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Stock Update

Result Update

Mahindra Lifespace Developers Ltd

A mixed Q2; Expect catch-up in H2

Real Estate	Sharekhan code: MAHLIFE		
Reco/View: Buy	↔	CMP: Rs. 406	Price Target: Rs. 600 ↓

↑ 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		↔	

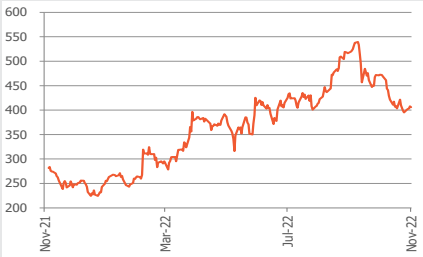
Company details

Market cap:	Rs. 6,274 cr
52-week high/low:	Rs. 555 / 219
NSE volume: (No of shares)	67082 lakh
BSE code:	532313
NSE code:	MAHLIFE
Free float: (No of shares)	7.5 cr

Shareholding (%)

FII	11
Institutions	18
Public & others	19
Promoters	51

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-14.0	-4.0	8.4	44.2
Relative to Sensex	-18.7	-8.3	-1.1	43.5

Sharekhan Research, Bloomberg

Summary

- MLDL reported decent residential pre-sales of Rs. 399 crore while collections remained strong at Rs. 286 crore, up 67% y-o-y for Q2FY2023. IC&IC leasing remained muted.
- The company added nil projects on business development. It targets Rs. 1500-2000 crore GDV additions in H2FY2023 while land deal pipeline remain strong at Rs. 5000 crores.
- The company has strong project launch pipeline of Rs. 1000 crore from new projects apart from sustenance sales from its existing projects. It is in the final list of two society redevelopment projects.
- We retain a Buy on stock with a revised price target of Rs. 600, lowering our NAV premium to factor in delay in business development activities and revenue recognition

Mahindra Lifespace Developers Limited (MLDL) reported decent residential quarterly pre-sales of Rs. 399 crore (up 32% y-o-y, down 34% q-o-q) led by the strong response for Nestalgia, its Pune project launch (35% of pre-sales). The collections stood strong at Rs. 286 crore (up 67% y-o-y, up 6% q-o-q). Industrial leasing remained muted at Rs. 68 crores (down 8% y-o-y, down 42% q-o-q). It was not able to add any new projects post Rs. 1700 crore GDV addition in April 2022 but targets to close Rs. 1500-2000 crores GDV projects in H2FY2023 (pipeline of Rs. 5000 crore). It continued to lag in terms of revenue recognition and operational profitability for the quarter with consolidated revenues of just Rs. 70 crores (down 26% q-o-q) and an operating loss of Rs. 39 crores (against operating losses of Rs. 32 crore in Q1FY2023). The reported consolidated net loss stood at Rs. 7.7 crore (net profit of Rs. 42 crores in Q1FY2023). The company has a strong launch pipeline of new projects of Rs. 1000 crore GDV to bring to market for balance fiscal apart from sustenance sales in existing projects.

Key positives

- Residential sales booking grew 31.7% y-o-y in terms of value and 20.5% y-o-y in terms of volumes.
- Collections for Q2FY2023 grew at a strong pace of 67.3% y-o-y and 5.5% q-o-q at Rs. 286 crores.

Key negatives

- IC&IC leasing remained muted with a decline of 8.4% y-o-y and 42.4% q-o-q to Rs. 68 crores.
- Revenue recognition and profitability were weak on account of low residential completion.

Management Commentary

- It plans to bring Rs. 1000 crores GDV from new projects in H2FY2023. Of the new launches, Eden phase II is planned this weekend, Kalyan-2, Happinest later this month, NWC, Chennai, Happinest later this quarter, Pimpri ph-1 in H2FY2023, plotted development in MWC, Chennai and Nestalgia phase II in Q4FY2023.
- It continues to have Rs. 5000 crore BD pipeline of which Rs. 2000 crore are in advanced stages which are expected to conclude over 2-3 quarters. It added Rs. 1700 crore GDV in April 2022 and targets Rs. 1500-2000 crore for the balance year
- It is on the final shortlist for two redevelopment deals.

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

Our Call

Valuation – Retain Buy with a revised PT of Rs. 600: MLDL has corrected by ~25% over less than the trailing two months owing to continued operating losses reporting over trailing four quarters and nil business development activities getting closed post April 2022. We expect revenue recognition to catch up going ahead while the addition of new projects takes place in H2FY2023. The pre-sales are expected to see significant growth in FY2023 led by a strong launch pipeline in H2FY2023 and high growth achieved in H1FY2023. The Development of Enterprise and Service Hubs (DESH) bill is expected to provide further traction to its IC&IC business. We introduce our FY2025E earnings in this note. We retain a Buy on the stock with a revised PT of Rs. 600 lowering our NAV premium to factor in the delay in business development activities and revenue recognition.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	393.6	479.0	498.4	517.6
OPM (%)	-22.7	5.5	4.2	13.6
Adjusted PAT	57.7	135.5	143.4	195.6
% Y-o-Y growth	-	135.1	5.8	36.3
Adjusted EPS (Rs.)	3.7	8.8	9.3	12.7
P/E (x)	-	46.2	43.6	32.0
P/B (x)	3.5	3.3	3.0	2.8
EV/EBIDTA (x)	-	-	-	-
RoNW (%)	3.4	7.3	7.2	9.0
RoCE (%)	0.8	4.4	1.7	3.6

Source: Company; Sharekhan estimates

Weak revenue recognition dents profitability

Mahindra Lifespace (MLDL) reported its decent quarterly residential sales of Rs. 399 crores (up 31.5% y-o-y, down 33.7% q-o-q) for Q2FY2023 led by strong response garnered from Nestalgia, Pune project launch (70% of the units sold out) apart from sustenance sales across its portfolio. However, the industrial leasing activities remained muted which stood at Rs. 68 crores (down 8.4 y-o-y, down 42.4% q-o-q). Collections from the residential business remained sturdy rising by 67.3% y-o-y (up 5.5% q-o-q) at Rs. 286 crores. For Q2FY2023, the consolidated revenues were down 26.2% q-o-q (up 17.8% q-o-q) at Rs. 69.8 crores on account of lower handover of projects and one of the project handover getting shifted to Q3FY2023. Consequently, it reported an operating loss of Rs. 39.4 crores versus operating losses of Rs. 32 crores in Q1FY23. Further, it reported a consolidated net loss of Rs. 7.7 crores versus adjusted consolidated net profit of Rs. 42 crores in Q1FY2023.

Key Conference Call Takeaways -

- **Q2FY23 performance:** The company achieved residential sales of Rs. 399 crores for Q2FY2023 and crossed the Rs. 1000 crore sales mark during H1FY2023 as against sales of Rs. 1028 crores in FY2022. It launched Nestalgia, Pune project in Q2 of which it sold out 70% of the units. The project contributed 35% of the pre-sales during Q2. Collections were robust at Rs. 550 crore in H1FY2023. The residential completion was muted in Q2 leading to lower revenue recognition and muted profitability. The Vicino first tower revenue booking is shifted to Q3FY2023.
- **Launches:** It plans to bring Rs. 1000 crores GDV projects in H2FY2023 apart from sustenance sales from existing projects. Of the new launches, Eden phase II is planned this weekend, Kalyan-2, Happinest later this month, NWC, Chennai, Happinest later this quarter, Pimpri ph-1 in H2FY2023, plotted development in MWC, Chennai and Nestalgia phase II in Q4FY2023.
- **Business Development:** It continues to have Rs. 5000 crore BD pipeline of which Rs. 2000 crore are in advanced stages which is expected to conclude over 2-3 quarters. It added Rs. 1700 crore GDV in April 2022 and targets Rs. 1500-2000 crore for balance year, which includes one of the redevelopment projects.
- **Society redevelopment:** It is in the final shortlist for two redevelopment deals.
- **Thane project:** The project launch has been pushed up due to anticipation of state government policy change. It is planning mixed used development and would look for a partner for commercial development. The development potential is estimated at 5msf+.
- **Kandivali project:** The deal closure has been delayed from earlier 30th September 2022 to November 2022 end.
- **Dahisar project:** The project is expected to be launched after a year.
- **IC&IC business:** The IC&IC leasing stood at Rs. 68 crore and Rs. 186 crore during Q2FY2023 and H1FY2023 respectively. Jaipur remains the key contributor. It has a strong lead pipeline for the business. The Desh bill is expected to be tabled in the parliament in Winter or Budget session. The bill is likely to provide industrial parks flexibility to cater to domestic demand which would boost company's IC&IC business.
- **Actis JV:** The JV will have a separate management team under a separate board as it would require a different kind of skill set. The company would hold a minority stake of 26%. It would as its contribution provide 100 acres as seed assets from MWC. The phase I investment would be Rs. 2000 crore of which the equity requirement would be Rs. 700 crores (MLDL's share at Rs. 180 crore by way of land).
- **Debt:** The consolidated debt as per IND AS is Rs. 331 crore and cash is Rs. 203 crore. The consolidated cost of debt is 7.2%.
- **Price hikes:** In some cases, it has been able to undertake 6-8% price hike in Q2FY2023.

Financials (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	YoY%	Q1FY23	QoQ%
Net sales	**69.8**	**59.2**	**17.8%**	**94.6**	**-26.2%**
Other income	4.0	6.5	-37.6%	22.8	-82.3%
Total income	73.8	65.7	12.4%	117.3	-37.1%
operating expenses	109.2	50.1	118.0%	126.5	-13.7%
Operating profit	**-39.4**	**9.2**	**-**	**-32.0**	**-**
Depreciation	3.2	1.4	134.1%	2.4	32.4%
Interest	2.5	2.1	20.9%	1.8	40.7%
Exceptional item	0.0	0.0	-	33.8	-
Share of JV	26.6	11.7	-	62.5	-
PBT	**-14.5**	**23.9**	**-**	**83.0**	**-**
Taxes	-6.7	10.7	-	7.6	-
RPAT	**-7.7**	**13.2**	**-**	**75.4**	**-**
Onetime items	0.0	0.0		33.8	
APAT	**-7.7**	**13.2**	**-**	**41.6**	**-**
EPS	**-0.5**	**0.9**	**-**	**2.7**	**-**
Margin (%)			**BPS**		**BPS**
OPM	-56.4%	15.5%	-	-33.8%	-
NPM	-11.1%	22.3%	-	44.0%	-
Effective tax rate	46.5%	44.7%	-	9.1%	-

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 a revised PT of Rs. 600

MLDL has corrected by ~25% over less than trailing two months owing to continued operating losses reporting over trailing four quarters and nil business development activities getting closed post-April 2022. We expect revenue recognition to catch up going ahead while the addition of new projects to take place in H2FY2023. The pre-sales is expected to see significant growth in FY2023 led by a strong launch pipeline in H2FY2023 and high growth achieved in H1FY2023. The Development of Enterprise and Service Hubs (DESH) bill is expected to provide further traction to its IC&IC business. We introduce our FY2025E earnings in this note. We retain a Buy on the stock with a revised PT of Rs. 600 lowering our NAV premium to factor in delay in business development activities and revenue recognition.

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	2,556	166	Project NAV based valuation
Commercial	536	35	Valued at 8% cap rate
Gross Asset Value	6,264	441	
Net cash/(Debt)	125	8	
Net Asset Value	6,389	433	
Premium to NAV	2568	167	
NAV post premium	8,957	600	
CMP (Rs.)		406	
Upside (%)		48	

Source: Company; Sharekhan estimates

About the 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 to 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 the scale-up of its residential business provides a strong uptick.

Key Risks

- Slowdown in the 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; *appointment with effect from 1st June 2022*

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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