

**Macrotech Developers Ltd.****NEUTRAL**

London writeoff materially reduces NPV of future earnings

**Choice**

Nov 4, 2022

During the quarter, MDL reported revenue degrowth, as topline decreased by 17% YoY/ 31% QoQ to Rs.17.6bn. Operating margin came in strong on this decreased revenue at 24 % (+660bps QoQ); however, writeoff of London investments led to Exceptional Loss of Rs. 1177cr, causing a net loss of Rs.906 cr. during the quarter.

- **Pre-sales were strong this quarter, indicating future growth of recognised revenues:** Company indicates that it made ~Rs. 2612 cr pre-sales at 33% embedded margin and ~Rs. 536 cr presales ( we assume these revenues to be at comparatively lower margins). During the quarter, company added four projects for 2.2 million square feet area with a GDV of Rs. 3,100 crores- with this, company has added ~Rs. 9,300 crore of GDV which is ~62% of its full year guidance of ~Rs. 15,000cr of GDV addition- this should fuel future pre-sales.
- **Management remains confident about demand sustaining:** Management expects a further interest rate hike in the coming quarter. However, though 65-68% of MDL buyers opt for mortgage financing, management believes that this will not impact the demand substantially, as level of mortgage rates is not the driving factor for the decision-making of its homebuyer segment- it is job security which is the driving factor the real estate purchase, regarding which the management remains reasonably positive.
- **Company sees strong future prospects in JD/JV:** The consolidation in the market continues at an accelerated pace providing MDL with significant JDA opportunities across all markets of interest. Mumbai and Pune market is very strong and so far the festive season has been well. The tightening of interest rates will trigger consolidation in the industry.
- **Company seems to be preparing itself for the possibility of raising more debt in the future:** On Nov. 1st, the company passed a resolution to raise upto Rs.3000 cr of debt via NCDs "to diversify pool of debt capital and achieve reduction in cost of funds", which we feel indicates possibility of increased leverage and risk.
- **View and Valuation:** We have revised our estimates keeping in mind the impact on NPV from written off London investments, as well as possibility of an increase in medium term gearing and increasing focus on what we believe is a risky JD-JV dependent business model to reducing PV of cash flows. We acknowledge the company's large land bank size at historically low cost and increasing presence in other Tier-I cities playing a large role in its future prospects. We ascribe a NEUTRAL rating to Macrotech Developers with a SoTP target of Rs. 926.

**Financial Snapshot**

Year end: March	FY21	FY22	FY23E	FY24E
Revenue (Rs. Mn.)	54,486	92,332	1,03,283	1,18,776
Gross Profit (Rs. Mn.)	18,447	31,706	34,331	39,196
EBITDA (Rs. Mn.)	13,719	21,247	21,257	24,373
EBITDA Margin (%)	25.2	23.0	20.6	20.5
EPS (Rs.)	1	26	(3.3)	28

Source: Company, CEBPL

CMP (Rs)	956
Target Price (Rs)	926
Potential Downside (%)	(3.7)

**Company Info**

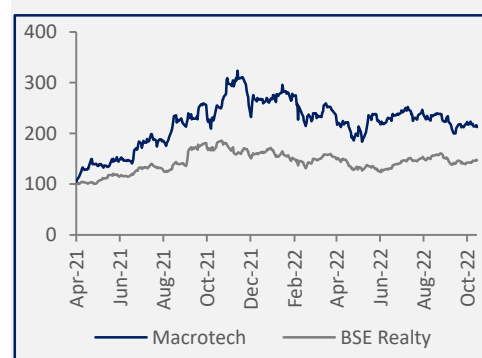
BB Code	LODHA in Equity
ISIN	INE670K01029
Face Value (Rs.)	10
52 Week High (Rs.)	1538.6
52 Week Low (Rs.)	814.8
Mkt Cap (Rs bn.)	460.3
Mkt Cap (\$ bn.)	5.8
Shares o/s (Mn.)/F.Float(%)	481.6/18
EPS FY22 (Rs)	25.7
EPS FY24E (Rs)	27.8

**Shareholding Pattern (%)**

	Sep-22	Jun-22	Mar-22
Promoters	82.20	82.20	82.22
FII's	13.93	14.54	14.91
DII's	2.54	1.86	1.45
Public	1.34	1.40	1.43

**Relative Performance (%)**

YTD	6M	3M	1M
BSE Realty	(1.1)	(1.3)	3.5
MDL	(4.0)	(10.3)	6.6

**Rebased Price Performance****Abhimanyu Kasliwal, CFA, AVP**

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## Quarterly performance

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
<b>Net Sales (incl OOI)</b>	17,654	21,238	(16.9)	26,758	(34.0)
Cost of project	10,505	14,323	(26.7)	19,004	(44.7)
Gross Profit	7,150	6,915	3.4	7,754	(7.8)
Employee Expenses	1,105	921	20.0	961	15.0
Other Operating Expenses	1,805	2,076	(13.1)	2,126	(15.1)
<b>EBITDA</b>	4,240	3,918	8.2	4,667	(9.1)
Depreciation	219	184	18.9	196	11.6
<b>EBIT</b>	3,979	4,512	(11.8)	4,474	(11.1)
Other Income	(42)	778	NA	3	NA
Interest Cost	1,249	1,562	(20.0)	1,193	4.7
EO Items	(11,774)	0	NA	0	NA
<b>PBT</b>	(9,060)	2,952	(406.9)	3,274	(376.7)
Tax	270	719	(62.4)	559	(51.6)
<b>RPAT</b>	-9,330	2,234	NA	2,715	NA
<b>EPS (Rs)</b>	-19	5	NA	6	NA

Margin Analysis	Q2FY23	Q2FY22	YoY (bps)	Q1FY23	QoQ (bps)
Gross Margin (%)	40.5	32.6	793.8	29.0	1,151.9
Employee Exp. % of Sales	6.3	4.3	192.3	3.6	266.7
Other Op. Exp % of Sales	10.2	9.8	44.5	7.9	227.5
EBITDA Margin (%)	24.0	18.4	557.0	17.4	657.7
Tax Rate (%)	3.0	(24.3)	NA	(17.1)	NA
PAT Margin (%)	(52.8)	10.5	NA	10.1	NA

Source: Company, CEBPL

## Changes in Estimates

Income Statement (Rs. Mn.)	FY23E			FY24E		
	New	Previous	Dev. (%)	New	Previous	Dev. (%)
Net sales	1,03,283	12,1625	(15)	1,18,776	1,39,869	(15)
EBITDA	21,257	25,335	(16)	24,373	30,431	(20)
EBITDA Margin(%)	20.6	20.8	(21.9) bps	20.5	21.8	(127.9) bps
PAT	(155.7)	13,164	NA	13,404	16,646	(19)
EPS (Rs.)	(0.32)	27	NA	28	35	(19)

Source: Company, CEBPL

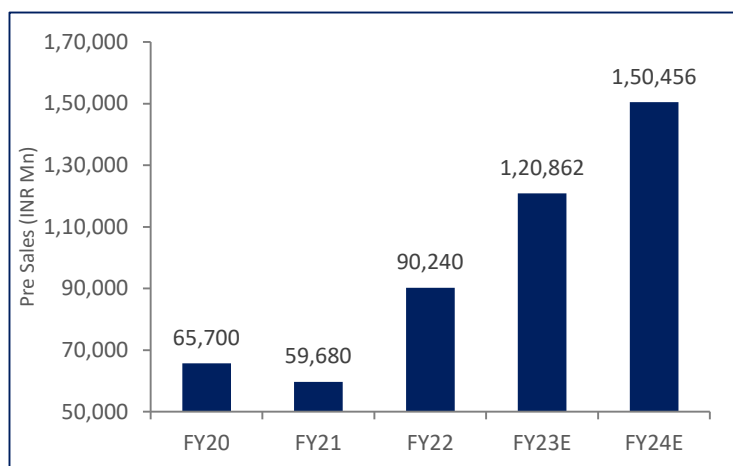
SOTP Valuation Rs.mn			New
PV of Own Projects			48,840
PV of Rental Assets			1106
PV of UK Investment			0
PV of Digital Infra			3,383
PV of Net Debt			8,018
Net NAV			45,310
<b>Target Price Rs.share</b>			<b>941</b>

Source: Company, CEBPL

## Management Call - Highlights

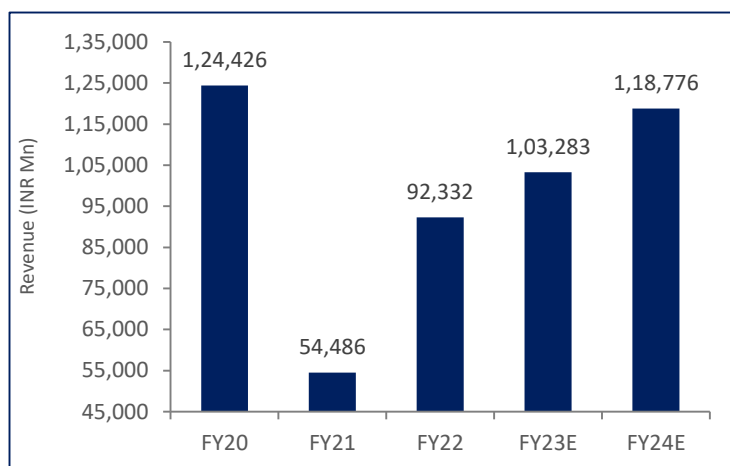
- **One Lodha update:** In One lodha, 30% of area is earmarked for let out of which 1/3rd is already sold. leasing activity started for the remaining space expect to receive recurring income of Rs.200 cr yearly from this asset
- **Embedded EBIDTA margin is at 33% on Pre-sales of Rs.3,000cr:** For H1FY23 embedded EBIDTA is Rs.2040 cr. During the quarter healthy sales were driven by the strong demand and availability of finance. Management believes Indian RE is in a long-term upcycle.
- **Debt and collection:** Management says that there is no delay in debt repayment. The company expects to achieve net debt of Rs.6,000cr, and aims to collect Rs. 11,000cr in FY23 out of which Rs. 1100cr is already been collected. The company's debt cost reduced to an average of 9.9%, and a stronger debt grade augurs favorably for future capital raising.
- **New market update:**
  - **Bangalore-** All preliminary work is done and the new project is expected to launch by year-end.
  - **Pune-** Expect sales to reach on par with top players in the market in the next 12-24 months.
- **Bain Capital and IVDO Cambridge platform update for Township project:** The company aims to build quality infrastructure for middle-class families in this township. It is aiming to focus on aspiration homes in the ticket size of Rs. 10-1.2mn. and also building a villa and office in this township. The elevated road between Ghansoli and Airoli will enhance the project's connectivity, supporting the area's expansion. The connectivity of the Upper Thane with the Dombivali Station Bridge would enhance the project's connectivity and lead to improved sales velocity moving ahead.
- **Pre-sales indicating good demand:** The inquiries level also improves and the company continues to see a conversion rate of c.8-10%. Micro market sales of affordable were down due to weak market performance in Thane and another suburban market. The monetization of ESR land was done at Rs4cr /acre. In the township, the company expects to achieve sales of 2-3 mnsft/ sales in the coming years (excluding DI). A price hike for Macrotech would be less than a wage rate hike. Expect a 5-6% price hike for FY23. The embedded margin is based on the launch price and construction cost of the building (including the inflation factor).
- **UK investment update- Finally concluded:** The current global macro factor is not doing well, especially in UK and China which triggers recessionary pressure and may witness another rate hike going ahead. Expect to receive Rs1000cr in CY23 out of which Rs. 100cr has been already received vs a total expectation of Rs. 1500cr. Due to the write-off of the UK loan company expect to receive a tax benefit of Rs. 350cr.

### Pre-sales on sustained rise



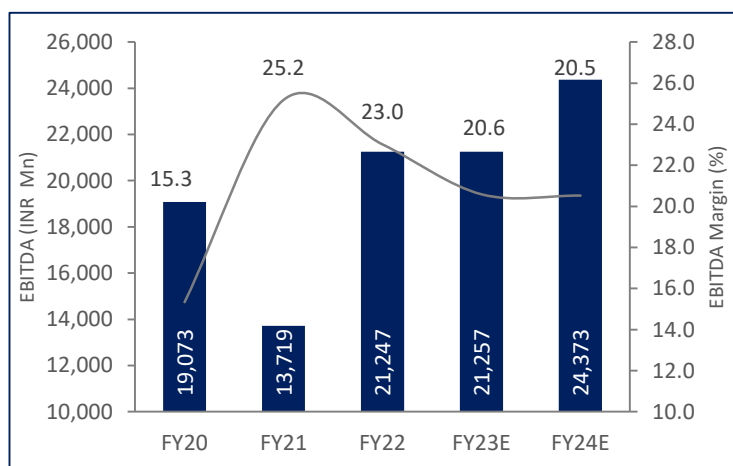
Source: Company, CEBPL

### Revenue should rise in the future as recognition improves



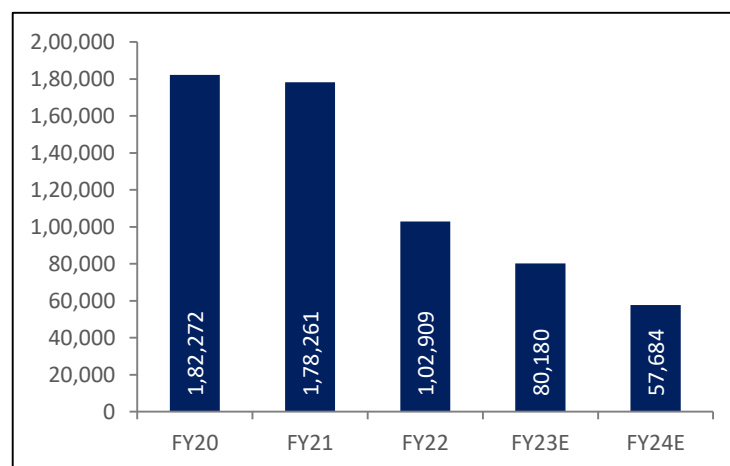
Source: Company, CEBPL

### EBITDA Margin expected to remain at 20% + levels



Source: Company, CEBPL

### Management has not changed its Net Debt aspirations yet



Source: Company, CEBPL

## Income statement (Consolidated in Rs. Mn.)

Particular	FY21	FY22	FY23E	FY24E
Revenue	54,486	92,332	1,03,283	1,18,776
Gross profit	18,447	31,706	34,331	39,196
EBITDA	13,719	21,247	21,257	24,373
Depreciation	734	748	764	763
EBIT	12,985	20,499	20,493	23,611
Interest expense	11,257	6,803	4,742	3,759
Other Income	3,231	3,460	196	771
Extraordinary item	(4,628)	0	(11,774)	0
RPAT	479	12,085	(156)	13,404
Adjusted PAT	0	0	0	0
EPS (Rs)	1	26	(3.3)	28
NOPAT	7,211	14,432	(769)	15,347

## Balance sheet (Consolidated in Rs. Mn.)

Particular	FY21	FY22	FY23E	FY24E
Net worth	45,990	1,21,050	1,20,175	1,31,569
Minority Interest	5,269	568	573	573
Deferred tax	(2,098)	1,168	1,650	1,650
Total debt	1,81,929	1,15,367	91,479	65,479
Other liabilities & Provisions	4,399	3,855	4,262	2,785
<b>Total Net Worth &amp; liabilities</b>	<b>2,35,488</b>	<b>2,42,008</b>	<b>2,18,138</b>	<b>2,02,055</b>
Net Fixed Assets	16,696	16,578	17,703	19,925
Capital Work in progress	63	0	0	0
Investments	18,560	8,390	13,529	10,882
Cash & bank balance	3,668	12,457	15,153	11,648
Loans & Advances & other assets	44,815	37,339	17,779	17,684
Net Current Assets	1,55,354	1,79,701	1,69,127	1,53,564
<b>Total Assets</b>	<b>2,35,488</b>	<b>2,42,008</b>	<b>2,18,138</b>	<b>2,02,055</b>
Capital Employed	2,27,918	2,36,417	2,11,654	1,97,047
Invested Capital	2,29,519	2,24,528	1,97,074	1,85,972
Net Debt	1,78,261	1,02,909	76,326	53,831
FCFF	25,219	19,575	21,291	8,914

Source: Company, CEBPL

Cash Flows (Rs. Mn.)	FY21	FY22	FY23E	FY24E
CFO	25,240	19,983	22,307	10,057
Capex	(20)	(408)	(1,016)	(1,144)
FCF	25,219	19,575	21,291	8,914
CFI	4,199	11,390	20,824	11,856
CFF	(28,351)	(28,878)	(3,349)	(3,393)
Ratio Analysis	FY21	FY22	FY23E	FY24E
<b>Growth Ratios (%)</b>				
Revenue	(56.2)	69.5	11.9	15.0
EBITDA	(28.1)	54.9	0.0	14.7
PAT	(93.4)	2,424.1	(101.3)	(8,707.6)
<b>Margin ratios (%)</b>				
EBITDA Margins	25.2	23.0	20.6	20.5
PAT Margins	0.9	13.1	(0.2)	11.3
<b>Performance Ratios (%)</b>				
OCF/EBITDA (X)	1.8	0.9	1.0	0.4
OCF/IC	11.0	8.9	11.3	5.4
RoE	1	10	0	10
ROCE	6	9	10	12
RoIC (Post tax)	3.1	6.3	(31.1)	7.8
ROIC (Pre tax)	5.6	8.9	(29.6)	12.0
<b>Turnover Ratios (days)</b>				
Inventory	1,896	1,082	952	841
Debtors	44	26	12	20
Payables	114	60	52	46
Cash Conversion Cycle	1,826	1,047	912	814
<b>Financial Stability ratios (x)</b>				
Net debt to Equity	3.9	0.9	0.6	0.4
Net debt to EBITDA	13.0	4.8	3.6	2.2
Interest Cover	1.2	3.0	4.3	6.3
<b>Valuation metrics</b>				
Fully diluted shares (mn)	396	482	482	482
Price (Rs)	957	957	957	957
Market Cap(Rs. Mn)	3,68,167	4,47,804	4,47,897	4,47,897
PE (x)	769	37	-2,876	33.4
EV (Rs.mn)	5,51,696	5,51,282	5,24,796	5,02,301
EV/EBITDA (x)	40	26	25	21
Book value (Rs/share)	116	251	250	273
Price to BV (x)	3.4	1.9	1.9	1.8
EV/OCF (x)	22	28	24	50

Source: Company, CEBPL

## Historical recommendations and target price: Macrotech Developers Ltd.



### Macrotech Developers Ltd. (LODHA)

- 07-10-2022 - Add, Target Price – Rs.1,039
- 03-11-2022 - Neutral, Target Price – Rs. 926

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<b>OUTPERFORM</b>	The security is expected to generate more than 15% returns over the next 12 months
<b>ADD</b>	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
<b>NEUTRAL</b>	The security expected to show downside or upside returns by 5% over the next 12 months
<b>REDUCE</b>	The security expected to show less than -5% to greater than -15% over the next 12 months
<b>UNDERPERFORM</b>	The security is expected to generate returns in excess of -15% over the next 12 months

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