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### 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. 7,577 cr
52-week high/low:	Rs. 555/316
NSE volume: (No of shares)	67,082
BSE code:	532313
NSE code:	MAHLIFE
Free float: (No of shares)	7.6 cr

### Shareholding (%)

FII	11
Institutions	20
Public & others	17
Promoters	51

### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	7.8	34.2	41.3	13.6
Relative to Sensex	3.3	25.0	29.7	-5.1

Sharekhan Research, Bloomberg

## Mahindra Lifespace Developers Ltd

### Aspirations to grow multi-fold; Retain Buy

Real Estate	Sharekhan code: MAHLIFE		
Reco/View: Buy	↔	CMP: Rs. 489	Price Target: Rs. 580
↑ Upgrade	↔ Maintain	↓ Downgrade	

### Summary

- MLDL reported healthy sales booking driven by sustenance sales in Q1FY2024. Industrial leasing remained weak due to its lumpy nature. Lower revenue booking widened operating and net losses.
- Management sets aspirational sales booking target of Rs. 8000-10000 crore by FY2028. The launch pipeline for FY2024 remain intact, with Q3 expected to be high on sales bookings.
- Business development pipeline to be scaled up from current Rs. 5500 crore to Rs. 40,000-Rs. 50,000 crore to achieve targeted sales booking of FY2028.
- We retain a Buy rating on the stock with a revised price target (PT) of Rs. 580, increasing our NAV premium to factor in strong scalability in business over the next five years, well supported by realty upcycle.

Mahindra Lifespace Developers Limited (MLDL) reported healthy sales booking of Rs. 345 crore driven by sustenance sales as key Kandivali project launch was delayed due to SC ruling on Recreation Grounds (RG). However, IC & IC leasing remained weak at Rs. 14 crore (Rs. 118 crore/Rs. 201 crore in Q1FY2023/Q4FY2023) due to the lumpiness nature of business. On Q1FY2024 results, it reported weak performance with consolidated operational and net losses of Rs. 43.1 crore and Rs. 4.3 crore respectively because of lower revenue booking (consolidated revenues declined 50% q-o-q). The management has set an aspirational target of achieving sales booking of Rs. 8000-10,000 crore (including IC&IC leasing) by FY2028 from Rs. 2269 crore achieved in FY2023. For FY2024, the launch pipeline of nine projects with estimated sales potential of Rs. 3500-4000 crore remains intact with key project launches (Kandivali – Rs. 1200 crore GDV, Citadel phase 2 - Rs. 700-800 crore GDV) scheduled for launch in Q3FY2024. While the current Business Development pipeline stands at Rs. 5500 crore, it will be scaling up to Rs. 40,000-50,000 crore to achieve the sales target set for FY2028.

### Key positives

- Healthy sales booking of Rs. 345 crores without project launches driven by sustenance sales.
- Aspirational sales booking target of Rs. 8000-10000 crore by FY2028.
- Collections and operating cash flows remained steady.

### Key negatives

- IC&IC leasing at Rs. 14 crores were weak, with nil contribution from Jaipur.
- Operating and net losses widened in the wake of lower revenue booking.

### Management Commentary

- The management has set an aspirational target of becoming 5x bigger over five years achieving Rs. 8000-10,000 crore sales by FY2028.
- The current BD pipeline is Rs. 5500 crores (excluding Thane). It targets Rs. 40,000-50,000 crore BD pipeline to achieve the sales booking target set for FY2028.
- Its Thane land parcel would be benefitting from the new IITT policy in terms of higher FSI (50-70% high), doubling the GDV of the project to Rs. 8000 crore.

**Revision in estimates** – We have retained our earnings estimates for FY2024 and FY2025.

### Our Call

**Valuation – Retain Buy with a revised PT of Rs. 580:** MLDL has sustained healthy momentum in residential sales while its industrial leasing business remains lumpy. The company remains on a strong growth trajectory with an aspirational vision to multiply manifold over the next five years, focusing on MMR, Pune and Bangalore markets. In the near term, it has a strong launch pipeline and business development pipeline over the next two years. The stock has appreciated almost 35% over the trailing three months where we had highlighted an attractive opportunity to Buy in our report dated April 26, 2023. We retain our Buy rating on the stock with a revised price target (PT) of Rs. 580, increasing our NAV premium to factor in strong scalability in business over the next five years, well supported by the realty upcycle.

### Key Risks

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

### Valuation (Consolidated)

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)	130.8	224.3	209.1	55.3
P/B (x)	4.2	4.2	4.1	3.8
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 crores (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 an operating loss of Rs. 11 crores versus an operating loss of Rs. 39 crore each in Q3FY2022 and Q2FY2023. The company reversed the 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 –

- ◆ **Aspirational target:** The management has set an aspirational target of becoming 5x bigger over five years achieving Rs. 8000-10,000 crore sales. The same would be driven by 1) portfolio choices (geographic mix, customer segment mix, product mix, deal mix) 2) Acquisitions (Thane project of Rs. 8000 crore GDV to play major role) 3) customer centricity (design, trust etc) 4) Delivery excellence (on time and in-line with the cost) 5) IC & IC (sales mined to support residential business) 6) Future proofing (for sustainable growth).
- ◆ **Business Development targets:** The current BD pipeline stands at Rs. 5500 crores (excluding Thane). It targets Rs. 40,000-50,000 crore BD pipeline which would comprise of 1) Mega deals (over Rs. 5,000 crore, 2-3 deals including Thane) 2) Rs. 2000-5000 crore GDV (4-5 projects, 3 in current pipeline) 3) Rs. 1000-2000 crore (5 deals) and 4) Rs. 500-1000 crore (15 deals).
- ◆ **Key launches:** The phase 1 (Rs. 1200 crore GDV) of Kandivali project (Rs. 2500 crore GDV) is expected to be launched by Q3FY2024 end. The Kandivali project got delayed due to Supreme Courts ruling on Recreation Grounds (RG) to be 25% on Earth (enabling planting of trees). Hence, the company has a plan B in case the SC ruling gets delayed. Citadel phase 2 (Rs. 700-800 crore GDV) is expected to be launched by Q2FY24 end or early Q3FY2024. The two society redevelopment projects will be launched in Q4FY2024, while Dahisar project is still awaiting approval and is not included in FY2024 launch. Hence, Q3FY2024 is expected to be strong in terms of sales bookings.
- ◆ **Thane project:** Its Thane land parcel would benefit from new IIT policy in terms of higher FSI (50-70% high). Under the policy, it would develop the project as mixed use (half commercial and half residential) and may have to deliver both commercial and residential together.
- ◆ **Outlook:** Despite interest rate hikes, it is seeing significant buoyancy in the industry. Residential demand remains high with prices holding steady. They are two years into realty upcycle which hopefully would be longer.
- ◆ **Q1FY24 performance:** It achieved Rs. 345 crore sales booking from sustenance sales as Kandivali launch did not happen. It had launched one plotted project in Chennai (200 plots sold out of 242) at the end of Q1 which would contribute in Q2. The IC sales remained weak at 3 acres in MWC, Chennai due to lumpiness of the business. For Q1, consolidated total income was Rs. 110 crore, EBITDA loss (including other income and JV profits) was Rs. 6.4 crore and consolidated net loss Rs. 4.3 crore. Debt as per IND AS is Rs. 270 crore (cost of debt 8%) and cash Rs. 303 crore.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %
<b>Net sales</b>	<b>98.0</b>	<b>94.6</b>	<b>3.7%</b>	<b>255.4</b>	<b>-61.6%</b>
Other income	12.0	22.8	-47.3%	14.9	-19.3%
Total income	110.1	117.3	-6.2%	270.3	-59.3%
Operating expenses	141.2	126.5	11.6%	282.7	-50.1%
<b>Operating profit</b>	<b>-43.1</b>	<b>-32.0</b>	-	<b>-27.4</b>	-
Depreciation	3.0	2.4	22.1%	3.1	-3.9%
Interest	4.2	1.8	137.9%	3.4	25.3%
Exceptional item	0.0	33.8	-	0.0	-
Share of JV	24.7	62.5	-60.6%	22.9	7.9%
<b>PBT</b>	<b>-13.6</b>	<b>83.0</b>	-	<b>3.9</b>	-
Taxes	-9.4	7.6	-	3.4	-
<b>RPAT</b>	<b>-4.3</b>	<b>75.4</b>	-	<b>0.5</b>	-
Onetime items	0.0	33.8	-	0.0	-
<b>APAT</b>	<b>-4.3</b>	<b>41.6</b>	-	<b>0.5</b>	-
<b>EPS (Rs.)</b>	<b>-0.3</b>	<b>2.7</b>	-	<b>0.0</b>	-
<b>Margin (%)</b>			<b>BPS</b>		<b>BPS</b>
OPM	-44.0%	-33.8%	-	-10.7%	-
NPM	-4.4%	44.0%	-	0.2%	-
Effective tax rate	-	9.1%	-	86.4%	-

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 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, 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 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 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. 580

MLDL has been able to sustain healthy momentum in residential sales while its industrial leasing business remain lumpy. The company remain on a strong growth trajectory with an aspirational vision to multiply manifold over the next five years with a focus on MMR, Pune and Bangalore markets. In the near term, it has a strong launch pipeline and business development pipeline over the next two years. The stock has appreciated almost 35% over the trailing three months where we had highlighted an attractive opportunity to Buy in our report dated April 26, 2023. We retain our Buy rating on the stock with a revised price target (PT) of Rs. 580, increasing our NAV premium to factor in strong scalability in business over the next five years well supported by realty upcycle.

#### 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	
<b>Net Asset Value</b>	<b>6,434</b>	<b>413</b>	
Premium to NAV	2573	167	
<b>NAV post premium</b>	<b>9,007</b>	<b>580</b>	

Source: 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 crores 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 its residential business's scale-up 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 Subramaniam	MD & CEO
Mr. Vimal Agarwal	Chief Financial Officer

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 PLACEMENT	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 deteriorating 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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