Stock Update

Result Update

Powered by the Sharekhan 3R Research Philosophy

Mahindra Lifespace Developers Ltd

Strong sales and business development

Real Estate	Sharekhan code: MAHLIFE

Reco/View: Buy	↔	CMP: **Rs. 379**	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		↔	

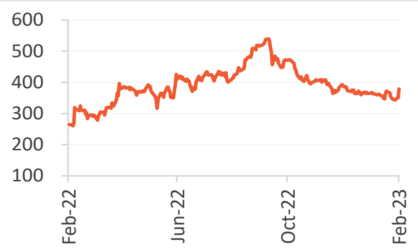
Company details

Market cap:	Rs. 5,863 cr
52-week high/low:	Rs. 555/253
NSE volume: (No of shares)	67,082
BSE code:	532313
NSE code:	MAHLIFE
Free float: (No of shares)	7.5 cr

Shareholding (%)

FII	11
Institutions	19
Public & others	19
Promoters	51

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.3	-6.6	-8.5	43.4
Relative to Sensex	3.0	-6.4	-12.9	39.6

Sharekhan Research, Bloomberg

Summary

- MLDL reported strong residential pre-sales of Rs. 451 crore, aided by the back-ended launch of four new projects. IC&IC leasing and residential collections saw sequential improvement.
- Post Q3, it added Rs. 900 crore GDV projects, taking total of Rs. 2,600 crore GDV additions YTD. The current BD pipeline remains strong at Rs. 5,500 crore.
- The company continues to have a strong residential launch pipeline till early FY2025, while healthy industrial leasing is expected to sustain.
- We retain Buy on stock with an unchanged PT of Rs. 600, considering favourable valuation and healthy growth outlook in both residential and industrial leasing verticals.

Mahindra Lifespace Developers Limited (MLDL) reported strong residential quarterly pre-sales of Rs. 451 crore (up 80% y-o-y, up 13% q-o-q), aided by four new launches. Industrial leasing remained healthy at Rs. 69 crore (up 1.5% q-o-q), while collections improved by 6.3% q-o-q at Rs. 304 crore. The company concluded two business development transactions, including breakthrough in society redevelopment with aggregate GDV of Rs. 900 crore (Rs. 2,600 crore GDV additions YTD). Currently, the BD pipeline remains strong at Rs. 5,500 crore, which is expected at a reasonable conversion ratio over the next 2-3 quarters. The company reported consolidated revenue of Rs. 187 crore (up 8x y-o-y), while operating loss narrowed down to Rs. 11.4 crore (Rs. 39 crore operating loss in Q3FY2022). Adjusted net loss (reversal of impairment of Rs. 34 crore) stood at Rs. 0.8 crore (net loss of Rs. 7.7 crore in Q2FY2023). The company continues to have a strong residential launch pipeline till early FY2025, while healthy industrial leasing is expected to sustain.

Key positives

- Residential sales booking grew by 80% y-o-y and 13% q-o-q to Rs. 451 crore, aided by four new launches during November and December.
- Post Q3, the company added Rs. 900 crore GDV projects, taking the total business development of Rs. 2,600 crore YTD.

Key negatives

- Operating losses continued although they narrowed down on a y-o-y and q-o-q basis.
- Increased leverage to fund acquisition, led to higher interest costs on a y-o-y and q-o-q basis.

Management Commentary

- In Q4FY2023, the company targets to launch phase 2 of Nestalgia, Pune, and plotted development in MWC, Chennai. In H1FY2024, MLDL targets the launch of Kandivali project, main launch of Citadel, Pune project, and Hosur project launch. The Dahisar project and Santacruz redevelopment project would be done later in FY2024. The company did conversion of the 68-acre Thane land, which is expected to be launched in early FY2025.
- Currently, MLDL is having Rs. 5,500 crore BD pipeline with a reasonable conversion expected over the next 2-3 quarters. BD pipeline of Rs. 2,500 crore would be either converted or dropped in Q4FY2023.
- It has 50 acres of advance pipeline for conversion over the two quarters.

Revision in estimates – We have lowered our adjusted net earnings estimates for FY2023-FY2025E, factoring in a gradual recovery in operating profit margin (OPM).

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 600: MLDL has been able to sustain healthy momentum in residential sales, industrial leasing, and new project additions for the current fiscal year till date. Further, the company has a strong launch pipeline and business development pipeline over the next two years. The company's underleveraged balance sheet and strong operating cash flow generation are likely to aid in driving new business development. The correction in the stock price of ~30% over the trailing four months, in line with the broader correction, witnessed in the realty sector provide a buying opportunity. We retain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 600, considering favourable valuation and healthy growth outlook in both residential and industrial leasing business.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	393.6	479.0	498.4	517.6
OPM (%)	-22.7	-22.5	-14.6	4.2
Adjusted PAT	57.7	21.3	49.3	145.5
% Y-o-Y growth	-	-63.1	131.8	195.0
Adjusted EPS (Rs.)	3.7	1.4	3.2	9.4
P/E (x)	-	-	117.6	39.9
P/B (x)	3.2	3.2	3.1	2.9
EV/EBIDTA (x)	-	-	-	-
RoNW (%)	3.4	1.2	2.7	7.5
RoCE (%)	0.8	-0.5	-2.9	1.5

Source: Company; Sharekhan estimates

Strong sales booking; Operational loss narrows

MLDL reported strong quarterly sales of Rs. 451 crore (up 80% y-o-y, up 13% q-o-q) for Q3FY2023. Industrial leasing stood at Rs. 69 crore (down 50% y-o-y due to high base, up 1.5% q-o-q). Collections from the residential business rose 6.3% q-o-q (down 35.2% y-o-y) at Rs. 304 crore. Post Q3FY2023, it is selected as the preferred partner to redevelop two residential societies in Santacruz with a revenue potential of Rs. 500 crore and acquired 4.25-acre land in Bengaluru with a sales potential of Rs. 400 crore. For Q3FY2023, consolidated revenue increased 7.7x y-o-y (up 2.7x q-o-q) to Rs. 187 crore, which was higher than our estimate of Rs. 96 crore. The company reported operating loss of Rs. 11 crore versus operating loss of Rs. 39 crore each in Q3FY2022 and Q2FY2023. The company reversed impairment loss of Rs. 34 crore in Luminare project, leading to reported consolidated net profit of Rs. 33 crore versus reported net profit of Rs. 25 crore in Q3FY2022 and net loss of Rs. 8 crore in Q2FY2023. Adjusting for exceptional items, consolidated net loss stood at Rs. 0.8 crore as against our estimate of net profit of Rs. 3.3 crore.

Key Conference Call Takeaways –

- **Q3FY2023 and 9MFY2023 performance:** The company achieved residential sales of Rs. 431 crore for Q3FY2023 and Rs. 1,452 crore in 9MFY2023. Sales booking during 9MFY2022 and FY2022 stood at Rs. 709 crore and Rs. 1,028 crore, respectively. Strong sales were aided by the four launches, viz. 1) Citadel, Pimpri, Pune (Pre-launch in November); 2) Phase 2 of Eden, Kanakpura, Bengaluru (preponed launch with 14% price increase); 3) Happinest Kalyan phase 2 (main launch in December); and 4) phase 2 of Happinest MWC, Chennai (Q3 ended with 20% price increase).
- **Upcoming Launches:** In Q4FY2023, MLDL targets to launch phase 2 of Nestalgia, Pune, and plotted development in MWC, Chennai. In H1FY2024, it targets the launch of Kandivali project, main launch of Citadel, Pune project, and Hosur project launch. The Dahisar project and Santacruz redevelopment project would be done later in FY2024. It did conversion of the 68-acres Thane land, which is expected to be launched in early FY2025.
- **Business Development:** MLDL concluded two transactions post Q3 at Hosur and redevelopment projects in Santacruz. During Q2 end, the company had a BD pipeline of Rs. 5,000 crore, of which it converted Rs. 1,000 crore, dropped Rs. 1,500 crore, and added Rs. 3,000 crore. Currently, it is having a Rs. 5,500 crore BD pipeline with a reasonable conversion expected over the next 2-3 quarters. BD pipeline of Rs. 2,500 crore would be either converted or dropped in Q4FY2023. The Pimpri land GDV has enhanced to Rs. 2,300 crore from Rs. 1,700 crore. It has incurred Rs. 400 crore towards land payment during 9MFY2023 and similar amount is pending to be incurred. During 9MFY2023, the company shelved Rs. 200 crore towards external partners.
- **BD break-up:** Region wise, BD break up is Mumbai Rs. 2,500 crore, Pune is Rs. 2,000 crore; and Bangaluru Rs. 1,000 crore. Business model wise, BD break-up is the outright purchase Rs. 3,500 crore, joint development is Rs. 1,000 crore, and redevelopment/plotted development is Rs. 1,000 crore.
- **Industrial leasing:** MLDL did 69 crores of leasing in Q3, where it saw conversion of Origins and MWC, Chennai, into leasing after quite some time. MLDL has 50 acres of advance pipeline for conversion over the two quarters. It has done Rs. 255 crore leasing YTD as against Rs. 297 crore in FY2022.
- **Actis JV:** Over the next three months, a leadership team will be built. By next year, it would start monetising land.
- **Debt:** Consolidated debt stands at Rs. 280 crore, cash is at Rs. 228 crore, while cost of debt is 7.76%.
- **OCF:** The company generated Rs. 450 crore operating cash flows during 9MFY2023.

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	YoY%	Q2FY23	QoQ%
Net sales	**186.9**	**24.3**	**667.9%**	**69.8**	**167.8%**
Other income	11.2	9.0	25.2%	4.0	178.9%
Total income	198.1	33.3	494.7%	73.8	168.4%
operating expenses	198.3	63.1	214.1%	109.2	81.7%
Operating profit	**-11.4**	**-38.8**	**-**	**-39.4**	**-**
Depreciation	3.4	1.4	148.6%	3.2	6.2%
Interest	3.3	1.7	94.7%	2.5	32.1%
Exceptional item	34.0	0.0	-	0.0	-
Share of JV	4.8	49.8		26.6	
PBT	**31.8**	**16.9**	**88.6%**	**-14.5**	**-**
Taxes	-1.4	-8.0	-	-6.7	-
RPAT	**33.2**	**24.9**	**33.6%**	**-7.7**	**-**
Onetime items	34.0	0.0		0.0	
APAT	**-0.8**	**24.9**	**-**	**-7.7**	**-**
EPS (Rs.)	**0.0**	**1.6**	**-**	**-0.5**	**-**
Margin (%)			**BPS**		**BPS**
OPM	-6.1%	-159.4%	-	-56.4%	-
NPM	-0.4%	102.1%	-	-11.1%	-
Effective tax rate	-4.3%	-47.3%	-	46.5%	-

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, organised 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 about 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 report pre-sales of over Rs. 2,500 crore 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 Atma Nirbhar Abhiyan, production-linked incentive schemes for its IC&IC vertical. Overall, the growth outlook is positive for the company as the IC&IC vertical is a cash cow and scale-up of its residential business provides a strong uptick.

■ Valuation - Retain Buy with an unchanged PT of Rs. 600

MLDL has been able to sustain healthy momentum in residential sales, industrial leasing, and new project additions for the current fiscal year till date. Further, the company has a strong launch pipeline and business development pipeline over the next two years. The company's underleveraged balance sheet and strong operating cash flow generation are likely to aid in driving new business development. The correction in the stock price of ~30% over the trailing four months, in line with the broader correction, witnessed in the realty sector provide a buying opportunity. We retain our Buy recommendation on the stock with an unchanged PT of Rs. 600, considering favourable valuation and healthy growth outlook in both residential and industrial leasing business.

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 an 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**	

Source: Company, Sharekhan Research

About company

Established in 1994, MLDL is the real estate and infrastructure development business of the Mahindra Group in India. The company operates in residential developments under the 'Mahindra Lifespaces' and 'Mahindra Happinest' brands, and through its integrated cities and industrial clusters under the 'Mahindra World City' and 'Origins by Mahindra World City' brands. The company's development footprint spans 25.7 million sq. ft. (2.4 million sq. m.) of completed, ongoing, and forthcoming residential projects across seven Indian cities; and over 5,000 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. 2,000 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 and 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 the real estate sector's slowdown.
- Delay in execution, inability to maintain sales, rising interest rates, and 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

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

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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 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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