

# Mahindra Lifespaces

## Fresh ambition, fresh upside

Mahindra Lifespaces Developers Ltd (MLDL) is perceived to have missed the real estate cycle despite being an early starter. There is no point delving into what has gone wrong; instead we take a fresh look at what can transpire over the next few years. What has changed? **Aggression:** top management is a mix of Lodha (CEO, CMO, and CSO), Tata Housing (CLO) and Sobha (CPO). **Financial strength:** it has the lowest borrowing with ~20% lower cost than peers. **Business Development (BD) pipeline:** guidance of Rs 5bn/annum Capex on land with Rs 20-25bn pre-sales potential. **Brand:** invokes trust, transparency and corporate governance. **Own land bank:** captive land parcels and access to group's land bank. MLDL is on the path to multiyear re-rating. We initiate with a BUY recommendation and Mar-22 SOTP of Rs 773/sh.

- Recent management changes lend diverse expertise and scale (3-4x of MLDL):** Under the leadership of Mr Arvind Subramanian, the group has seen many changes. **The sales engine** is strengthened with the hiring of Mr Viral Oza – ex-Chief Marketing Officer of Lodha Group. **Legal** – hiring of Ms Parveen Mahtani as Chief Legal Officer (ex-head legal and compliance at Tata Housing) bolsters the land due diligence. **Execution** – the hiring of Mr Sudarshan KR as Chief Project Officer (ex VP – Sobha) may strengthen the overall execution, budget compliance, project completion, etc. **Mr Arvind Subramanian – CEO MLDL is ex-Regional CEO and Mr Vimalendra Singh – Chief Sales Officer MLDL - is ex-VP/Market Head of Lodha Group.**
- Multiple triggers in place for long-term value creation:** MLDL has multiple legs to its growth story: (1) launch pipeline/unsold inventory with Rs 23bn of cash flow potential; (2) captive land bank (60acres in Ghodbunder, ~400acres near Pune and 1,000 acres in Murud), where the development potential may add many times to overall value; (3) new BD land bank addition of 3-4mn sq ft annually; (4) land bank of the parent (like 40acres in Kandivili), which may get developed jointly on DM/profit share model; and (5) NAV premium, if all the above triggers fall in line. We ascribe 50% NAV premium to Godrej Properties for its growth orientation and aggressive land inventory additions. On MLDL's low base of Rs 7-8bn annual pre-sales, the NAV premium can be much higher, given aggressive expansion plans.
- 2-3x existing pre-sales doable, with near net cash balance sheet:** MLDL is focusing on MMR, Pune and Bengaluru as the key target markets for growth. The recent premium cuts in MMR augur well for MLDL as it has strong BS/liquidity. Borrowing costs at 5-7.5% are the lowest vs peers, which is a good sign for land bank acquisitions. On the one hand, landowners want to partner with strong groups like MLDL while on the other, banks want to lend, and buyers are inclined to buy under-construction projects. MLDL is in a sweet spot to capture and expand its market share.

### Consolidated Financial summary

YE March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	5,931	7,621	5,662	5,928	6,109	1,390	1,474	7,136
EBITDA	855	503	575	258	(568)	(777)	(857)	84
APAT	917	1,021	1,009	1,197	(588)	(616)	35	1,455
Diluted EPS (Rs)	22.5	25.0	19.7	23.3	(11.5)	(12.0)	0.7	28.3
P/E (x)	18.4	16.5	21.1	17.7	(36.1)	(34.5)	608.6	14.6
EV / EBITDA (x)	33.0	51.4	38.9	84.1	(39.1)	(27.8)	(26.5)	281.4
RoE (%)	5.9	6.1	5.4	6.0	(10.7)	(3.7)	0.2	8.5

Source: Company, HSIE Research

## BUY

CMP (as on 03 Feb 2021)	Rs 414
Target Price	Rs 773
NIFTY	14,789

### KEY STOCK DATA

Bloomberg code	MLIFE IN
No. of Shares (mn)	51
MCap (Rs bn) / (\$ mn)	21/291
6m avg traded value (Rs mn)	24
52 Week high / low	Rs 419/171

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	54.0	94.9	1.9
Relative (%)	29.1	58.8	(24.2)

### SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	51.47	51.46
FIs & Local MFs	13.82	14.36
FPIs	12.66	12.41
Public & Others	22.05	21.77
Pledged Shares	-	-

Source : BSE

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## Story so far – a sorry tale; but bounce-back on the cards

- Founded in 1994, the group has lagged vs. peers on Indian real estate's growth trajectory. The general investor perceives this company as low on growth aggression, but professionally driven in a sector that is guided by promoters. MLDL follows a mixed strategy of real estate development viz. industrials clusters, integrated cities, mid luxury, affordable housing etc. This is in contrast to peers who are either pure residential or mix of annuity assets and residential. Managerial layers result in delayed decision making in a professionally driven organization with limited promoter involvement on day-to-day basis.
- CEO churn in the past – in the past two years, two CEOs changed - Ms. Anita Arjundas (15yrs at MLDL, 11yrs as MD) and Ms Sangeeta Prasad (20yrs at MLDL, 2yrs as MD& CEO)
- Whilst real estate business is highly scalable, MLDL as an entity has remained insignificant to the M&M group's size, though long-term value creation could have made this a significant growth driver for the parent's overall size and operations. This may also be a reason for limited focus till now from parent.
- **HSIE View:** Real Estate sector is generally perceived as opaque though it has seen many structural changes in the past few years: (1) The FSI guidelines have become more predictable making it difficult to game the system now; (2) Funding is concentrated in the hands of organized and reputed brands like MLDL; (3) Landlords are looking at partner with credible names that can start, execute, sell, finance the projects; and, lastly but more importantly, (4) Buyers are getting attracted to players and brands that inspire trust and transparency. With COVID-19, this entire behavioral ecosystem has accelerated and MLDL stands to benefit. The uptick in housing demand, concessions on FSI premium by Maharashtra State Government and cuts on stamp duty is likely to benefit MLDL. We believe that MLDL missed an early start but various micro and macro tailwinds are in place now for a protracted recovery over the next 2-3 years.

## Management changes – mix of aggression and diverse talent



**Arvind Subramanian**  
MD & CEO

MBA (IIM,  
Ahmedabad)  
& B.Tech (IIT,  
Madras)

Started his career with Tata Administrative Service and was associated with BCG for 15 years; moved to Lodha as regional CEO, delivered ~3.5x of MLDL annual pre-sales run rate yearly in his 4 year tenure; joined Mahindra Happinest as CEO in Sep'18, Rs ~3.5bn sales in his short stint; elevated to COO of Mahindra Lifespace in Feb' 20 and then to CEO in July' 20

- Arvind Subramanian comes with diverse experience (initially worked as a career consultant and then as a regional CEO at Lodha Group. His entrepreneurial quest brought him to MLDL to start the affordable housing platform Mahindra Happinest in a JV with HDFC Ltd. Later, he was elevated to COO and then CEO of MLDL. In his previous stint, he annually delivered ~3.5x of MLDL yearly pre-sales for Lodha. At MLDL, he was instrumental in ramping up management over the past one year with high profile hires, strengthening distribution network, streamlining the business development process and reduction in finance cost to ~7.5%, (the lowest in the Industry). Now, he is focusing on new business development pipeline and evaluating old captive land bank from a go to market perspective. Key expectations from him include (1) acquisition of new land bank, (2) ramp-up of new launches, (3) accelerating the launches on the captive land bank, and (4) ramping up sales in MWC Jaipur.

## Strengthening the legal team



**Parveen Mahtani**  
CLO

Government  
Law College,  
Mumbai

Gold Medalist in Law has previously worked at Tata Housing, Wadia Group, Lodha and IL&FS. She has been honoured as Top 25 General Counsels in India in 2018 by the ICCA in London

- Parveen joined MLDL in Jul-20 as Chief Legal Officer. She has been roped in to oversee new land acquisitions which involves long due diligence cycles and involves legal complexities. She will also be overseeing buyer's agreement and other legal compliances. In the past, she had roles at Tata Housing, Tata Realty & Infrastructure, Wadia Group, Lodha Group and IL&FS. A large part of capital allocation at MLDL will go towards land acquisitions and Parveen's team will be playing a key role in that, helping MLDL to acquire clean and litigation-free land inventory.

## Focus on timely execution and within budgeted cost



**Sudharshan KR**  
Chief Project Officer

Bengaluru  
University,  
BE Civil

He joined MLDL in Dec-20 after 20yrs+ stint at Sobha Ltd. His last role was as EVP

- Sudharshan KR joined as Chief Projects Officer at MLDL. Earlier, he was Executive Vice President at Sobha Ltd. He was one of the key leaders responsible for robust quality/execution, planning and procurement; timely completion of the projects (within the approved costing) and billing to clients at Sobha. He is expected to bring in the best quality of construction across the MLDL portfolio.

## Marketing remains the centrepiece of MLDL growth engine



**Viral Oza**  
CMO

MBA  
(NMIMS)

Started his career at HUL and spent around 16 years there; Worked in Nokia for six years; Times of India and Microsoft UK for a year. At Lodha, served as Chief Marketing Officer (4yrs); Joined Mahindra in July' 20

- Mr Viral Oza joined MLDL as Chief Marketing Officer from Lodha Group. He was instrumental in building Lodha's marketing campaigns over his four-year stint. With the impending ramp-up of launches, increased momentum in new land bank addition, go to market perspective on captive land bank and monetization of industrial land parcel, Viral will be playing key role at MLDL group. He will be one of the catalysts in ramping up the pre-sales from current Rs 7-8bn/annum to Rs 25bn over next 3-4yrs.

## All the efforts ultimately to lead to sales conversion



**Vimalendra Singh**  
CSO

MBA (IIM,  
Ahmedabad) & B.E  
(Mumbai  
University)

Spent close to a decade in banking sector with Citi and Standard Chartered; Worked at Lodha for ~2.5 years and managed central Mumbai luxury project as Vice President and Market Head for South Central Mumbai Projects. He was instrumental in ramping up sales to 3x post his joining

- Vimalendra was Chief Sales Officer at Happinest and was elevated to MLDL in the same position. He was instrumental in ramping up sales ~3x annually in his earlier role at Lodha. His key responsibilities will be selling products from Rs 3-40mn ticket size across the MLDL portfolio.

## What can change the stock view?

- **Augmenting business development pipeline** – Over the past five years, the sector has tilted in favour of organised developers. Multiple sectoral headwinds like RERA, Demonetisation, NBFC Crisis and now COVID-19 have muted the demand and subdued the pricing. The unorganised players were hit the hardest and over the years, the balance has started to shift towards organised players. We have seen Godrej Properties Ltd (GPL) benefiting the most from these tailwinds as it helped GPL diversify across new regions, aiding gains in its market share. However, MLDL missed out as it saw internal changes in the management during this period, in addition to the slowdown in IC&IC business on SEZ benefits getting phased out. This impacted the overall sales velocity and growth trajectory.
- As things were regaining order, the management changed again with the resignation of Ms Sangeeta Prasad, followed by exit of some of the senior management personnel's. The new CEO was chosen internally in Mr Arvind Subramanian - who until then was CEO of Mahindra Happinest, the affordable housing brand of the company. This change again led to a new management team at the helm, as detailed above.
- **Immediate deliverables over the next 0-12months: Aligning MLDL's vision with growth:** Business development (BD) is the key in building a sustainable long-term growth pipeline. Much effort had gone in due diligence on land parcels and BD under Ms Sangeeta Prasad and now, Arvind is taking it towards closure as well as further building on this pipeline. MLDL has guided outlay of Rs 5bn per annum for land acquisition, with potential of 4x gross development value (Rs 20-25bn of sales value, 3-4mn sq ft in volumes). This shall add about Rs 10bn annually to the legacy pre-sales average of Rs 7-10bn, implying doubling of sales from FY23E, assuming 1-yr time from land acquisition to launches. From FY24E, the growth momentum should build on incrementally as new lands get acquired in subsequent years. We believe Rs 25-30bn from FY24E is a tall ask but achievable for a brand like MLDL (about 50% of FY20 GPL pre-sales).
- **Visibility on sustenance sales over next 0-12 months:** MLDL has unsold inventory/balance collection/forthcoming phases of launched projects encompassing an area of ~1.54mn sq ft. Management expects to generate about Rs 16bn of pre-tax cash flows over the next 4-5 years from these projects. The new launch pipeline of 2.78mn sqft (Rs 7bn of pre-tax cash flow potential) and 10.44mn sqft of land bank will augment this cash flow.
- **Go to launch target for captive land bank (15-20months):** We expect at least Ghodbunder land bank of 60acres (10mn sqft, Rs 70bn sales potential, Rs 35bn pre-tax CF potential over 10-12 years) to see Phase 1 launch by 2HFY23. Pune periphery land of 400acres to see Phase 1 launch under Origins platform by FY24E. Some of the group land bank may see multi-phased development under DM/Profit share model from FY24E. These launches are over and above the new BD initiative and sustenance sales plans of the group.

## Captive land banks, Market opportunities = Growth

### Captive land banks

**1. Ghodbunder Road – 60acres, ~10-14mn sq ft depending on FSI, 15-20yrs development cycle, Rs 35bn pre-tax potential as per our assessment**

We envisage 12-15months for approvals, early FY24E launch (vs FY23E guidance by MLDL) targeted at Rs 7,000-8,000/sq ft realisation. Affordable product with smaller configuration. About 5km from Hiranandani Estate project at Ghodbunder and 18km from Borivali. Can be a good option to people looking at affordable alternatives closer to Thane. Upcoming Metro line 4 Kasarvadavali (~4km from site) to Wadala will connect the project to Central and Western Lines.

**2. Pune periphery- 400acres – 1.5-2yrs away from go to market**

More of industrial type of development like Origins. 15km from Pune periphery, 25km from populated areas.

**3. Murud- 1,000acres – >2yrs away from go to market – ecotourism development**

Infrastructure constraints cripple development potential, though connectivity improving to Mumbai via Alibagh jetty RORO (Roll-on-Roll-off) service and better road connectivity. Long-term value accretive. We do not see this as a near-term development.

### M&M land bank

**1) Kandivali factory – 40acres:** MLDL and M&M may go for joint development of the project on DM or Profit share, clarity awaited on development timelines. No agreement reached yet on any tie up as of now.

### Market land banks

MLDL is evaluating buying or partnering with landowners for new land inventory additions. About Rs 5bn will be spent annually on this. Earlier, the company used to evaluate 100+ proposals with 1 -2 getting finalised; now it has narrowed down to evaluation of 30-35 land parcels with 4-5 moving into the finalisation phase. The land acquisition committee comprises Business Development head, CSO, CMO, CFO and MD. Post that, the Board has to give a green signal to the transaction.

## Pre-sales target of Rs 25-30bn/annum – not a tall ask

Company	Presales (mn Sqft)				Presales (Rs mn)				Realization (Rs/sqft)				New launches (mn sqft)			
	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Sobha	3.0	3.6	4.0	4.1	18,661	24,217	31,225	28,810	6,220	6,671	7,748	7,079	3.7	1.6	7.4	1.0
Prestige Estates	3.1	3.8	5.7	5.0	19,800	25,501	36,202	38,774	6,450	6,676	6,318	7,739	2.0	7.1	6.6	7.4
Brigade Enterprises	1.6	1.6	3.0	4.3	9,555	8,963	16,440	23,768	5,876	5,723	5,545	5,572	-	2.0	5.6	4.9
Sunteck Realty	0.3	0.3	1.4	1.9	6,468	5,876	12,023	12,208	21,560	19,587	8,491	6,578				0.9
Oberoi Realty	0.57	0.6	0.82	0.7	15,208	12,947	17,516	12,443	23,642	23,642	21,420	18,853	0.0	-	1.4	1.0
Godrej Properties	3.1	6.3	8.8	8.8	20,200	50,830	53,160	58,430	6,474	8,120	6,068	6,640	18.0	17.8	14.9	9.8
DLF					11,600	10,000	24,350	24,850					-	-	-	-
Kolte Patil	2.1	2.1	2.7	2.5	12,202	11,980	14,316	13,700	5,836	5,765	5,372	5,280				
Ashiana Housing	0.7	0.7	1.1	2.0	2,251	2,174	3,326	6,716	3,234	3,137	3,083	3,389				1.0
<b>Mahindra Lifespace</b>	<b>0.9</b>	<b>1.2</b>	<b>1.7</b>	<b>1.4</b>	<b>5,360</b>	<b>6,110</b>	<b>10,230</b>	<b>8,180</b>	<b>5,956</b>	<b>5,267</b>	<b>6,053</b>	<b>5,801</b>	<b>0.6</b>	<b>1.2</b>	<b>1.6</b>	<b>0.9</b>

Source: Company, HSIE Research

- MLDL has been averaging pre-sales/new launches at 1.3mn sq ft/1.1mn sq ft, way below peers with new land additions /launches the target is achievable.

- For a reputed brand and strong parentage, achieving pre-sales of 3-4mn sq ft is not a constraint. Decisive land acquisitions will be key driver for re-rating.

### Promoter shareholding not a constraint for fund raise

#### M&M holds 51.46% in MLDL and may not go for equity fundraise for land buys

- At SPV levels, MLDL has partnerships with IFC, Sumitomo, Actis, and HDFC Capital. Hence, at parent level, dilution may not be required. If need be, going by historical trend of right issue in Apr-2017 at Rs 292, MLDL raised Rs 3bn at 1:4, in future this may be an option as well.
- Net debt of 0.1x leaves enough headroom to raise debt up to 1x Net D/E or Rs 15bn of debt if required at lower than peers. We expect funding cost to be about 7-7.5% for NCD or NBFC funding with no end use restriction.
- Funding is not a constraint for the group as all lines are open from banks, NBFCs, PE etc.

### Industrial land lease to add to value creation – deep value

- MLDL real estate exposure to Industrial customers is through the Mahindra World Cities in Chennai and Jaipur and Origins in Chennai and Ahmedabad. Whilst both are similar in business concept, MWC is more of mixed-use development with industrial parks, residential and social infrastructure. Origins is more of industrial clusters with very little component of residential or social infrastructure. We see the Mahindra World Cities and Origins in detail in the below tables.
- MWC Chennai:** has residual inventory of 25acres to be sold which may happen over next 1-2yrs. The balance 200acres land in North Chennai has slightly more long-term development potential.

#### Stake and unsold inventory

MWC Chennai: Stake	89%
Total Area Procured (acres)	1,145
Area Leased (as of Dec 20)	1,120
Balance Area (acres)	25
Additional Undeveloped land (Acres)	200

Source: Company, HSIE Research

#### Leasing trend and realisation

	FY16	FY17	FY18	FY19	FY20
Area Leased (acres)	-	7.5	17.6	24.1	1.2
Avg. Price/Acre (Rs mn)	37	33	32	31	39
Sale Value (Rs mn)	-	248	563	747	47

Source: Company, HSIE Research

#### Equity Valuation – Rs 193mn

DCF	
MLDL Share	89%
MLDL DCF	380
Balance land yet not planned for any development at Rs 12.5mn/acres	2,500
Total DCF Value (Rs mn)	
Less MLDL Debt Share (Rs mn)	2,412
MLDL share (Rs mn)	2,605
MLDL Devco Equity - Rs mn	193

Source: HSIE Research

- MWC Jaipur:** It has residual inventory of 1,157 acres, which we expect to be monetised over the next 10-15 years. Robust infrastructure connectivity on golden quadrilateral and proximity to DFCC augurs well for Industrials Logistics connectivity. PLI incentives scheme, government tax subsidies to new manufacturing plants and ready infrastructure augur well for accelerated monetisation as India starts attracting local and global manufacturing expansion.

#### Stake and unsold inventory

<b>MWC Jaipur: Stake</b>	<b>74.0%</b>
<b>Total Area Procured (acres)</b>	<b>2,011</b>
Area Leased (as of Dec 20)	854
<b>Balance Area (acres)</b>	<b>1,157</b>

Source: Company, HSIE Research

#### Leasing trend and realization

	FY16	FY17	FY18	FY19	FY20
Area Leased (acres)	28.7	66.8	44.0	46.2	23.3
Avg. Price/Acre (Rs mn)	17	20	19	20	25
<b>Sale Value (Rs mn)</b>	<b>488</b>	<b>1,336</b>	<b>836</b>	<b>924</b>	<b>583</b>

Source: Company, HSIE Research

#### Equity Valuation – Rs 11,973mn

<b>MLDL Share</b>	<b>74%</b>
<b>MLDL DCF</b>	<b>12,062</b>
Less: MLDL net debt share	89
<b>MLDL Devco Equity - Rs mn</b>	<b>11,973</b>

Source: HSIE Research

ORIGINS is a robust industrial ecosystem, created to empower businesses to achieve transformative and accelerated growth, by offering industrial clusters of international standards.

- Origins Chennai:** MLDL has a residual inventory of 171 acres, which we expect would get monetised over the next 8yrs. MLDL holds 60% stake in Origins North Chennai whilst Sumitomo holds the balance 40%. We value the land at Rs 566mn at current prices using DCF methodology. Origins Chennai is a robust industrial ecosystem, created to empower businesses to achieve transformative and accelerated growth, by offering thriving industrial clusters of international standards. It offers clear land title, business support services viz. banks, food courts, commercial complexes, etc., high-quality and robust infrastructure and access to skilled manpower.

#### Stake and unsold inventory

<b>Industrial Parks - Origins - North Chennai – Stake</b>	<b>60%</b>
<b>Total Area Procured (acres)</b>	<b>209</b>
Area Leased (as of Dec 20)	38
<b>Balance Area (acres)</b>	<b>171</b>

Source: Company, HSIE Research

#### Leasing trend and realization

	FY19	FY20
Area Leased (acres)	15.0	23.0
Avg. Price/Acre (Rs mn)	25	27
<b>Sale Value (Rs mn)</b>	<b>375</b>	<b>621</b>

Source: Company, HSIE Research

#### Equity Valuation – Rs 566mn

<b>DCF</b>	
<b>MLDL Share</b>	<b>60%</b>
<b>MLDL DCF</b>	<b>1,328</b>
Less: MLDL net debt share	762
<b>MLDL Devco Equity - Rs mn</b>	<b>566</b>

Source: Company, HSIE Research

- Origins Ahmedabad:** Comprising 221 acres, Ahmedabad Origins is currently under infrastructure development. We expect monetisation to start from FY22E and get completed by FY30E. MLDL holds 50% stake in Origins Ahmedabad and the balance 50% is held by IFC. We adopt the DCF methodology and value Origins Ahmedabad at Rs 981mn.

#### Stake and unsold inventory

Industrial Parks - Origins - Ahmedabad – Stake	50%
<b>Total Area Procured (acres)</b>	<b>221</b>
Area Leased (as of Dec 20)	-
<b>Balance Area (acres)</b>	<b>221</b>

Source: Company, HSIE Research

#### Equity Valuation – Rs 981mn

MLDL Share	50%
<b>MLDL DCF</b>	<b>981</b>
Less: MLDL net debt share	-
<b>MLDL Devco Equity - Rs mn</b>	<b>981</b>

Source: Company, HSIE Research



## Pre-sales/market cap ratio – predicting market capitalisation

- Pre-sales trend is one of the key factors that drives value for real estate company and is the key in order book building over the years. Many players have struggled to ramp up pre-sales as it means diversification and brand building both across micro and macro markets. Within our coverage universe, Godrej Properties has been able to achieve this and Sobha is progressing towards it.
- We have bucketed the pureplay residential listed players and analysed their pre-sales value and market capitalization for the past 10 years.
- As a corollary, we have run sensitivities across cycle (time period over the past 10 years with multiple crisis like Demonetisation, GST, RERA, DHFL and COVID-19) to arrive at a fair valuation scenario. We then test this hypothesis with our fair valuation for MLDL using DCF.
- We expect MLDL pre-sales to ramp up to Rs 21.5bn by FY23E vs Rs 25bn MLDL guidance. Pre-sales volume may ramp up to 3mn sqft by FY23E, implying realisation of Rs 7,173/sq ft.

Presales (Rs mn)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Mahindra Life	5,900	7,000	5,810	4,460	3,710	7,070	8,300	5,370	5,680	10,220	8,190	6,789	12,565	21,518
Godrej Properties	6,615	10,694	15,631	27,622	24,291	26,790	50,370	20,200	50,830	53,160	59,150	67,222	90,603	121,439
Sobha	6,066	11,335	17,015	22,147	23,426	20,950	20,119	18,108	28,612	31,225	28,806	24,629	28,800	33,120
Sunteck Realty					3,988	5,106	5,505	6,468	5,876	12,023	12,208	10,100	13,429	14,100
Kolte Patil			11,000	12,480	11,501	16,780	12,655	12,202	11,980	14,316	13,700	10,397	14,746	17,084
Ashiana Housing	1,463	2,774	3,904	5,034	6,476	5,477	2,842	2,251	2,174	3,326	6,716	3,500	5,100	5,500
<b>Sum</b>	<b>20,044</b>	<b>31,803</b>	<b>53,360</b>	<b>71,743</b>	<b>73,391</b>	<b>82,173</b>	<b>99,791</b>	<b>64,599</b>	<b>105,152</b>	<b>124,270</b>	<b>128,770</b>	<b>122,637</b>	<b>165,242</b>	<b>212,761</b>

Source: Company, HSIE Research

Presales (mn sqft)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Mahindra Life	1.2	1.4	1.2	1.1	0.9	1.4	1.2	0.9	1.1	1.7	1.4	1.1	2.0	3.0
Godrej Properties	1.9	3.2	2.4	4.1	3.0	3.9	4.3	3.1	6.3	8.8	8.8	9.2	10.9	13.8
Sobha	2.1	2.8	3.3	3.8	3.6	3.3	3.4	3.0	3.6	4.0	4.1	3.5	4.0	4.4
Sunteck Realty					0.2	0.2	0.2	0.3	0.3	1.4	1.9	1.3	1.6	1.6
Kolte Patil			2.9	2.6	2.1	2.9	2.1	2.1	2.1	2.7	2.5	2.0	2.7	3.0
Ashiana Housing	0.7	1.4	1.8	1.9	2.2	1.8	0.9	0.7	0.7	1.1	2.0	1.0	1.5	1.6

Source: Company, HSIE Research

Realization (Rs/sqft)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Mahindra Life	4,917	5,000	4,842	3,912	4,314	5,123	7,155	5,901	5,164	6,047	5,768	6,213	6,415	7,173
Godrej Properties	3,500	3,342	6,459	6,773	8,190	6,869	11,714	6,516	8,068	6,041	6,722	7,316	8,340	8,779
Sobha	2,916	4,082	5,181	5,897	6,534	6,389	5,946	6,032	7,892	7,749	7,075	7,037	7,273	7,468
Sunteck Realty					21,895	24,011	24,419	21,560	19,587	8,491	6,578	7,500	8,500	9,000
Kolte Patil			3,793	4,800	5,400	5,888	6,173	5,838	5,705	5,302	5,480	5,199	5,462	5,695
Ashiana Housing	2,070	2,055	2,189	2,699	2,926	3,023	3,293	3,234	3,137	3,083	3,389	3,400	3,450	3,500

Source: Company, HSIE Research

Mkt cap/presales (x)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Average FY10-20
Mahindra Life	3.3	2.2	2.2	3.5	4.0	2.7	2.1	3.0	4.0	1.8	1.2	2.7
Godrej Properties		4.4	3.1	1.5	1.8	1.9	1.3	4.1	3.1	3.5	2.6	2.7
Sobha	4.5	2.5	1.9	1.5	1.6	1.9	1.3	1.8	1.7	1.6	0.4	1.9
Sunteck Realty					4.1	2.9	2.5	3.5	10.2	5.4	2.4	4.4
Kolte Patil			0.3	0.5	0.7	1.0	0.6	1.1	1.9	1.3	0.7	0.9
Ashiana Housing	1.2	0.9	0.8	0.9	0.7	4.6	4.7	10.3	7.2	3.6	0.8	3.2
Average (x)	3.0	2.5	1.7	1.6	2.1	2.5	2.1	4.0	4.7	2.9	1.3	2.6
Average - Total Mkt Cap/Total Presales (x)	3.7	2.9	1.9	1.4	1.7	2.0	1.4	3.0	3.1	2.8	1.7	2.3

Source: Company, HSIE Research

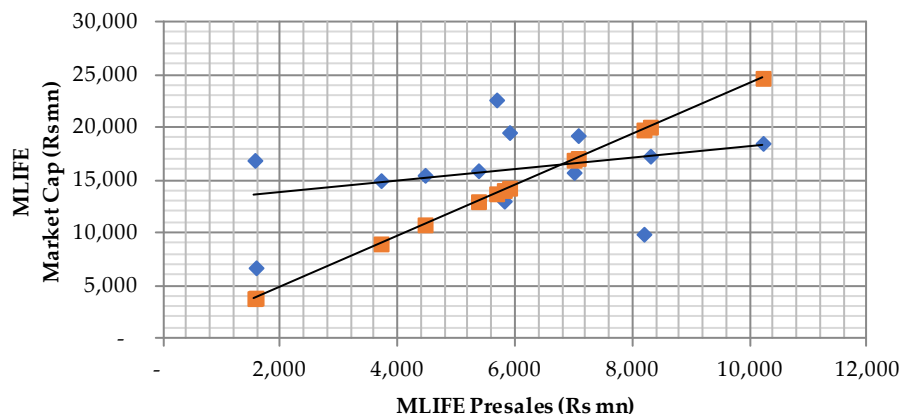
## Based on market cap/pre-sales matrix – 2yr valuation at Rs 1,034/sh vs. Rs 1,059/sh using FY23E end DCF

- We have run a regression analysis on MLDL pre-sales as X input and market capitalisation as Y output. We arrive at a regression factor of 2.41x. For predicting the market cap of MLDL, we use peer group average pre-sales of 2.3x, MLDL's own 10yrs average market cap/pre-sales ratio of 2.7x and regression factor of 2.4x (refer table above). Based on these, in the exhibit below, we predict market cap of MLDL for FY23E end (Mar-23E).
- The long-term average market cap/pre-sales ratio-based valuation is closer to our 2year FY23E (Mar-23E) DCF-based valuation. Market cap/pre-sales ratio can be one of the factors that may be used for arriving at a fair valuation for pure play residential players. For mixed use developers, the annuity income may be one of the large valuation influencers and, hence, may not be an apt valuation instrument.

Valuation Methodology - Mkt cap/Presales (x)	2.3x	2.4x	2.7x
Market Cap (Rs mn)	49,491	51,643	58,099
Price (Rs/sh)	964	1,006	1,132
FY23E Presales (Rs mn)	21,518		
<b>Average Price (Rs/sh)</b>	<b>1,034</b>		

Source: HSIE Research

### Fitting the line



Source: Company, HSIE Research

## Assesing the new business development option value

- In line with MLDL guidance of annual land bank additions of up to Rs 5bn with presales potential of Rs 20-25bn, we have built in two scenarios of development on this land bank. The launch timelines are expected to be within 12months of land additions and payment will be staggered, subject to landlords meeting condition precedents.
- **Scenario 1** – is MMR centric land in near city suburbs while **Scenario 2** – is Pune/Bengaluru land additions. Overall, we see about Rs 2.4bn value addition annually from the new BD opportunities.

### Scenario 1 – Mumbai Suburb

FSI with Fungible (mn sqft)	1.8
Cost (Rs mn)	4,000
Presales Potential	22,000
Realization (Rs mn)	12,000
Cost land (Rs/sqft)	2182

Pre-sales	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E
Volume (mn sqft)			0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Rs/sqft			12,000	12,600	13,230	13,892	14,586	15,315	16,081	16,885	17,729	18,616
Escalation (%)				5	5	5	5	5	5	5	5	5
Presales (Rs mn)			2,200	2,310	2,426	2,547	2,674	2,808	2,948	3,096	3,250	3,413
Construction Cost (Rs/sqft)			4,000	4,080	4,162	4,245	4,330	4,416	4,505	4,595	4,687	4,780
Escalation (%)				2	2	2	2	2	2	2	2	2
Construction Cost (Rs mn)			733	748	763	778	794	810	826	842	859	876
SGA & Others			220	231	243	255	267	281	295	310	325	341
EBIDTA (Rs mn)			1,247	1,331	1,420	1,514	1,613	1,717	1,828	1,944	2,066	2,195
EBIDTA (%)			57%	58%	59%	59%	60%	61%	62%	63%	64%	64%
Tax rate (%)			25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%
CF (Rs mn)	-1200	-1600	(267)	996	1,063	1,133	1,207	1,285	1,368	1,454	1,546	1,643

Discount Factor (%) 11%

**EV (Rs mn) 2,463**

Source: Company, HSIE Research

### Scenario 2 – Pune/Bengaluru Land

FSI with Fungible (mn sqft)	3.1
Cost (Rs mn)	3,200
Presales Potential	22,000
Realization (Rs mn)	7,000
Cost land (Rs/sqft)	1018

Pre-sales	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E
Volume (mn sqft)			0.5	0.5	0.5	0.5	0.5	0.5
Rs/sqft			7,000	7,350	7,718	8,103	8,509	8,934
Escalation (%)				5	5	5	5	5
Presales (Rs mn)			3,667	3,850	4,043	4,245	4,457	4,680
Construction Cost (Rs/sqft)			3,200	3,264	3,329	3,396	3,464	3,533
Escalation (%)				2	2	2	2	2
Construction Cost (Rs mn)			1,676	1,710	1,744	1,779	1,814	1,851
SGA & Others			367	385	404	424	446	468
EBIDTA (Rs mn)			1,624	1,755	1,894	2,041	2,197	2,361
EBIDTA (%)			44%	46%	47%	48%	49%	50%
Tax rate (%)			25.17%	25.17%	25.17%	25.17%	25.17%	25.17%
CF (Rs mn)	-960	-1280	255	1,313	1,418	1,528	1,644	1,767

Discount Factor (%) 11%

**EV (Rs mn) 2,364**

Source: Company, HSIE Research

## Thane-Ghodbunder project could be a big value driver

- MLDL has a large unencumbered 60acres land parcel abutting the Thane-Ghodbunder road. According to our estimates, this land will have about 10-14mn sqft of developable area.
- MLDL has started working on the development master plan of this project and it may take about 12-15months to obtain all regulatory approvals. As per the management guidance, the project may be launched during FY23E, whilst we have considered it from FY24E in our estimates.
- Launch prices in the vicinity are about Rs 8-10,000/sq ft and we have built in about Rs 7,000/sq ft as the launch price. We have modeled for 20years of development and arrive at a DCF of Rs 13.4bn or Rs 192/sh.
- We have captured only the land value of Rs 3.6bn in our NAV target for now and await launch to incorporate the incremental development value in SOTP (this is captured in our 2-year- FY23E end NAV estimate; please refer Valuation exhibit).

Area (acres)	60
FSI with Fungible (mn sqft)	11.2

Pre-sales (Rs mn)	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY33E	FY34E	FY37E	FY39E	FY40E	FY41E	FY42E	FY43E
Volume (mn sqft)		0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Rs/sqft		7,000	7,350	7,718	8,103	8,509	10,859	11,185	11,870	12,349	12,596	12,848	13,105	13,367	
Escalation (%)			5	5	5	5	5	3	2	2	2	2	2	2	2
Presales (Rs mn)		3,920	4,116	4,322	4,538	4,765	6,082	6,264	6,648	6,916	7,055	7,196	7,340	7,486	
Construction Cost (Rs/sqft)		3,500	3,570	3,641	3,714	3,789	4,183	4,266	4,528	4,711	4,805	4,901	4,999	5,099	
Escalation (%)			2	2	2	2	2	2	2	2	2	2	2	2	2
Construction Cost (Rs mn)		1,960	1,999	2,039	2,080	2,122	2,343	2,389	2,536	2,638	2,691	2,745	2,800	2,856	
SGA & Others		392	412	432	454	477	608	626	665	692	705	720	734	749	
EBIDTA (Rs mn)		1,568	1,705	1,851	2,004	2,167	3,131	3,248	3,447	3,586	3,658	3,731	3,806	3,882	
EBIDTA (%)		40%	41%	43%	44%	45%	51%	52%	52%	52%	52%	52%	52%	52%	
Tax rate (%)		25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%
CF (Rs mn)		1,173	1,276	1,385	1,500	1,622	2,343	2,431	2,580	2,684	2,737	2,792	2,848	2,905	
Years		1	2	3	4	5	6	11	12	15	17	18	19	20	21
Discount Factor (%)		11%	0.9	0.8	0.7	0.7	0.6	0.5	0.3	0.3	0.2	0.2	0.2	0.1	0.1

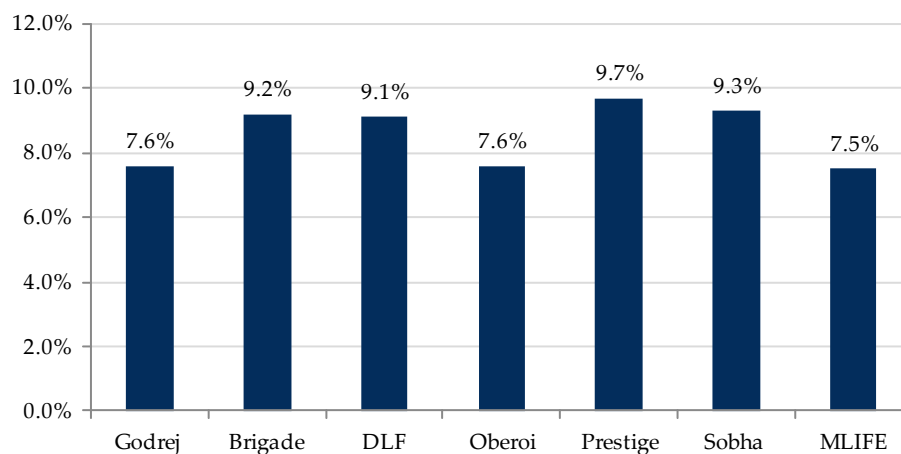
EV (Rs mn)	13,412
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Source: Company, HSIE Research

## Borrowing cost lowest amongst the peers – a huge competitive advantage

- At MLDL level, net debt is Rs 663mn and net D/E – 0.04x. There is hardly any leverage on the group balance sheet and hence there is enough headroom to take debt to fund land acquisitions.
- The cost of funding is of paramount importance in case of a leveraged land buyout. Firstly, banks do not lend for land acquisitions and the NCD route is costly due to fixed tenure. The last option is to avail funding from NBFCs (may be at a slightly higher rate than NCD borrowing) as interest is charged on drawn limits.
- As of 3QFY21 end, MLDL had consolidated borrowing cost of 7.5% and standalone cost of 4.9%, the lowest in the industry and the lowest vs peers. This is almost ~20% lower than peers, which gives it a huge competitive advantage.
- Peak debt, even if Rs 5bn land is acquired annually, could be about Rs 5-6bn, as a large part of land acquisition will be milestone-linked, approvals-based, and internal accruals-funded. We do not envisage any large increase in leverage or net D/E for MLDL.

### Interest cost



Source: Company, HSIE Research

## Valuation – initiate with BUY with NAV of Rs 773/sh

- MLDL is undergoing changes on multiple fronts: (1) the recent revamp of the management team, (2) invigoration of new land acquisitions, which shall lend visibility to growth, (3) go to market traction on current captive land bank, and (4) new larger launches across MMR, Pune, Chennai and Bengaluru.
- It is very difficult to value all these efforts in a 1-year NAV as these will take shape over the next 3-4 years on the ground. We have reasonable belief that MLDL management may deliver the above targets as some of the peers have already gone through this grind and outperformed. The question is about surpassing the market expectation set by management.
- Over the past decade, real estate has seen a sea change and current tailwinds are favoring organised players. MLDL, according to us, is a value play in all the residential segment, viz., luxury, mid-income and affordable, and stands to be a beneficiary of the cyclical uptick.
- Given the difficulty in catching these changes, we have captured them at multiple points with SOTP of up to 3-years, as highlighted in the below exhibit. In the key risks section, we have also gone into detail of what may go wrong in achieving these milestones.
- Given the risk rewards framework, our assessment of the MLDL business model, and likely changes over next 2-3 years, **we initiate BUY on MLDL with 1year-FY22E end NAV based valuation of Rs 773/sh.**

Scenario	Segment	Equity Value (Rs mn)	Value/share – Rs	% of Equity Value	Comments
	Devco residential	9,240	180	12.5	Existing launched projects and subsequent phase of same. Value of incremental new launches
	Industrial Parks & SEZs	13,714	267	18.5	MWC and Origins
	Rental Income	3,301	64	4.5	Delhi - NOI - Rs 120mn rent and Tirupur Water Supply NOI - Rs 65mn. We have discounted the NOI at 8.5% cap rate
	<b>NAV</b>	<b>26,255</b>	<b>511</b>	<b>35.5</b>	
	<b>Add Historical Land Bank</b>				
<b>SOTP - 1Year - FY22E end</b>	Land Bank - 20% discount to market value	13,482	262	18.2	The land banks Ghodbunder -60acres, Near Pune - 400acres, Murud - 1,000acres, Chennai 10mn sqft valued at 20% discount to market value. We have not added any development value of same
	<b>Base Gross NAV</b>	<b>39,737</b>	<b>773</b>	<b>53.7</b>	
<b>SOTP - 2Year - FY23E end</b>	Add: New land BD NPV and Ghodbunder development value	14,688	286	19.8	We have included FY22/FY23E new land additions as guided by MLDL. Annual Rs 4-5bn outgo with sales potential of Rs 22-25bn. We have also added the incremental development value of Ghodbunder captive land which shall get launched during FY24E (HSIE est)
	<b>Base Gross NAV</b>	<b>54,425</b>	<b>1,059</b>	<b>73.5</b>	
<b>SOTP - 3Year - FY24E end</b>	Add M&M Kandivali land under DM Model and 1yr of NPV for new BD as per guidance of Rs 5bn new land additions	4,785	93	6.5	Added 40acres of M&M Kandivali land DM with 10% Rev share and 8% EBIDTA. Arrive at NPV post tax and 15yrs of development. Also added 1yr of NPV for the new land acquired as per guidance of Rs 5bn per year land addition
	<b>Add: NAV Premium of 25% vs 50% for GPL</b>	14,802	288	20.0	We have added about 5yrs of NPV of new land BD beyond FY25E to factor in new land bank addition. We are not ascribing any terminal value
	<b>Base Gross NAV (Rs /sh)</b>	<b>74,012</b>	<b>1,440</b>	<b>100.0</b>	

Source: Company, HSIE Research

## Key valuation assumptions and methodology

- We have arrived at the sales price/sq ft and the anticipated sales volumes for each project, based on our discussions with industry experts.
- We have deducted the cost of construction, based on our assumed cost estimates, which have been arrived at after discussions with industry experts.
- We have further deducted marketing and other costs. We have then deducted income tax, based on the tax applicable for the project.
- The resultant cash inflows at the project level have been discounted based on WACC of 11%. All the project-level NAVs have been summed up to arrive at the NAV of the company.
- For annuity income-generating assets, we have valued cash flows at a cap rate of 8.5%.
- We have ascribed 20% discount to market value of the land inventory.

### Key valuation assumptions

Selling Price increase p.a	5.0%
Construction Cost increase p.a	5.0%
Cap rate	8.5%
WACC – Calculated	11.0%
Tax rate	25.0%

Source: HSIE Research

## NAV Sensitivity analysis

### Sensitivity of NAV to changes in sales' inflation

- In our base case, we have assumed an annual sales price inflation of 5%. For every 100bps increase in the annual sale price inflation, the NAV will increase by approximately 1%.

Sales inflation rates (%)	3	4	5	6	7
NAV (Rs/sh)	759	766	773	781	788
% change in NAV	-1.9%	-0.9%	0.0%	1.0%	2.0%

Source: Company, HSIE Research

### Sensitivity of NAV to changes in cost inflation

- In our base case, we have assumed a cost inflation of 5%. For every 100bps increase in construction cost inflation, the NAV will decrease by approximately 0.5%.

Cost inflation rates (%)	3	4	5	6	7
NAV (Rs/sh)	780	777	773	770	766
% change in NAV	0.9%	0.4%	0.0%	-0.5%	-0.9%

Source: Company, HSIE Research

- The combined impact of a 100bps increase in sales price inflation and cost inflation will be an increase in NAV of 0.5%.

### Sensitivity of NAV to changes in the discount rate

- In our base case, we have assumed a discount rate of 11%. For every 100bps increase in the discount rate, NAV will fall by 2%.

WACC rates (%)	9	10	11	12	13
NAV (Rs/sh)	805	789	773	759	745
% change in NAV	4.1%	2.0%	0.0%	-1.9%	-3.6%

Source: Company, HSIE Research

## Key risks

- **Development potential of land bank:** In our two-year - SOTP base case FY23E end valuation estimates, we have considered development potential of Thane Ghodbunder land bank vs. only ascribing the land value at 20% discount in one-year SOTP base case FY22E. The total incremental development value added to FY23E NAV is Rs 192/sh. Any change in plans for development of this captive land bank may impact our two-year FY23E end SOTP valuation. Development value has been added basis MLDL management guidance of launching the project during FY23E. On a conservative basis, we have assumed that this project will get launched during FY24E.
- **New land addition/business development:** MLDL has embarked on the path of growing the real estate portfolio. This is expected to be achieved by (1) bringing owned captive lands to the market and (2) acquiring new land. As per MLDL management guidance, about Rs 4-5bn will be incurred annually to build land bank with Rs 20-25bn presale potential. As per the company guidance, about three land parcels are in advance stages of closure with two in Western Mumbai suburbs and one in Central Mumbai suburbs. Besides this, MLDL is in advanced stages of negotiating 10-12 land deals in MMR, Pune, and Bengaluru. We have run our assumption on the new land bank addition, and we value them close to Rs 2.4bn in SOTP valuation. For 2year SOTP base case, we have assumed two such parcels getting closed and we have added the NPV of the same. The valuation is subject to MLDL closing out these land parcels. New lands contribute about Rs 94/sh to our two-year FY23E end SOTP valuation. Any delays or unavailability of new lands may adversely impact our FY23E end SOTP valuation.
- **M&M groups land development model may not materialise:** MLDL may be the beneficiary of parent M&M land bank development as a partner. We have valued this opportunity from FY24E, assuming that by then some concrete steps may be taken by the group to monetise city-centric prime land parcel. We have also added closure of new land BD, in line with MLDL guidance of Rs 4-5bn of annual land additions from the market. We have valued two opportunities at Rs 47/sh and Rs 46/sh respectively. The combined value is Rs 103/sh. Failure of closure of any such arrangement may impact our three-year FY23E end NAV.
- **NAV premium of 25%:** We believe that since the real estate companies are not ascribed any terminal value, there is a case of attributing NAV premium for companies with limited land inventory and large market land acquisitions. MLDL has a limited track record of acquiring new land parcels though recent guidance on annual Rs 4-5bn land acquisitions mandates a NAV premium to factor in growth from this opportunity. We have captured new land acquisitions until FY24E end in our valuation scenario. Beyond that, we ascribe 25% NAV premium (implying 5-year continuity in annual land acquisitions), in line with our Oberoi Realty premium and lower than 50% NAV premium we have ascribed to Godrej Properties. We believe that any failure to acquire land may impact our valuation negatively.
- **Delays in monetisation of Industrial parks:** MLDL has balance sheet exposure to World Cities project in Chennai, Jaipur and Origins in Chennai, Ahmedabad and Pune. There are expectations of manufacturing pick-up in India, owing to government incentives and benefit like PLI and tax concessions, which could benefit the company. The company has also guided for accelerated pick-up as the inquiry pipeline for lease seems robust. Closures are subject to resumption of International travel. Any delays in sustained pick-up may impact the monetisation potential of these land parcels.



- General risks:** Economic slowdown, increase in mortgage rate, increase in borrowing cost for MLDL and general risk aversion may lead to delayed real estate project buying, which may result in higher WACC and lower valuation.

## Subsidiary, JV and Associates details

Subsidiary/JVs	Location	Entity Name	Stake (%)	Partner (%)	Partner name	Economic Interest (%)	Partner (%)	Name
Mahindra World City	Chennai	MWCDL	89%	11%	TIDCO	89%	11%	Tamil Nadu Industrial Development Corporation Limited
Mahindra World City	Jaipur	MWCJL	74%	26%	RIICO			Rajasthan State Industrial Development & Investment Corporation Ltd
Mahindra Integrated Township Ltd	Chennai	MITL	97.1%	2.9%				Currently developing Iris Court Nova and Lakewoods. Applied for new phases has about 135acres of land to be developed
Mahindra Residential Developers Ltd	Chennai	MRDL	100%					Aquality projects is being executed under this on 54acres land in MWCDL
Mahindra Bloomdale Developers Ltd	Nagpur	MBDL	100%					MBDL is developing a gated residential community 'Bloomdale' across approximately 25.2 acres at Multi-modal International Hub Airport at Nagpur (MIHAN)
Mahindra Homes Private Ltd	Gurgaon	MHPL	71.61%	28.39%	Actis Mahi Holding	50%	50%	Luminaire in NCR and Windchimes in Bengaluru. Economic interest is 50:50
Mahindra Happinest Developers Ltd	Across locations	MHDL	51%	49%	HDFC Capital	25%	75%	About 1.24mn sqft was launched in Happinest. MHDL has, till date, launched two projects having development potential of up to 1.24 million square feet, under the brand 'Happinest'. The first of its housing project – 'Happinest Palghar' was launched in the year 2017-18 and the second project 'Happinest Kalyan', was launched in FY 2019-20.
Mahindra Industrial Park Chennai Ltd	Chennai	MIPCL	60%	40%	JV of MWCDL and Sumitomo			MIPCL is setting up an industrial cluster in North Chennai (the NH-16 corridor) on approximately 289 acres under the brand 'Origins by Mahindra World City'.
Mahindra Industrial Park Private Ltd	Ahmedabad	MIPPL	100%		JV with IFC	50%	50%	Company has acquired around 340 acres of contiguous land at Jansali near Ahmedabad for setting up an industrial cluster. The project will be marketed under the brand 'Origins by Mahindra World City'
Deep Mangal Developers Pvt Ltd	Murud, Maharashtra	DMDPL	100%					Holds about 1,000acres of land to be developed as Healthcare & Wellness destination
MLDL								Ghodbunder road property is in this about Rs 200mn cost of land and Rs 1000mn will be approvals cost for residential development
Others								
Knowledge Township Ltd	Off Pune on Solapur highways	KTL	100%					400acres in Phase 1 in possession. Origins kind of development

Source: Company, HSIE Research

## Peer Valuation

Real Estate	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP (Rs/sh)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
DLF	715.4	289	BUY	320	4.9	6.2	6.4	58.7	46.7	45.4	45.8	38.6	38.9	3.5	4.2	4.2
Oberoi	203.7	560	BUY	697	28.6	22.3	27.1	19.6	25.1	20.7	22.0	21.6	18.1	11.5	8.3	9.2
Sobha	44.1	465	BUY	600	16.6	34.9	44.1	28.0	13.3	10.5	11.9	8.9	7.7	6.3	12.3	13.9
Brigade	52.5	257	ADD	288	-0.6	9.0	13.6	-439.3	28.5	18.8	19.4	11.2	9.5	-0.5	8.1	11.4
KPDL	19.6	259	BUY	321	5.3	13.8	18.3	49.0	18.7	14.2	13.7	8.5	7.3	1.9	9.5	11.8
Prestige	116.6	291	ADD	324	5.3	11.1	13.0	55.0	26.1	22.4	9.9	8.7	7.8	7.5	10.4	10.6
Phoenix	140.9	821	BUY	982	-0.9	16.6	25.0	-897.3	49.6	32.8	35.6	18.5	14.6	-1.2	5.0	7.6
GPL	349.6	1387	REDUCE	1353	6.2	12.1	29.8	222.9	114.3	46.5	494.4	257.7	64.1	3.2	6.0	13.3
<b>Mahindra Lifespaces</b>	<b>21.3</b>	<b>414</b>	<b>BUY</b>	<b>773</b>	<b>-12.0</b>	<b>0.7</b>	<b>28.3</b>	<b>-34.5</b>	<b>608.6</b>	<b>14.6</b>	<b>-27.8</b>	<b>-26.5</b>	<b>281.7</b>	<b>-3.7</b>	<b>0.2</b>	<b>8.5</b>

Source: Company, HSIE Research

## Financials

### Consolidated Income Statement

Year ending March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	5,931	7,621	5,662	5,928	6,109	1,390	1,474	7,136
<i>Growth (%)</i>	(45.4)	28.5	(25.7)	4.7	3.1	(77.2)	6.0	384.2
Material Expenses	4,014	5,885	3,936	4,096	4,830	909	987	5,067
Employee Expenses	593	681	660	740	822	756	832	915
Other Operating Expenses	469	552	491	834	1,025	502	512	1,070
<b>EBIDTA</b>	<b>855</b>	<b>503</b>	<b>575</b>	<b>258</b>	<b>(568)</b>	<b>(777)</b>	<b>(857)</b>	<b>84</b>
<i>EBIDTA (%)</i>	<i>14.4</i>	<i>6.6</i>	<i>10.2</i>	<i>4.4</i>	<i>(9.3)</i>	<i>(55.9)</i>	<i>(58.2)</i>	<i>1.2</i>
<i>EBIDTA Growth (%)</i>	<i>(79.8)</i>	<i>(41.2)</i>	<i>14.3</i>	<i>(55.1)</i>	<i>(319.8)</i>	<i>36.7</i>	<i>10.3</i>	<i>(109.8)</i>
Other Income	940	688	779	610	350	199	445	686
Depreciation	42	46	43	38	77	71	66	70
EBIT	1,753	1,145	1,311	831	(295)	(649)	(478)	701
Interest	357	202	413	125	76	128	145	173
Exceptional items				-	1,346			
<b>PBT</b>	<b>1,396</b>	<b>943</b>	<b>898</b>	<b>706</b>	<b>(1,718)</b>	<b>(777)</b>	<b>(623)</b>	<b>528</b>
Tax	429	331	312	246	(17)	10	25	133
PAT	967	612	586	460	(1,701)	(787)	(648)	395
Minority Interest	(28)	(36)	(24)	10	11	(38)	15	30
Share of associates	(22)	445	447	726	(245)	209	668	1,030
EO items (net of tax)					1,346	-	-	-
<b>APAT</b>	<b>917</b>	<b>1,021</b>	<b>1,009</b>	<b>1,197</b>	<b>(588)</b>	<b>(616)</b>	<b>35</b>	<b>1,455</b>
<i>APAT Growth (%)</i>	<i>(65.6)</i>	<i>11.4</i>	<i>(1.2)</i>	<i>18.6</i>	<i>(149.1)</i>	<i>4.8</i>	<i>(105.7)</i>	<i>4,067.4</i>
<b>EPS</b>	<b>22.5</b>	<b>25.0</b>	<b>19.7</b>	<b>23.3</b>	<b>(11.5)</b>	<b>(12.0)</b>	<b>0.7</b>	<b>28.3</b>
<i>EPS Growth (%)</i>	<i>(65.6)</i>	<i>11.4</i>	<i>(21.4)</i>	<i>18.6</i>	<i>(149.1)</i>	<i>4.8</i>	<i>(105.7)</i>	<i>4,067.4</i>

Source: Company, HSIE Research

### Consolidated Balance Sheet

As at March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>SOURCES OF FUNDS</b>								
Share Capital	410	411	513	513	514	514	514	514
Reserves	15,885	16,585	20,075	18,782	16,499	15,883	15,918	17,373
<b>Total Shareholders Funds</b>	<b>16,295</b>	<b>16,996</b>	<b>20,588</b>	<b>19,295</b>	<b>17,013</b>	<b>16,396</b>	<b>16,431</b>	<b>17,886</b>
Minority Interest	385	435	445	435	419	419	419	419
Long Term Debt	4,493	2,748	576	326	629	129	879	1,379
Short Term Debt	3,712	4,135	4,010	1,951	1,686	1,686	1,686	1,686
<b>Total Debt</b>	<b>8,205</b>	<b>6,883</b>	<b>4,586</b>	<b>2,277</b>	<b>2,314</b>	<b>1,814</b>	<b>2,564</b>	<b>3,064</b>
Deferred Taxes	333	375	387	134	77	77	77	77
Long Term Provisions & Others	861	576	92	85	66	76	86	96
<b>TOTAL SOURCES OF FUNDS</b>	<b>26,079</b>	<b>25,265</b>	<b>26,098</b>	<b>22,226</b>	<b>19,890</b>	<b>18,783</b>	<b>19,578</b>	<b>21,543</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	343	335	289	290	320	298	302	333
CWIP	7	85	91	98	122	122	122	122
Goodwill	660	660	660	660	660	660	660	660
Investments	5,920	5,968	7,092	6,877	5,482	5,782	6,282	6,982
Other Non Current Assets	839	583	710	532	774	851	936	1,030
Inventories	13,060	11,712	9,124	13,451	12,043	10,838	13,006	15,607
Debtors	635	761	1,452	1,373	1,144	1,372	1,235	1,173
Cash & Equivalents	1,279	2,296	3,473	1,794	1,324	1,490	1,100	571
ST Loans & Advances, Others	7,356	6,780	7,085	4,860	3,548	3,193	3,353	3,688
<b>Total Current Assets</b>	<b>22,330</b>	<b>21,549</b>	<b>21,134</b>	<b>21,478</b>	<b>18,059</b>	<b>16,894</b>	<b>18,694</b>	<b>21,040</b>
Creditors	2,538	2,570	1,943	1,880	1,276	1,531	1,837	2,204
Other Current Liabilities & Provns	1,482	1,346	1,935	5,829	4,252	4,294	5,583	6,420
<b>Total Current Liabilities</b>	<b>4,020</b>	<b>3,916</b>	<b>3,878</b>	<b>7,710</b>	<b>5,527</b>	<b>5,825</b>	<b>7,419</b>	<b>8,624</b>
<b>Net Current Assets</b>	<b>18,310</b>	<b>17,634</b>	<b>17,256</b>	<b>13,768</b>	<b>12,531</b>	<b>11,069</b>	<b>11,275</b>	<b>12,416</b>
Misc Expenses & Others	-	-	-	-	-	-	-	-
<b>TOTAL APPLICATION OF FUNDS</b>	<b>26,079</b>	<b>25,265</b>	<b>26,098</b>	<b>22,226</b>	<b>19,890</b>	<b>18,783</b>	<b>19,578</b>	<b>21,543</b>

Source: Company, HSIE Research

## Consolidated Cash Flow

Year ending March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT + share of JV	1,398	944	898	706	(372)	(568)	45	1,558
Non-operating & EO items	(899)	(192)	(761)	(504)	(242)	(38)	15	30
Taxes paid	(494)	(171)	(174)	(270)	(132)	(10)	(25)	(133)
Interest expenses	357	202	413	125	76	128	145	173
Depreciation	42	46	43	38	77	71	66	70
Working Capital Change	(2,138)	311	1,525	1,581	(36)	1,561	(671)	(1,754)
<b>OPERATING CASH FLOW ( a )</b>	<b>(1,734)</b>	<b>1,140</b>	<b>1,944</b>	<b>1,675</b>	<b>(628)</b>	<b>1,143</b>	<b>(425)</b>	<b>(56)</b>
Capex	(37)	(119)	(749)	2,143	(31)	(50)	(70)	(100)
Free cash flow (FCF)	(1,771)	1,021	1,195	3,819	(659)	1,093	(495)	(156)
Investments	1,100	1,083	(1,048)	734	911	(300)	(500)	(700)
<b>INVESTING CASH FLOW ( b )</b>	<b>1,063</b>	<b>964</b>	<b>(1,797)</b>	<b>2,877</b>	<b>881</b>	<b>(350)</b>	<b>(570)</b>	<b>(800)</b>
Share capital Issuance	1	(7)	2,939	0	(14)	0	0	0
Debt Issuance	2,676	(1,326)	(1,930)	(2,802)	(12)	(500)	750	500
Interest expenses	(1,009)	(932)	(1,036)	(523)	(292)	(128)	(145)	(173)
Dividend	(280)	(284)	(373)	(380)	(356)	0	0	0
<b>FINANCING CASH FLOW ( c )</b>	<b>1,388</b>	<b>(2,549)</b>	<b>(400)</b>	<b>(3,704)</b>	<b>(674)</b>	<b>(628)</b>	<b>605</b>	<b>327</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>717</b>	<b>(445)</b>	<b>(253)</b>	<b>848</b>	<b>(421)</b>	<b>165</b>	<b>(390)</b>	<b>(529)</b>
Non-operating and EO items	-	-	-	-	-	-	-	-
Closing Cash & Equivalents (ex. FDR and current investments)	1,279	840	498	1,346	925	1,490	1,100	571

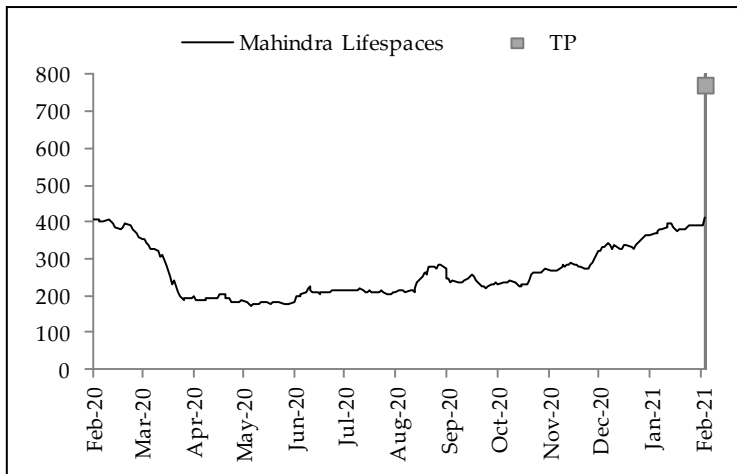
Source: Company, HSIE Research

## Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>PROFITABILITY (%)</b>								
GPM	32.3	22.8	30.5	30.9	20.9	34.6	33.0	29.0
EBITDA Margin	14.4	6.6	10.2	4.4	(9.3)	(55.9)	(58.2)	1.2
APAT Margin	15.5	13.4	17.8	20.2	(9.6)	(44.3)	2.4	20.4
RoE	5.9	6.1	5.4	6.0	(10.7)	(3.7)	0.2	8.5
Core RoCE	4.4	5.0	5.7	5.9	(2.8)	(2.5)	1.0	7.9
RoCE	4.4	4.7	5.1	5.4	(2.5)	(2.5)	1.0	7.8
<b>EFFICIENCY</b>								
Tax Rate (%)	30.7	35.1	34.7	34.8	1.0	(1.3)	(4.0)	25.2
Asset Turnover (x)	0.3	0.4	0.3	0.4	0.4	0.1	0.1	0.5
Inventory (days)	1,008	593	672	695	762	3,003	2,953	732
Debtors (days)	38	33	71	87	75	330	323	62
Payables (days)	160	122	145	118	94	368	417	103
Cash Conversion Cycle (days)	886	504	597	664	742	2,965	2,859	690
Debt/EBITDA (x)	9.6	13.7	8.0	8.8	(4.1)	(2.3)	(3.0)	36.3
Net D/E	0.4	0.3	0.1	0.0	0.1	0.0	0.1	0.1
Interest Coverage	4.9	5.7	3.2	6.7	(3.9)	(5.1)	(3.3)	4.1
<b>PER SHARE DATA</b>								
EPS (Rs/sh)	22.5	25.0	19.7	23.3	(11.5)	(12.0)	0.7	28.3
CEPS (Rs/sh)	18.7	20.8	20.5	24.1	(10.0)	(10.6)	2.0	29.7
DPS (Rs/sh)	5.5	5.5	7.3	7.4	6.9	0.0	0.0	0.0
BV (Rs/sh)	317.5	331.2	401.2	376.0	331.5	319.5	320.2	348.5
<b>VALUATION</b>								
P/E	18.4	16.5	21.1	17.7	(36.1)	(34.5)	608.6	14.6
P/BV	1.3	1.3	1.0	1.1	1.2	1.3	1.3	1.2
EV/EBITDA	33.0	51.4	38.9	84.1	(39.1)	(27.8)	(26.5)	281.4
OCF/EV (%)	(0.1)	0.0	0.1	0.1	(0.0)	0.1	(0.0)	(0.0)
FCF/EV (%)	(6.3)	4.0	5.3	17.6	(3.0)	5.1	(2.2)	(0.7)
Dividend Yield (%)	1.3	1.3	1.8	1.8	1.7	0.0	0.0	0.0

Source: Company, HSIE Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
4-Feb-21	414	BUY	773

### Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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