

Healthy performance; strong launch pipeline ahead...

About the stock: Mahindra Lifespace Developers (MLD) is the real estate and infrastructure development business of the Mahindra Group. It has ~33.6 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 sharply scaled up sales momentum with FY23 sales value at ₹ 1812 crore vs. ₹ 695 crore in FY21. It intends to continue its scalability drive through new business developments ahead

Q4FY23 Results: MLD reported decent Q4FY23 results.

- Residential sales volume, value was up ~23%, ~10% YoY at 0.49 msf, ₹ 361 crore, respectively, despite modest new launches of ~0.4 mn sq ft during the quarter across projects. The sales volume, value was up ~74%, ~76% YoY at 2.2 msf and ₹ 1812 crore, respectively, in FY23
- On the financial front, revenues were up 57.9% YoY at ₹ 186.9 crore while it reported PAT of ₹ 0.5 crore. Segment wise, industrial cluster segment (part of profit from associates/JV) profit was ~₹ 16 crore while the residential segment reported a loss of ~₹ 16 crore

What should investors do? MLD's share price has grown at ~19% CAGR over the past five years (from ~₹ 155 in April, 2018 to ~₹ 368 levels now).

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

Target Price and Valuation: We value MLD at ₹ 470/share.

Key triggers for future price performance:

- Robust launch pipeline (nine projects worth ~₹ 4000 crore to be launched in FY23) and unsold inventory with ₹ 3860 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 MLD, we like Brigade in the real estate space

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



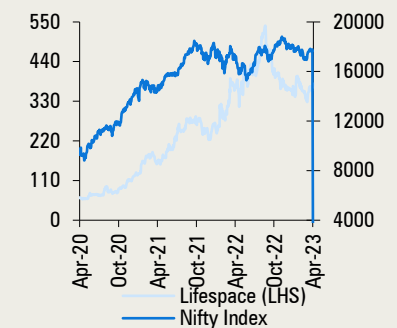
Particulars

Particular	(₹ crore)
Market Capitalization	5,692
Total Debt (FY22)	265
Cash and Inv (FY22)	274
EV	5,683
52 week H/L (₹)	551 / 309
Equity capital	154.7
Face value	₹ 10

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	51.3	51.3	51.3	51.3
DII	18.6	18.0	19.0	19.4
FII	10.6	11.4	11.1	11.3
Other	19.5	19.3	18.7	18.0

Price Chart



Key Risks

Key Risk: (i) Slowdown in residential real estate; (ii) Inability of new leadership to deliver

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Key Financial Summary

	FY20	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	2 yr CAGR (FY23-25E)
Net Sales (₹ crore)	610.9	166.3	393.6	606.6	1%	1,037.2	1,232.2	42.5
EBITDA (₹ crore)	(56.8)	(93.5)	(89.5)	(110.1)	NA	91.3	133.3	LP
Adj. Net Profit (₹ crore)	(58.8)	(71.7)	57.7	33.6	NA	158.3	194.8	140.8
EPS - Diluted (₹)	(12.5)	(4.6)	10.0	6.6		10.2	12.6	
P/E (x)	NM	NM	36.8	56.1		35.9	29.2	
Price / Book (x)	3.3	3.5	3.2	3.2		3.0	2.8	
EV/EBITDA (x)	NM	NM	NM	(53.4)		66.3	45.4	
RoCE	(1.5)	(4.1)	(4.0)	(3.4)		4.8	6.3	
RoE	(3.5)	(4.4)	3.2	1.9		8.3	9.5	

Key rationale and business highlight

Strong launch pipeline ahead...

MLD has achieved sales of ₹ 361 crore during Q4FY23 with sales volume reaching 0.49 mn sq ft up by ~10%, ~20% YoY, despite modest new launches of ~0.4 million sq feet during the quarter across projects, viz. Mahindra Nestalgia at Pune and Meridian plotted development at Alibaug. **The sales volume, value was up ~74%, ~76% YoY at 2.2 msf and ₹ 1812 crore, respectively, in FY23.** Going ahead, the company is aiming to launch nine projects with gross development value of ₹ 4000 crore in FY23. Additionally, the land pipeline having a 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 ₹ 5500 crore of which ₹ 850 crore fructified while the same has been replenished). 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 ~1.5x from FY23 levels at ~₹ 2800 crore in FY25E, based on the launch pipelines, and new land addition.

IC& IC business witnesses strong performance...

MLD has leased 69 acres to four customers of land valued at ₹ 201 crore during Q4FY23 (leased ~10 acres to one customer at MWC, Jaipur and 59.1 acres to three customers in MWC and Origins Chennai). For FY23, it has leased 158 acres for ₹ 456 crore. The management expects the momentum to remain healthy 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 favouring India as manufacturing destination. For Origins Ahmedabad, the company scouting for correct anchor client (expects some development over next six to nine months). Also, the company is at the land acquisition stage in IC&IC business in Pune and is likely to take another two years approximately to commence operations. MLD, overall, has an inventory of ~1400 acres with total sales value of ~₹ 5000 crore in the IC& IC business. **It has maintained target of an annual leasing run rate of ~₹ 500 crore from IC&IC business by 2025.**

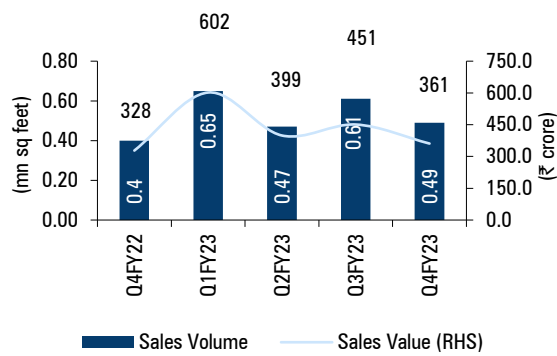
Key conference call takeaways

- Business Development:** FY23 saw strong activity in the business development front with land deals of ₹ 3200 worth development potential. 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, in H1FY23, it had done land acquisition in Pimpri, Pune with gross development value of ₹ 2300 crore. Even in Q1FY24, it has added society redevelopment projects with sales potential of ₹ 850 crore
- Launch pipeline, gross margin outlook:** In FY23, MLD has launched 3.2 mn sq ft of projects across (Pimpri, Kalyan, Bangalore, Gurugram, Alibaug and Chennai). **Going forward, its overall project pipeline remains healthy with the company is aiming to launch nine projects with gross development value of ₹ 4000 crore in FY23. IT expects gross margins of 18-20% for recent projects and better for future project vs. ~13% margin reported in Q4 (~11% in FY23)**
- Thane Update:** MLD has completed conveyance for the Ghodbunder Road, Thane land parcel. **The company is waiting for clarity on some policies that will help improve value of assets. The company is aiming to launch as a mixed-use development planned to be hit the market in FY25. Overall, the project has the development potential of 5+ mn sq ft**

- **Joint venture with Actis:** The company informed that the leadership team is in place. It is currently looking at right parcels to be put into the JV. Recall, MLD has **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. **The total investment in the business over the initial years, including debt, is estimated to be ₹ 2,200 crore. Actis will own a majority stake while Mahindra Lifespace will have a significant minority (26-33%)**
- **Collection:** The collection remained steady at ₹ 1165 crore in FY23 vs. ₹ 1142 crore in FY22, up ~1% YoY
- **Debt & cost of borrowing:** Consolidated debt, cash at the end of FY23 was at ₹ 265 crore, ₹ 273.6 crore (vs. ₹ 280 crore, ₹ 228 crore at Q3FY23, respectively). Cost of borrowing was at 8.2% (vs. 7.76% in Q3FY23) at the consolidated level. The consolidated free cash flow (after land payment) was at ₹ 142 crore in Q4
- **MD resignation:** The quarter saw resignation of its current MD & CEO, Arvind Subramanian who has been heading the company's operations since May 2020. In his place, the Mahindra Group has appointed Amit Kumar Sinha as the new MD & CEO from May 2023 who has been already working with the Mahindra Group as President, Group Strategy since April 2021 and has experience of over 18 years. It was a Senior Partner and Director with Bain & Company prior to joining the Mahindra Group. **The new MD & CEO designate has reiterated the continuance of strategy and focus on scalability ahead. We note that the Street will monitor continuity and delivery of growth plans to drive and maintain trust ahead**

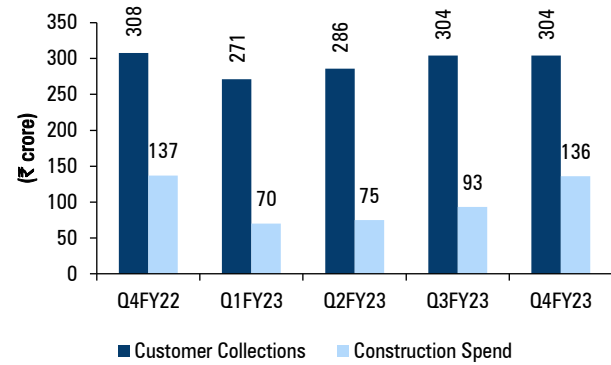
We like MLD given its strong parentage, the management's focus on expanding its overall scale of operation and a comfortable balance sheet. The recent MD resignation implies that the street will monitor continuity and delivery of growth plans to drive and maintain trust ahead. Nonetheless, the company has announced land transactions worth ₹ 4050 crore in the last 13 months. This has improved its overall scalability potential. Hence, we maintain BUY recommendation with a target price of ₹ 470/share.

Exhibit 1: Quarterly sales volume



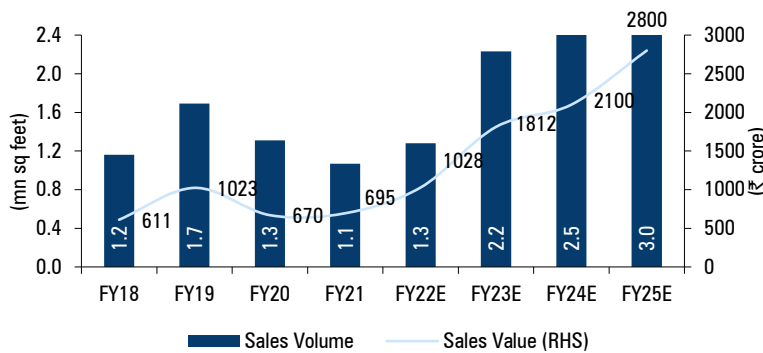
Source: Company, ICICI Direct Research

Exhibit 2: Quarterly collection & construction cost



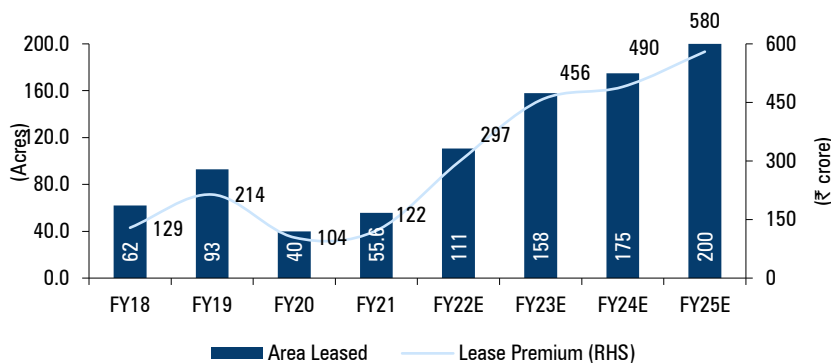
Source: Company, ICICI Direct Research

Exhibit 3: Annual sales volume to grow



Source: Company, ICICI Direct Research

Exhibit 4: Leasing traction remains robust



Source: Company, ICICI Direct Research

Exhibit 5: Cash flow potential

Cash Flow Potential	Value (₹ crore)
CF from Launched Phases	
Sales Completed	5030
Amount Collected	1422
Balance Construction Cost to be spend	2303
Net amount to be collected on future sales	1305
CF from Future Phases (to be launched)	
Sales Potential	3156
Est. Construction Cost	2058
Cashflow from future phases of ongoing projects	1098
New Projects - To be Launched	
Net Cashflow from new projects to be launched	1457
Total Potential Cash Flows	3860

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 recent MD resignation implies that the Street will monitor continuity and delivery of growth plans to drive and maintain trust ahead. Nonetheless, the company has announced land transactions worth ₹ 4050 crore in the last 13 months. This has improved its overall scalability potential. Hence, we maintain BUY recommendation with a target price of ₹ 470/share.

Exhibit 6: Valuation

Particulars	Stake value	Value / share	Comment
Residential	2976	192	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	378	
25% Premium for growth potential	1463	95	
Rounded off Target price	7269	470	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Net Sales	393.6	606.6	1,037.2	1,232.2
Other Income	14.7	53.0	35.0	35.0
Total operating income	408.2	659.6	1,072.2	1,267.2
Operating Expenses	303.1	513.8	727.5	862.5
Employee Expenses	83.6	79.2	84.7	90.6
Administrative Expenses	96.3	123.8	133.7	145.7
Total Operating Expenditure	483.0	716.7	945.9	1,098.8
EBITDA	(89.5)	(110.1)	91.3	133.3
Interest	6.5	10.9	22.0	22.0
Depreciation	6.5	12.2	18.0	18.0
Other income	14.7	53.0	35.0	35.0
Share In Profit/(Loss) from associates	90.3	118.1	145.5	154.9
Exceptional Items	96.8	67.8	-	-
PBT	99.3	105.7	231.7	283.2
Taxes	(62.4)	2.8	58.4	71.4
PAT before MI	161.7	102.8	173.3	211.8
Minority Interest	(7.2)	(1.4)	(15.0)	(17.0)
PAT	154.5	101.4	158.3	194.8
PAT Growth rate	NA	(34.4)	56.1	23.0
EPS	10.0	6.6	10.2	12.6

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	154.5	101.4	158.3	194.8
Depreciation	6.5	12.2	18.0	18.0
Add: Interest	6.5	10.9	22.0	22.0
Other Income	(14.7)	(53.0)	(35.0)	(35.0)
Cash Flow before wc changes	90.4	74.4	221.7	271.2
Changes in Working Capital	30.3	(99.0)	(289.5)	(147.4)
Taxes Paid	(13.9)	16.9	(58.4)	(71.4)
Net CF from operating activities	106.8	(7.7)	(126.1)	52.4
(Purchase)/Sale of Fixed Assets	(8.4)	(13.2)	(11.5)	(5.0)
(Purchase)/Sale of Investment	(64.3)	(87.3)	-	-
Other Income	14.7	53.0	35.0	35.0
Net CF from Investing activities	(57.5)	(47.0)	23.5	30.0
Issue/(Repayment of Debt)	37.1	(15.4)	114.9	-
Changes in Minority Interest	7.1	(48.9)	-	-
Changes in Networth	2.9	(84.2)	(49.1)	(60.4)
Interest	(6.5)	(10.9)	(22.0)	(22.0)
Net CF from Financing activities	40.6	(93.4)	43.8	(82.4)
Net Cash flow	90.0	(148.1)	(58.8)	(0.1)
Opening Cash	135.5	225.5	77.4	18.6
Closing Cash/ Cash Equivalent	225.5	77.4	18.6	18.5

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Equity Capital	154.5	154.7	154.7	154.7
Reserve and Surplus	1,634.0	1,651.1	1,760.3	1,894.7
Total Shareholders funds	1,788.5	1,805.8	1,915.0	2,049.4
Minority Interest	49.1	0.2	0.2	0.2
Total Debt	280.5	265.1	380.0	380.0
Deferred Tax Liability (Net)	(78.9)	(59.2)	(59.2)	(59.2)
Total Liabilities	2,190	1,958	1,914	2,039
Gross Block	53.4	64.9	76.4	81.4
Less Acc. Dep	36.0	48.2	66.2	84.2
Net Block	17.4	16.7	10.1	(2.9)
Goodwill on Consolidation	66.0	-	-	-
Capital WIP	3.4	5.1	5.1	5.1
Total Fixed Assets	86.8	21.8	15.3	2.3
Investments	687.8	548.2	558.1	622.4
Inventory	1,441.9	2,097.6	1,825.6	2,022.7
Sundry Debtors	91.9	129.1	94.0	102.0
Loans & Advances	81.4	17.7	29.6	30.0
Cash & Bank Balances	225.5	77.4	18.6	18.5
Other Current Assets	388.7	478.9	478.9	478.9
Total Current Assets	2,229.3	2,800.7	2,446.7	2,652.1
Other Current Liabilities	902.8	1,523.6	955.0	1,013.0
Provisions	16.6	16.1	0.1	0.1
Net Current Assets	1,310.0	1,261.0	1,491.6	1,639.0
Total Assets	2,190	1,958	1,914	2,039

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	FY22	FY23	FY24E	FY25E
Per Share Data (₹)				
EPS - Diluted	10.0	6.6	10.2	12.6
Cash EPS	10.4	7.3	11.4	13.8
Book Value	115.6	116.7	123.8	132.5
Dividend per share	3.1	-	-	3.9
Operating Ratios (%)				
EBITDA / Net Sales	(22.7)	(18.2)	8.8	10.8
PAT / Net Sales	14.6	5.5	15.3	15.8
Return Ratios (%)				
RoE	3.2	1.9	8.3	9.5
RoCE	(4.0)	(3.4)	4.8	6.3
RoIC	(5.4)	(6.4)	3.3	5.0
Valuation Ratios (x)				
EV / EBITDA	NM	NM	NM	45.4
P/E (Diluted)	36.8	56.1	35.9	29.2
EV / Net Sales	14.6	9.7	5.8	4.9
Market Cap / Sales	14.5	9.4	5.5	4.6
Price to Book Value	3.2	3.2	3.0	2.8
Solvency Ratios (x)				
Debt / Equity	0.2	0.1	0.2	0.2
Debt / EBITDA	NM	NM	NM	2.9
Current Ratio	2.2	1.8	2.5	2.6
Quick Ratio	0.6	0.4	0.6	0.6

Source: Company, ICICI Direct Research

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