

BUY

Target Price: Rs 508

CMP : Rs 405
Potential Upside : 25%

MARKET DATA

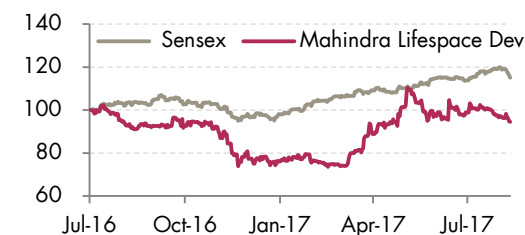
No. of Shares : 51 mn
Market Cap : Rs 22 bn
Free Float : 49%
Avg. daily vol (6mth) : 99,654 shares
52-w High / Low : Rs 493 / Rs 319
Bloomberg : MLIFE IB Equity
Promoter holding : 51%
FII / DII : 26% / 1%

Mahindra Lifespace Developers

REAL ESTATE

Manufacturing philosophy in real estate!

Price performance



Financial summary (consolidated)

Y/E	Revenue	Adj PAT	Con. EPS*		Change			RoCE	EV/E		
Mar	(Rs mn)	(Rs mn)	(Rs)	EPS (Rs)	YOY (%)	P/E (x)	RoE (%)	(%)	(x)	DPS (Rs)	
FY16	5,932	917	-	22.3	(65.6)	18.1	5.9	6.3	25.2	5.5	
FY17	7,621	1,022	-	24.9	11.5	16.2	6.1	4.5	42.3	6.0	
FY18E	6,968	1,314	28.4	22.6	(9.3)	17.9	6.9	6.0	28.1	5.6	
FY19E	8,946	1,615	31.2	27.8	23.0	14.6	7.5	7.3	19.0	6.9	

Source: Company, Axis Capital

Key drivers

	FY17	FY18E	FY19E
Pre-sales (Rs bn)	5.4	7.2	9.4
Collections (Rs bn)	6.6	7.6	8.6
Ongoing projects (msf)	3.6	5.0	6.0

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Mahindra Lifespace Developers

REAL ESTATE

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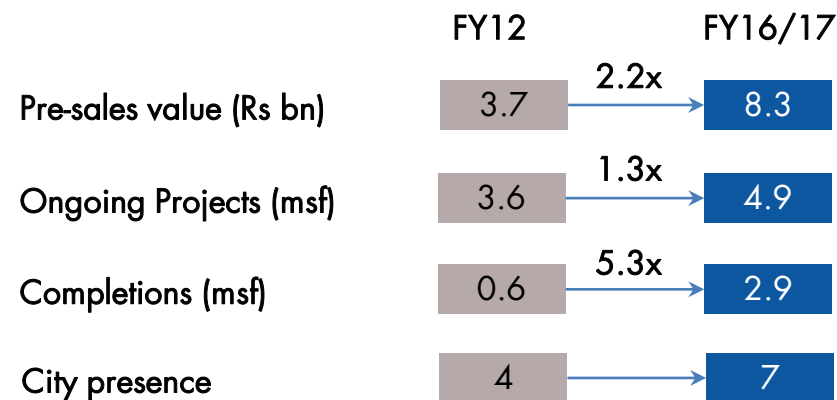
Investment summary...

◆ **Leveraging 'Mahindra' brand to scale up:** Mahindra Lifespace Developers (MLDL), being part of the Mahindra group, brings along the philosophy of operating real estate as a manufacturing business – executing smaller projects (quicker cash churn), treating land as inventory (and not gross block), and thus maintaining healthy balance sheet (low leverage of 0.5x).

◆ **Key strengths**

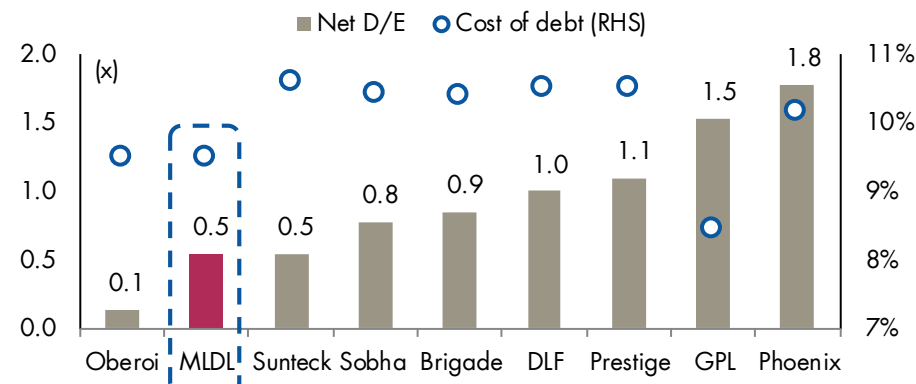
- ◆ **Head start in affordable housing with "Happinest":** MLDL has dedicated management team for "Happinest" brand and 'affordable ready' land bank in areas like Chennai & Pune (realizations of ~Rs 4,000 to 7,000 psf)
- ◆ **Focus on smaller projects, faster monetization:** Unlike peers, it has focused on smaller projects (0.75 to 1.5 msf) with the aim to quickly monetize (timeline of ~5 years from acquisition to delivery)
- ◆ **Prudent land bank strategy...:** Monetization timeline of ~15 years# vs. 20-30 years for peers
- ◆ **... helps maintain healthy balance sheet:** MLDL has one of the lowest leverage (net D/E of 0.5x) and cost of debt (9.5%) with higher cash flow visibility (Rs 19 bn over next 5 years)

Steady scale-up in operations



Source: Company, Axis Capital

One of the lowest leverage and borrowing cost



Source: Companies, Axis Capital

*GPL: Adjusted for cash flows expected from its BKC project. Includes Rs 15 bn debt from commercial portfolio; MLDL based on debt including their share in JVs and associates

...Investment summary

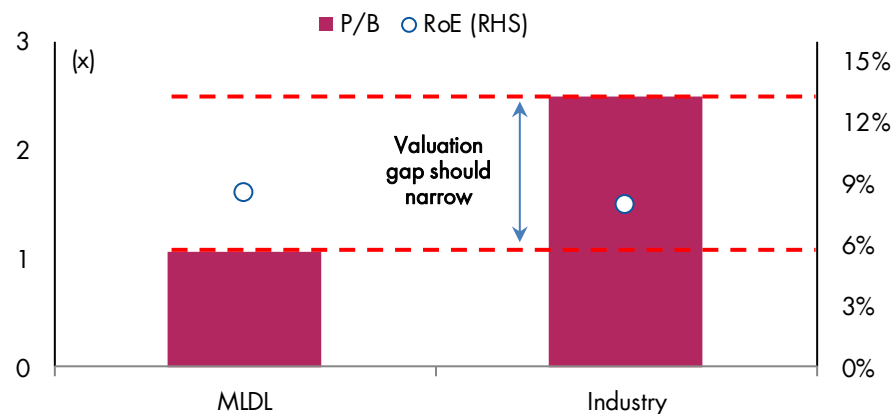
- ◆ Significant option value (net FCF of ~Rs 17 bn) from Mahindra World Cities (MWC): While MWC Chennai is almost leased out, MWC Jaipur has significant amount of inventory. Post conversion of area partly from SEZ to DTA in MWC Jaipur, traction has improved (leased out 67 acres in FY17 vs. 29 acres in FY16). It further plans to optimize the land usage norms (subject to regulatory approvals) that can further improve the leasing traction
- ◆ Huge valuation gap between MLDL and Industry unwarranted: MLDL's strong corporate governance, pan-India presence (premium brand reception) established platform in affordable housing, and healthy balance sheet vs. peers make it a well positioned play, given the changing landscape of the real estate space. However, overall industry valuations are over double (P/B of 2.5x) that of MLDL (~P/B of 1x), despite similar return profile. We expect MLDL's market price to capture its true potential going ahead

Option value: Potential cash flow from MWCs

(Rs mn)	Chennai	Jaipur	Total
Leaseable Area (Acres)	1,141	2,033	3,174
Area leased	1,076	730	1,806
Area To be leased	65	1,303	1,368
Monetization period (years)	5	15	15
Expected cash inflow	1,748	28,442	30,190
Less: Development, overheads & taxes	337	12,932	13,269
Net Free cash flow	1,411	15,510	16,921

Source: Company, Axis Capital

MLDL's return profile is in line with the industry; valuation gap should narrow



Source: Company, Axis Capital

Implied IRR of 24% at CMP offers huge downside cushion

Valuation: BUY with TP of Rs 508 (25% upside)

	Valuation Method	(Rs mn)	% of target EV
Completed stock	DCF	2,202	8%
Ongoing residential	DCF	4,075	15%
Forthcoming residential	DCF	7,504	28%
Mahindra World Cities	EV/EBITDA)	5,435	20%
Ahmedabad	Book Value	920	3%
Chennai Phase II	Book Value	864	3%
Land Bank	@50% discount to mkt value	6,231	23%
Total Enterprise value		27,230	
Less: Net debt (Mar'18E)		1,169	
Equity value		26,060	
Equity value per share (Rs)		508	
Upside		25%	

- Real estate companies due to their historical issues (governance, capital allocation, etc.) have been valued using higher cost of capital (our WACC is 16%)
- Based on sensitivity analysis we determine the implied IRR to arrive at CMP for MLDL's portfolio
- Our analysis implies IRR of 24% at CMP which we believe is a significantly high downside cushion considering Mahindra group's pedigree

Sensitivity analysis: CMP offers significant cushion to downside risk

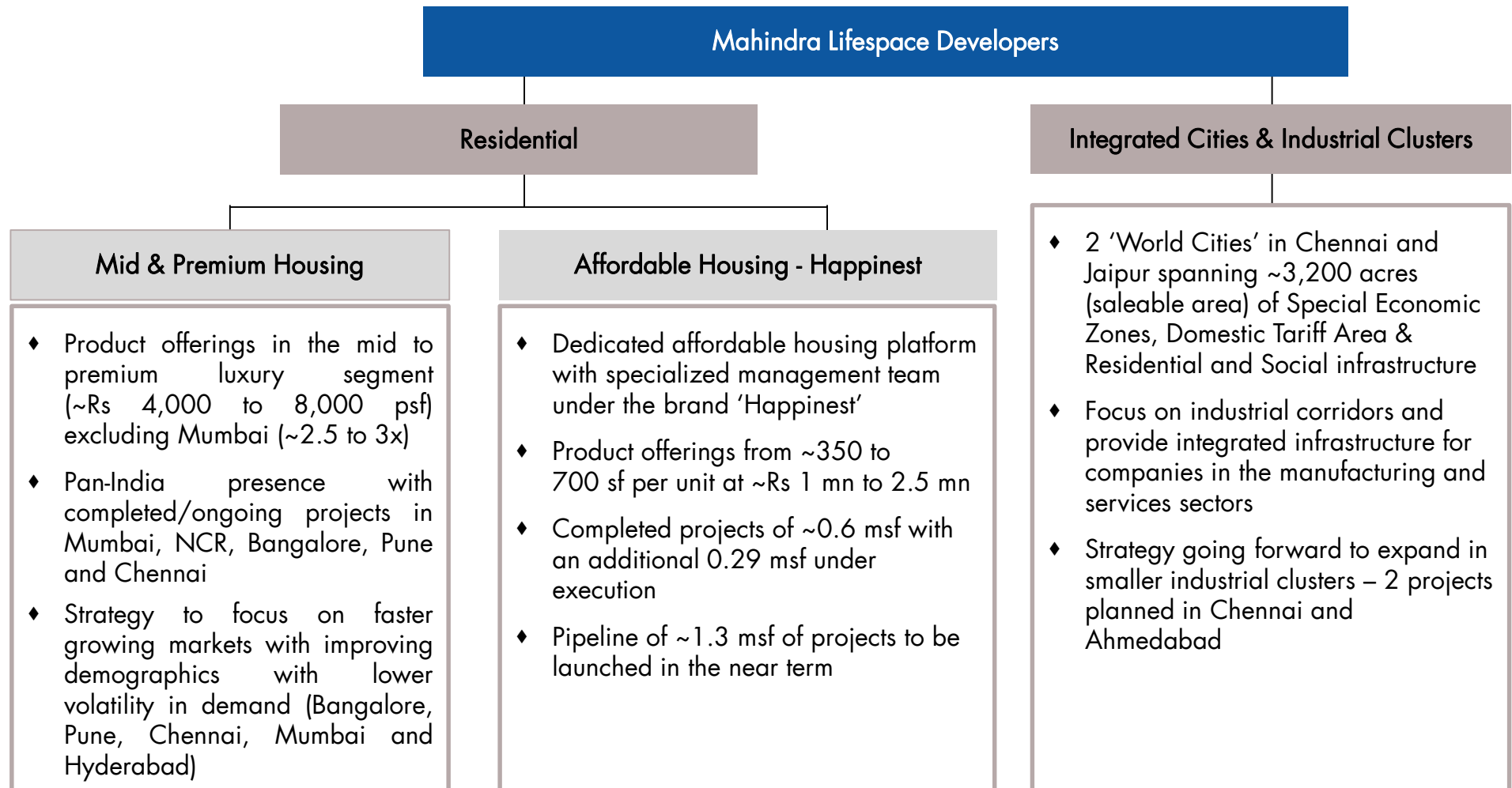
		WACC				
		13.0%	16.0%	19.0%	22.0%	24.0%
Delay in execution (no. of years)	(1.0)	572	525	486	452	432
	0.0	557	508	466	431	410
	1.0	543	492	449	412	390
	2.0	529	477	432	395	372
	3.0	517	463	418	379	357

		Change in selling price				
		-20%	-10%	0%	10%	20%
Delay in execution (no. of years)	(1.0)	422	474	525	577	628
	0.0	410	459	508	557	606
	1.0	398	445	492	538	585
	2.0	388	432	477	521	566
	3.0	378	420	463	505	548

While we use WACC of 16% for our SoTP-based valuation, the implied IRR at CMP is 24% which is a huge cushion to the downside risk

Even the worst case sensitivity implies a downside risk of 12% from CMP

Business model: 3 focus areas



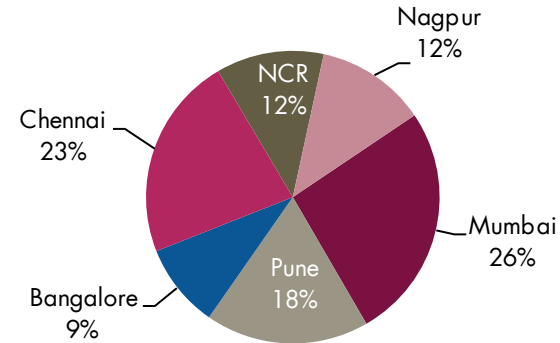
Mahindra Lifespaces offers products across the value chain from affordable to mid-premium segment

Residential business

Strong brand equity with pan-India presence

- Pan-India presence:** Mahindra Lifespace Developers Ltd (MLDL) has strong presence in faster growing residential markets such as Bangalore, Pune and Chennai (~50% of portfolio) as well as higher margin but challenging markets like NCR and Mumbai. Its product offerings cover a wide pricing spectrum with realizations of Rs 5,000 – 17,000 psf.
- Strong brand name via parentage & proven track record** have aided in difficult-to-operate markets such as NCR. Even in challenging times, the company was able to sell >40% of its launched inventory within 4-5 quarters
- Scaling up in high-growth markets of Bangalore, Pune:** Management plans to expand in fast growing markets where affordability is improving (higher incomes paired with affordable pricing). From its forthcoming projects, it intends to launch ~1.5 msf in Chennai, ~1 msf in Pune and ~0.5 msf in Bangalore over the next 12 to 18 months

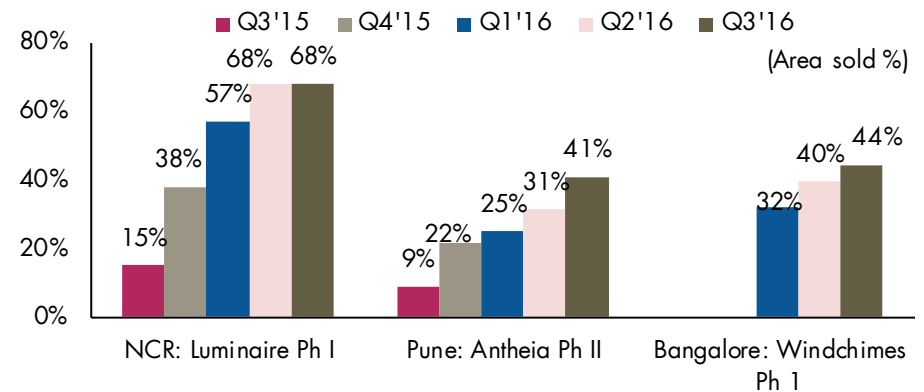
Balanced portfolio with pan-India presence



Source: Company, Axis Capital

*based on area of ongoing and forthcoming projects (excludes land bank)

Good response to launches in difficult markets aided by Mahindra's brand equity



Source: Company, Axis Capital

Focused on faster monetization of projects

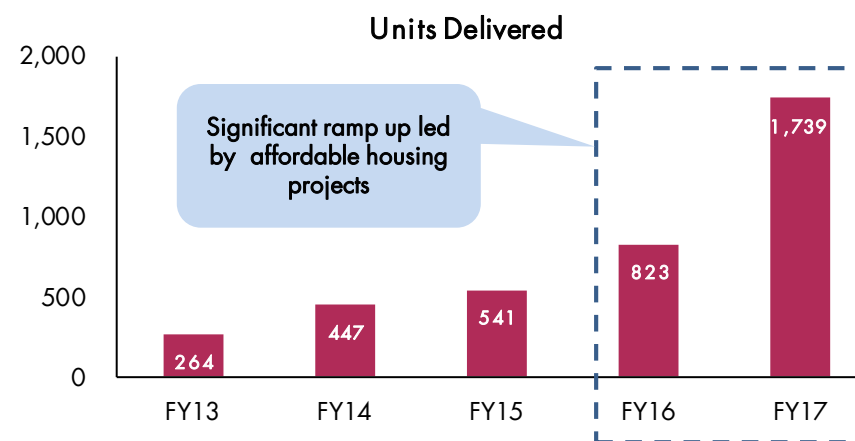
- ◆ **Focus on smaller projects, faster monetization:** Unlike peers, the company's strategy has been to focus on smaller projects (0.75 to 1.5 msf) with the aim to quickly monetize it with steady execution
- ◆ **Strong execution capabilities aid in meeting project timelines:** Its ability to sell faster is complemented by its strong execution capabilities (average deliveries of 1-1.5 msf). MLDL is capable of completing its **entire ongoing project portfolio within the next 2 to 3 years** (vs. 5+ years for its peers) with net cash visibility of Rs 5.5 bn.
- ◆ **Prudent land bank strategy:** MLDL has followed an efficient land bank strategy in its residential business with **monetization timeline of ~15 years for its current portfolio vs. 20-30 years for its peers**. As a result, its **balance sheet is lean (net D/E of 0.5x)** with cash locked into assets with higher cash flow visibility.

Prudent land bank strategy vs. peers

(msf)	Annual avg. completions	Total Portfolio	No. of years to deliver
Prestige	12.0	149.6	12
Mahindra Lifespaces	1.3	19.9	15
Oberoi	1.0	16.4	16
Brigade	4.9	88.3	18
DLF	14.5	268.3	19
Puravankara	4.4	97.7	22
Godrej	6.5	196.7	30
Sunteck	0.7	27.2	38
Sobha	4.7	233.5	49

Source: Companies, Axis Capital Note: Total Portfolio includes Ongoing + Forthcoming Projects + Land Bank

Continued improvement in deliveries

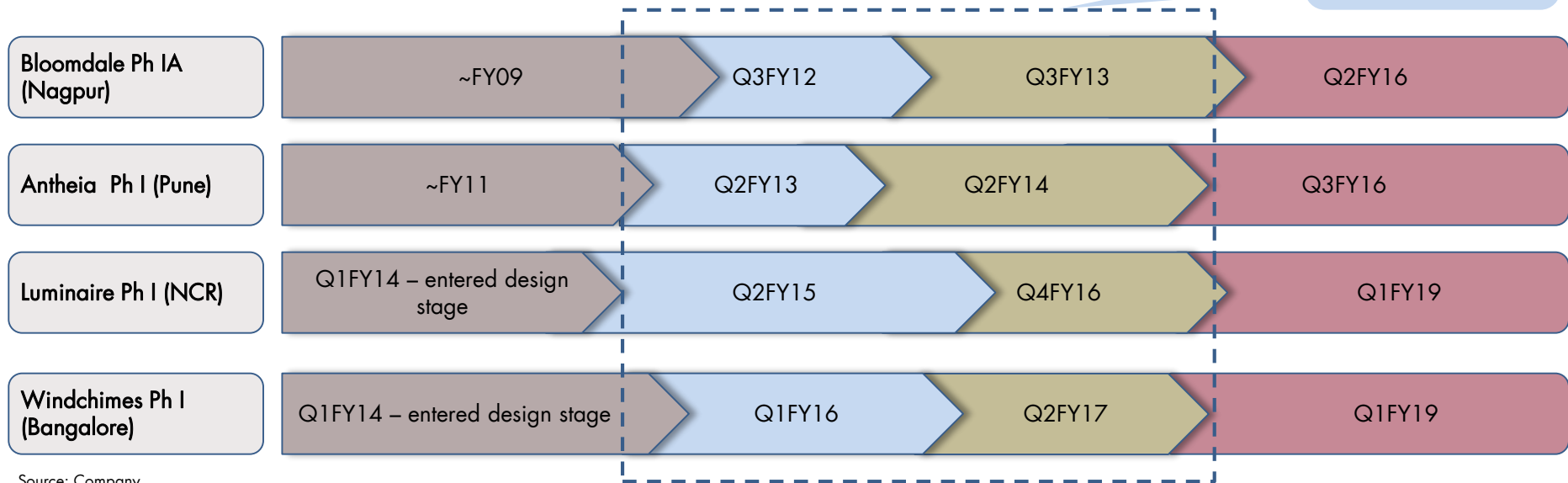


Source: Company

Strong cash conversion cycle due to fast monetization of projects

- ◆ Focus on smaller projects allows for quicker recouping of capital
 - ◆ Bloomdale Ph IA: ~30% of the project was sold within first quarter of launch
 - ◆ Antheia Ph I: ~62% sold within first quarter of launch
 - ◆ Luminaire Ph 1: ~40% of the project was sold out within the first 2 quarters of launch
 - ◆ Windchimes Ph I: ~Rs 1 bn of presales registered within first weeks of launch

4 to 5 quarters between launch and revenue recognition in completed projects

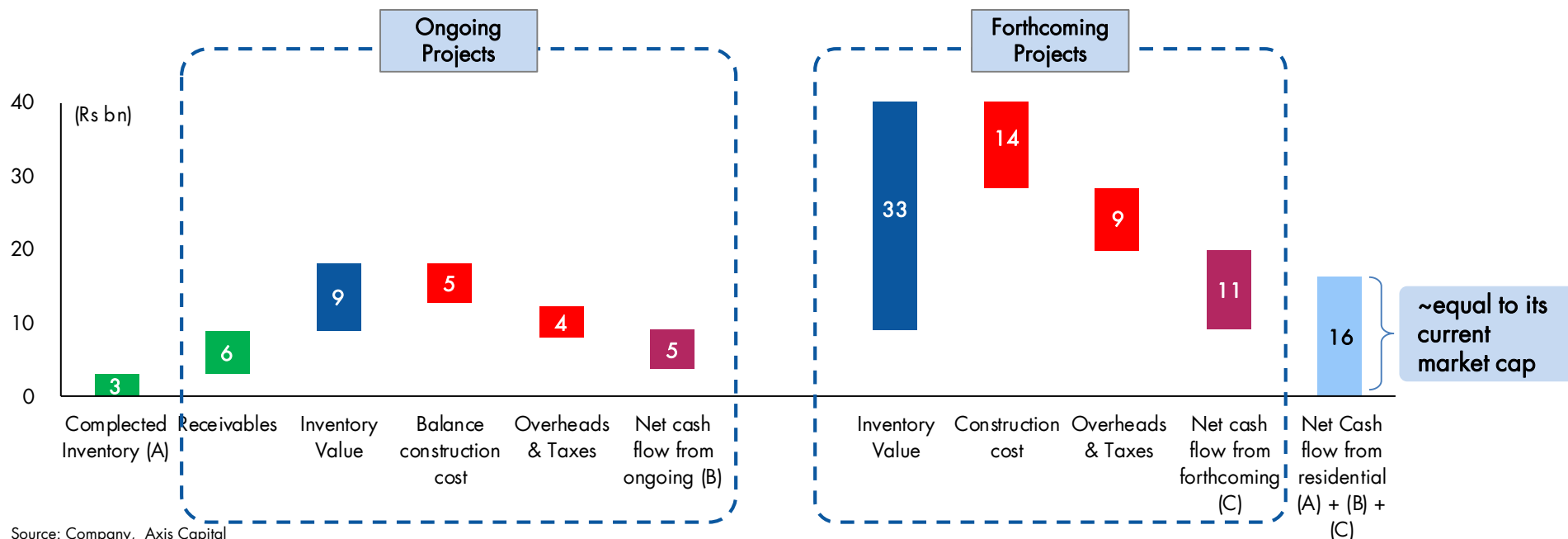


Source: Company



High visibility of cash flow from residential portfolio

Net cash flow from ongoing & forthcoming projects is nearly equal to current market capitalization!

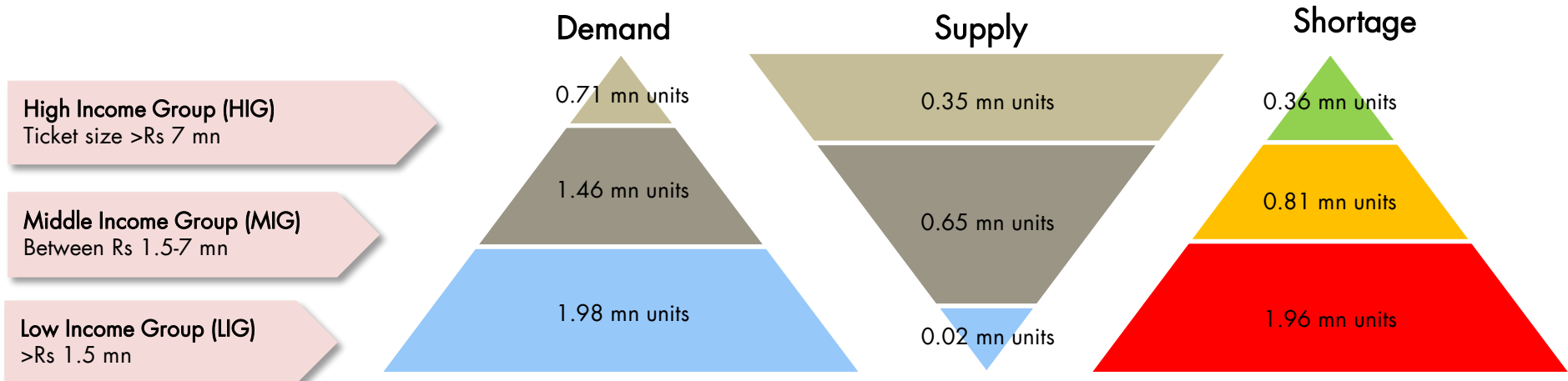


- ◆ MLDL has completed inventory which could yield net cash flow of Rs ~3 bn
- ◆ From its ongoing projects of 4.4 msf, MLDL has balance receivables of ~Rs 6 bn. With unsold inventory of Rs ~9 bn and balance construction costs of Rs ~5 bn, we expect net cash flow of ~ Rs 5.4 bn (post taxes and overheads) over the next ~4 years
- ◆ From its forthcoming projects of 4.8 msf, value of inventory of Rs ~33 bn with construction costs of ~Rs 14 bn, we expect net cash flow of ~ Rs 11 bn (post taxes and overheads) over the next ~5 years

'Happinest' – affordable homes

'Happiest': Ready to capitalize on demand-supply mismatch in affordable

Residential demand-supply outlook over 2016-20



Source: Cushman & Wakefield, Axis Capital

- ◆ As per Cushman and Wakefield, supply of housing for the low income group could outstrip demand by 99% by 2020
- ◆ Despite demand grossly outstripping supply, there is a considerable proportion of unsold inventory in the MIG and HIG categories, which may see weak traction as pricing remains high
- ◆ **Low cost housing has been the least lucrative segment:** High land and development costs coupled with inability to charge premium pricing (due to lesser premium projects) have been the primary reasons for developers not opting for smaller sized units closer to city centres, as profitability was the lowest in this segment
- ◆ However, with tax sops by the government for affordable housing, developers can now enjoy healthy profitability

Supply side incentives to improve profitability at Happinest

- ◆ MLDL's affordable housing platform 'Happinest' – first launched in Oct'14 in Avadi, Chennai – was established to cater to families with combined monthly income of Rs 20k - 40k, with apartments of ~400 - 650 sf. Pricing of these products is generally in below Rs 2.5 mn/unit
- ◆ Its second project on the outskirts of Mumbai (Boisar) was launched shortly after. While the margin profile of these projects was initially low (below 10% for Boisar Ph I in our view), the tax benefits available post FY18 budget make this segment more profitable (see illustration below)
- ◆ With dedicated management bandwidth for affordable, experience in the segment (current ongoing execution of ~1.5 msf) and strong brand (both from Mahindra parentage and Happinest in affordable) make MLDL well positioned to capitalize on the opportunity

Illustration: Improvement in profitability of affordable housing projects post the incentives

(Rs psf)	(without incentives)	Post incentives	Comments
Selling price	3,400	3,400	Current realizations at Happinest Boisar ~Rs. 3,400 psf
Land cost	700	700	Land cost at ~20% of selling price
Cost of construction	1,650	1,650	Includes cost of approvals
Other operating expenses	340	340	~10% of selling price
EBITDA	710	710	
Interest rate (%)	10%	9%	Infra status will lower the borrowing cost
Interest expense	134	120	Assuming expenditure is partly funded by collections and partly by debt
PBT	577	590	
Tax rate (%)	34%	20%	100% tax deduction under the new budget proposal (MAT applicable)
Taxes	196	118	
PAT	380	472	
PAT margin (%)	11%	14%	Margin to improve significantly
RoE	18%	22%	RoE to improve too (assuming land to be funded by equity)

Source: Axis Capital Note: Have used data pertaining to Boisar Ph I for illustration

While budget proposals have incentivized developers, the interest subsidy schemes by the govt. has also made homes more affordable to buyers

Interest subsidy to improve affordability for Happinest buyers

Happinest buyer profile is between LIG & MIG I

Particular	EWS	LIG	MIG-I	MIG-II
Household income (Rs. mn p.a)	0-0.3	0.3-0.6	0.6-1.2	1.2-1.8
Interest Subsidy (%)	6.5%	6.5%	4.0%	3.0%
Maximum loan tenure (in years)	20	20	20	20
Eligible housing loan amount (Rs mn)	0.6	0.6	0.9	1.2
Carpet Area (sq. m.)	30	60	90	110

Source: Ministry of Housing & Urban Poverty Alleviation, Government of India
EWS: Economically Weaker Segment; LIG: Lower Income Group MIG: Middle Income Groups

While average house prices have increased 2x in the last 10 years, a slightly higher rise in the income levels coupled with sharp reduction in mortgage rates and interest subsidy provided by the govt means that affordability for buyers has improved sharply during the same period

Illustration: Improvement in purchasing power for buyers (example of 'MIG-I' used in the illustration below)

(Rs)	2017	2012	2007
Income	800,000	496,737	308,435
House Price	5,500,000	4,400,000	2,750,000
Loan Amount (@70% LTV)	3,850,000	3,080,000	1,925,000
Mortgage Rate	8.50%	11.00%	11.25%
Tax Deductions			
Towards interest	200,000	150,000	150,000
Towards principal	150,000	100,000	100,000
Total tax benefits	80,187	38,150	24,238
Debt servicing (before CLSS)			
Interest	324,311	336,580	215,189
Principal	76,624	44,917	27,189
Total	400,935	381,497	242,378
Interest subvention of 4% on debt upto Rs 900,000 (CLSS)	36,000	0	0
Debt servicing (post CLSS)			
Interest	288,311	336,580	215,189
Principal	76,624	44,917	27,189
Total	364,935	381,497	242,378
Debt servicing as a % of total income	46%	77%	79%
Additional tax benefits	80,187	38,150	24,238
Debt servicing with tax benefits (% of total income)	284,748	343,347	218,140
Debt servicing with tax benefits (% of total income)	36%	69%	71%

Source: Axis Capital

Foundation for strong play on affordable housing in place

Affordable Housing: Key requirements

MLDL's Position

Access to Affordable Land Bank

~90% of land bank located in areas with selling rate of ~Rs 4,000 to 7,000 psf in Chennai & Pune

Management Experience of the product/Brand Recognition

'Happinesh' brand established in affordable housing. 2nd project in Boisar (MMR) of ~0.5 msf saw ~85% of launched area sold till date with av. cost of construction ~Rs. 1,400 psf

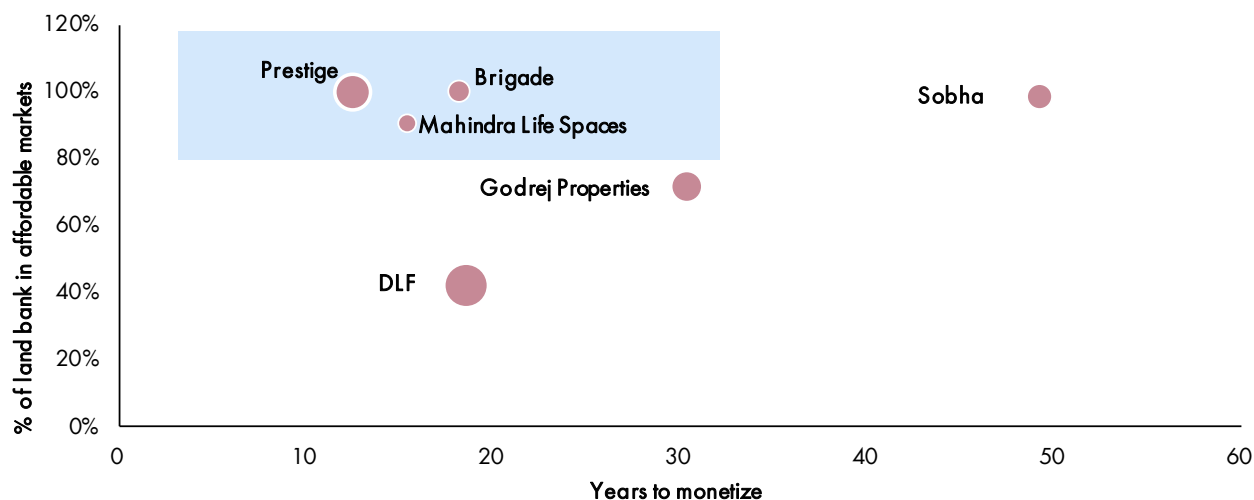
Strong Execution Capability

Annual average delivery run-rate of 1.3 msf over last 3 to 4 years. Handover of Boisar Ph I underway within 2.5 years of launch

Healthy Balance Sheet

Net debt to equity at 0.5x with ~9.5% cost of debt (among lowest in the industry)

MLDL's land bank is well placed to capitalize on the affordable housing opportunity in the medium term

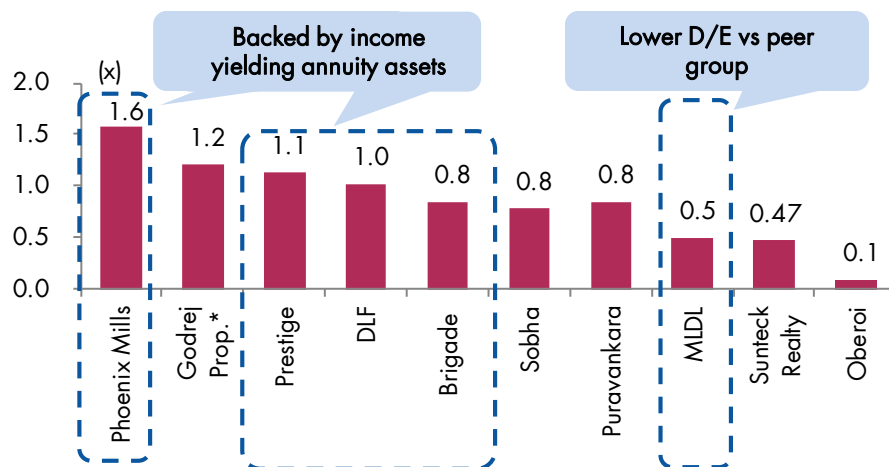


While MLDL's land bank is only ~10% of larger players like DLF, it has clearer monetization visibility in affordable segment over the next decade, given its strong brand and execution experience in the segment

Note: Size of the bubble indicates the annual delivery run-rate; highest being at ~11 msf for DLF

Strong balance sheet is key for executing 'affordable' projects

Moderately levered with lowest borrowing cost in the industry



Source: Companies, Axis Capital

*GPL: Adjusted for cash flows expected from its BKC project. Includes Rs 15 bn debt from commercial portfolio; MLDL based on debt including their share in JVs and associates

MLDL's delivery track record among the highest

	Annual average	Ongoing projects (msf)	No. of years to deliver
DLF *	14.5	19.3	1
Mahindra Lifespaces	1.3	4.9	4
Brigade	4.9	19.1	4
Prestige	12.0	49.4	4
Puravankara	4.4	24.9	6
Oberoi	1.0	6.0	6
Godrej	6.5	41.0	6
Sobha	4.7	30.2	6
Unitech	3.4	33.5	10
HDIL	3.8	43.6	11
Sunteck Realty	0.7	9.2	13

Source: Companies, Axis Capital

* Has not launched many large projects over last few years

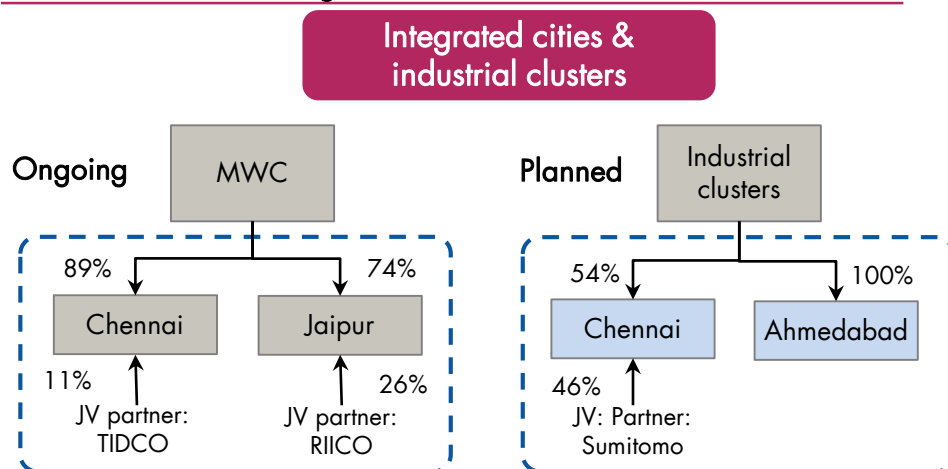
- ◆ A strong balance sheet helps in expansion during the boom period and at the same time helps to focus on execution in times of slowing sales. A good execution track record, despite slowdown in sales, indicates developers' strong commitment towards delivery and goes a long way in building customer goodwill, which gets reflected in their sales
- ◆ More often than not, developers with healthy balance sheets are able to stay committed towards execution despite slowdown in sales/ collections
- ◆ Due to the Mahindra Group parentage, MLDL's cost of borrowing stands at ~9.5% vs. ~11% for peers which gives it significant headroom for expansion even in a subdued real estate market

Integrated cities & Industrial clusters

Integrated cities & industrial clusters

- ◆ First established in 2002, its integrated cities portfolio under the 'Mahindra World City' (MWC) brand spans ~3,200 acres of saleable area across 2 clusters in Chennai and Jaipur. In each of these projects, it has partnered with the state development corporations (Tamil Nadu Industrial Development Corporation & Rajasthan State Industrial Development and Investment Corporation respectively)
- ◆ MWC provides integrated infrastructure for companies in the manufacturing and services sectors by providing: (1) Special Economic Zones (SEZ) (2) Domestic Tariff Areas (DTA) & (3) residential and social infrastructure. Key customers are from sectors including IT/ITeS, auto and auto-ancillary, engineering and handicrafts
- ◆ Going forward, management's aim is to expand into smaller industrial clusters (DTAs) targeting states with strong industrial focus → additionally plans to develop 2 industrial parks (~530 acres) in Chennai and Ahmedabad

MLDL's effective holding across assets



Source: Company TIDCO: Tamil Nadu Industrial Development Corporation
RIICO: Rajasthan State Industrial Development and Investment Corporation

Revenue items across World City assets

Revenue Item	MWC - Chennai	MWC - Jaipur	Description
Land Lease Premium	✓	✓	Based on long term lease with up front payment from clients within the World City
Operation & Maintenance	✓	✓	Rs 13 to 15k per month per acre
Water Charges	✓	✓	
eVolve (Rental Income)		✓	Dedicated IT park at MWCJ yielding rental income
Other annuity Income	✓		Income from social infrastructure including club memberships, subscription fees

Source: Company

MWC Chennai – matured asset

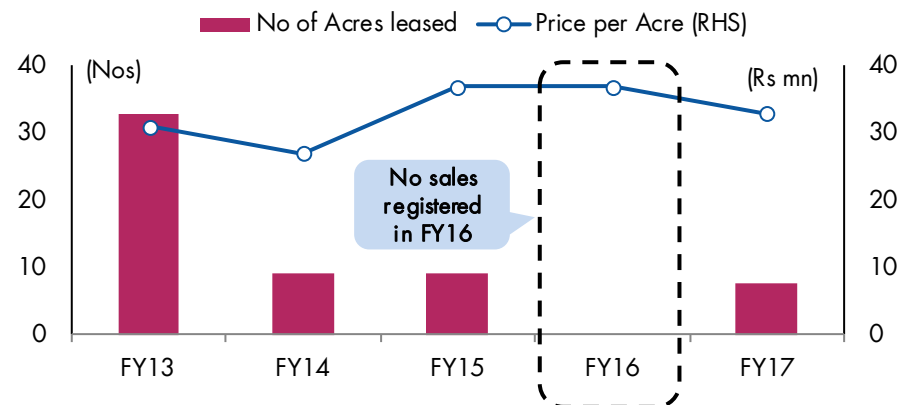
- ◆ Launched in 2002, MWC Chennai is spread over 1,500 acres (1141 acres saleable area) and includes 3 sector specific SEZs (IT, Auto Ancillary, Apparel and Fashion Accessories) and a multi-sector Domestic Tariff Area (DTA). It is located along the ‘golden quadrilateral’ along NH-45/NH-32.
- ◆ Area in the project is almost completely sold out, with balance inventory of only ~65 acres limited to DTA & social infrastructure segments.
- ◆ Marquee tenants at MWC Chennai include BMW, Braun, Capgemini, Infosys, BASF, Renault-Nissan, Fujitec, TVS Group and Wipro among many others spanning various sectors
- ◆ **Revenue drivers**
 - ◆ **Land Lease:** Sale of land to end-users remains the primary source of revenue at current realizations of ~Rs 30 to 35 mn per acre at MWC Chennai
 - ◆ **Operations & Maintenance and Water Charges:** ~Rs 12 to 13k per acre/month

Asset has achieved maturity with limited area yet to be sold



Source: Company

Incremental sales coming from DTA & Residential infrastructure

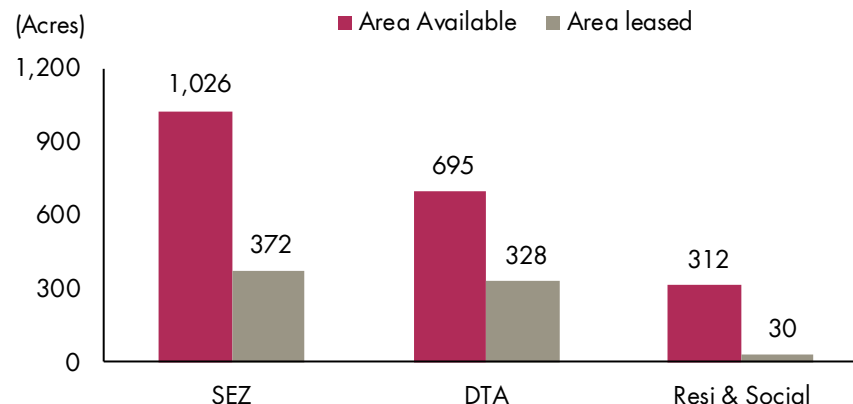


Source: Company

MWC Jaipur – growth to rebound

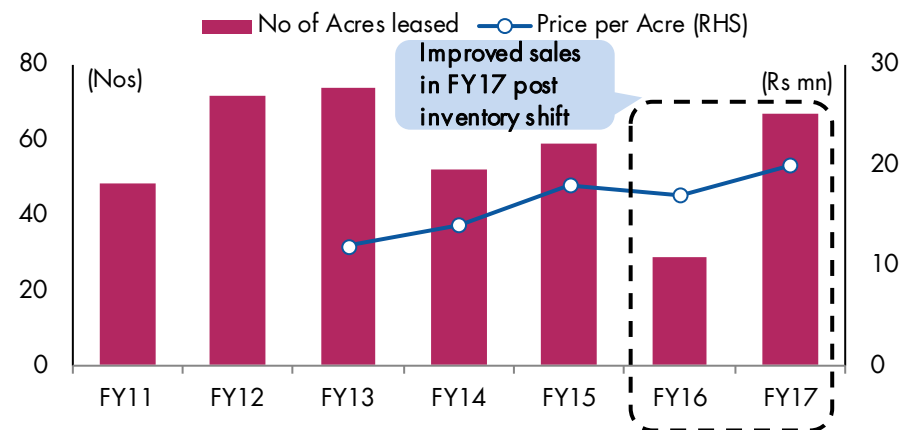
- Launched in 2007, MWC Jaipur is spread over 3000 acres (2,033 acres saleable area) and includes a mix of multi-product & dedicated SEZs for IT/ITeS, Engineering, Apparel, Handicrafts & Gems and Jewellery and DTA for other industries. It is located along NH-8.
- SEZs went out of favor post April 2012 due to levy of MAT on SEZs which negated the tax savings of the SEZ structure. Consequently, sales at Jaipur SEZ declined sharply between FY13-16. In 2016, management shifted area from SEZ to DTA, which has helped revive flagging sales (67 acres sold in FY17 vs. 29 in FY16).
- Further, management plans to convert area in its dedicated SEZ zones into a multi-product SEZ in FY18, which should further aid sales traction.
- Revenue drivers:**
 - Land Lease:** Sale of land to end-users remains the primary source of revenue at current realizations of ~Rs 15 to 25 mn per acre at MWC Jaipur
 - 'eVolve':** A fully-leased 25 acre, of which 0.43 is developed (dedicated IT park yielding annual rentals of ~Rs 200 mn) and future development potential of ~1 msf
 - Operations & Maintenance and Water Charges:** ~Rs 12 to 13k per acre/month

Significant inventory to be sold across segments



Source: Company

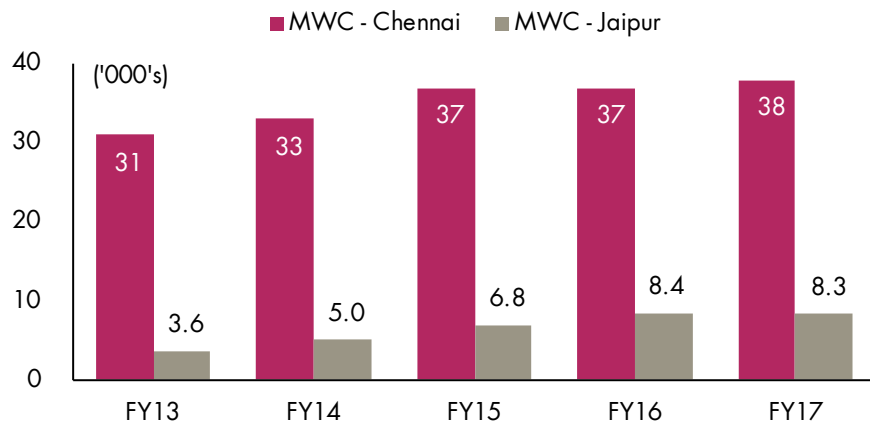
Resurgence in FY17 on account of area shifted to DTA



Source: Company

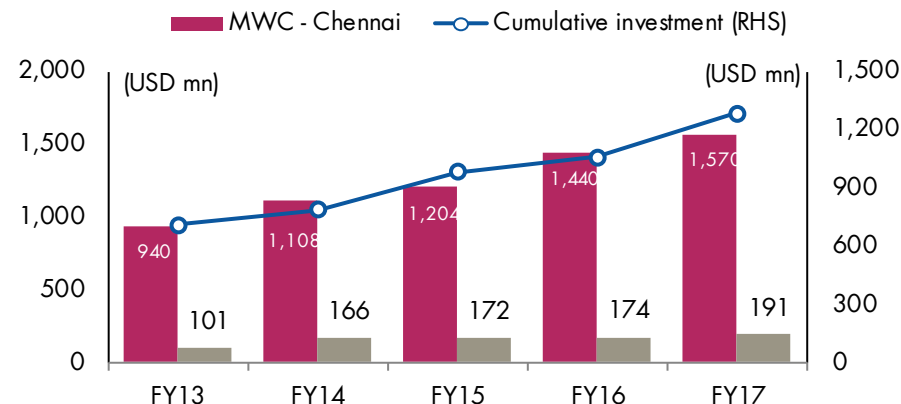
Commercial growth to drive residential and social infra demand

Direct employment has grown steadily across assets...



Source: Company

...with cumulative export activity above USD 1.5 bn



Source: Company

- Management's strategy for selecting locations for its World Cities platform has been focused on areas with (1) good connectivity to industrial corridors (Jaipur located off NH-8) and (2) access to well educated work force at lower cost vs. those available in larger cities like Mumbai, NCR etc.
- This has led to steady employment growth across its two world cities over the last 5 years – MWC Jaipur has seen employment CAGR ~24% over FY13-17. SEZ/DTA clients having capitalized on the benefits of accessibility to high quality talent pool at a lower cost
- As the income levels of these employees mature, it is likely to lead to improved demand for residential products, as they become potential buyers for MLDL's residential products. It also necessitates improvement in social infrastructure, which will drive the demand for MLDL's residential and social areas within its world cities going ahead

Good visibility of cash flows from existing MWCs

Expected cash flows from MWCs

(Rs mn)	Chennai	Jaipur
Salable Area (Acres)	1,141	2,033
Area Leased		
- SEZ	425	372
- DTA	387	328
- Resi/Social	264	30
Area To be Leased		
- SEZ	0	654
- DTA	35	367
- Resi/Social	30	282
Av. Selling price per acre		
- SEZ	-	15
- DTA	35	25
- Resi/Social	35	20
Av. Development cost per acre		
- SEZ	-	5.0
- DTA	2.5	5.0
- Resi/Social	2.5	5.0
Monetization period of unsold stock (years) 	5	15
Expected cash inflow	1,748	28,442
Less: Development costs, overheads, taxes	337	12,932
Net Free cash flow	1,411	15,510

Plan to move inventory from dedicated SEZs to DTA in FY18 will aid sales traction

Selling price in line with current realizations

No development costs required at MWCC (only overheads) given maturity of the asset (as most development cost already incurred)

We expect sales traction to improve further (67 acres p.a. in FY17), mainly driven by demand for DTA

Source: Company, Axis Capital

Company financials & Valuation

Significant scale up in operations and earnings

Operations to expand 15-20% over the next 3 years

	FY16/17		FY20E
Pre-sales value (Rs bn)	8.3	1.4x	11.5
Ongoing Projects (msf)	4.9	1.2x	~6
Completions (msf)	2.3	~1.5x	~4
Net profit (Rs bn)	1.0	CAGR of 20%	1.8

Driven by new launches of 5.3 msf over the next 2 years

An account of new launches

Led by completion of ongoing portfolio of ~4 msf and newer projects in the 'Happinesh' segment

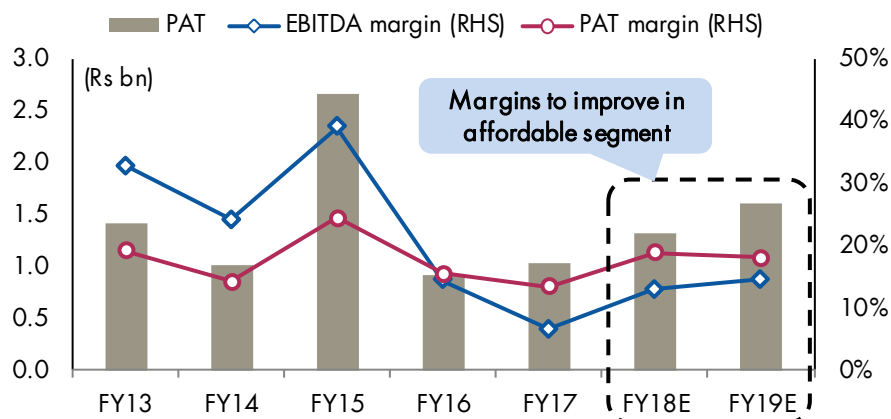
Driven by improvement in traction at world cities and steady revenue recognition from residential projects along with improvement in the margins of residential business (driven by newer projects)

Source: Company, Axis Capital

- ◆ **Leveraging 'Mahindra' brand to scale up:** We expect significant ramp up in scale across segments driven by
 - ◆ **Mid to premium segment:** ~4 msf of launches planned in the next 12 to 18 months in focus markets of Bangalore, Pune, Chennai, Mumbai and Hyderabad
 - ◆ **Affordable Housing:** 1.26 msf of affordable launches in the pipeline (vs current ongoing portfolio of 0.29 msf) – including additional phases of Boisar project as well as entries for 'Happinesh' into other micro-markets
- ◆ **Increased sales traction at world cities:** Resurgence in sales at MWC Jaipur (post inventory shift from SEZ to DTA segment) paired with strategy to expand into smaller industrial clusters (DTAs)

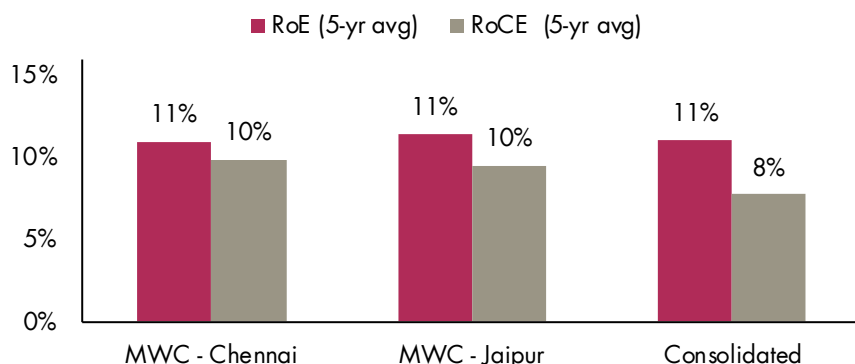
Analysis of financials... contd

Strong earnings growth outlook with healthy margins



Source: Company, Axis Capital

Returns in line with the industry average



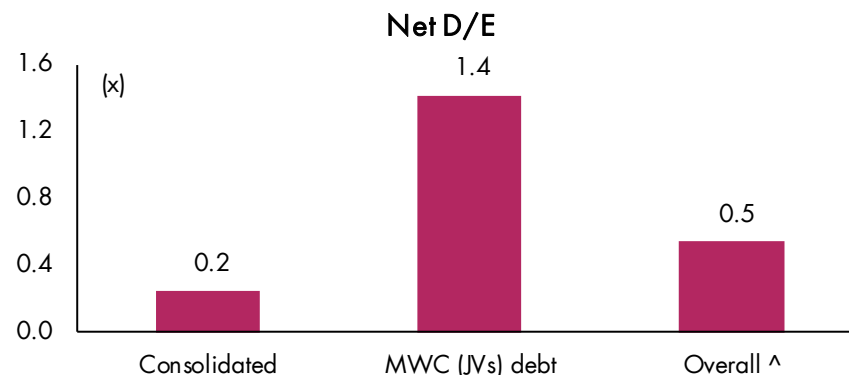
Source: Company, Axis Capital

- ◆ Margin was muted in FY17 at 7% (vs. 14% in FY16) on account of higher contribution from lower margin affordable housing products.
- ◆ We expect margin to improve to ~15% in FY19E on account of (1) Improved profitability in Happinest (80-IB benefits) & (2) Increased contribution from higher-margin new projects in Bangalore, NCR and Chennai
- ◆ Earnings to post CAGR of 26% over FY17-19E, driven by improvement in margin and increased traction at MWC Jaipur, especially in off take of the DTA area
- ◆ Despite 'MWC' segment being capital intensive (upfront development cost) and slowdown in the SEZ demand (post imposition of MAT), MLDL has been able to generate reasonable returns in this segment

... Analysis of financials

- ◆ While debt on the JVs is slightly high, overall leverage of MLDL is moderate. Further consolidated balance sheet (pure play residential business) is healthy with leverage of 0.2x. Its cost of debt (9.5%) too is one of the lowest in the industry
- ◆ Low leverage puts MLDL in a comfortable position under the RERA regime (costs expected to go up) and also provides flexibility in acquiring projects
- ◆ Its residential business is self-financing in nature (post land acquisition) and requires minimal debt

While leverage at JVs is high, overall leverage is low



Source: Company, Axis Capital

^ Overall leverage includes share of debt in JVs proportionate to MLDL's stake

Cash flow visibility would ensure debt remains manageable

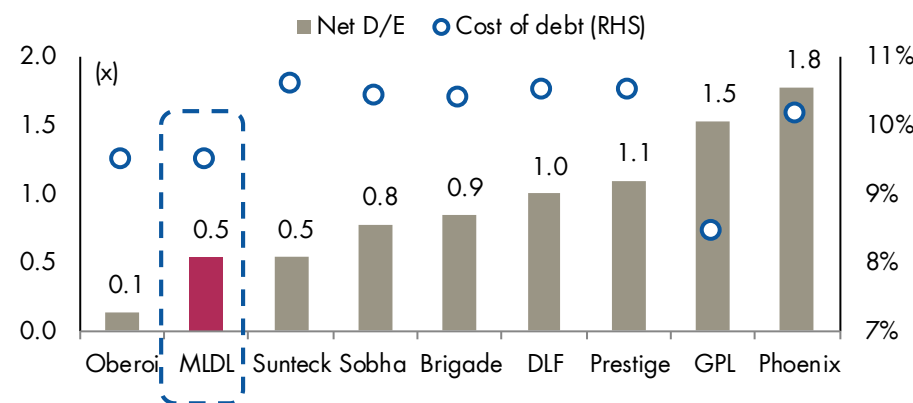
(Rs mn)	Receivable	Value of inventory	Expected Cash flow	Construction cost	Overheads & taxes	Net cashflow
Completed	-	2,910	2,910	-	-	2,910
Ongoing	5,964	9,148	15,112	5,339	4,290	5,483
Forthcoming	-	32,897	32,897	13,512	8,510	10,875
World Cities	-	30,190	30,190	3,401	9,868	16,921
Total			81,109	22,252	22,668	36,189

Construction of ongoing resi projects can be funded from receivables alone

Residential cash flows realizable over 3 to 4 years

Source: Axis Capital

One of the lowest leverage and borrowing cost among peers



Source: Companies, Axis Capital

*GPL: Adjusted for cash flows expected from its BKC project. Includes Rs 15 bn debt from commercial portfolio; MLDL based on debt including their share in JVs and associates

Valuation: TP of Rs 508 (25% upside)

Mahindra Lifespace Developers

REAL ESTATE

Particulars	(Rs mn)	(Rs/ shr)
Completed residential projects		
Completed stock area (msf)	-	
Value of completed stock	2,910	
No. of years	1	
PV of completed residential projects (A)	2,202	43
Ongoing projects		
Saleable area (MLDL's share) (msf)	3.2	
Area sold (msf)	1.9	
Value of sales (Rs mn)	12,147	
Avg. realization achieved (Rs psf)	6,500	
Balance amount yet to be collected (Rs mn)	5,964	
Area unsold (msf)	1.3	
Expected avg. realization (Rs psf)	7,112	
Value of unsold stock	9,148	
Balance cost to be incurred	5,339	
Net pre-tax cash flow	5,483	
No of years post Mar'17	4	
PV of net post-tax cash flows (B)	4,075	79
Forthcoming projects		
Total area (co's share) (msf)	4.8	
Expected realization (Rs/ psf)	6,906	
Expected sales (Rs mn)	32,897	
Total construction cost (Rs mn)	13,512.3	
Net cash flow (Rs mn)	10,875	
No. of years post Mar'18	5.0	
NPV of forthcoming (Rs mn) (C)	7,504	146

Particulars	(Rs mn)	(Rs/ shr)
Mahindra World Cities (SEZs/DTAs)		
Ongoing		
1) MWC - Chennai I	1,386	
2) MWC - Jaipur	4,048	
Equity Value of MWCs (D)	5,435	106
Forthcoming Industrial Projects @ Book Value		
1) MWC - Ahmedabad	920	
2) MWC - Chennai II	864	
Equity Value of Forthcoming Industrial Projects (E)	1,784	35
Land Bank		
Chennai (at 50% discount to market value)	5,002	
Thane (0.17 msf of TDR)	513	
Nashik (@ 50% discount to market value)	232	
Pune/ Satara Land (500 Acres)	483	
Value of Land Bank (F)	6,231	121
Enterprise Value (A)+(B)+(C)+(D)+(E)+(F)	27,230	531
Less: Mar'18E Net debt	1,169	23
Equity value	26,060	508
Assumptions		
WACC (%)	16.0%	
Cap rate (%)	8.5%	

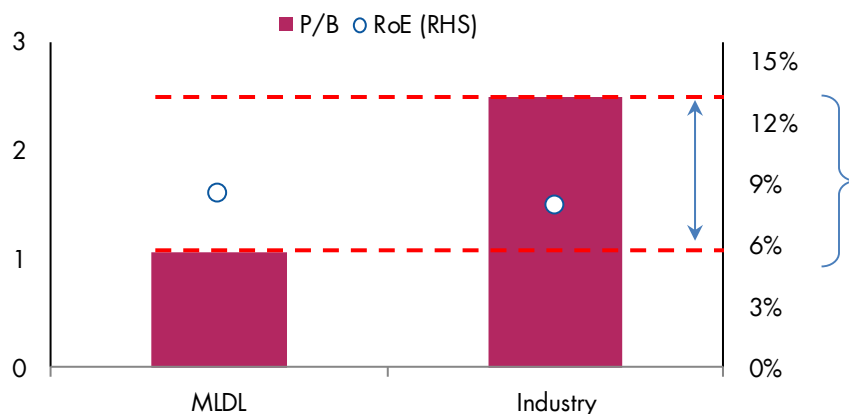
Source: Axis Capital

Valuation gap between MLDL and industry is unjustified

Key advantages for MLDL

<p>Prudent land bank strategy</p>	<ul style="list-style-type: none"> ◆ MLDL: Based on its current execution run rate will take ~10-15 years to monetize its portfolio ◆ Industry: Average time required of ~20-30 years to monetize portfolio
<p>Balance sheet strength</p>	<ul style="list-style-type: none"> ◆ MLDL: Net D/E of 0.5x; cost of debt of 9.5% ◆ Industry: Net D/E of ~1 to 1.2x; cost of debt of ~10.5 to 11%
<p>Head start in affordable housing</p>	<ul style="list-style-type: none"> ◆ MLDL: Has already developed and delivered affordable homes under its segment 'Happinest' ◆ Industry: Most peers still in the planning stages to foray into affordable housing projects

Valuation gap between MLDL and Industry



While MLDL trades at a discount to its overall peer group (~1x P/B vs peer group average of 2.5x) given its lower scale of operations, we believe the huge valuation gap is unwarranted.

With ramp-up in residential launches (both in premium and affordable segment) paired with increased traction at its integrated cities and industrial clusters, we expect MLDL's market price to capture its true potential going ahead

Source: Company, Axis Capital

Key concerns

Mahindra Lifespace Developers

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- ◆ **Mahindra World Cities and Industrial clusters– A capital intensive business**
 - It is capital intensive and at the same time cyclical business (dependence on corporate capex) → long payback period. In a down cycle, IRRs could be impacted, cash outflow in nature

- ◆ **Increase in cost can erode margins in affordable housing**
 - Strict cost controls is key for executing affordable housing due volatile material and labor costs, and price conscious customer base. In the past developers (such as Unitech), have tried their hand at developing affordable projects and failed at controlling the costs

- ◆ **Any adverse change in the govt. policy with respect to affordable housing**
 - As seen in the past (implementation of MAT on SEZ), any change in the favorable tax regime for affordable housing can impact the profitability and in turn the economic viability of this segment

Company financials (Consolidated)

Mahindra Lifespace Developers

REAL ESTATE

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	5,932	7,621	6,968	8,946
Other operating income	-	-	-	-
Total operating income	5,932	7,621	6,968	8,946
Cost of goods sold	(4,014)	(5,885)	(4,651)	(6,015)
Gross profit	1,918	1,736	2,316	2,931
<i>Gross margin (%)</i>	<i>32.3</i>	<i>22.8</i>	<i>33.2</i>	<i>32.8</i>
Total operating expenses	(1,062)	(1,233)	(1,418)	(1,631)
EBITDA	856	503	898	1,300
<i>EBITDA margin (%)</i>	<i>14.4</i>	<i>6.6</i>	<i>12.9</i>	<i>14.5</i>
Depreciation	(42)	(46)	(47)	(47)
EBIT	814	457	851	1,253
Net interest	(357)	(202)	(169)	(121)
Other income	940	689	689	689
Profit before tax	1,375	1,389	2,061	2,535
Total taxation	(429)	(330)	(701)	(862)
<i>Tax rate (%)</i>	<i>31.2</i>	<i>23.8</i>	<i>34.0</i>	<i>34.0</i>
Profit after tax	946	1,059	1,361	1,673
Minorities	(29)	(37)	(47)	(58)
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	917	1,022	1,314	1,615
<i>Adj. PAT margin (%)</i>	<i>15.5</i>	<i>13.4</i>	<i>18.9</i>	<i>18.1</i>
Net non-recurring items	-	-	-	-
Reported net profit	917	1,022	1,314	1,615

Source: Company, Axis Capital

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	410	411	513	513
Reserves & surplus	15,885	16,585	20,399	21,530
Net worth	16,681	17,431	21,394	22,583
Borrowing	7,843	6,516	4,016	3,516
Other non-current liabilities	1,197	961	961	961
Total liabilities	30,097	29,180	30,641	31,332
Gross fixed assets	1,240	1,271	1,271	1,271
Less: Depreciation	(237)	(276)	(323)	(370)
Net fixed assets	1,002	995	948	901
Add: Capital WIP	7	85	85	85
Total fixed assets	1,010	1,080	1,033	986
Other Investment	-	-	-	-
Inventory	13,060	11,712	12,298	12,913
Debtors	965	981	1,079	1,187
Cash & bank	1,279	840	1,391	1,407
Loans & advances	1,903	2,733	3,007	3,007
Current liabilities	4,377	4,272	4,269	4,272
Net current assets	16,271	16,041	17,551	18,287
Other non-current assets	508	363	363	363
Total assets	30,097	29,180	30,641	31,332

Company financials (Consolidated)

Mahindra Lifespace Developers

REAL ESTATE

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,375	1,389	2,061	2,535
Depreciation & Amortisation	(42)	(46)	(47)	(47)
Chg in working capital	(2,138)	311	(687)	(720)
Cash flow from operations	(1,735)	1,141	253	484
Capital expenditure	(37)	(119)	-	-
Cash flow from investing	1,062	963	364	637
Equity raised/ (repaid)	1	(7)	2,997	-
Debt raised/ (repaid)	2,676	(1,326)	(2,500)	(500)
Dividend paid	(280)	(284)	(394)	(485)
Cash flow from financing	1,389	(2,548)	(66)	(1,106)
Net chg in cash	715	(444)	550	16

Valuation ratios

Y/E March	FY16	FY17	FY18E	FY19E
PB (x)	1.0	1.0	1.1	1.1
Dividend yield (%)	1.3	1.5	1.4	1.7
Free cash flow yield (%)	(10.7)	6.2	1.1	2.1

Source: Company, Axis Capital

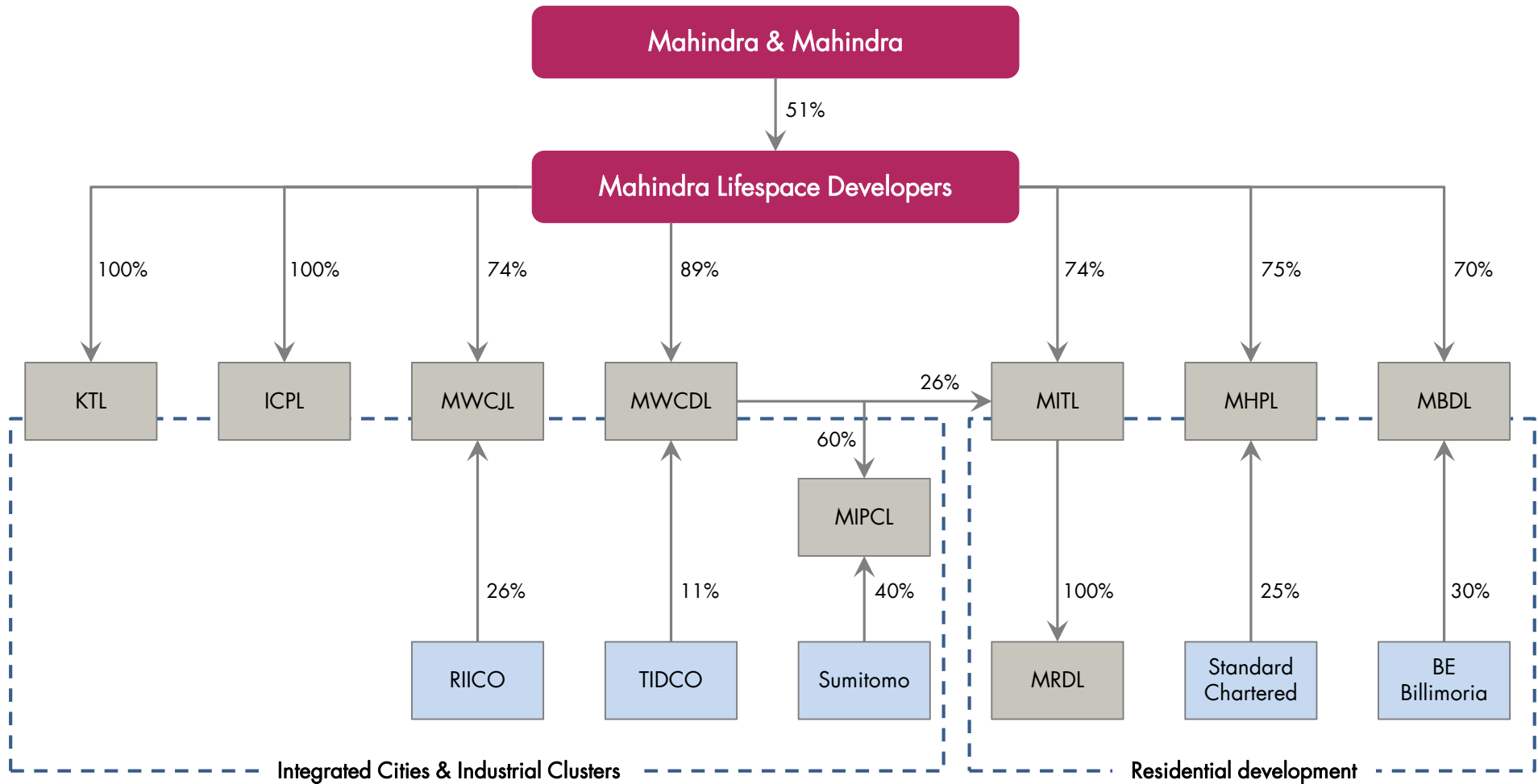
Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	22.3	24.9	22.6	27.8
CEPS (Rs)	23.4	26.0	23.4	28.6
DPS (Rs)	5.5	6.0	5.6	6.9
Dividend payout ratio (%)	24.4	24.1	25.0	25.0
GROWTH				
Net sales (%)	(45.4)	28.5	(8.6)	28.4
EBITDA (%)	(79.8)	(41.2)	78.4	44.7
Adj net profit (%)	(65.6)	11.5	28.5	23.0
FDEPS (%)	(65.6)	11.5	(9.3)	23.0
PERFORMANCE				
RoE (%)	5.9	6.1	6.9	7.5
RoCE (%)	6.3	4.5	6.0	7.3
EFFICIENCY				
Asset turnover (x)	0.2	0.4	0.3	0.4
Sales/ total assets (x)	0.2	0.3	0.2	0.3
Working capital/ sales (x)	3.2	2.0	2.3	1.8
FINANCIAL STABILITY				
Total debt/ equity (x)	0.5	0.4	0.2	0.2
Net debt/ equity (x)	0.3	0.2	0.1	0.0
Current ratio (x)	4.7	4.8	5.1	5.3
Interest cover (x)	2.3	2.3	5.0	10.4
VALUATION				
PE (x)	18.1	16.2	17.9	14.6
EV/ EBITDA (x)	25.2	42.3	28.1	19.0

Annexure: MLDL Holding structure

Mahindra Lifespace Developers

REAL ESTATE



Note: Overview includes asset owning SPVs only. Numbers are rounded to the nearest percentage.

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