Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Mahindra Lifespace Developers Ltd

Mixed Bag Q4; valuations favourable

Real Estate		Sharekhan code: MAHLIFE		
Reco/View: Buy	↔	CMP: **Rs. 368**	Price Target: **Rs. 500**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result Update

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		↔	

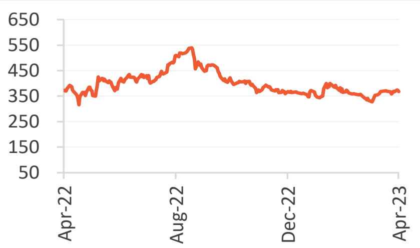
Company details

Market cap:	Rs. 5,693 cr
52-week high/low:	Rs. 555/309
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	18
Promoters	51

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.9	6.4	-7.8	-1.2
Relative to Sensex	7.3	4.7	-8.7	-6.4

Sharekhan Research, Bloomberg

Summary

- MLDL reported accelerated industrial leasing during Q4FY2023 with almost 3x y-o-y and q-o-q growth, while residential pre-sales declined q-o-q led by lower launches.
- Residential business development remained strong with Rs. 4050 crore of additions in the past thirteen months. The current BD pipeline remains strong at Rs. 5,500 crore.
- Company has a strong launch pipeline having revenue potential of Rs. 3500-4000 crore for FY2024 while operational profitability is expected to see turnaround only from FY2025.
- We retain a Buy rating on stock with a revised price target (PT) of Rs. 500, lowering our NAV premium to factor in the change in leadership role and subdued execution over the medium term.

Mahindra Lifespace Developers Limited (MLDL) reported accelerated industrial leasing at Rs. 201 crore (up almost 3x both y-o-y and q-o-q) led by Origins Chennai (Rs. 164 crore). However, residential pre-sales declined 20% q-o-q (up 10% y-o-y) at Rs. 361 crore due to lower project launches (0.49 msf vs 0.61 msf in Q3FY2023). Business Development in residential have remained strong with addition of Rs. 4050 crore of GDV over trailing thirteen months. On Q4FY2023 results, it reported better than expected consolidated revenues at Rs. 255 crore (up 58% y-o-y) while disappointed with operating loss of Rs. 27.4 crore and marginal net profit of Rs. 0.5 crore. For FY2024, launch pipeline of nine projects with estimated sales potential of Rs. 3500-4000 crore remain strong. Business Development pipeline remain strong at Rs. 5,500 crore (replenished). However, FY2024 (especially H1) is executed to remain subdued on execution while margins are likely to improve in FY2025 is expected to see margin improvement. The company's performance under new MD & CEO, Mr. Amit Kumar Sinha from May 22, 2023 would be keenly watched as the outgoing MD & CEO, Mr. Arvind Subramanian has been accredited with propelling company's growth trajectory in a relatively short stint.

Key positives

- Industrial leasing grew almost 3x y-o-y and q-o-q to Rs. 201 crore led by strong contribution from Origins Chennai.
- Business Development remained strong with additions of Rs. 1750 crore GDV projects during Q4FY2023 and Q1FY2024 till date.

Key negatives

- Operating losses continued led by legacy projects revenue booking.
- Change in key management personnel who is credited with driving strong growth during his tenure.

Management Commentary

- It expects margin profile of residential business to improve over 4-8 quarters. Overall, FY2024 is expected to be subdued while FY2025 will see margins improve.
- New acquisitions and redevelopment projects are being done at higher gross margins. It does not expect significant completion in FY2024 especially during H1FY2024.
- It plans to launch nine projects in FY2024 which includes Kandivali and Citadel phase II launches for H1FY2024. The estimated GDV of launches for FY2024 is Rs. 3500-4000 crores.

Revision in estimates – We have lowered our earnings estimates for FY2024 factoring weaker execution and have fine-tunes FY2025 estimates.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 500: MLDL has been able to sustain healthy momentum in residential sales, industrial leasing and new project additions over the past fiscal year till date. Further, the company has a strong launch pipeline and business development pipeline over the next two years. However, the change in the leadership role and continued operating losses have led to correction in the stock price of over 30% over the trailing almost eight months. Post correction, the stock is currently trading just above its NAV providing buying opportunity. Hence, we retain our Buy rating on the stock with a revised price target (PT) of Rs. 500, lowering our NAV premium to factor in change in leadership role and subdued execution over the medium term.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	393.6	606.6	424.4	518.6
OPM (%)	-22.7	-18.2	-20.2	1.8
Adjusted PAT	57.7	33.6	36.1	136.4
% Y-o-Y growth	-	-41.7	7.3	278.3
Adjusted EPS (Rs.)	3.7	2.2	2.3	8.8
P/E (x)	98.4	168.8	157.4	41.6
P/B (x)	3.2	3.1	3.1	2.9
EV/EBIDTA (x)	-	-	-	-
RoNW (%)	3.4	1.9	2.0	7.1
RoCE (%)	0.8	-0.1	-3.6	1.0

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 parcel 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 the Luminare project, leading to reported consolidated net profit of Rs. 33 crore versus reported net profit of Rs. 25 crore in Q3FY2022 and a 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 –

- **Management change:** On February 23, 2023, the company's board approved resignation of Mr. Arvind Subramanian as "MD and CEO" w.e.f. May 22, 2023 and Mr. Amit Kumar Sinha will be designated as "MD and CEO" for a period of five years from May 22, 2023 to May 22, 2028.
- **Q4FY23 and FY23 numbers:** The company achieved residential sales of Rs. 361 crore (down 20% q-o-q) for Q4FY2023 and Rs. 1812 crore (up 76% y-o-y) in FY23. Industrial leasing stood strong at Rs. 201 crore (up 185% y-o-y) and Rs. 456 crore (up 53% y-o-y) during Q4FY2023 and FY2023 respectively. It added Rs. 4050 crore of GDV to its residential land portfolio over last thirteen months. For Q4FY2023, total income was up 74% y-o-y at Rs. 270 crore, adjusted EBITDA including other income stood at Rs. 10.4 crore versus loss of Rs. 15.1 crore, net profit stood at Rs. 0.5 crore versus Rs. 136.8 crore. Consolidated debt and cash as per IND AS stood at Rs. 265 crore and Rs. 273.6 crore. Cost of debt is 8.2%.
- **IC business:** It has total inventory of 1200 acres, valued at Rs. 5000 crore. Origins Chennai has lower gross margins than MWC Jaipur. However, at blended level IC would have ~55% gross margins. Origins Chennai phase I is in partnership with Sumitomo while it has 250 acre land outside Origins, which comprise phase 2. The land outside MWC, Chennai is in MWC books.
- **Margin guidance:** It expects margins of the residential business to improve over 4-8 quarters. Overall, FY2024 is expected to be subdued while FY2025 will see margin improvement. The GMs in new sales is 18-20% (costs include interest and overheads). New acquisitions and redevelopment projects are being done at higher gross margins. It does not expect significant completion in FY2024 especially during H1FY2024.
- **Launches:** It plans to launch nine projects in FY2024 which includes Kandivali and Citadel phase II launches for H1FY2024. Two of the nine launches are from recent acquisitions (on a tight schedule for Q4FY2024 with one project having possibility to spill over in Q1FY2025). Dahisar project launch is not included as it is awaiting approvals. The estimated GDV of launches for FY2024 is Rs. 3500-4000 crores.
- **BD pipeline:** The business development pipeline remain around Rs. 5500 crore as it has replenished the conversion of Rs. 850 crore project last month with new project.
- **Debt:** The rise in debt reflects the leverage internal accruals for land acquisition for residential projects. The overall debt including IC business is Rs. 800 crore while it is net debt positive as per IND AS accounting.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	YoY %	Q3FY23	QoQ %
Net sales	**255.4**	**161.8**	**57.9%**	**186.9**	**36.6%**
Other income	14.9	-6.7	-	11.2	32.5%
Total income	270.3	155.0	74.3%	198.1	36.4%
operating expens-es	282.7	197.4	43.2%	198.3	42.6%
Operating profit	**-27.4**	**-35.7**	**-**	**-11.4**	**-**
Depreciation	3.1	2.3	37.8%	3.4	-9.6%
Interest	3.4	1.5	119.6%	3.3	2.1%
Exceptional item	0.0	96.8	-	34.0	-
Share of JV	22.9	26.5	-13.7%	4.8	380.0%
PBT	**3.9**	**77.1**	**-94.9%**	**31.8**	**-87.7%**
Taxes	3.4	-59.7	-	-1.4	-
RPAT	**0.5**	**136.8**	**-99.6%**	**33.2**	**-98.4%**
Onetime items	0.0	96.8		34.0	
APAT	**0.5**	**40.0**	**-98.7%**	**-0.8**	**-**
EPS (Rs.)	**0.0**	**2.6**	**-98.7%**	**0.0**	**-**
Margin (%)			**BPS**		**BPS**
OPM	-10.7%	-22.1%	-	-6.1%	-
NPM	0.2%	24.7%	-	-0.4%	-
Effective tax rate	86.4%	-77.4%	-	-4.3%	-

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 benefits 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 approval 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 a revised PT of Rs. 500

MLDL has been able to sustain healthy momentum in residential sales, industrial leasing and new project additions over the past fiscal year till date. Further, the company has a strong launch pipeline and business development pipeline over the next two years. However, the change in the leadership role and continued operating losses have led to correction in the stock price of over 30% over the trailing almost eight months. Post correction, the stock is currently trading just above its NAV providing buying opportunity. Hence, we retain our Buy rating on the stock with a revised price target (PT) of Rs. 500, lowering our NAV premium to factor in change in leadership role and subdued execution over the medium term.

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	2,428	157	Project NAV-based valuation
Commercial	536	35	Valued at an 8% cap rate
Gross Asset Value	6,136	433	
Net cash/(Debt)	298	19	
Net Asset Value	**6,434**	**413**	
Premium to NAV	**1332**	**86**	
NAV post premium	**7,765**	**500**	

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. Ameet Hariani	Chairman
Mr. Arvind Subrama-niam	MD & CEO
Mr. Vimal Agarwal	Chief Financial Of-ficer

Source: BSE

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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