October 2022
Initiating Coverage | Sector: Real Estate

Mahindra Lifespace Developers

Turning the tide with renewed vigor

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Mahindra Lifespace Developers: Turning the tide with renewed vigor

Recent reports on our Real Estate sector

Mahindra Lifespace Developers

BSE SENSEX	S&P CNX
57,427	17,094

Mahindra Lifespaces

Bloomberg	MLIFE IN
Equity Shares (m)	154.5
M.Cap.(INRb)/(USDb)	69.7 / 0.9
52-Week Range (INR)	555 / 219
1, 6, 12 Rel. Per (%)	-9/40/67
12M Avg Val (INR m)	96

Financials & Valuations (INR b)

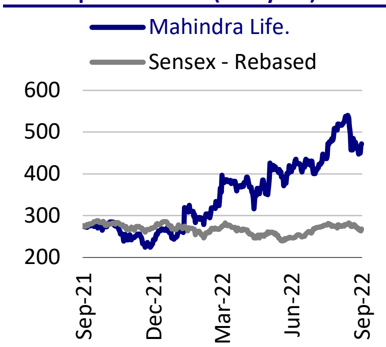
Y/E MARCH	2022	2023E	2024E
Sales	3.9	5.2	5.7
EBITDA	-0.9	-0.9	-0.9
EBITDA (%)	NA	NA	NA
PAT	0.2	1.7	1.3
EPS (INR)	1.1	11.2	8.5
EPS Gr. (%)	NM	906.7	-23.7
BV/Sh. (INR)	115.7	128.6	137.1
Ratios			
Net D:E	0.1	0.0	0.0
RoE (%)	1.0	9.2	6.4
RoCE (%)	-32.8	-2.1	-2.6
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	421.1	41.8	54.8
P/BV (x)	4.0	3.6	3.4
EV/EBITDA (x)	NM	NM	NM
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	51.3	51.3	51.5
DII	18.9	18.8	16.0
FII	10.6	9.8	12.6
Others	19.2	20.1	20.0

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR472 | **TP: INR550 (+17%)** | **Buy**

Turning the tide with renewed vigor

Gaining market share through a focused growth strategy

- **Mahindra Lifespace Developers (MLDL), a part of Mahindra group, is one of the leading residential developers with a strong presence in Mumbai and Pune. It is gradually expanding its footprint in Bengaluru. MLDL also operates the Integrated City & Industrial Cluster (IC&IC) segment in which it monetizes the land bank by providing plug and play industrial infrastructure for manufacturing units.**
- **Despite being in business for close to three decades, MLDL's lack of aggression has led to a stagnant pre-sales of INR7-8b over the last seven years and has lagged its peers in terms of growth. However, given the industry tailwinds and shift towards branded developers, Mahindra group is now gearing up to unlock the growth potential in its real estate vertical and has also undergone some key senior management changes.**
- **Management aims to grow its pre-sales by 2.5x to INR25b in the next three years (FY25E) by scaling up launches and project additions. The company has already added 9msf of projects over the last three years in its core markets and is further evaluating projects worth INR50b.**
- **MLDL currently has 9msf of inventory across ongoing and upcoming projects, with a revenue potential of INR90b. It is also looking to unlock 68 acres on Ghodbunder Road (Thane), which should add 8-10msf to its project pipeline. Given the strong pipeline, we believe its FY25 pre-sales target can be achieved a year in advance.**
- **The IC&IC segment will continue to be a cash contributor, with ~2,000 acres of inventory across existing and upcoming locations that is likely to generate cumulative surplus cash of INR20-22b over next 10 years.**
- **We are confident of MLDL's ability to add projects in the future, given its: 1) strong visibility and recent success, and 2) robust cash flow potential from both the Residential and IC&IC businesses. We initiate coverage on MLDL with a BUY rating and an SoTP-based TP of INR550, implying a potential upside of 17%.**
- **Key risks: a) inability to close land deals and b) slowdown in IC&IC leasing.**

Strategic focus to revive the real estate vertical

- Over the years, MLDL has earned a strong brand recall through its superior execution but has however lagged peers on growth due to lack of aggression.
- However, given the industry tailwinds and an ongoing shift towards organized developers with solid execution track record, Mahindra group is now sensing a strong growth opportunity for its real estate vertical.
- Over the last two years, the company has undergone some key management changes including the appointment of Mr. Arvind Subramanian as MD & CEO in FY21. It is also building internal capabilities through appointment of new heads across functions such as marketing, sales, project execution, and legal.
- New management, with its aligned growth vision, is targeting to grow its pre-sales by 2.5x to INR25b over the next three years (FY25E) through scaling up launches and augmented business development.

Strengthening project pipeline; targets INR25b in pre-sales by FY25E

- Over the last three years, the company has already made a strong progress in business development and has signed 9msf of new projects with a revenue potential of INR80b across its core markets of Mumbai and Pune.

- Backed by strong project additions, the company currently has 9msf of inventory across ongoing and upcoming projects, with a revenue potential of INR90b expected to be realized over next four-to-five years.
- The company aims to add projects with a gross development value (GDV) of INR20b, annually, for next two-to-three years. It is currently evaluating projects with a GDV of INR50b, indicating strong visibility.
- MLDL is also in the process to unlock a large 68-acre parcel on Ghodbunder Road (Thane) and aims to launch the first phase of the same in 1HFY24E.
- **While we expect its pre-sales to touch IN22b by FY24, further project additions and timely launch are likely to ensure that the MLDL achieves its targeted pre-sales of INR25b by FY24 itself.**

While we expect pre-sales to touch IN22b by FY24, further project additions are likely to ensure that MLDL achieves its targeted pre-sales of INR25b by FY24 itself.

IC&IC segment to be the enabler of growth in the Residential segment

- MLDL's Residential segment is expected to generate cumulative operating cash flows of INR14b (net off the overheads) from its existing pipeline over FY23-25E.
- The company saw a pick-up in leasing in its IC&IC segment as it leased 110 acres in FY22 (v/s 46 acres in FY21) and generated an income of INR3b.
- With 990 acres of inventory at its existing locations in Chennai and Jaipur, and 1,000 acres in Ahmedabad, Pune, and Chennai Phase II to be monetized under the IC&IC segment, the management aims to clock an annual leasing income of INR5b by FY25E.
- A large part of the land and supporting infrastructure cost is already paid out, which will lead to healthy annual cash generation of INR1.5-2.0b as leasing further scales up. These cash flows will be sufficient for the company to meet its growth capital requirements for its Residential business.

The company is aiming to reach a leasing revenue run-rate of INR5b for the IC&IC segment by FY25. Existing inventory provides 12-15 years of visibility

Business development capability not fully built in; Initiate with a BUY

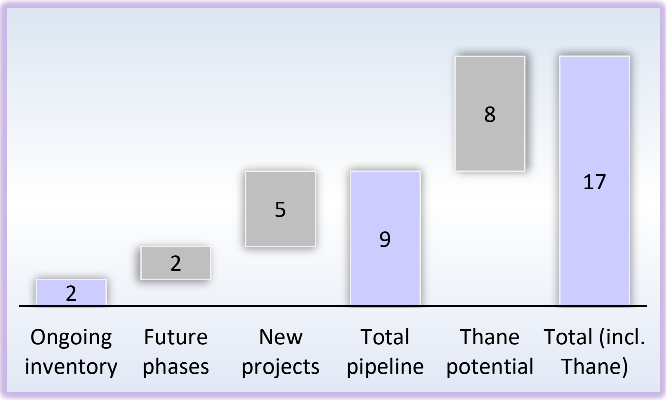
- The management's efforts to continuously augment the project pipeline through enhanced focus on business development can help MLDL in achieving INR25b in sales by FY24 itself which is not yet fully built in to the valuation.
- We value MLDL based on SoTP, wherein: i) the Residential business is valued at a DCF of five-year cash flows, using a WACC of 13.4% and a terminal growth rate of 3%; ii) NAV for the IC&IC segment is calculated assuming a monetization timeline of 12-15 years, discounted at a WACC of 13.4%, and iii) market value of its residential land bank in Chennai, Pune and Murud.
- Excluding its FY23E net debt of INR3b (at MLDL's share), we arrive at a NAV of INR85b. Applying zero discount to its NAV, we arrive at a TP of INR550 per share, a potential upside of 17%. **We initiate coverage with a BUY rating.**

Story in charts

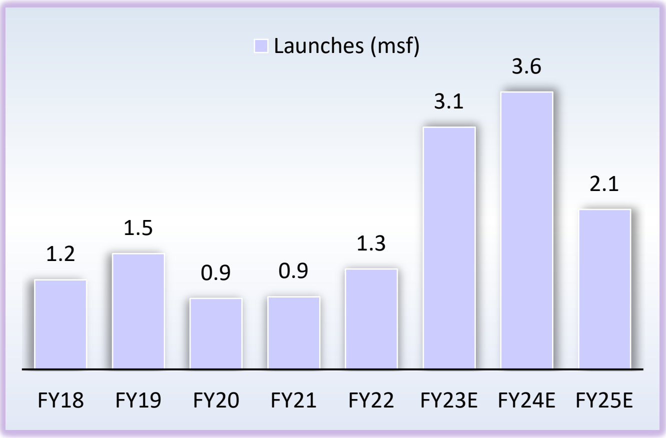
So far, MLDL has acquired eight projects with a development potential of 9msf

Micro Market	City	Project size (msf)	MLDL Share	Year of acquisition
Kalyan 1	MMR	0.8	100	FY20
Tathawade	Pune	1.1	100	FY20
Kanakpura	Bengaluru	0.8	100	FY21
Kalyan	MMR	1.1	100	FY21
Dahisar	MMR	0.9	70	FY22
Kandivali	MMR	1.7	100	FY22
Pimpri	Pune	0.4	100	FY22
Pimpri	Pune	2.0	100	FY23
Total		**8.8**		

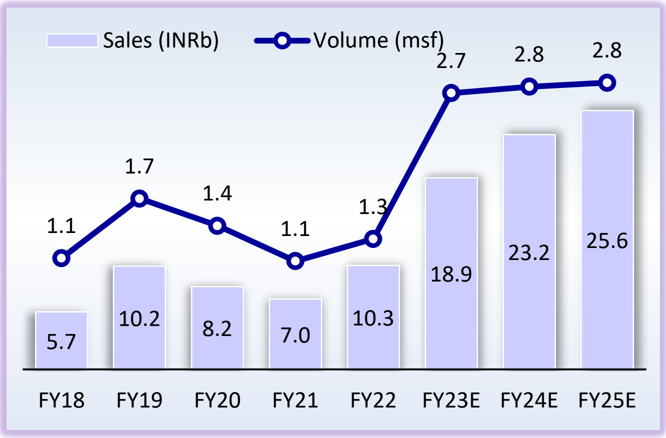
Company's current pipeline of 9msf has revenue potential of INR90b



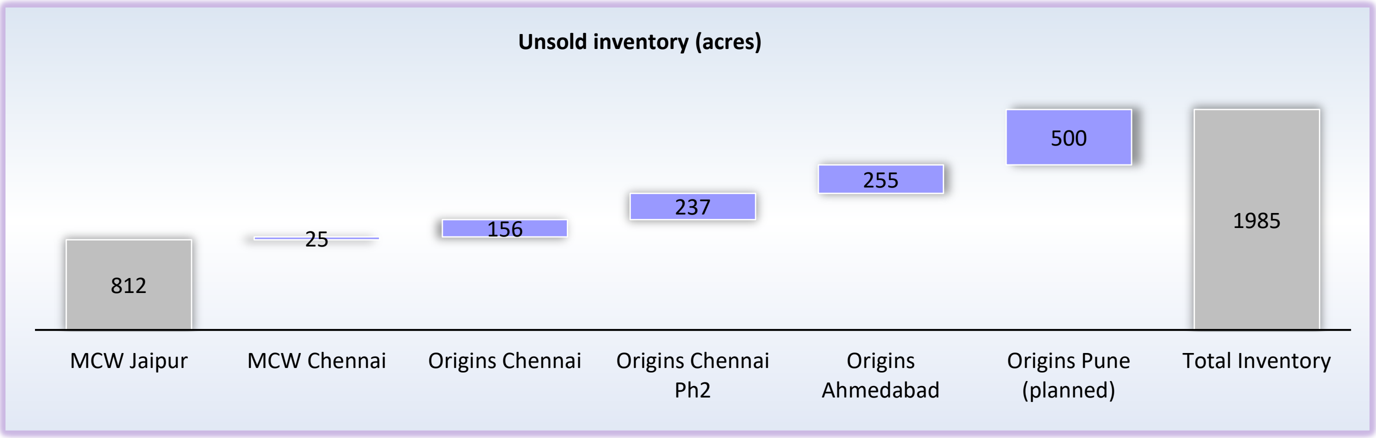
On the back of strong pipeline, MLDL will scale up its launches…



…leading to 35% CAGR in sales

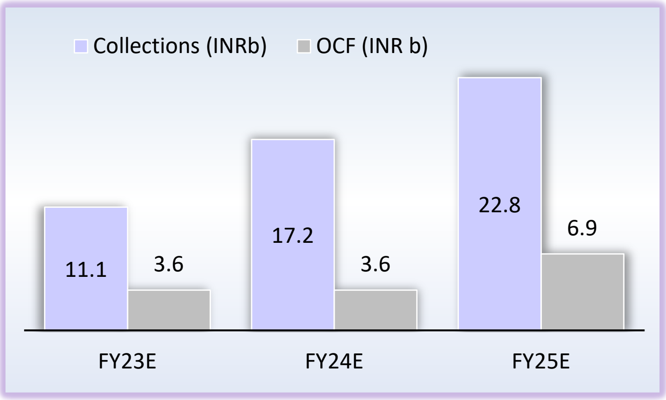


Including its operating and planned assets, MLDL's IC segment has an unsold inventory of ~2,000 acres

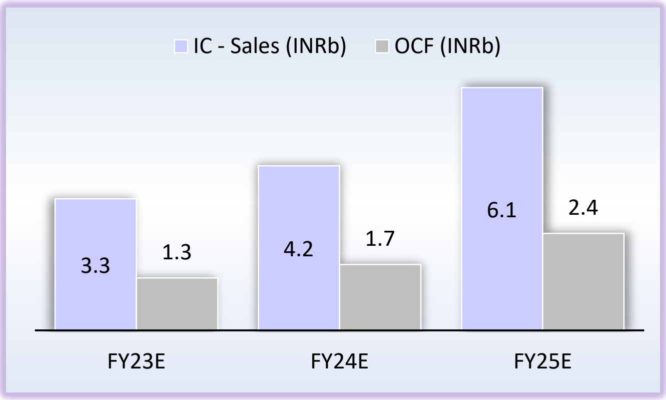


Source: Company, MOFSL

Expect the Residential segment to generate cumulative OCF of INR14b over FY23-25



… and IC segment will generate an OCF (excluding tax and interest) of INR5b over similar period



Comparative Valuation

Company	Price (INR)	MCap. (INR b)	TP (INR)	Upside (%)	Rating	CAGR (FY22-24E, %)			P/E (x)		EV/EBITDA (x)		RoE (%)	
						Sales	EBITDA	EPS	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Large-caps														
DLF	357	883	385	8	Neutral	13	33	101	23	13	26	23	7	12
Macrotech	924	445	1,570	70	Buy	38	17	35	33	22	24	17	11	15
Godrej Properties	1194	332	1,300	9	Neutral	31	156	101	40	22	560	40	9	14
Oberoi Realty	918	334	1,100	20	Buy	34	38	33	17	18	17	15	17	14
Mid-caps														
Prestige Estates	450	180	675	50	Buy	15	19	18	27	23	14	12	7	8
Brigade Enterprise	509	117	720	41	Buy	19	30	22	51	23	14	10	7	13
Sobha	650	62	850	31	Buy	14	10	72	50	18	10	7	5	5
Mahindra Life.	**472**	**73**	**550**	**16**	**Buy**	**20**	**NM**	**177**	**42**	**55**	**NM**	**NM**	**9**	**6**

Source: Company, MOFSL

Strategic focus to revive the real estate vertical

New management aligning itself to the group's vision

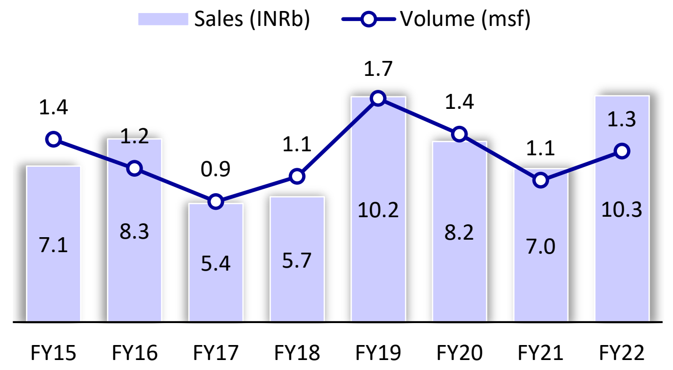
- **Over the last three decades, MLDL exhibited superior execution in real estate business leading to strong brand recall among customers but lagged its peers on growth due to lack of aggression.**
- **This has been on account of: 1) limited focus of its parent, given its size relative to its parent's overall scale, and 2) frequent management changes, which led to instability.**
- **However, given the industry tailwinds and a radical shift towards organized developers with solid execution track record, Mahindra group is now sensing a strong growth opportunity for its real estate vertical. Hence, coupled with the new management's aligned vision, MLDL is well poised to deliver consistent growth by gaining market share in its core markets sustainably.**

Mahindra group senses a strong growth opportunity for brand like MLDL given the industry tailwind and shift to organized developers

Strong brand recall; focus now on unlocking growth potential

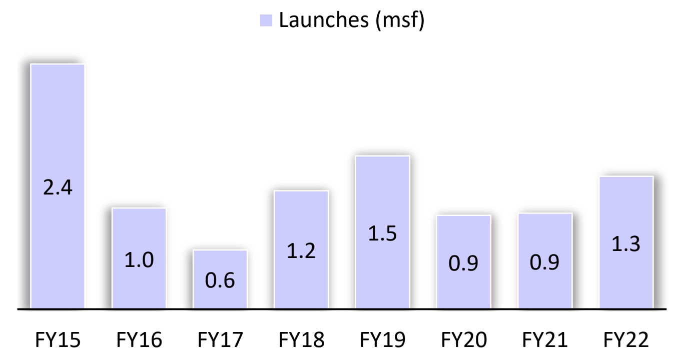
- Over the last seven years, MLDL's pre-sales were stagnant at INR7-8b (Exhibit 1). While the company lacked aggression, it excelled in other important business aspects such as sales, execution, and cash flow management (Exhibit 2).
- With superior execution and timely delivery, MLDL created a strong brand recall among customers leading to its sales outperforming construction (Exhibit 4).
- Given the industry tailwinds and ongoing shift towards organized developers with strong execution track record, Mahindra group is now sensing a growth opportunity for branded developers. Thus, the focus is now on unlocking the growth potential of its real estate vertical.

Exhibit 1: Pre-sales at INR7-8b over the last seven years



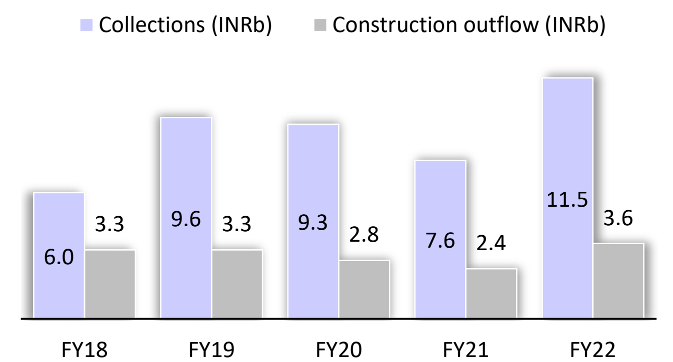
Source: Company, MOFSL

Exhibit 2: Launches ~1msf per year on an average



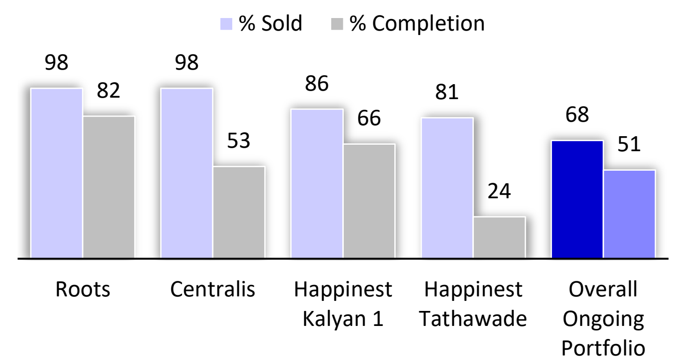
Source: Company, MOFSL

Exhibit 3: Collections almost matched pre-sales



Source: Company, MOFSL

Exhibit 4: Superior sales performance across key projects



Source: Company, MOFSL

New management aligned with the group's growth vision

- After the exit of Ms. Sangeeta Prasad, the board appointed Mr. Arvind Subramanian as CEO in FY21, who was till then heading Mahindra Happinest – its Affordable Housing segment.
- Since then, the company has focused on building capabilities across key functions such as **supply chain and execution** (Chief Project Officer Mr. Sudharshan KR has >20 years of experience), **marketing** (Chief Marketing Officer Mr. Viral Oza has >22 years of experience), and **sales** (Chief Sales Officer Mr. Vimalendra Singh enjoys >15 years of experience).

Exhibit 5: MLDL has been building capabilities across key functions of business

Personnel	Designation	Past experience
Arvind Subramanian	MD & CEO	❖ He had 20 years of experience prior to joining MLDL as the CEO of Mahindra Happinest in Sep'18. He was associated with Tata Administrative Services for 15 years and with LODHA for four years.
Sudarshan KR	Chief Project officer	❖ He had over 20 years association with Sobha and was responsible for robust quality and execution, and planning and procurement with timely completion of the projects (within the approved costing) and billing to clients efficiently.
Viral Oza	Chief Marketing officer	❖ He has 25 years of experience in marketing and began his career with HUL. He was with HUL for 16 years. He joined Nokia for six years and spent a year each with Times of India and Microsoft UK.
Vimalendra Singh	Chief Sales officer	❖ His last stint was with LODHA as Head of sales for South and Central Mumbai and worked there for 2.5 years. Prior to LODHA, he had 13 years of experience in various segments of retail banking across banks (Citibank, Standard Chartered and Bank of Bahrain and Kuwait)
Parveen Mahtani	Chief Legal officer	❖ She has over two decades of experience. In the past, she worked with Tata Realty and LODHA.

Source: Company, MOFSL

Building internal capabilities through manpower and technology

Intends to develop a competitive advantage through building capabilities across key functions and efficient use of technology

- Given the rich parentage of Mahindra Group, MLDL has been able to attract talent from its peers and brands that are much larger in terms of scale. The new team has a vast experience across the Real Estate spectrum.
- On a recent call, the management highlighted its recent efforts in building the team and simplifying the organization structure so as to enable faster decision making will serve them as a strong competitive advantage in years to come.
- The company has also intensified its efforts to institutionalize the use of digital and technology-based solutions across key areas of construction to consolidate its gains and drive efficiencies.
- It has enhanced the scope of 'HappiEdge' — its mobile app for channel partners — which now serves as a repository for all project marketing material and enables them to handle the entire transaction right from lead management to claims settlement.
- The app has more than 4,000 channel partners who source 65-70% sales for the company.

Pursuing growth through a focused BD strategy

Targeting annual project additions worth GDV of INR20b in core markets

- **The ongoing consolidation offers significant growth opportunities for MLDL. Given its strong brand recall, the management believes that land owners and societies feel comfortable partnering with it on account of the limited execution risk.**
- **MLDL has already witnessed some success on its growth strategy, with project additions of 9msf and a GDV potential of INR80b over the last three years with significant pickup in activity since last four-five quarters.**
- **The management aims to add projects with GDV potential of INR20b, annually, for the next three years, with: a) a clear focus on its core markets of Mumbai, Pune, and Bengaluru, b) a project size not exceeding 1.5-2msf, so as to churn the project in four-to-five years, and (c) an IRR of over 20%.**

Good showing so far in expanding its project pipeline

Over the last three years, the company has signed eight projects with a cumulative GDV of INR80b.

- Under Mr. Subramanian's leadership, MLDL has defined a clear strategy to scale up the business. It is committed to grow its pre-sales by 2.5x over FY22-25E by ramping up launches at existing projects and increasing its project pipeline.
- MLDL has so far moved in the right direction as it has signed eight projects in the last three years, with a cumulative GDV of INR80b.

Exhibit 6: Under Mr. Subramanian's leadership, MLDL has so far acquired eight projects with a development potential of 9msf

Micro market	City	Project size (msf)	MLDL's share	Year of acquisition	GDV (INR b)
Kalyan 1	MMR	0.8	100	FY20	5
Tathawade	Pune	1.1	100	FY20	8
Kanakapura	Bengaluru	0.8	100	FY21	7
Kalyan	MMR	1.1	100	FY21	8
Dahisar	MMR	0.9	70	FY22	10
Kandivali	MMR	1.7	100	FY22	21
Pimpri	Pune	0.4	100	FY22	7
Pimpri	Pune	2.0	100	FY23	17
Total		**8.8**			**81**

MMR and Pune remain focused markets; Bengaluru as third preferred market

Targeting market share gains by going deeper and leveraging its brand recall in existing markets of MMR, Pune and Bengaluru

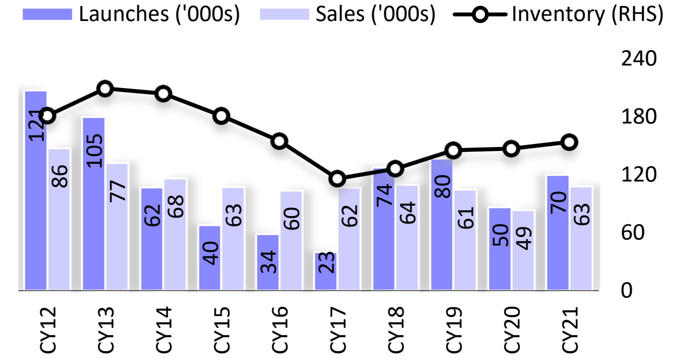
- Over the years, MLDL has delivered projects in cities like MMR, Pune, Gurugram, Nagpur, Chennai, and Alibaug on an opportunistic basis without a focus scale-up strategy in place.
- A couple of years back, the management consciously decided to double down on Mumbai and Pune in the foreseeable future, with an intent to go deeper into micro-markets where it already has a strong presence.
- It also signed up a land parcel in Kanakapura for its maiden project in Bengaluru. It will be developing a first of its kind zero energy project, which it launched in May'22.
- Considering the strong response and the kind of the offering, company is now also focused on Bengaluru as the third important market.

Exhibit 7: Mumbai and Pune are the best performing markets among the top four major cities

Sales	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	CY21	CY20	YoY (%)	CY19	As a percentage of pre-COVID levels (CY19, %)
Mumbai	23,752	4,855	15,942	18,440	21,548	62,989	48,688	29	60,943	103
Pune	13,653	3,821	9,565	10,179	10,305	37,218	26,918	38	32,809	113
Hyderabad	6,909	5,065	5,987	6,357	6,993	24,318	10,042	142	16,267	149
Bengaluru	10,219	4,593	11,337	11,881	13,663	38,030	23,579	61	48,076	79
Chennai	4,058	1,693	3,610	2,596	3,376	11,957	8,654	38	16,959	71
NCR	6,731	4,743	9,101	14,498	15,019	35,073	21,234	65	42,828	82
Kolkata	3,596	1,519	6,861	2,429	3,619	14,405	8,912	62	11,266	128
Top seven	**65,322**	**24,770**	**55,542**	**63,951**	**70,904**	**2,09,585**	**1,39,115**	**51**	**2,17,882**	**96**

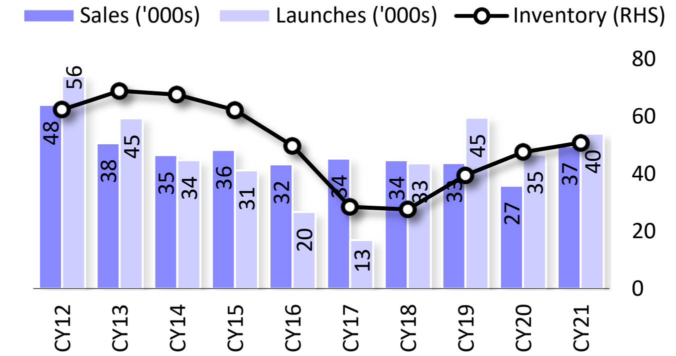
Source: Knight Frank, MOFSL

Exhibit 8: Sales and launch trends in Mumbai over the last few years



Source: Knight Frank, MOFSL

Exhibit 9: Sales and launch trends in Pune over the last few years



Source: Knight Frank, MOFSL

Business development to continue - Aims to add projects with GDV of INR20b, annually, for next three years

Like in FY22, MLDL will exceed its target GDV addition of INR20b in FY23E as well.

- MLDL signed three projects in FY22, with a cumulative GDV potential of INR38b v/s its targeted annual GDV addition of INR20b.
- It targets to maintain the same run-rate for FY23 as it has already concluded an outright purchase of one project in Pune, with a GDV potential of INR17b and a GDV visibility of INR50b for projects under evaluation.
- The management is open to evaluating outright lands, JV/JDA projects, and society redevelopments not exceeding 1.5-2msf, with an aim to exit the project in four-to-five years in order to target an IRR of over 20%.
- In Mumbai particularly, MLDL is positive on society redevelopment projects, where the management is seeing very strong traction. It has also on-boarded an expert from JLL for business development in this segment.
- It is focused on stressed assets, where it is building networks with ARCs and financial institutions to source deals from their stressed portfolio.

Vision FY25 – Aims for 2.5x jump in pre-sales v/s FY22

Existing pipeline indicates FY25 target can be achieved a year prior

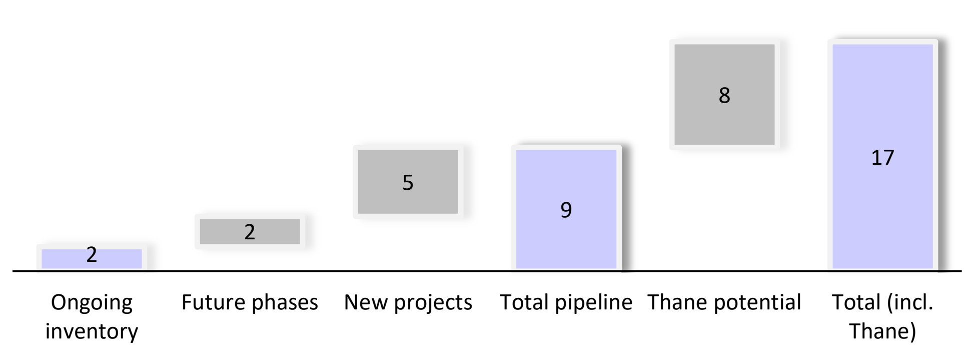
- **MLDL has committed to achieve Residential sales of INR25b by CY25, by ramping up launches at existing projects and increasing the project pipeline.**
- **Its inventory from ongoing portfolio of 4msf, along the 5msf of recently acquired projects, which would be launched (in phases) in FY23, has a sales potential of INR90b.**
- **These projects can generate an operating cash of INR30-32b (excluding interest and taxes) over the next five years. The management has guided at an annual outflow of INR4-5b towards business development.**

Given the strong project pipeline, expect FY23 to be a great year for the company in terms of launches and sales

FY25 guidance of INR25b seems achievable by FY24E

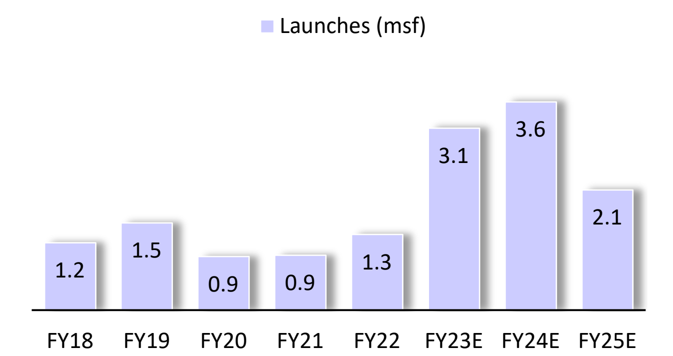
- Backed by strong project additions over the last two years, MLDL's existing inventory across ongoing and upcoming projects stands at 9msf, with a GDV of INR90b. We expect the launch run-rate to pick-up to 2.5-3msf over the next two years from 1msf on an average in the last six years.
- The company has launched the Kanakapura project in Bengaluru and a small project in Pune in 1QFY23. The management aims to launch a phase of all recently acquired projects in the current fiscal.
- Depending on the quantum of the launch, these new projects can add INR8-10b in pre-sales on top of the annual sales run-rate of INR7-8b.
- MLDL also has a strong BD pipeline of INR50b across key markets. Timely closure and launch of a few of these projects in FY24E can help the company in **achieving INR25b sales a year before the stated timeline**.

Exhibit 10: Company has 9msf of pipeline with INR90b of revenue potential



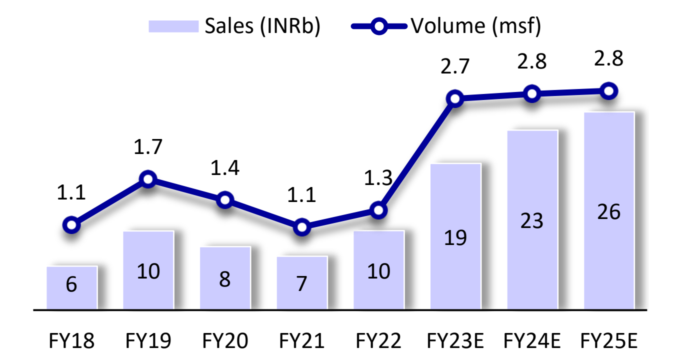
Source: Company, MOFSL

Exhibit 11: Launches to pick up over next three years…



Source: Company, MOFSL

Exhibit 12: Sales to grow at 36% CAGR through FY25E …



Source: Company, MOFSL

Further project additions to ensure sales of INR25b is breached in FY24E itself

- MLDL is in the process of unlocking a large 68 acre land parcel in Thane. It has a development potential of 8-10msf, and the management expects the first phase to be launched by 1HFY24, which is included in our estimates.
- With existing visibility of INR50b GDV of projects under evaluation, the company looks poised for strong business development in FY23.
- Based on its existing project pipeline, the company is expected to clock INR23b of pre-sales in FY24. **Further project additions will likely ensure that its sales target of INR25b is breached a year before the company's target of FY25.**

Optional value – Captive land bank and access to the group's land parcels

- Apart from existing projects and a vast land parcel along Ghodbunder Road (Thane), the company holds 100 acres at MWC Chennai. Of this, it plans to monetize 75 acres via Residential and plotted development.
- The company also owns ~1,300 acres near the coastline in Murud, Raigad, which is under evaluation for monetization.
- MLDL recently acquired nine acres at Kandivali (Mumbai) from parent MM and plans to launch it in FY23. MM used to operate a Tractor assembly factory earlier and the site offers a development potential of more than 90 acres.
- Depending on the success of the first phase, MLDL can acquire this land in a phased manner or may enter into a joint development agreement with its parent. Given its vast size, there can also be a case for mixed use development.

Exhibit 13: Details of the captive land bank

Land name	Location	Gross Area (acres)	Development plan
Residential			
Ghodbunder Road, Thane	MMR	68	❖ Planned as Mixed-use Development. Under approvals.
MWC Chennai (Residential Zone)	Chennai	100	❖ 25-acre land proposed to be converted for Industrial use. Balance to be monetized through residential development / plotted & outright leasing.
Industrial / Land sale			
Pune	Pune	500	❖ Planned to be developed as Origins, Pune. Under land aggregation stage to ensure contiguity.
Murud, Raigad	Chennai	1,291	❖ Under study & evaluation stage
MWC Chennai (Outside Boundary Land)	Chennai	60	❖ Planned as land sale.
Gummidpundi (Origins Chennai Ph 2)	Chennai	225	❖ Under land aggregation stage to ensure contiguity.
Total		**2,244**	

Source: Company, MOFSL

IC&IC – A growth enabler for the Residential segment

Operates a few of the largest industrial parks in India

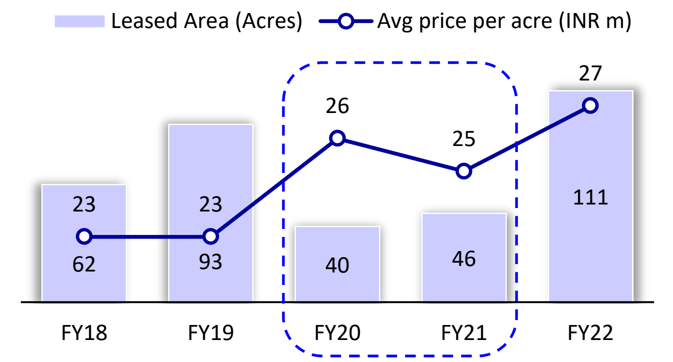
- **Through its IC&IC segment, MLDL leases out land, along with plug and play industrial infrastructure, to customers from manufacturing focused sectors such as Autos, Engineering, and Textiles.**
- **The company has four operating assets (two each in the MCW and Origins format), with a cumulative leasable area of ~3,600 acres, of which ~1,250 acres are unsold. Origins Pune and Chennai Phase-II are under the land aggregation stage, and will add ~750 acres to the inventory.**
- **The company is aiming to reach a leasing revenue run-rate of INR5b for the IC&IC segment by FY25. Existing inventory provides 12-15 years of visibility.**
- **With a large part of the land and the supporting infrastructure cost paid out, MLDL is expected to clock an annual cash flow run-rate of INR1.5-2b, which will be utilized to fund its Residential growth requirement.**

Given its superior offerings, the IC segment can significantly benefit from the government's thrust on manufacturing and a global shift in the supply chain

Adversely affected by the pandemic, but back on growth track

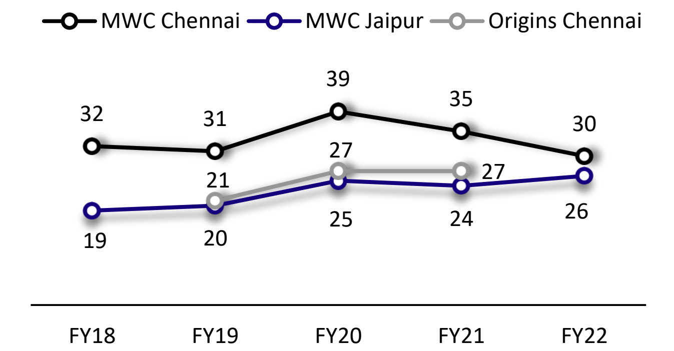
- While the segment was severely impacted by COVID-19 and the ensuing travel restrictions, it witnessed a sharp recovery in FY22 as it sold 110 acres across Chennai and Jaipur, with a booking value of ~INR3b.
- Going forward, this segment will benefit from: 1) superior offerings in terms of connectivity and infrastructure, 2) PLI incentives, 3) lower taxes for new manufacturing plants, and 4) a shift in the global supply chain from China.
- Driven by these positive factors, the management aims to achieve sales of INR5b from this segment by FY25E.

Exhibit 14: IC segment sees a sharp recovery after being significantly impacted by the COVID-19 pandemic



Source: Company, MOFSL

Exhibit 15: Stable realization/acre (INR m) across assets

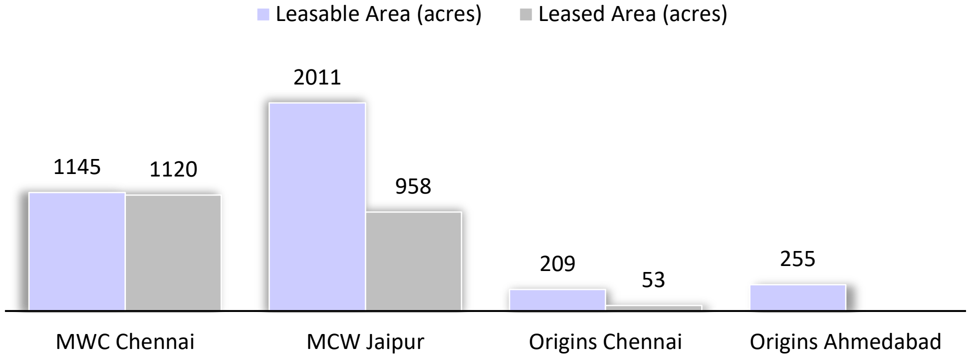


Source: Company, MOFSL

Inventory of 2,000 acres provides 12-15 years of visibility

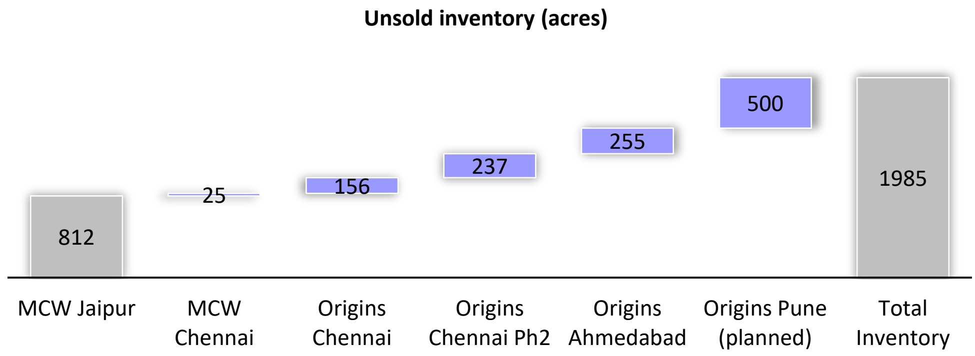
- MWC Chennai is almost sold out, while Origins Chennai has 156 acres (out of 209 acres) of inventory left. MWC Jaipur has witnessed strong momentum as it significantly contributed to the leasing done in FY22 and 1QFY23.
- Overall, the segment has 990 acres of inventory at its existing locations in Chennai and Jaipur, and 1,000 acres in Ahmedabad, Pune, and Chennai Phase-II, thus providing strong visibility for 12-15 years

Exhibit 16: MWC Chennai is fully leased, with healthy traction across other assets



Source: Company, MOFSL

Exhibit 17: Including its operating and planned assets, MLDL's IC segment has an unsold inventory of ~2,000 acres

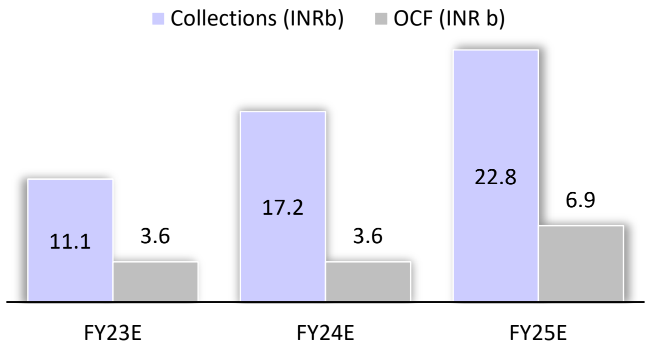


Source: Company, MOFSL

Capital outflow on land largely complete

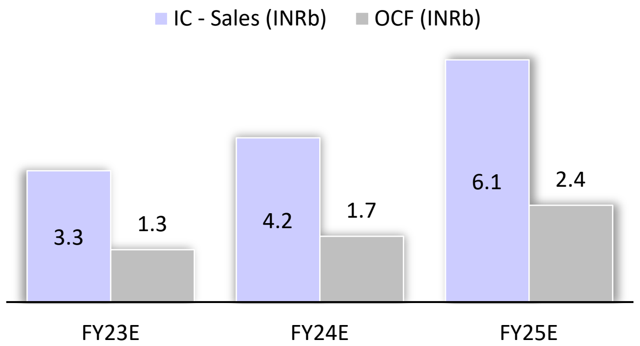
- The bulk of capex in this segment is largely over as MLDL has completed land aggregation at Origins Ahmedabad (340 acres), and is now scouting for a key anchor tenant.
- With annual outflow now limited to operating and interest expenses (INR3b debt in the IC&IC segment) of the parks, we expect this segment to generate INR1.5-2.5b (excluding interest and tax) of operating cash flow.

Exhibit 18: Expect the Residential segment to generate cumulative OCF of INR14b over FY23-25



Source: Company, MOFSL

Exhibit 19: Expect the IC segment to generate an OCF (excluding tax and interest) of over INR2b by FY25



Source: Company, MOFSL

Valuation and view: Initiate coverage with a BUY

Business development potential not yet fully built in

- **While it's recent performance has been commendable, although from a low base, we expect a further scale-up in the business in the near term, driven by a strong project pipeline of 10msf.**
- **The management's efforts to continuously augment the project pipeline through enhanced focus on business development can help MLDL in achieving INR25b in sales by FY24E itself.**
- **Strong sales momentum in the IC&IC segment will result in a significant OCF generation, which can fund growth in the Residential business that is yet not fully built into the valuation.**
- **Based on our SoTP approach, we arrive at a GAV of INR88b. Netting off FY23E net debt of INR3b, we derive a NAV of INR85b, or INR550/share, implying 17% potential upside.**

We value MLDL using the DCF approach, where…

- its Residential business is valued using the DCF of expected cash flows over the five years using a WACC of 13.5% and terminal value using a perpetual growth rate of 3%.
- its IC&IC segment is valued using DCF of cash flows generated by monetizing land inventory over the next 12-15 years.
- its residential land bank in Pune, Chennai and Murud valued at the current realizable value.

Based on the above approach, we arrive at a GAV of INR88b. Netting off FY23E net debt of INR3b, we derive a NAV of INR85b or INR550 per share, implying a potential upside of 17%.

Exhibit 20: Based on our SoTP approach, we arrive at a NAV of INR85b, or INR550/share, indicating 17% potential upside

Particulars	Rationale	Value (INR b)	Per share	% Contribution
Residential	❖ DCF of 5 years cash flow at WACC of 14% and terminal value assuming 3% long term growth	66	427	78
IC & IC	❖ PV of future cash flows discounted at WACC of 14%	14	88	16
Land bank	❖ ~1650 acres of land bank valued at market price	4	28	5
Annuity	❖ 8.5% Cap rate on FY24E NOI	4	25	5
Gross Asset value		**88**	**569**	**104**
Net debt	❖ FY23E	(3)	(19)	-4
Net Asset value		**85**	**550**	**100**
No. of shares (m)		155		
NAV per share		**550**		
CMP		468		
Upside (%)		**17%**		

Key downside risks

- **Inability to close land deals:** MLDL has 8msf of Residential projects, which provides strong near-term sales visibility, but further business development is key to achieve its sales target of INR25b. Based on deal pipeline under due diligence, we expect the company to close out material deals in the near term, but inability to close them out will pose a key downside risk.
- **Inability to scale-up construction activity:** Management aims to exit the recently added projects in four-to-five years. Its inability to scale up the construction activity will impact the team bandwidth and targeted IRR from the project.
- **The slowdown in IC&IC leasing:** We expect the company's IC segment to sustain its current sales run-rate of 100-120 acres. Any slowdown in leasing recovery will lead to lower cash generation.

SWOT analysis

STRENGHTS

- Focus on execution and the ability to scale up the business.
- Disciplined approach towards managing the ongoing portfolio and pursuing growth.

WEAKNESSES

- Given its small scale of operation, the rising cost of inflation can have a larger impact on operations due to limited benefits of economies of scale and lower bargaining power against vendors.

OPPORTUNITIES

- Strong brand positioning in Bengaluru can provide growth opportunities beyond its core markets of Mumbai and Pune.
- Tailwind in the manufacturing sector because of the government's thrust and a shift in the global supply chain can lead to faster monetization of land in the IC segment

THREATS

- Due to increased competition, the company could lose out on business development opportunities to large developers
- While the management has laid a strong focus on team building, increased competition can lead to attrition at the KMP level

Source: MOFSL

Bull and Bear cases

Bull case

- ☑ We assume higher terminal growth rate of 5% and expect higher sales velocity leading to 37% CAGR in pre-sales over FY22-25.
- ☑ We also assume higher realization growth of 5% for our forecasted period v/s 3% in our Base case.
- ☑ Thus collections are expected to clock 27% CAGR over FY22-25 v/s 23% in our Base case, which enhances our DCF-based TP to INR667 per share, a potential upside of 45%.

Bear case

- ☑ We assume a lower sales velocity in the Residential segment and we factor-in pre-sales CAGR of 32% over FY22-25.
- ☑ We assume construction costs to increase by 5% YoY over the forecasted period, citing continued inflation pressure and a corresponding 3% CAGR change in the sales price
- ☑ Thus, collections are likely to report 19% CAGR over FY22-25 v/s 23% CAGR in our Base case.
- ☑ We also expect zero terminal growth rate v/s 3% in our base case. Our DCF-based TP declines to INR432 per share, a downside upside of 4%.

Exhibit 21: MLDL – Bull case

	FY21	FY22	FY23E	FY24E
Sales value (INR b)	7	10	19	25
Growth (%)		48	87	31
Collections (INR b)	8	12	11	17
Operating cash flow (INR b)			4	5
GAV (INR b)				106
Net debt (INR b)				-3
NAV (INR b)				103
TP (INR)				667
Upside/ (downside) (%)				45

Source: MOFSL, Company

Exhibit 22: MLDL – Bear case

	FY21	FY22	FY23E	FY24E
Sales value (INR b)	7	10	17	22
Growth (%)		48	64	28
Collections (INR b)	8	12	10	15
Operating cash flow (INR b)			3	3
GAV (INR b)				67
Net debt (INR b)				-3
NAV (INR b)				64
TP (INR)				432
Upside/ (downside) (%)				-4

Source: MOFSL, Company

Key management personnel

Mr. Ameet Hariani, Chairman

Mr. Hariani is a renowned Advocate and Solicitor and is the founder of M/s Hariani & Co since 1991. He has over 30 years of experience advising clients on corporate and commercial laws, M&A and real estate finance transactions. He has represented large organisations in international real estate transactions, arbitrations and prominent litigations. He obtained his law degree from University of Mumbai.

Mr. Arvind Subramanian, MD & CEO

Arvind joined Mahindra Lifespace in 2018 as CEO of Mahindra Happinest, the value housing business and was later elevated to company CEO in 2020. Prior to joining MLDL, he worked for companies like BCG where he was the global topic leader for the 'Next Billion Consumers', picked by Financial Times as one of The Fifty Ideas That Shaped Business Today. Arvind is currently co-Chair of CII's Urban Development and Smart Cities Council and serves on IGBC's Executive Board. He holds an MBA from the IIM, Ahmedabad and a B.Tech from the IIT, Madras.

Mr. Vimal Agarwal, CFO

Vimal has more than 20 years of work experience spanning Financial Planning & Analysis, CAPEX & OPEX budgeting, Working Capital Management, Process Governance, Financial Reporting, Secretarial, Legal, and Technologies, apart from managing large teams. At Mahindra Lifespace, Vimal is responsible for driving revenue growth, P&L management, enhancing working capital productivity, increasing shareholder value, strengthening governance, managing investor relations and supporting various technology initiatives. He is a Chartered Accountant and also holds an MBA degree from Symbiosis Institute of Management Studies.

Mr. Vimalendra Singh, Sales Head

Vimalendra Singh is Chief Sales & Service Officer at Mahindra Lifespace Developers Ltd. Vimalendra is a business Leader with nearly 18 years of experience across US, Middle East and India. He has worked in the banking sector for nearly 13 years, before moving to the realty sector. Vimalendra holds an MBA from the IIM, Ahmedabad, and a B.E. from VJTI, Mumbai University

Mr. Rajaram Pai, Business Head – Industrial

Rajaram has 27 years of experience across Specialty Chemicals, Renewable Energy, Automotive and Consulting, leading P&Ls, development and commercialization of new technologies and business models. At Mahindra Lifespace, Rajaram leads strategy, planning, development, sales, operations and value creation for the Integrated Cities & Industrial Clusters (IC & IC) business vertical of the Company. Rajaram holds an MBA from the IIM, Lucknow and a Bachelor's degree in Mechanical Engineering from Manipal Institute of Technology.

ESG, CSR & Diversity

Environment and Sustainability initiatives

- From a long-term perspective, MLDL has a goal to reach carbon neutrality by 2040
- Taking initiatives to achieve 63% reduction in Scope 1&2 emission and 20% reduction in Scope 3 emission on CY18 base
- About 60% of the common area lighting is powered by renewable energy
- The entire portfolio of the company is IGBC Gold and above certified

Governance pointers

- MLDL has a multi-tiered governance structure with well-defined roles and responsibilities. Of the total six Board members, two are Independent and 50% of the board strength is woman.
- As per the auditor report, MLDL has complied with all the statutory and regulatory compliance requirements

CSR initiatives

- MLDL's CSR initiatives are focused in the areas of:
  - Women Economic Empowerment, Girl Education and Environment through initiatives like Nanhi Kali – company's flagship program for all round education of under-privileged girls
  - Empowering the domestic women in rural and under-privileged areas with market-oriented skills and vocational training programs which facilitate financial support.
- The company implements its policy various organizations including 'K.C. Mahindra Education Trust and Naandi Foundation'. In FY22, MLDL has spent INR13.3m on CSR activities

Financials and valuations

Consolidated Profit & Loss

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	**5,928**	**6,109**	**1,662**	**3,936**	**5,227**	**5,698**
Change (%)	4.7	3.1	-72.8	136.7	32.8	9.0
Operating Expenses	4,096	4,830	1,173	3,031	4,182	4,559
Employees Cost	740	822	757	836	878	922
Other Expenses	834	1,025	668	963	1,059	1,165
Total Expenditure	**5,670**	**6,678**	**2,598**	**4,830**	**6,119**	**6,646**
% of Sales	95.6	109.3	156.3	122.7	117.1	116.6
EBITDA	**258**	**-568**	**-935**	**-895**	**-892**	**-947**
Margin (%)	4.4	-9.3	-56.3	-22.7	-17.1	-16.6
Depreciation	38	77	70	65	94	115
EBIT	**221**	**-645**	**-1,005**	**-960**	**-986**	**-1,062**
Int. and Finance Charges	125	76	110	65	203	217
Other Income	1,337	105	216	147	366	228
PBT bef. EO Exp.	**1,433**	**-617**	**-899**	**-878**	**-823**	**-1,052**
EO Items	0	-1,346	0	968	338	0
PBT after EO Exp.	**1,433**	**-1,963**	**-899**	**90**	**-485**	**-1,052**
Total Tax	246	-17	-63	-624	-121	-263
Tax Rate (%)	17.2	0.9	7.0	-695.2	25.0	25.0
Minority Interest	-10	-11	118	830	2,346	2,109
Reported PAT	**1,176**	**-1,957**	**-718**	**1,545**	**1,983**	**1,320**
Adjusted PAT	**1,176**	**-623**	**-718**	**172**	**1,729**	**1,320**
Change (%)	16.5	-152.9	15.2	-123.9	906.7	-23.7
Margin (%)	19.8	-10.2	-43.2	4.4	33.1	23.2

Consolidated Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	513	514	514	1,545	1,545	1,545
Total Reserves	18,782	16,499	15,797	16,340	18,323	19,643
Net Worth	**19,295**	**17,013**	**16,311**	**17,885**	**19,868**	**21,188**
Minority Interest	435	420	420	491	491	491
Total Loans	2,282	2,319	2,443	2,805	3,005	3,205
Deferred Tax Liabilities	134	77	152	0	0	0
Capital Employed	**22,146**	**19,829**	**19,326**	**21,181**	**23,364**	**24,884**
Gross Block	338	320	222	423	517	632
Less: Accum. Deprn.	259	260	184	249	343	458
Net Fixed Assets	**79**	**60**	**38**	**174**	**174**	**174**
Goodwill on Consolidation	660	660	660	660	660	660
Capital WIP	98	122	146	34	34	34
Total Investments	**7,092**	**5,743**	**5,786**	**6,424**	**6,762**	**6,762**
Curr. Assets, Loans&Adv.	**22,006**	**18,777**	**19,249**	**23,083**	**27,559**	**30,440**
Inventory	13,451	12,043	13,447	14,419	17,544	19,905
Account Receivables	1,373	1,144	564	919	1,221	1,330
Cash and Bank Balance	2,938	1,324	1,355	2,255	2,521	2,936
Loans and Advances	4,245	4,267	3,883	5,490	6,273	6,268
Curr. Liability & Prov.	**7,789**	**5,534**	**6,553**	**9,193**	**11,825**	**13,186**
Account Payables	1,880	1,276	1,349	1,733	2,196	2,385
Other Current Liabilities	5,618	3,972	5,049	7,294	9,409	10,561
Provisions	291	286	155	166	220	240
Net Current Assets	**14,217**	**13,244**	**12,696**	**13,890**	**15,734**	**17,254**
Appl. of Funds	**22,146**	**19,830**	**19,327**	**21,181**	**23,364**	**24,884**

Financials and valuations

Ratios

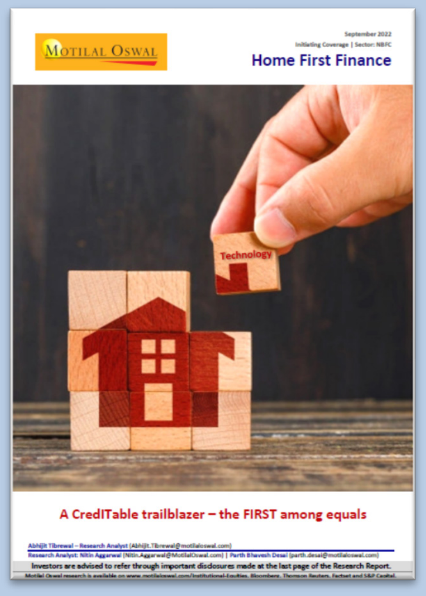
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)						
EPS	**22.9**	**-12.1**	**-14.0**	**1.1**	**11.2**	**8.5**
Cash EPS	23.6	-10.6	-12.6	1.5	11.8	9.3
BV/Share	375.8	331.2	317.4	115.7	128.6	137.1
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)						
P/E	20.4	-38.6	-33.5	421.1	41.8	54.8
Cash P/E	19.8	-44.1	-37.1	305.3	39.7	50.4
P/BV	1.2	1.4	1.5	4.0	3.6	3.4
EV/Sales	3.9	4.1	15.1	18.5	13.9	12.7
EV/EBITDA	90.4	-44.1	-26.9	-81.4	-81.6	-76.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	32.0	-12.8	-13.8	-4.2	-0.6	1.3
Return Ratios (%)						
RoE	5.9	-3.4	-4.3	1.0	9.2	6.4
RoCE	5.5	-2.6	-3.9	-32.8	-2.1	-2.6
RoIC	1.3	-5.2	-7.6	-62.3	-5.6	-5.5
Working Capital Ratios						
Fixed Asset Turnover (x)	17.5	19.1	7.5	9.3	10.1	9.0
Asset Turnover (x)	0.3	0.3	0.1	0.2	0.2	0.2
Inventory (Days)	828	719	2,952	1,337	1,225	1,275
Debtor (Days)	85	68	124	85	85	85
Creditor (Days)	116	76	296	161	153	153
Leverage Ratio (x)						
Current Ratio	2.8	3.4	2.9	2.5	2.3	2.3
Interest Cover Ratio	1.8	-8.5	-9.2	-14.7	-4.8	-4.9
Net Debt/Equity	0.0	0.1	0.1	0.0	0.0	0.0

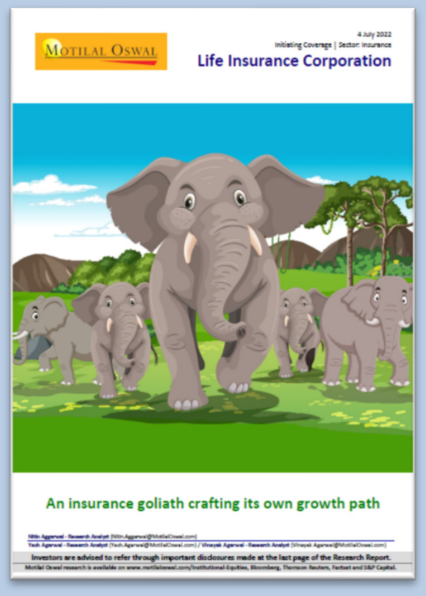
Consolidated Cash flow

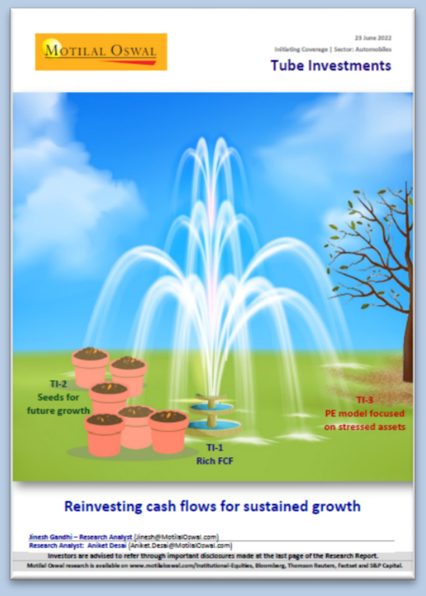
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,433	-617	-778	24	1,523	1,057
Depreciation	38	77	70	65	94	115
Interest & Finance Charges	-267	-57	-21	-65	203	217
Direct Taxes Paid	-270	-132	-128	-180	121	263
(Inc)/Dec in WC	1,580	-36	332	354	-1,578	-1,105
CF from Operations	**2,514**	**-764**	**-525**	**199**	**364**	**547**
Others	-839	136	-155	-718	-366	-228
CF from Operating incl EO	**1,675**	**-628**	**-680**	**-520**	**-2**	**319**
(Inc)/Dec in FA	-34	-31	-29	-133	-94	-115
Free Cash Flow	**1,641**	**-659**	**-709**	**-653**	**-96**	**205**
(Pur)/Sale of Investments	2,177	0	0	550	0	0
Others	734	911	1,133	815	366	228
CF from Investments	**2,877**	**881**	**1,104**	**1,232**	**272**	**113**
Issue of Shares	0	0	0	25	0	0
Inc/(Dec) in Debt	-2,802	37	124	362	200	200
Interest Paid	-523	-292	-271	-207	-203	-217
Dividend Paid	-380	-356	-4	-4	0	0
Others	0	-64	-47	-55	0	0
CF from Fin. Activity	**-3,704**	**-674**	**-198**	**122**	**-3**	**-17**
Inc/Dec of Cash	**848**	**-421**	**226**	**834**	**267**	**415**
Opening Balance	-692	156	924	1,150	1,984	2,251
Closing Balance	**156**	**-265**	**1,150**	**1,984**	**2,251**	**2,666**

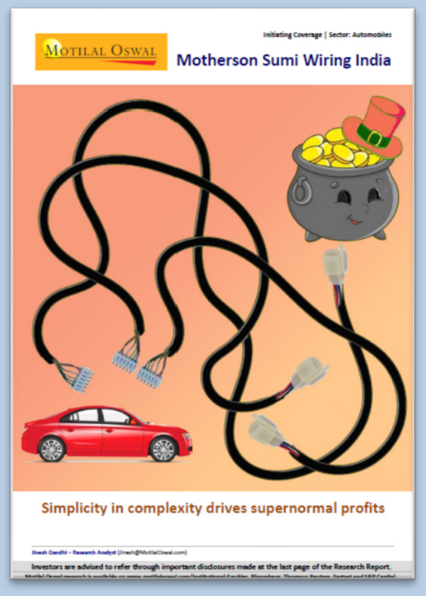
REPORT GALLERY

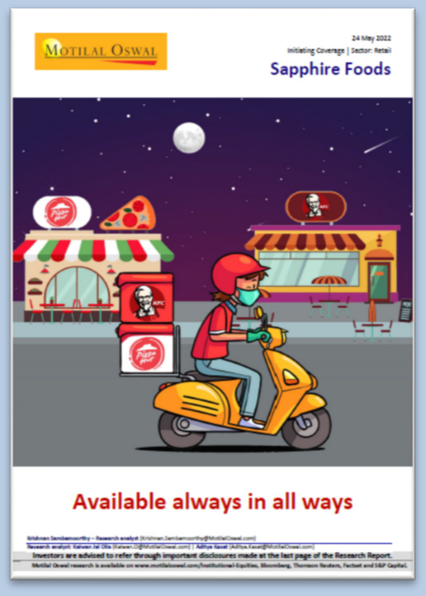
RECENT INITIATING COVERAGE REPORTS

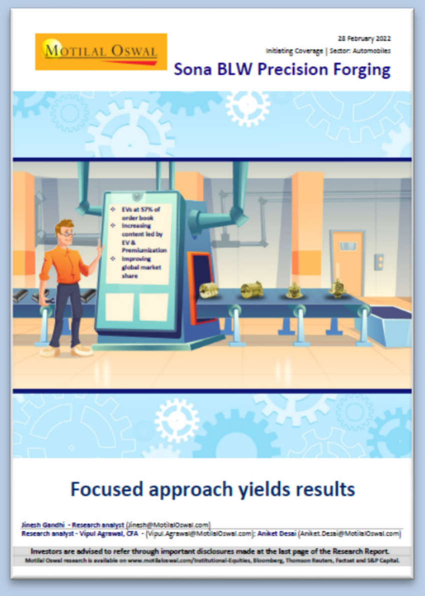












NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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