

New land bank addition boosts scalability!

About the stock: Mahindra Lifespace Developers (MLDL) is the real estate and infrastructure development business of the Mahindra Group. It has ~33 msf of completed, ongoing and forthcoming residential projects across seven cities and over 5,000 acres of ongoing and forthcoming projects under development at its integrated cities/industrial clusters (IC & IC) across four locations.

- The company has outlined its medium term guidance to achieve sales value of ₹ 2500 crore by FY25. For the same, it has added landbank worth ~₹ 7,000 crore worth of sales potential in the last two years

Q3FY23 Results: MLDL reported healthy Q3FY23 results.

- Residential sales volume, value was up ~91%, ~80% YoY at 0.61 msf and ₹ 451 crore, respectively, led by new launches of ~1.1 million square feet during Q3 and with steady offtake from existing projects
- On the financial front, revenues were up 6.7x YoY at ₹ 186.9 crore on a depressed base. The company reported a PAT of ₹ 34.1 crore, aided by impairment reversal of ₹ 33.8 crore. Segment wise, industrial cluster segment (part of profit from associates/JV) profit was ~₹ 9 crore while the residential segment had reported a profit of ~₹ 24 crore

What should investors do? MLDL 's share price has grown at ~20% CAGR over the past five years (from ~₹ 154 in February, 2018 to ~₹ 380 levels now).

- It remains a scalability play on the residential segment while IC & IC business is likely to remain robust. We maintain our **BUY** rating on the company

Target Price and Valuation: We value MLDL at ₹ 475/share.

Key triggers for future price performance:

- Robust launch pipeline and unsold inventory with ₹ 3427 crore of potential cash flow coupled with expansion plans to add land every year having potential to generate annual sales of ~₹ 2500+ crore
- IC & IC business to benefit from PLI/manufacturing push

Alternate Stock Idea: Besides MLDL, we like Brigade in the real estate space.

- Play on robust residential demand and office leasing
- BUY with a target price of ₹ 620



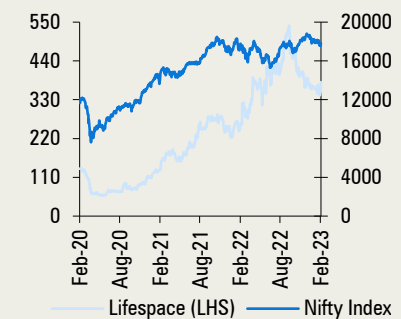
Particulars

Particular	(₹ crore)
Market Capitalization	5,873
Total Debt (FY22)	280
Cash and Inv (FY22)	225
EV	5,928
52 week H/L (₹)	551 / 252
Equity capital	154.5
Face value	₹ 10

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	51.3	51.3	51.3	51.3
DII	18.5	18.6	18.0	19.0
FII	9.8	10.6	11.4	11.1
Other	20.4	19.5	19.3	18.7

Price Chart



Key Risks

Key Risk: (i) Slowdown in residential real estate; (ii) Extended pandemic impacting IC&IC business

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Key Financial Summary

	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales (₹ crore)	610.9	166.3	393.6	-12%	527.8	1,037.2	1,232.2	46.3
EBITDA (₹ crore)	(56.8)	(93.5)	(89.5)	NA	(88.9)	110.0	153.8	LP
Adj. Net Profit (₹ crore)	(58.8)	(71.7)	57.7	-11%	40.7	172.3	210.1	53.9
EPS - Diluted (₹)	(12.5)	(4.6)	10.0		7.0	11.2	13.6	
P/E (x)	NM	NM	NM		54.1	34.1	27.9	
Price / Book (x)	3.5	3.6	3.3		3.2	3.0	2.8	
EV/EBITDA (x)	NM	NM	NM		(69.8)	56.0	40.0	
RoCE	(1.5)	(4.1)	(4.0)		(2.6)	5.4	6.9	
RoE	(3.5)	(4.4)	3.2		2.2	8.7	9.9	

Source: Company, ICICI Direct Research

Key rationale and business highlight

Healthy residential sales driven by launches...

MLDL has achieved sales of ₹ 451 crore during Q3FY23 with sales volume reaching 0.61 mn sq ft, up ~91%, ~80% YoY, led by new launches of ~1.1 million sq feet during Q3 and with steady offtake from existing projects. Additionally, land pipeline having mix of outright sales, joint development (JD) agreements, society redevelopment and distress assets opportunities continues to remain robust at ~₹ 5,500 crore (last quarter at ₹ 5000 crore of which ₹ 1000 crore fructified, while ₹ 1500 crore of project dropped off with new addition of ₹ 3000 crore worth project in Q3). The focus would be on MMR, Pune and Bengaluru regions. Going forward, the company has maintained its guidance of adding land worth ₹ 2500 crore of sales potential, every year. We see sales value jumping to ~2.8x from FY22 levels at ~₹ 2900 crore in FY25E, based on the launch pipelines and new land addition.

IC& IC business remain healthy...

MLDL has leased 24.5 acres of land to six customers valued at ₹ 69 crore during Q3FY23 (leased 8.4 acres to three customers at MWC, Jaipur and 16.2 acres to three customers in MWC and Origins Chennai). It has advanced pipeline of ₹ 52 acres to be completed over the next two quarters. The management expects the momentum to pick up considerably for its Jaipur and Chennai IC&IC location with a strong pipeline of enquiries being witnessed backed by a) expansion of PLI scheme, b) the lower tax rates for new manufacturing facilities and c) global realignment of manufacturing and supply chains favouring India as a manufacturing destination. Traction in Origins Ahmedabad is currently subdued with the company scouting for the correct anchor client (expects some development over the next six to nine months). Also, the company is at the land acquisition stage in the IC&IC business in Pune and is likely to take another two years approximately to commence operations. We highlight that the company is likely to match or is looking for nominal growth on a YoY basis on the leasing front during FY23. However, it has a target of an annual leasing run rate of ~₹ 500 crore from IC&IC business by 2025.

Key conference call takeaways

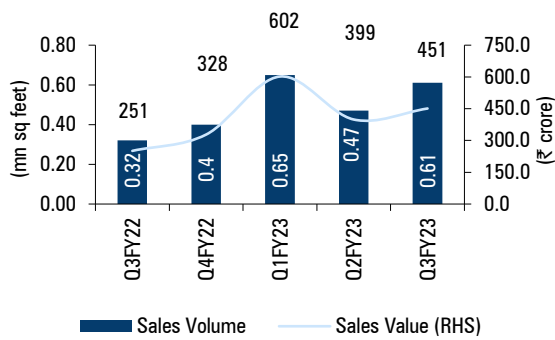
- Business development:** The company acquired 4.25-acre of land at Bengaluru with estimated sales potential of ~₹ 400 crore. It was also selected as the preferred partner to redevelop two adjacent residential societies in Santacruz West, in Mumbai, with a revenue potential of around ₹ 500 crore. Furthermore, subsequent to the Pimpri acquisition, the gross development value has increased from ₹ 1700 crore to ₹ 2300 crore due to enhancement in the development potential. This has brought the overall business development with sales potential of ₹ 3200 crore this year, while land bank worth sales potential of ₹ 3800 crore was added in FY22.
- Launch and pipeline:** In 9MFY23, MLDL launched four projects (Pimpri, Kalyan, Bangalore and Chennai). Going forward, its overall project pipeline remains healthy with the company planning to launch further phases of existing projects and two new projects at Dahisar and Kandivali, by H1FY24.
- Thane update:** MLDL has completed the conveyance for Ghodbunder road, Thane land parcel. The company is aiming to launch as a mixed-use development (searching for a partner for commercial asset) planned to hit the market in FY25. Overall, the project has a development potential of 5+ mn sq ft.
- Joint venture with Actis:** The company is building the management team and expects some activity in the next three months. Recall, MLDL entered into an agreement with Actis (a global investor in sustainable infrastructure) to establish a JV platform for developing industrial and logistics real estate facilities across India. Up to 100 acres of land with ready infrastructure in the two Mahindra World Cities, offering a built-up potential of 2+ mn sq ft,

has been earmarked as seed sites to be acquired and developed by the JV platform over time. Total investment in the business over the initial years, including debt, is estimated to be ₹ 2,200 crore. Actis will own a majority stake and Mahindra Lifespaces will have a significant minority (26-33%)

- **Land Cost:** At an overall level, if it is not a JD or redevelopment, usually the cost will vary between 15% and 24% depending on the geography. The company has incurred ~₹ 400 crore of land cost in 9MFY23 while a similar amount is to be paid for land acquired. The cooperating cash flows in 9MFY23 was at ₹ 450 crore
- **Debt & cost of borrowing:** Consolidated debt, cash at the end of Q3FY23 was at ₹ 280 crore, ₹ 228 crore (vs. ₹ 331 crore, ₹ 203 crore at Q2FY23, respectively). Cost of borrowing was at 7.76%, 7.72% during Q3FY23 (vs. 7.2%, 6.9% in Q2FY23) at consolidated, standalone levels, respectively

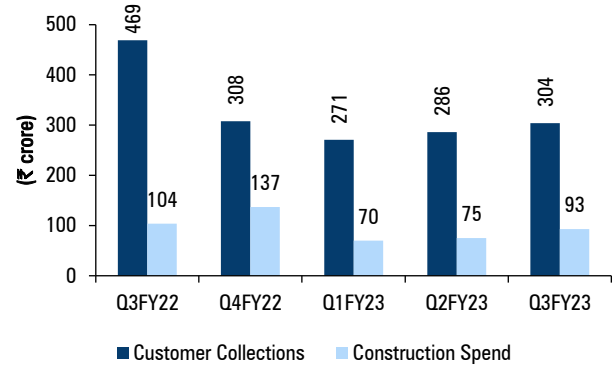
We like MLDL given its strong parentage, the management's focus on expanding its overall scale of operation and a comfortable balance sheet. The company has announced land transactions worth ₹ 7000 crore in the last two years. This has improved its overall scalability potential. Hence, we maintain BUY recommendation with an unchanged target price of ₹ 475/share.

Exhibit 1: Quarterly sales volume



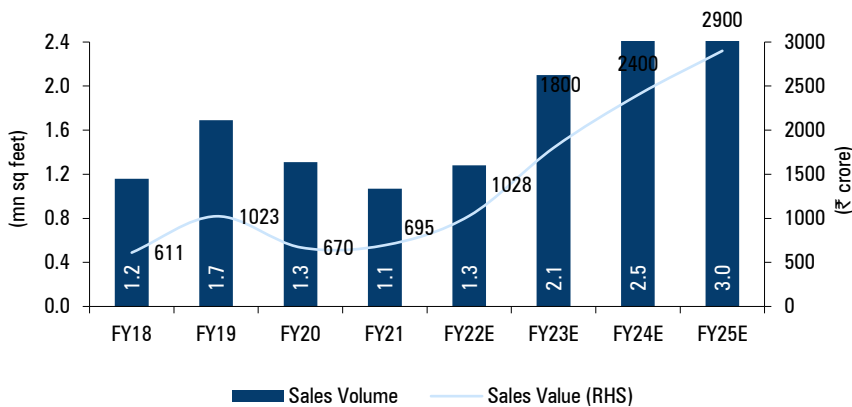
Source: Company, ICICI Direct Research

Exhibit 2: Quarterly collection & construction cost



Source: Company, ICICI Direct Research

Exhibit 3: Annual sales volume to grow



Source: Company, ICICI Direct Research

Exhibit 4: Cash flow potential

Cash Flow Potential		Value (₹ crore)
CF from Launched Phases	Sales Completed	4976
	Amount Collected	1462
	Balance Construction Cost to be spend	2280
	Net amount to be collected on future sales	1234
CF from Future Phases (to be launched)	Sales Potential	3397
	Est. Construction Cost	2307
	Cashflow from future phases of ongoing projects	1090
New Projects - To be Launched	Net Cashflow from new projects to be launched	1103
Total Potential Cash Flows		3427

Source: Company, ICICI Direct Research

Valuation & Outlook

We like MLDL given its strong parentage, the management’s focus on expanding its overall scale of operation and a comfortable balance sheet. The company has announced land transactions worth ₹ 7000 crore in the last two years. This has improved its overall scalability potential. Hence, we maintain BUY recommendation with an unchanged target price of ₹ 475/share.

Exhibit 5: Valuation

Particulars	Stake value	Value / share	Comment
Residential	2976	193	We have taken projects which have been given as forthcoming projects by company incl. new projects announced
IC& IC Business	1843	119	This includes the MWC Chennai (remaining land), MWC Jaipur (remaining land), Origins Chennai and Ahmedabad and rental assets like Evolve and Mahindra Tower in Delhi
Land Bank	1034	67	Land value of Thane, Murud and Pune at 10% discount
NAV Valuation	5854	379	
25% Premium for growth potential	1463	95	
Rounded off Target price	7340	475	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Net Sales	393.6	527.8	1,037.2	1,232.2
Other Income	14.7	45.0	35.0	35.0
Total operating income	408.2	572.8	1,072.2	1,267.2
Operating Expenses	303.1	432.0	727.5	862.5
Employee Expenses	83.6	83.6	89.5	95.7
Administrative Expenses	96.3	101.1	110.2	120.1
Total Operating Expenditure	483.0	616.7	927.2	1,078.3
EBITDA	(89.5)	(88.9)	110.0	153.8
Interest	6.5	12.0	22.0	22.0
Depreciation	6.5	13.5	18.0	18.0
Other income	14.7	45.0	35.0	35.0
Share In Profit/(Loss) from associates	90.3	119.5	145.5	154.9
Exceptional Items	96.8	67.8	-	-
PBT	99.3	117.9	250.5	303.7
Taxes	(62.4)	7.1	63.1	76.5
PAT before MI	161.7	110.8	187.3	227.1
Minority Interest	(7.2)	(2.3)	(15.0)	(17.0)
PAT	154.5	108.5	172.3	210.1
PAT Growth rate	NA	NA	58.8	21.9
EPS	10.0	7.0	11.2	13.6

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	154.5	108.5	172.3	210.1
Depreciation	6.5	13.5	18.0	18.0
Add: Interest	6.5	12.0	22.0	22.0
Other Income	(14.7)	(45.0)	(35.0)	(35.0)
Cash Flow before wc changes	90.4	96.1	240.5	291.7
Changes in Working Capital	30.3	(354.2)	(82.9)	(147.4)
Taxes Paid	(13.9)	(7.1)	(63.1)	(76.5)
Net CF from operating activities	106.8	(265.2)	94.4	67.7
(Purchase)/Sale of Fixed Assets	(8.4)	(7.9)	(15.0)	(5.0)
(Purchase)/Sale of Investment	(64.3)	-	-	-
Other Income	14.7	45.0	35.0	35.0
Net CF from Investing activities	(57.5)	37.1	20.0	30.0
Issue/(Repayment of Debt)	37.1	94.4	5.1	-
Changes in Minority Interest	7.1	-	-	-
Changes in Networth	2.9	(33.7)	(53.5)	(65.2)
Interest	(6.5)	(12.0)	(22.0)	(22.0)
Net CF from Financing activities	40.6	48.8	(70.4)	(87.2)
Net Cash flow	90.0	(179.4)	44.0	10.5
Opening Cash	135.5	225.5	46.1	90.2
Closing Cash/ Cash Equivalent	225.5	46.1	90.2	100.7

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Equity Capital	154.5	154.5	154.5	154.5
Reserve and Surplus	1,634.0	1,708.9	1,827.7	1,972.7
Total Shareholders funds	1,788.5	1,863.4	1,982.3	2,127.2
Minority Interest	49.1	49.1	49.1	49.1
Total Debt	280.5	374.9	380.0	380.0
Deferred Tax Liability (Net)	(78.9)	(78.9)	(78.9)	(78.9)
Total Liabilities	2,190	1,958	1,914	2,039
Gross Block	53.4	61.4	76.4	81.4
Less Acc. Dep	36.0	49.5	67.5	85.5
Net Block	17.4	11.8	8.8	(4.2)
Goodwill on Consolidation	66.0	66.0	66.0	66.0
Capital WIP	3.4	3.4	3.4	3.4
Total Fixed Assets	86.8	81.3	78.3	65.3
Investments	687.8	548.2	558.1	622.4
Inventory	1,441.9	1,693.1	1,825.6	2,022.7
Sundry Debtors	91.9	89.7	94.0	102.0
Loans & Advances	81.4	29.2	29.6	30.0
Cash & Bank Balances	225.5	46.1	90.2	100.7
Other Current Assets	388.7	177.5	177.5	177.5
Total Current Assets	2,229.3	2,035.6	2,216.9	2,432.8
Other Current Liabilities	902.8	550.7	605.0	663.0
Provisions	16.6	0.1	0.1	0.1
Net Current Assets	1,310.0	1,484.9	1,611.8	1,769.8
Total Assets	2,190	1,958	1,914	2,039

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	FY22	FY23E	FY24E	FY25E
Per Share Data (₹)				
EPS - Diluted	10.0	7.0	11.2	13.6
Cash EPS	10.4	7.9	12.3	14.8
Book Value	115.7	120.6	128.3	137.7
Dividend per share	3.1	-	-	4.2
Operating Ratios (%)				
EBITDA / Net Sales	(22.7)	(16.8)	10.6	12.5
PAT / Net Sales	14.6	7.7	16.6	17.1
Return Ratios (%)				
RoE	3.2	2.2	8.7	9.9
RoCE	(4.0)	(2.6)	5.4	6.9
RoIC	(5.4)	(4.8)	4.1	5.8
Valuation Ratios (x)				
EV / EBITDA	NM	NM	NM	40.0
P/E (Diluted)	NM	NM	NM	27.9
EV / Net Sales	15.1	11.7	5.9	5.0
Market Cap / Sales	14.9	11.1	5.7	4.8
Price to Book Value	3.3	3.2	3.0	2.8
Solvency Ratios (x)				
Debt / Equity	0.2	0.2	0.2	0.2
Debt / EBITDA	NM	NM	NM	2.5
Current Ratio	2.2	3.6	3.5	3.5
Quick Ratio	0.6	0.5	0.5	0.5

Source: Company, ICICI Direct Research

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