

CMP: ₹ 754

Target: ₹ 940 (25%)

Target Period: 12 months

BUY

July 30, 2021

Play on expanding residential portfolio...

About the stock: Mahindra Lifespace Developers (MLD) is the real estate and infrastructure development business of the Mahindra Group. It has 27.4 million square feet (msf) of completed, ongoing and forthcoming residential projects across seven cities and over 5,000 acres of ongoing, forthcoming projects under development at its integrated development/industrial clusters across four locations.

- The company has outlined five years plans wherein it aims to achieve sales value of ₹ 2500 crore by FY25. For the same, it is targeting four land transactions every year totalling ~₹ 2,000 crore worth of sales potential

Q1FY22 Results: MLD reported muted Q1FY22 results.

- Sales volume, value was up 1.25x, 2.7x YoY on depressed base at 0.18 msf, ₹ 145 crore, respectively. QoQ, sales value declined 58%, with second wave impact & no new launches. Collections at ₹ 204 crore were up 1.8x YoY
- On the financial front, revenues were up 9.2x YoY at ₹ 148.2 crore on superior recognition in residential segment. Losses were at ₹ 13.9 crore

What should investors do? MLD's share price has grown at ~13% CAGR over the past five years (from ~₹ 415 in July 2016 to ~₹ 754 levels in July 2021).

- We maintain our BUY rating on the company

Target Price and Valuation: We value MLD at ₹ 940/share.

Key triggers for future price performance:

- Robust launch pipeline and unsold inventory with ₹ 2,593 crore of potential cash flow
- Huge captive land bank and expansion plans to spend ₹ 500 crore each year on land having potential to generate annual sales of ~₹ 2,000 crore
- Recent management changes lend diverse expertise and scale
- IC & IC business to benefit from PLI/manufacturing push
- Borrowing cost lowest among peers – a huge competitive advantage

Alternate Stock Idea: Apart from MLD, we like Nirlon in the real estate space.

- Quality Grade-A office assets and backing of Reco Berry – an affiliate of GIC
- BUY with a target price of ₹ 400

Mahindra LIFESPACES
JOYFUL HOMECOMINGS

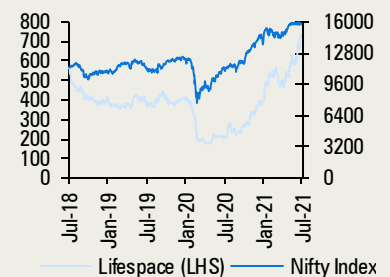
Particulars

Particular	(₹ crore)
Market Capitalization	3,870.1
Total Debt (FY21)	243.4
Cash and Inv (FY21)	135.5
EV	3,978.1
52 week H/L (₹)	793 / 198
Equity capital	51.4
Face value	₹ 10

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	51.5	51.5	51.5	51.5
DII	13.8	14.3	14.0	15.8
FII	12.7	12.4	13.5	12.6
Other	22.0	21.8	21.0	20.2

Price Chart



Recent Event & Key Risks

The board has approved the issuance of two bonus shares for one share held by shareholders

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	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales (₹ crore)	592.8	610.9	166.3	-22%	184.5	781.6	116.8
EBITDA (₹ crore)	25.8	(56.8)	(93.5)	NA	(116.7)	155.1	LP
Net Profit (₹ crore)	119.7	(193.4)	(71.7)	NA	(63.1)	154.3	LP
EPS - Diluted (₹)	23.3	(37.7)	(14.0)		(12.3)	30.1	
P/E (x)	32.3	NM	NM		NM	25.1	
Price / Book (x)	2.0	2.3	2.4		2.4	2.3	
EV/EBITDA (x)	146.3	NM	NM		NM	26.8	
RoCE	3.8	(1.5)	(4.1)		(5.0)	8.4	
RoE	6.2	(11.4)	(4.4)		(4.0)	9.1	

Source: Company, ICICI Direct Research

Key business highlight and outlook

Residential business to expand sharply

MLD has achieved net sales value of ₹ 145 crore in the residential segment during Q1FY22 (down from ₹ 346 crore reported in Q4FY21) largely impacted by state-wise lockdown triggered by the second-wave of Covid-19 pandemic. MLD achieved net sales of ₹ 695 crore in FY21 (up from ₹ 670 crore in FY20). MLD has concluded three deals last year totalling saleable area of ~2.4 msf with sales value potential of ~₹ 1500 crore, clearly signalling the conversion of intent into action. **We expect the annual sales volume to grow 1.6x to 1.7 msf in FY23 with annual sales value jumping 1.9x to ~₹ 1341 crore in FY23E, based on the launch pipelines, with further upsides also possible if further new land is added and launched within this period.**

IC & IC business to benefit from PLI/manufacturing push

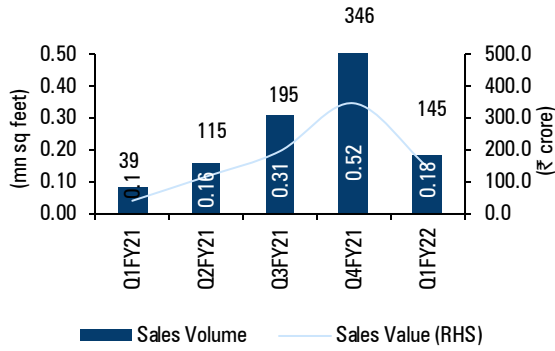
For Q1FY22, the company leased 6.7 acres during Q1FY22 with total value of ₹ 14.3 crore. The transactions are getting delayed with large restrictions on international travel (manufacturing/factory deals requires physical presence and site visits). In FY21, the integrated cities and industrial clusters (IC & IC) business leased 55.6 acres worth ₹ 128.7 crore. Furthermore, there were also sales of 9.2 acres in FY21 for land outside MWC boundaries. Going ahead, triggers such as PLI schemes, softening of interest rates and credit availability, lower tax rates for new manufacturing facilities, coupled with global realignment of manufacturing, supply chains are expected to drive the IC & IC business. Furthermore, leasing from Ahmedabad will also give a push to the overall momentum. We highlight that the company has targeted an annual leasing run rate of ~₹ 500 crore from the IC & IC business by 2025.

Key conference call takeaways

- The real estate industry has seen decent demand during Q1FY22 despite the second wave of Covid-19 pandemic restricting site visits and free movements. Additionally, demand was driven by a) gradual opening of economy, b) lower mortgage rates and c) buyers preferring better quality homes
- Mid-premium segment contributed 79% to total sales while the rest 21% was from the affordable division. Also, finished goods contributed 12% to overall sales. Average price realisation was at ~₹ 6,200 per sq ft. MLD could not launch any project during Q1FY22 mainly owing to disruptions caused by Covid-19. In total, MLD is likely to launch projects worth >₹ 1,000 crore in FY22
- As per the management, the deal pipeline is robust and receiving a lot of enquires from MNC players. The company is also getting enquires for built-to-suit facilities and warehousing services in industrial parks segment and is currently in an evaluation stage.
- Availability of labourers had dropped during April-May 2021 with the second-wave of Covid-19 triggering migration to native places. However, labour strength has normalised currently with workers returning to project sites amid a decline in Covid-19 cases
- Consolidated debt, cash at the end of Q1FY22 were at ₹ 255 crore, ₹ 162 crore, respectively. Cost of borrowing has dropped currently to 6.95%, 5.9% at consolidated, standalone levels, respectively
- The company has recommended bonus issue of equity shares in the ratio of 2:1 (two shares for every share held by shareholders). This move is likely to increase liquidity in the stock

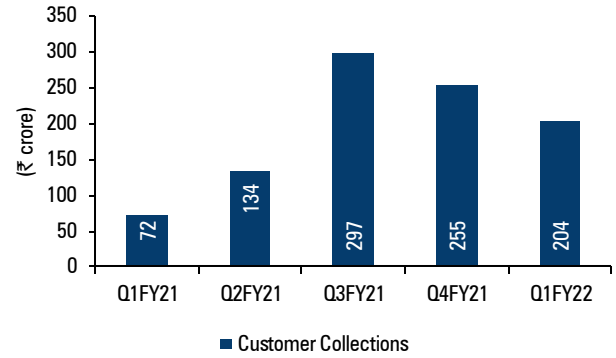
We like MLD given its strong parentage, the management's focus on expanding its overall scale of operation and a comfortable balance sheet. The new land purchases could enable it to scale up its residential business. The change in management and execution has started to show initial signs of transformation. Hence, we maintain BUY recommendation with a revised target price of ₹ 940/share.

Exhibit 1: Quarterly sales volume



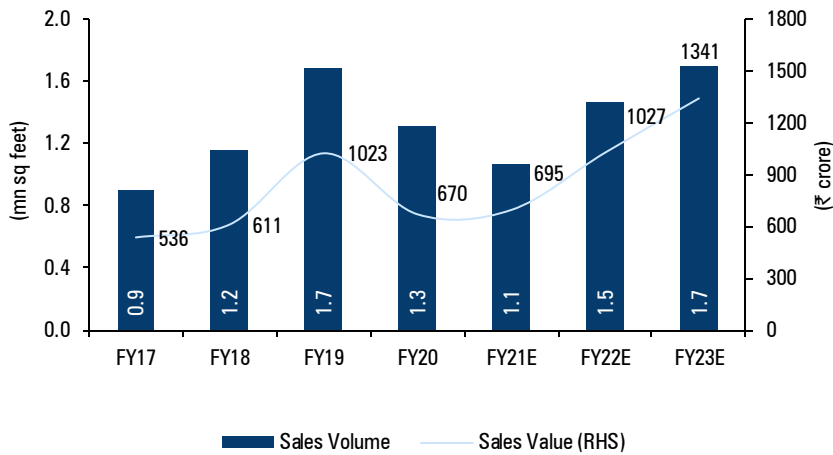
Source: Company, ICICI Direct Research

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)
Ongoing and Finished Projects	Sales Completed	1737
	Amount Collected	788
	Net amount to be collected on completed sales	949
	Future Sales from finished goods & inventory in ongoing projects	1017
	Balance Construction Cost to be spend	873
Future Phases of Ongoing Projects	Net amount to be collected on future sales	144
	Sales Potential	1744
	Est. Construction Cost	942
Cashflow from future phases of ongoing projects		802
New Projects - Not Launched	Cashflow from new projects to be launched (D)	698
Total Potential Cash Flows		2593

Source: Company, ICICI Direct Research

Valuation & Outlook

We like MLD given its strong parentage, the management's focus on expanding its overall scale of operation and a comfortable balance sheet. The new land purchases could enable it to scale up its residential business. The change in management and execution has started to show initial signs of transformation. Hence, we maintain BUY with a target price of ₹ 940/share (earlier ₹ 675/share). The increase in target price is owing to lower discount to market value (25% now vs. 50% earlier) on land bank and a premium of 30% to our NAV estimates for growth potential.

Exhibit 5: Valuation

Particulars	Stake value	Value / share	Comment
Residential	1579.0	307	We have only taken projects which have been given as forthcoming projects by company
IC& IC Business	1569.3	305	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	675.0	131	Land bank like Murud, Pune and Thane at 25% discount to market value
Less Net Debt	107.9	21	
NAV Valuation	3715.4	723	
30% Premium for growth potential		217	
Rounded off Target price		940	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	610.9	166.3	184.5	781.6
Other Income	35.0	21.6	23.7	29.7
Total operating income	645.9	187.8	208.2	811.3
Operating Expenses	483.0	117.3	144.5	462.0
Employee Expenses	82.2	75.7	83.3	87.4
Administrative Expenses	102.5	66.8	73.4	77.1
Total Operating Expenditure	667.8	259.7	301.2	626.5
EBITDA	(56.8)	(93.5)	(116.7)	155.1
Interest	7.6	11.0	14.0	21.8
Depreciation	7.7	7.0	7.4	7.4
Other income	35.0	21.6	23.7	29.7
Exceptional Items	(134.6)	-	-	-
PBT	(196.2)	(77.7)	(85.7)	205.0
Taxes	(1.7)	(6.3)	(21.6)	51.6
PAT before MI	(194.5)	(71.4)	(64.1)	153.3
Minority Interest	1.1	(0.3)	1.0	1.0
PAT	(193.4)	(71.7)	(63.1)	154.3
PAT Growth rate	NA	NA	NA	NA
EPS	(37.7)	(14.0)	(12.3)	30.0

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	(193.4)	(71.7)	(63.1)	154.3
Depreciation	7.7	7.0	7.4	7.4
Add: Interest	7.6	11.0	14.0	21.8
Other Income	(35.0)	(21.6)	(23.7)	(29.7)
Cash Flow before wc changes	(214.8)	(81.6)	(87.0)	205.6
Changes in Working Capital	(63.8)	52.1	(159.1)	(125.8)
Taxes Paid	(3.9)	(4.0)	21.6	(51.6)
Net CF from operating activities	(282.4)	(33.5)	(224.5)	28.1
(Purchase)/Sale of Fixed Assets	(13.5)	(2.7)	(17.0)	44.5
(Purchase)/Sale of Investment	139.5	(9.9)	-	-
Other Income	35.0	21.6	23.7	29.7
Net CF from Investing activities	161.5	9.5	6.7	74.2
Issue/(Repayment of Debt)	3.7	36.4	120.6	11.0
Changes in Minority Interest	(1.6)	0.0	-	-
Changes in Networth	(34.9)	1.5	19.6	(47.9)
Interest	(7.6)	(11.0)	(14.0)	(21.8)
Net CF from Financing activities	(40.4)	27.0	126.2	(58.8)
Net Cash flow	(161.3)	3.0	(91.6)	43.6
Opening Cash	293.8	132.4	135.5	43.8
Closing Cash/ Cash Equivalent	132.4	135.5	43.8	87.4

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Equity Capital	51.4	51.4	51.4	51.4
Reserve and Surplus	1,649.9	1,579.7	1,536.2	1,642.6
Total Shareholders funds	1,701.3	1,631.1	1,587.6	1,694.0
Minority Interest	41.9	42.0	42.0	42.0
Total Debt	207.0	243.4	364.0	374.9
Deferred Tax Liability (Net)	7.7	(2.6)	(2.6)	(2.6)
Total Liabilities	2,190	1,958	1,914	1,991
Gross Block	33.5	33.9	50.9	6.4
Less Acc. Dep	22.5	29.5	37.0	44.4
Net Block	11.0	4.4	13.9	(38.1)
Goodwill on Consolidation	66.0	66.0	66.0	66.0
Capital WIP	12.2	14.6	14.6	14.6
Total Fixed Assets	89.3	85.0	94.5	42.6
Investments	687.8	548.2	558.1	558.1
Inventory	1,204.3	1,344.7	1,466.9	1,765.5
Sundry Debtors	114.4	56.4	121.8	31.0
Loans & Advances	83.4	88.3	70.6	29.2
Cash & Bank Balances	132.4	135.5	43.8	87.4
Other Current Assets	348.7	281.7	279.4	279.4
Total Current Assets	1,883.2	1,906.6	1,982.5	2,192.5
Other Current Liabilities	570.3	640.7	655.2	705.2
Provisions	13.5	15.5	9.5	0.1
Net Current Assets	1,299.4	1,250.3	1,317.8	1,487.2
Total Assets	2,190	1,958	1,914	1,991

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	FY20	FY21	FY22E	FY23E
Per Share Data (₹)				
EPS - Diluted	(37.7)	(14.0)	(12.3)	30.1
Cash EPS	(36.2)	(12.6)	(10.8)	31.5
Book Value	331.5	317.8	309.3	330.0
Dividend per share	-	-	-	9.3
Operating Ratios (%)				
EBITDA / Net Sales	(9.3)	(56.2)	(63.3)	19.8
PAT / Net Sales	(31.7)	(43.1)	(34.2)	19.7
Return Ratios (%)				
RoE	(11.4)	(4.4)	(4.0)	9.1
RoCE	(1.5)	(4.1)	(5.0)	8.4
RoIC	(3.6)	(5.8)	(6.5)	7.4
Valuation Ratios (x)				
EV / EBITDA	NM	NM	NM	26.8
P/E (Diluted)	NM	NM	NM	25.1
EV / Net Sales	6.5	23.9	22.7	5.3
Market Cap / Sales	6.3	23.3	21.0	5.0
Price to Book Value	2.3	2.4	2.4	2.3
Solvency Ratios (x)				
Debt / Equity	0.1	0.1	0.2	0.2
Debt / EBITDA	NM	NM	NM	2.4
Current Ratio	3.0	2.7	2.9	3.0
Quick Ratio	0.9	0.6	0.7	0.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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