

Mahindra Lifespace Developers (MAHLIF)

CMP: ₹ 407

Target: ₹ 475 (17%)

Target Period: 12 months

BUY

July 28, 2022

New launches drive sales volume...

About the stock: Mahindra Lifespace Developers (MLD) is the real estate and infrastructure development business of the Mahindra Group. It has over 32 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 developments / industrial clusters across four locations.

- The company has outlined medium term guidance to achieve sales value of ₹ 2500 crore by FY25. For the same, it is targeting four land transactions every year totalling ~₹ 2,000 crores worth of sales potential.

Q1FY23 Results: MLDL reported strong Q1FY23 results.

- Residential sales volume, value was up by ~63%, ~84% QoQ at 0.65 msf and ₹ 602 crore, respectively, led by strong new launches of ~1.05 million sq feet during the quarter across Pune, Bengaluru and Gurugram. Collections at ₹308 crore was up ~33% YoY.
- On financial front, revenues were down 36% YoY at ₹ 94.6 crore. PAT at ₹ 75.4 crore, was aided by one-time reversal of impairment of a subsidiary of ₹ 33.8 crore and higher other income. On segment wise, industrial cluster segment (part of profit from associates/JV) profit was ~₹ 48 crore, while residential segment had reported adjusted loss of ~₹ 7 crore.

What should investors do? MLDL share price has grown at ~24% CAGR over past five years (from ~₹ 140 in July 2017 to ~₹ 407 levels in July 2022).

- 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 ₹ 4,150 crore of potential cash flow coupled with huge captive land bank and expansion plans to add land every year having potential to generate annual sales of ~₹ 2,000 crore
- IC& IC business to benefit from PLI/manufacturing push
- Borrowing cost lowest amongst the peers- a huge competitive advantage

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

- Play on robust residential demand and office leasing
- BUY with a target price of ₹ 550

Mahindra LIFESPACES
JOYFUL HOMECOMINGS

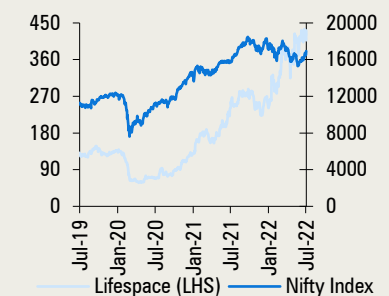
Particulars

| Particular | (₹ crore) |
|-----------------------|-----------|
| Market Capitalization | 6,296 |
| Total Debt (FY22) | 280 |
| Cash and Inv (FY22) | 225 |
| EV | 6,351 |
| 52 week H/L (₹) | 457 / 219 |
| Equity capital | 154.5 |
| Face value | ₹ 10 |

Shareholding pattern

| | Sep-21 | Dec-21 | Mar-22 | Jun-22 |
|-----------|--------|--------|--------|--------|
| Promoters | 51.5 | 51.3 | 51.3 | 51.3 |
| DII | 15.7 | 17.0 | 18.5 | 18.6 |
| FII | 11.6 | 10.6 | 9.8 | 10.6 |
| Other | 21.2 | 21.0 | 20.4 | 19.5 |

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

| | FY19 | FY20 | FY21 | FY22 | 5 yr CAGR (FY17-22) | FY23E | FY24E | 2 yr CAGR (FY22-24E) |
|---------------------------|-------|--------|--------|--------|---------------------|-------|---------|----------------------|
| Net Sales (₹ crore) | 592.8 | 610.9 | 166.3 | 393.6 | -12% | 527.8 | 1,037.2 | 62.3 |
| EBITDA (₹ crore) | 25.8 | (56.8) | (93.5) | (89.5) | NA | 14.9 | 105.5 | LP |
| Adj. Net Profit (₹ crore) | 119.7 | (58.8) | (71.7) | 57.7 | -11% | 69.0 | 116.3 | 42.0 |
| EPS - Diluted (₹) | 7.7 | (12.5) | (4.6) | 10.0 | | 6.7 | 7.5 | |
| P/E (x) | 52.6 | NM | NM | NM | | 61.2 | 54.1 | |
| Price / Book (x) | 3.3 | 3.7 | 3.9 | 3.5 | | 3.4 | 3.2 | |
| EV/EBITDA (x) | 240.1 | NM | NM | NM | | 444.8 | 62.9 | |
| RoCE | 3.8 | (1.5) | (4.1) | (4.0) | | 1.9 | 5.2 | |
| RoE | 6.2 | (3.5) | (4.4) | 3.2 | | 3.7 | 6.0 | |

Key rationale and business highlight

Strong residential sales driven by launches...

MLDL has achieved highest ever quarterly sales of ₹ 602 crore during Q1 FY23 with sales volume reaching 0.65 mn sq ft (vs net sales: ₹ 328 crore; sales volume: 0.4 mn sq ft in Q4 FY22). The robust sales are backed by a) healthy underlying demand in real estate space, b) strong response to company's new launches (*Mahindra Eden in Bengaluru and Luminare - Tower 3* in Gurgaon; 70-75% to Q1 FY23 sales contributed by new projects) and c) robust sustenance sales across its product portfolio. Collection also stood healthy during Q1FY23 at ₹ 271 crore. Additionally, the company has acquired a ~11.5-acre land parcel in Pune's micro market Pimpri. The land is estimated to have a developable potential of 2.14 mn sq ft of saleable area and a gross development value of ~₹1,700 crore. Going forward, land pipeline having mix of outright sales, joint development (JD) agreements, society redevelopment and distress assets opportunities remains robust at ~₹ 5,000 crore. With these, the company is likely to foray into society redevelopment projects during FY23. The focus would be on Mumbai and Navi Mumbai (40% of overall pipeline), Pune (40%) and Bengaluru (20%) regions. Going forward, while it maintained its earlier guidance to add land bank with sales potential of ₹ 2000 crore, it is on track to exceed the said guidance, with one deal already done. **We see sales value jumping to ~2.3x from FY22 levels at ~₹ 2400 crore in FY24E, based on the launch pipelines, and new land addition.**

IC& IC business remained healthy...

MLDL has leased 42.3 acres to 9 customers of land valued at ₹ 118 crore during Q1 FY23 at Mahindra World City Jaipur (vs 25 acres in Q4 FY22 worth ₹ 70 crore). The management expects to maintain the picked-up momentum for its Jaipur and Chennai IC&IC location with strong pipeline of enquiries being witnessed backed by a) expansion of PLI scheme, b) the lower tax rates for new manufacturing facilities, and c) the global realignment of manufacturing and supply chains favoring India as manufacturing destination. Traction in Origins Ahmedabad is currently subdued with the company scouting for correct anchor client (expects some development over next 6-9 months). Also, the company is at the approval stages to launch IC&IC business in Pune and is likely to take another ~2 years to commence operations. We highlight that company has target of an annual leasing run rate of ~₹ 500 crore from IC&IC business by 2025

Key conference call takeaways

- Launch and pipeline:** MLDL has launched 1.05 mn sq ft of saleable area (RERA carpet area - 0.64 mn sq ft) across various projects during Q1 FY23 having GDV of ~₹ 1,000 crore viz Mahindra Eden at Bengaluru, Mahindra Happinest Tathawade at Pune, Luminare at Gurugram. During July'22, the company has launched Mahindra Nestalgia (Biophilia-inspired homes) in Pimpri, Pune. As per the management, the project has received strong response with 50%+ (of 250 units) got sold within a month. Going forward, its overall project pipeline remains healthy with company planning to launch a) two new phases at Mahindra World City, Chennai and b) project at larger land parcel in Pimpri, Pune (GDV: ~₹ 450-500 crore) and c) a project at Kandivali location (GDV: ~₹ 500 crore). These are likely to get launched by FY23-end. Overall, the company is planning to launch projects having 2.5-3 mn sq ft of salable area during FY23.
- Input cost inflation:** Despite softening of raw material prices to some extent, the construction costs continue to remain at an elevated level. However, the company has undertaken several steps to mitigate rise in costs such as a) increase in design efficiencies and value engineering, b) sourcing of raw materials in bulk for better negotiated prices, and c) systematics increase in flats prices, which are likely to off-set some of the impact on margins.
- Price increase:** Flat/project pricing is largely dependent on a) input costs, b) land prices, c) macro-economic environment and d) competitive intensity.

The company targets minimum of 1.5-2% of flat/unit price increase on QoQ basis.

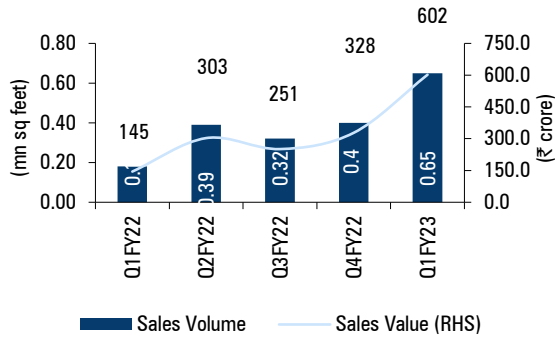
- **Debt & cost of borrowing:** Consolidated debt, cash at the end of Q1FY23 was at ₹ 327 crore, ₹ 202 crore (vs. ₹ 280 crore, ₹ 255 crore at Q4 FY22, respectively). Cost of borrowing stood at 6.8%, 6.3% vs. 6.5%, 5.7% in Q4 at consolidated, standalone levels, respectively

Other Highlights:

- During Q1 FY23, MLDL has spent ₹ 240 crore and ₹ 30 crore respectively on residential and IC&IC business to acquire land parcel. The management has guided to spend overall ₹ 500+ crore during FY23.
- At present, MLDL has ~121 customers have taken land on lease at Jaipur IC&IC location. Out of these, 69 clients have commenced their operations while ~25-30 customers are under construction phase and likely begin operations over next few months.
- As per the management, the land prices (20% of overall cost) have started rising in the recent times with surge in real estate demand. However, in order to mitigate the impact of amplified land prices on overall margins, the company is focusing on a) minimizing its overall construction costs, b) rise in product price, and c) right mix of land in terms of outright sales, JD agreements, society redevelopment and distress assets
- The company has received muted response to its *Happinest Kalyan-2* project (ongoing development: 0.71 mn sq ft; area sold: 0.15 mn sq ft). As per the management, launch strategies, preparation and timing went incorrect (despite strong feedback on the project from consumers and brokers). The company is once again gearing to increase its sales performance from the project with renewed strategy post monsoon period

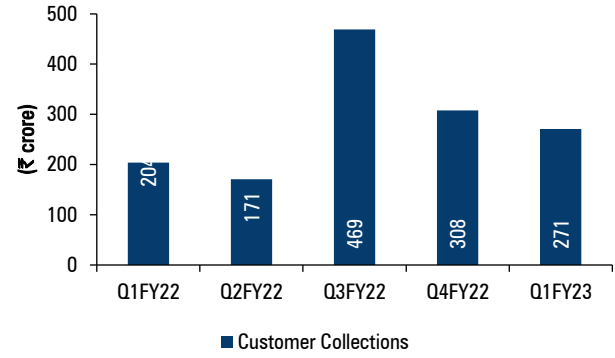
We like MLDL given its strong parentage, management's focus on expanding its overall scale of operation and a comfortable balance sheet. The company has announced one land transactions for Pimpri (Pune) in Q1, having development potential of 2.14 msft and total gross development value of ₹ 1700 crore and is on track to exceed its guidance of land bank addition worth ₹ 2500 crore of development value, every year. Hence, we maintain BUY recommendation with a revised target price of ₹ 475/share.

Exhibit 1: Quarterly sales volume



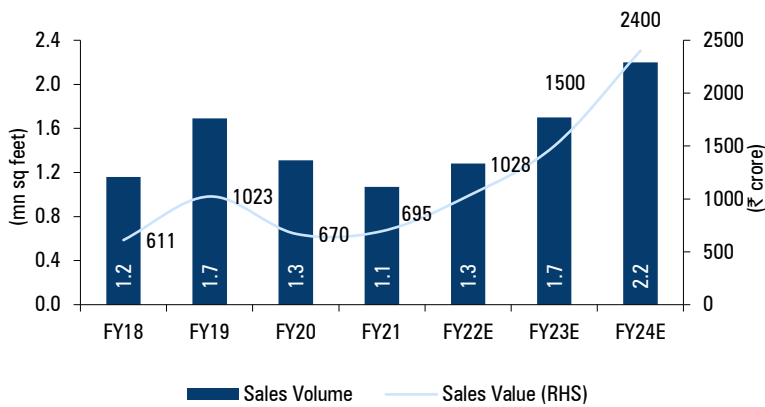
Source: Company, ICICI Direct Research

Exhibit 2: Quarterly collection



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 | 3827 |
| | Amount Collected | 1065 |
| | Balance Construction Cost to be spend | 1428 |
| | Net amount to be collected on future sales | 1334 |
| CF from Future Phases (to be launched) | Sales Potential | 1358 |
| | Est. Construction Cost | 826 |
| | Cashflow from future phases of ongoing projects | 532 |
| New Projects - To be Launched | Net Cashflow from new projects to be launched | 2284 |
| Total Potential Cash Flows | | 4150 |

Source: Company, ICICI Direct Research

Valuation & Outlook

We like MLDL given its strong parentage, management's focus on expanding its overall scale of operation and a comfortable balance sheet. The company has announced one land transactions for Pimpri (Pune) in Q1, having development potential of 2.14 msft and total gross development value of ₹ 1700 crore and is on track to exceed its guidance of land bank addition worth ₹ 2500 crore of development value, every year. Hence, we maintain BUY recommendation with a revised target price of ₹ 475/share.

Exhibit 5: Valuation

| Particulars | Stake value | Value / share | Comment |
|---|-------------|---------------|--|
| Residential | 2568 | 166 | We have only 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 | 810 | 52 | Land value of Thane, Murud and Pune at 10% discount |
| NAV Valuation | 5221 | 338 | |
| 40% Premium for growth potential | 2089 | 135 | |
| Rounded off Target price | 7340 | 475 | |

Source: Company, ICICI Direct Research

Financial Summary

| Exhibit 6: Profit and loss statement | | | | |
|--|---------------|---------------|--------------|----------------|
| | ₹ crore | | | |
| (₹ Crore) | FY21 | FY22 | FY23E | FY24E |
| Net Sales | 166.3 | 393.6 | 527.8 | 1,037.2 |
| Other Income | 21.6 | 14.7 | 35.0 | 25.0 |
| Total operating income | 187.8 | 408.2 | 562.8 | 1,062.2 |
| Operating Expenses | 117.3 | 303.1 | 324.0 | 727.5 |
| Employee Expenses | 75.7 | 83.6 | 87.8 | 93.9 |
| Administrative Expenses | 66.8 | 96.3 | 101.1 | 110.2 |
| Total Operating Expenditure | 259.7 | 483.0 | 512.9 | 931.6 |
| EBITDA | (93.5) | (89.5) | 14.9 | 105.5 |
| Interest | 11.0 | 6.5 | 15.0 | 30.0 |
| Depreciation | 7.0 | 6.5 | 7.4 | 10.4 |
| Other income | 21.6 | 14.7 | 35.0 | 25.0 |
| Share In Profit/(Loss) from associates | 12.1 | 90.3 | 89.5 | 85.5 |
| Exceptional Items | - | 96.8 | 33.8 | - |
| PBT | (77.7) | 99.3 | 150.8 | 175.5 |
| Taxes | (6.3) | (62.4) | 38.0 | 44.2 |
| PAT before MI | (71.4) | 161.7 | 112.8 | 131.3 |
| Minority Interest | (0.3) | (7.2) | (10.0) | (15.0) |
| PAT | (71.7) | 154.5 | 102.8 | 116.3 |
| PAT Growth rate | NA | NA | (33.5) | 13.1 |
| EPS | (14.0) | 10.0 | 6.7 | 7.5 |

Source: Company, ICICI Direct Research

| Exhibit 7: Cash flow statement | | | | |
|---|---------------|---------------|----------------|---------------|
| | ₹ crore | | | |
| (₹ Crore) | FY21 | FY22 | FY23E | FY24E |
| Profit after Tax | (71.7) | 154.5 | 102.8 | 116.3 |
| Depreciation | 7.0 | 6.5 | 7.4 | 10.4 |
| Add: Interest | 11.0 | 6.5 | 15.0 | 30.0 |
| Other Income | (21.6) | (14.7) | (35.0) | (25.0) |
| Cash Flow before wc changes | (81.6) | 90.4 | 128.3 | 176.0 |
| Changes in Working Capital | 52.1 | 30.3 | (354.2) | (82.9) |
| Taxes Paid | (4.0) | (13.9) | (38.0) | (44.2) |
| Net CF from operating activities | (33.5) | 106.8 | (264.0) | 48.8 |
| (Purchase)/Sale of Fixed Assets | (2.7) | (8.4) | (7.9) | (5.0) |
| (Purchase)/Sale of Investment | (9.9) | (64.3) | - | - |
| Other Income | 21.6 | 14.7 | 35.0 | 25.0 |
| Net CF from Investing activities | 9.5 | (57.5) | 27.1 | 20.0 |
| Issue/(Repayment of Debt) | 36.4 | 37.1 | 94.4 | 5.1 |
| Changes in Minority Interest | 0.0 | 7.1 | - | - |
| Changes in Networth | 1.5 | 2.9 | (31.9) | (36.1) |
| Interest | (11.0) | (6.5) | (15.0) | (30.0) |
| Net CF from Financing activities | 27.0 | 40.6 | 47.5 | (61.0) |
| Net Cash flow | 3.0 | 90.0 | (189.4) | 7.8 |
| Opening Cash | 132.4 | 135.5 | 225.5 | 36.1 |
| Closing Cash/ Cash Equivalent | 135.5 | 225.5 | 36.1 | 43.9 |

Source: Company, ICICI Direct Research

| Exhibit 8: Balance Sheet | | | | |
|------------------------------|--------------|--------------|--------------|--------------|
| | ₹ crore | | | |
| (₹ Crore) | FY21 | FY22 | FY23E | FY24E |
| Equity Capital | 51.4 | 154.5 | 154.5 | 154.5 |
| Reserve and Surplus | 1,579.7 | 1,634.0 | 1,704.9 | 1,785.1 |
| Total Shareholders funds | 1,631.1 | 1,788.5 | 1,859.4 | 1,939.6 |
| Minority Interest | 42.0 | 49.1 | 49.1 | 49.1 |
| Total Debt | 243.4 | 280.5 | 374.9 | 380.0 |
| Deferred Tax Liability (Net) | (2.6) | (78.9) | (78.9) | (78.9) |
| Total Liabilities | 2,190 | 1,958 | 1,914 | 2,039 |
| Gross Block | 33.9 | 53.4 | 61.4 | 66.4 |
| Less Acc. Dep | 29.5 | 36.0 | 43.5 | 53.9 |
| Net Block | 4.4 | 17.4 | 17.9 | 12.4 |
| Goodwill on Consolidation | 66.0 | 66.0 | 66.0 | 66.0 |
| Capital WIP | 14.6 | 3.4 | 3.4 | 3.4 |
| Total Fixed Assets | 85.0 | 86.8 | 87.3 | 81.9 |
| Investments | 687.8 | 548.2 | 558.1 | 622.4 |
| Inventory | 1,344.7 | 1,441.9 | 1,693.1 | 1,825.6 |
| Sundry Debtors | 56.4 | 91.9 | 89.7 | 94.0 |
| Loans & Advances | 88.3 | 81.4 | 29.2 | 29.6 |
| Cash & Bank Balances | 135.5 | 225.5 | 36.1 | 43.9 |
| Other Current Assets | 281.7 | 388.7 | 177.5 | 177.5 |
| Total Current Assets | 1,906.6 | 2,229.3 | 2,025.6 | 2,170.7 |
| Other Current Liabilities | 640.7 | 902.8 | 550.7 | 605.0 |
| Provisions | 15.5 | 16.6 | 0.1 | 0.1 |
| Net Current Assets | 1,250.3 | 1,310.0 | 1,474.9 | 1,565.6 |
| Total Assets | 2,190 | 1,958 | 1,914 | 2,039 |

Source: Company, ICICI Direct Research

| Exhibit 9: Key ratios | | | | |
|-----------------------------|--------|--------|-------|-------|
| | FY21 | FY22 | FY23E | FY24E |
| Per Share Data (₹) | | | | |
| EPS - Diluted | (4.6) | 10.0 | 6.7 | 7.5 |
| Cash EPS | (12.6) | 10.4 | 7.1 | 8.2 |
| Book Value | 105.6 | 115.7 | 120.3 | 125.5 |
| Dividend per share | (4.3) | - | - | 2.3 |
| Operating Ratios (%) | | | | |
| EBITDA / Net Sales | (56.2) | (22.7) | 2.8 | 10.2 |
| PAT / Net Sales | (43.1) | 14.6 | 13.1 | 11.2 |
| Return Ratios (%) | | | | |
| RoE | (4.4) | 3.2 | 3.7 | 6.0 |
| RoCE | (4.1) | (4.0) | 1.9 | 5.2 |
| RoIC | (5.8) | (5.4) | 0.3 | 4.3 |
| Valuation Ratios (x) | | | | |
| EV / EBITDA | NM | NM | NM | 62.9 |
| P/E (Diluted) | NM | NM | NM | 54.1 |
| EV / Net Sales | 38.5 | 16.1 | 12.6 | 6.4 |
| Market Cap / Sales | 37.9 | 16.0 | 11.9 | 6.1 |
| Price to Book Value | 3.9 | 3.5 | 3.4 | 3.2 |
| Solvency Ratios (x) | | | | |
| Debt / Equity | 0.1 | 0.2 | 0.2 | 0.2 |
| Debt / EBITDA | NM | NM | NM | 3.6 |
| Current Ratio | 2.7 | 2.2 | 3.6 | 3.5 |
| Quick Ratio | 0.6 | 0.6 | 0.5 | 0.5 |

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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