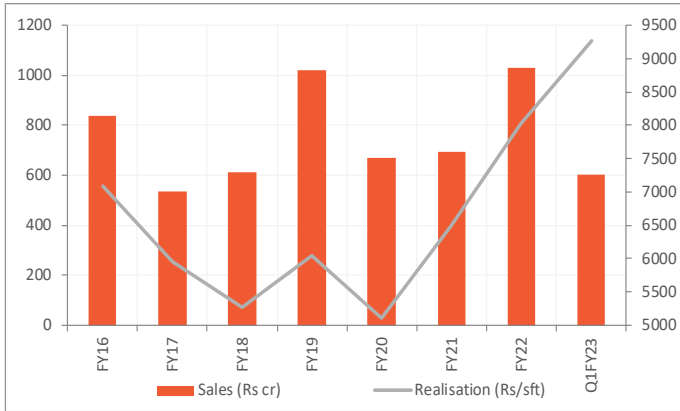
Source: Company; Sharekhan estimates

## Key Management Interaction Takeaways

- ◆ **Guidance:** The company maintained residential sales booking and IC&IC annual lease targets of Rs. 2500 crore and Rs. 500 crores respectively by FY2025. The residential sales booking is expected to scale up from 1.27msf in FY2022 to 3msf by FY2025.
- ◆ **Launches:** For the balance fiscal year, the company has a slew of upcoming launches in phases of ongoing projects at Eden (0.39msf), half of Lakewood's (0.31msf), Happinest MWCC (0.2msf) and Aqualily (0.07msf). It would be opening up the Luminare project for sales in small tranches by March 2023 end as the project inventory is limited. The Kalyan 2 – phase II (0.38msf) launch is expected in near future. Among new projects, it targets to launch one-third of 1.7msf Kandivali project and one-third of the 2.14msf new project in Pimpri. The company launched half of 0.53msf Nostalgia project in July 2022.
- ◆ **Slow moving projects:** The Palghar phase 2 project is expected to be launched at a later date. The Meridian (Alibaug) project remains slow moving with one out of 10 bungalows getting sold as on Q1FY2023. The company is working on approvals for its Dahisar project. The land acquisition for Pune IC is in progress with launch expected post 2-3 years.
- ◆ **IC&IC business:** The leasing closures continue although the business tends to be lumpy with some quarters having better run-rate than others. It is in the final stages of closing 1-2 large leasing deals in the near term. Company continues to scout for anchor clients in Origins Ahmedabad.
- ◆ **Business development:** Of the Rs. 1000 crores advanced stages BD pipeline, it expects close Rs. 500 crore projects in couple of months as against during September owing to delay in getting approvals.
- ◆ **Execution:** During FY2023, the company is likely to book revenues from some portion in Centralis and Kalyan 1 Happinest project apart from entire Roots projects.
- ◆ **Redevelopment:** The company is in discussion stages for couple of redevelopment projects. Initially it would take up small to mid size project to gain better understanding before going for large projects.
- ◆ **Thane project:** The company has 68 acres land at Ghodbundar road, Thane for which few approvals are pending. It is currently deciding upon mixed-used development for the project. It would give out concrete guidance on the project development next year.
- ◆ **Debt and cash:** The company's debt at the end of Q1FY2023 stood at Rs. 327 crores and cash of Rs. 202 crores. It would be maintaining a high cash position for deployment in business development activities. The company would raise debt only if funds are required for a large project acquisition.
- ◆ **Group focus:** The company's group focuses on three group companies comprising Mahindra Lifespace Developers, Mahindra Logistics, and Mahindra Holidays. The group expects the above companies to be unicorns for group.

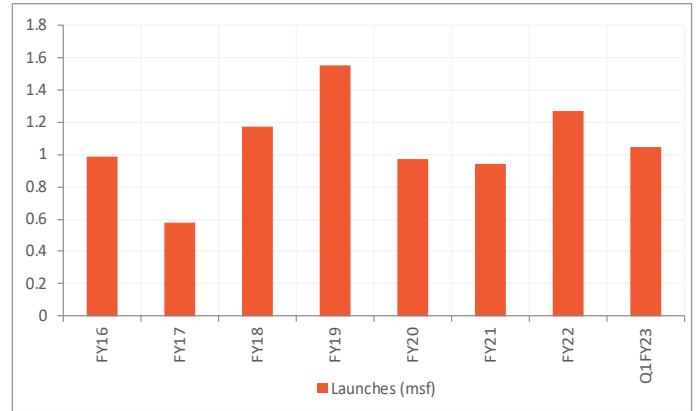
**Financials in charts**

**Residential Sales/Realisation Trend**



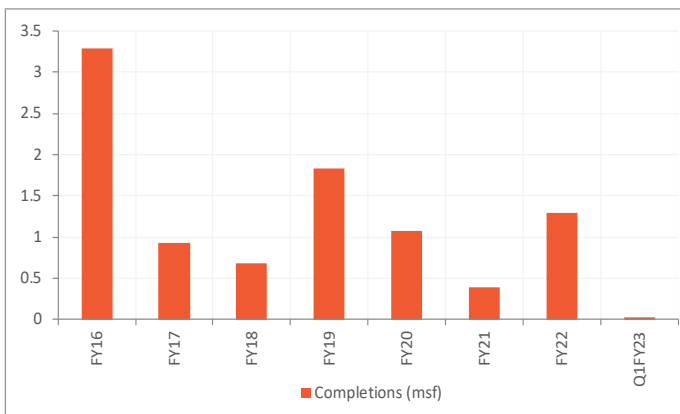
Source: Company, Sharekhan Research

**Residential Launches Trend**



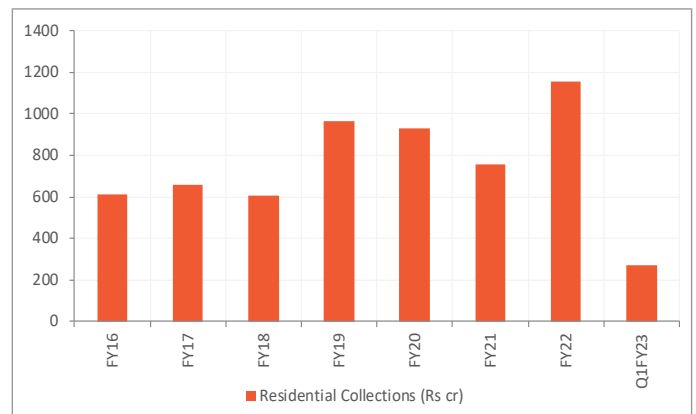
Source: Company, Sharekhan Research

**Residential Completion Trend**



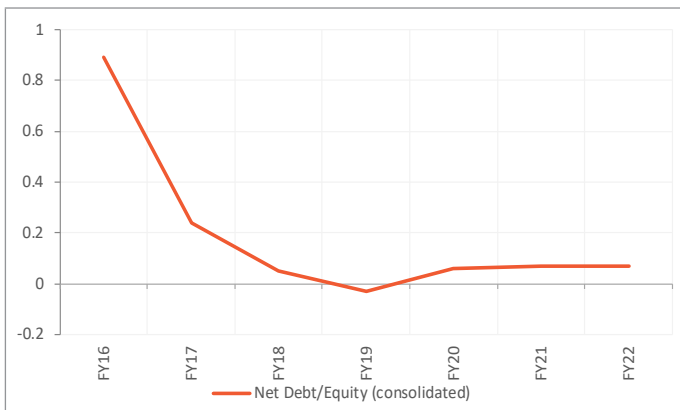
Source: Company, Sharekhan Research

**Residential Collections Trend**



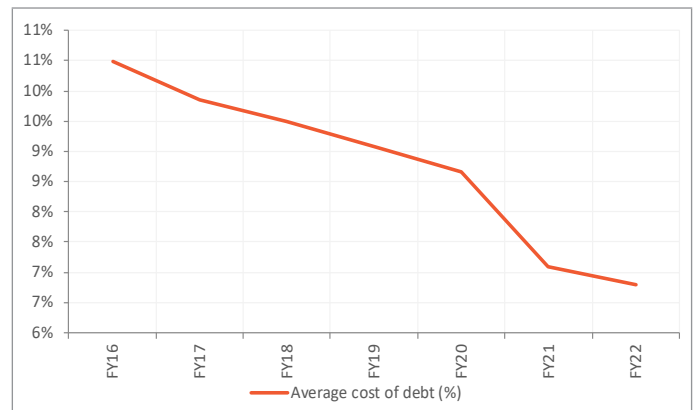
Source: Company, Sharekhan Research

**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 the spotlight going ahead as it benefits from the Centre's and state governments' favorable policies pertaining to the affordable housing segment. Rising income levels and affordability levels are expected to drive sales for quality organized 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 centers 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 a revised PT of Rs. 640

MLDL has been able to ramp up its sales booking while it 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 a revised PT of Rs. 640 factoring increased traction in IC&IC leasing and residential sales along with assigning higher land value.

#### Valuation

Particulars	Value (Rs. Cr)	Value per share(Rs.)	Comments
IC&IC	1,220	79	DCF based valuation
Land bank	2,488	161	Market value of land
Residential	2,513	163	Project NAV based valuation
Commercial	536	35	Valued at 8% cap rate
Gross Asset Value	6,221	438	
Net cash/(Debt)	125	8	
<b>Net Asset Value</b>	<b>6,346</b>	<b>430</b>	
<b>Premium to NAV</b>	<b>3236</b>	<b>210</b>	
<b>NAV post premium</b>	<b>9,582</b>	<b>640</b>	
<b>CMP (Rs.)</b>		<b>531</b>	
Upside (%)		21	

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 a strong core management team across key functions. The company is gearing up to pre-sale over Rs. 2500 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 centers 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 the 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. Ameet Hariani	Chairman
Mr. Arvind Subramanian	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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