

Mahindra Lifespaces

BSE SENSEX 17,025	S&P CNX 5,118	CMP: INR295	TP: INR451	Buy								
Bloomberg Equity Shares (m)	MLIFE IN 40.8	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range (INR)	561/281	END	(INR M)	(INR M)	(INR)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-1/-14/-24	3/10A	4,179	785	19.0	22.7	-	-	7.9	8.9	-	-
M.Cap. (INR b)	12.0	3/11A	6,119	1,082	26.3	37.7	11.1	1.1	10.2	10.8	2.5	8.5
M.Cap. (USD b)	0.2	3/12E	8,111	1,398	34.0	29.3	8.6	1.0	11.8	14.2	1.9	6.5
		3/13E	10,060	2,023	49.3	44.7	5.9	0.9	14.7	16.8	1.5	4.6

Key result highlights

- Mahindra Lifespaces (MLIFE) reported in-line EBITDA for 2QFY12. Standalone EBITDA grew 11% YoY to INR258m (v/s our estimate of INR268m), while EBITDA margin expanded to 27.5% (v/s 21.2% in 1QFY12).
- Delay in approvals continues to impact MLIFE's launch plan. Absence of new launches and lower inventory in ongoing projects led to a sharp decline in sales volume to 0.12msf (INR0.6b) in 2QFY12 as against 0.5msf (INR2.5b) in 2QFY11 and 0.3msf (INR1.7b) in 1QFY12.
- SEZ projects at Chennai and Jaipur have witnessed the addition of two clients and one client, respectively. One client has commenced operations at the Jaipur SEZ. However, leasing of the processing area has been sluggish at the Jaipur SEZ.
- The stock trades at ~48% discount to our SOTP value of INR564/share, at 0.9x FY13E BV and 5.9x FY13E EPS of INR49.3. Maintain **Buy**.

Quarterly Performance: Standalone

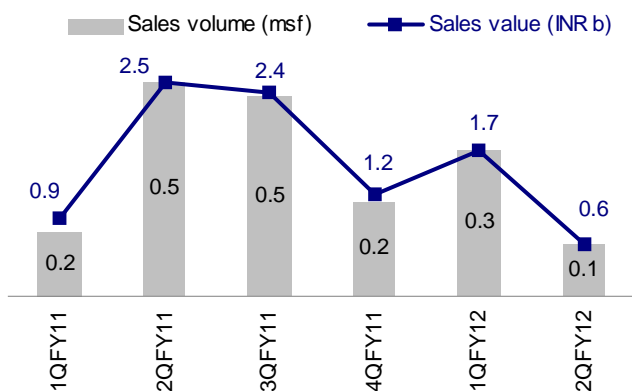
Y/E March	FY11				FY12				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY11	FY12E
Sales	679	890	1,558	1,638	815	938	1,690	2,817	4,766	6,259
Change (%)	43.7	40.1	43.1	62.3	19.9	5.4	8.5	72.0	48.6	31.3
Total Expenditure	517	656	1,130	1,235	642	679	1,301	2,181	3,538	4,803
EBITDA	163	234	428	404	172	258	389	637	1,227	1,456
As % of Sales	23.9	26.2	27.5	24.6	21.2	27.5	23.0	22.6	25.8	23.3
Depreciation	6	6	6	8	7	7	11	17	25	42
Interest	0	0	0	12	2	5	36	77	12	121
Other Income	49	114	66	74	91	182	81	52	303	407
PBT	206	342	488	458	255	428	423	594	1,494	1,700
Tax	61	95	154	153	84	114	127	185	463	510
Effective Tax Rate (%)	29.6	27.9	31.5	33.5	32.9	26.6	30.0	31.2	31.0	30.0
Reported PAT	145	247	334	305	171	314	296	409	1,031	1,190
Change (%)	39.0	42.2	19.5	28.7	18.0	27.4	-11.5	34.0	33.2	15.5
Adj. PAT	145	247	334	305	171	314	296	409	1,031	1,190
Change (%)	39.0	21.7	19.5	28.7	18.0	27.4	-11.5	34.0	29.8	15.5

E: MOSL Estimates

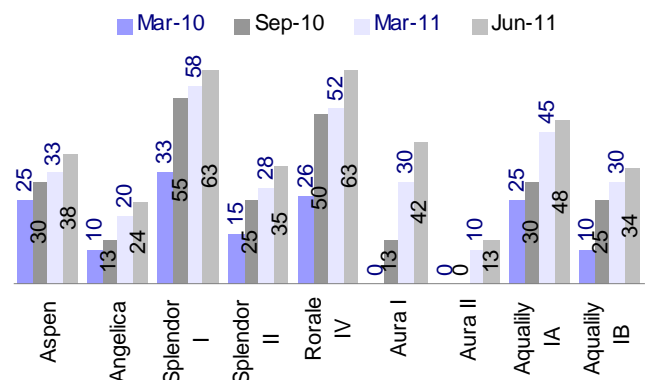
Key results highlights

- Standalone revenue up 5% YoY; PAT up 27% YoY, boosted by other income:** Standalone revenue grew 5% YoY to INR938m, while net profit grew 27% YoY to INR314m. Revenue growth continues to be muted due to fewer new launches in the last three quarters. Dividend from the Chennai SEZ boosted other income to INR182m (v/s INR91m in 1QFY12).
- Consolidated revenue up 25% YoY:** MLIFE's consolidated revenue for 1HFY12 was INR2.6b, up 25% YoY. Consolidated net profit grew 5% YoY to INR461m v/s INR439m in 1HFY11. The management indicated ~INR140m of PAT from the Chennai SEZ and negative contribution from the Jaipur SEZ in 1HFY12.
- EBITDA margin improve:** MLIFE's standalone EBITDA grew 11% YoY to INR258m in 2QFY12, while EBITDA margin was 27.5% (v/s 21.2% in 1QFY12).
- Delays in approvals continue to impact launch plan:** Pending approvals, especially for Mumbai projects, continue to be an overhang on MLIFE's launch plan. It planned to launch 7-8 projects across locations, including later phases of development in Pune, NCR and Chennai, and new projects in Ghatkopar (Mumbai), Hyderabad and Nagpur. However, it launched only 1 project (as against a plan of 4) in 1HFY12. However, the company has recently offered Phase-III of Acqualilly Villas at Chennai SEZ (~0.1msf, 75 villas) for sale at a base price of INR4,547/sf.
- Sales volume/value down 75% YoY, 65% QoQ:** 2QFY12 has seen a sharp decline in sales volume to 0.12msf (INR0.6b) as against 0.5msf (INR2.5b) in 2QFY11 and 0.3msf (INR1.7b) in 1QFY12. This is largely due to (a) sustained delays in new launches, and (b) lower existing inventory in ongoing projects. During 2QFY12, MLIFE completed 100% sale in Eminent (Goregaon, Mumbai), Splendour (Bhandup, Mumbai), Aura-III (Gurgaon) and Iris Court-I (Chennai). While sales in non-Mumbai projects have been steady over the last couple of quarters, its recently soft launched GE Gardens (Kanjurmarg, Mumbai) project has been witnessing sluggish response.
- Inventory level low; new launches essential to revive sales:** MLIFE has sold ~85% of its ongoing projects of 3.4msf, leaving only 0.6-0.7msf of unsold inventory. Of this, Chennai projects account for >70%. Traction in new launches in other geographies will play a critical role in boosting sales run-rate in FY12.

QoQ sales performance



Progress in construction of key projects has been on schedule (%)



Source: Company/MOSL

Update on SEZs - Incremental monetization of processing area slow in Jaipur

MLIFE has two key ongoing SEZ projects at Chennai and Jaipur. The Chennai SEZ is in advanced phase of monetization, with focus now on selling the residential and institutional areas. The Jaipur SEZ is in the early monetization phase, with the sale of the processing area underway.

- **MWC Chennai - added two more customers in 2QFY12:** The Chennai SEZ added two more customers during 2QFY12, taking the total number of commercial customers in its processing area to 60, with 37 already operational. DePuy inaugurated its Institute of Advanced Education and Research in 2QFY12.
- **MWC Jaipur - leasing momentum slow over DTC concern:** Monetization of processing area has been sluggish over the past couple of quarters, with total area sold stood at ~350acres, along with additional ~62acres under MoUs. The management attributes slower demand to concerns over provision of MAT/DDT and revised DTC norms. In 2QFY12, the company added one more customer, taking the total count to 35 + 5 MoUs, including 6 operational and 9 under construction facilities.
- **Plan to commence North Chennai SEZ by early FY13:** MLIFE has four more SEZ projects, aggregating ~6,500 acres at different stages of land acquisition. The company has acquired 40% of North Chennai (target 1,000 acres) and 15-20% in Pune (target 2,000 acres). It expects to commence activities in Chennai SEZ in 1HFY13, which could be a key trigger for the company. Our current estimates do not value upcoming SEZ projects.

Valuation and view

- MLIFE has a strong focus on two business verticals - Residential and SEZ. Its (a) strong brand equity, (b) established client relationships, and (c) strong balance sheet (net D/E of 0.3x) offer a robust growth outlook in both this verticals. While decline in sales volume could largely be attributable to fewer launches, we believe MLIFE commands customer preference for its projects, corroborated by the quick offtake of its early launches.
- With the potential acquisition of four more integrated development projects, we believe MLIFE is strongly positioned to augment the scalability of its business significantly.
- Our SOTP value for MLL is INR564/share: (1) Chennai SEZ at INR126/share, (2) Jaipur SEZ at INR170/share, (3) Residential vertical at INR181/share, and (4) other rental assets at INR30/share. Our valuations do not include its pipeline SEZs (a) at North Chennai, (b) near the Mumbai-Pune Expressway, and (c) new MoUs at Dholera Special Investment Region.
- The recent drop in share price offers an attractive entry point. The stock trades at ~48% discount to our SOTP value of INR564/share, 0.9x FY13E BV and 5.9x FY13E EPS of INR49.3.

SOTP of INR564/Share

	Acres	Method	Value	INR/sh	% of total
Jaipur SEZ	3,000	DCF	6,944	170	30
Chennai SEZ	250	DCF	5,141	126	22
Residential Development	6	NAV	7,397	181	32
Land Bank	-	Land Value	1,237	30	5
Rental Properties	-	Actuals	1,232	30	5
Add: Adjustments			1,049	26	5
Total	-	-	22,999	564	100

Source: MOSL

Status of existing projects, inventory level

Project Name, Location	Launch date	Saleable Area(msf)	Absorption (%)			Base sale price (INR/sf)	Inventory left		Total units
			4QFY10	4QFY11	1QFY12		Area (msf)	Units	
Splendor1, Bhandup	4QFY08	0.42	99	100	100	7,600	-	-	264
Splendor2, Bhandup	4QFY10	0.36	43	83	92	7,700	-	20	246
Eminente Aspen	1QFY10	0.15	89	97	97	9,500	-	2	68
Eminente Angelica	2QFY11	0.15	-	89	100	9,650	-	-	67
GE Garden *	1QFY12	0.12	-	-	-	10,500	0.1	60	60
Mumbai total		1.19					0.2	82	
Aura1, Gurgaon	3QFY10	0.23	-	100	100	2,450	-	-	231
Aura2, Gurgaon	2QFY11	0.23	-	100	100	3,175	-	-	166
Aura3, Gurgaon	1QFY12	0.21		-	85	4,000	-	17	110
NCR total		0.67					-	17	
Royale 4, Pune	2QFY10	0.22	99	100	100	3,000	-	-	168
Pune total		0.22					-	-	
Aqualily Villas A, Chennai	4QFY10	0.12	52	97	97	4,600	-	1	41
Aqualily Villas B, Chennai	4QFY10	0.11	-	66	84	4,600	-	5	33
Acqualily Apt A, Chennai	1QFY11	0.14	2	95	96	3,100	-	3	80
Acqualily Apt B, Chennai	1QFY11	0.32	-	13	23	3,100	0.2	137	178
Iris Court Ph I	3QFY11	0.27	-	100	100	2,700	-	-	244
Iris Court Ph II	3QFY11	0.30	-	20	36	2,700	0.2	147	229
Chennai total		1.26					0.5	293	
Gross Total		3.35	33	70	81		0.7	392	

Source: MOSL

Mahindra Lifespaces: an investment profile

Company description

Mahindra Lifespaces (MLIFE) was constituted by the merger of Great Eastern Shipping Company Limited (GESCO) and Mahindra Realty & Infrastructure Developers Limited (MRIDL). MLIFE is a leading real estate development company in India, focused on residential projects and integrated infrastructure development in SEZs. It has till date developed over 6msf of premium residential and commercial space excluding SEZs.

Key investment arguments

- Having pioneered development of SEZs in the private sector, MLIFE enjoys the first mover advantage. It has a healthy balance sheet, with low leverage and no major outstandings or debtors.
- MLIFE's multi-product SEZ in Chennai is the first successful operational private sector SEZ in India. The management is in process of acquiring additional ~300 acres of land at the Chennai SEZ.
- Of the total area of 3,000 acres at the Jaipur SEZ, ~2,700 acres have been acquired. Almost 400 acres of the processing area at Jaipur SEZ has been leased out.

Key investment risks

- A negative impact on SEZ demand due to the direct tax code.
- The proposed Land Acquisition Bill, which could impact plans for large format integrated development.

Recent developments

- Absence of new launches and lower inventory in ongoing projects led to a sharp decline in sales volume to 0.12msf (INR0.6b) in 2QFY12 as against 0.5msf (INR2.5b) in 2QFY11 and 0.3msf (INR1.7b) in 1QFY12.
- SEZ projects at Chennai and Jaipur have witnessed the addition of two clients and one client, respectively.

Valuation and view

- The stock trades at ~48% discount to our SOTP value of INR564/share, at 0.9x FY13E BV and 5.9x FY13E EPS of INR49.3. Maintain **Buy**.

Comparative valuations

		MLIFE	Prestige	Oberoi
P/E (x)	FY12E	8.6	13.0	14.6
	FY13E	5.9	9.6	9.1
P/B (x)	FY12E	1.0	1.4	2.0
	FY13E	0.9	1.3	1.7
EV/Sales (x)	FY12E	1.9	2.4	5.8
	FY13E	1.5	2.1	3.6
EV/EBITDA (x)	FY12E	6.5	8.7	10.4
	FY13E	4.6	6.4	5.8

Shareholding Pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	51.1	51.1	51.1
Domestic Inst	5.8	6.2	10.6
Foreign	26.5	26.1	22.6
Others	16.6	16.7	15.8

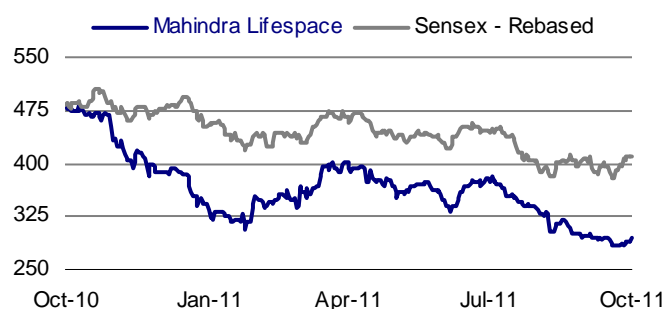
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	34.0	31.9	6.7
FY13	49.3	42.5	16.0

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
295	451	52.9	Buy

Stock performance (1 year)



Financials and Valuations

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Net Sales	3,418	4,179	6,119	8,111	10,060	
Change (%)	47.9	22.3	46.4	32.5	24.0	
Total Expenses	2,692	3,008	4,355	5,755	6,820	
EBITDA	725	1,171	1,764	2,356	3,240	
% of Net Sales	21.2	28.0	28.8	29.0	32.2	
Depreciation	-39	66	81	115	112	
Interest	38	93	113	546	542	
Other Income	294	221	151	413	437	
PBT	1,021	1,233	1,721	2,108	3,024	
Tax	299	383	587	657	853	
Rate (%)	29.3	31.1	34.1	31.2	28.2	
Reported PAT	722	850	1,134	1,450	2,170	
Adjusted PAT	641	785	1,082	1,398	2,023	
Change (%)	-3.5	22.7	37.7	29.3	44.7	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Equity Capital	408	408	408	408	408	
Preference Capital	100	100	0	0	0	
Reserves	8,841	9,380	10,243	11,443	13,363	
Net Worth	9,349	9,888	10,651	11,851	13,771	
Loans	3,321	4,207	5,441	5,918	6,468	
Minority Interest	856	822	830	882	1031	
Others	39	0	0	0	0	
Capital Employed	13,651	15,013	17,076	18,804	21,423	
Goodwill	290	290	290	290	290	
Gross Fixed Assets	1,708	1,862	2,106	2,601	2,867	
Less: Depreciation	205	232	312	426	539	
Net Fixed Assets	1,503	1,631	1,794	2,174	2,329	
Capital WMP	455	127	167	167	167	
Investments	1,083	1,481	874	874	874	
Curr. Assets	12,140	13,936	17,053	19,451	22,775	
Inventory	7,677	9,063	9,364	10,513	12,279	
Debtors	733	1,213	2,069	2,639	3,009	
Cash & Bank Balance	1,449	1,330	2,398	2,715	3,550	
Loans & Advances	1,993	2,075	2,939	3,243	3,577	
Other Current Assets	288	255	284	340	360	
Curr. Liab. & Prov.	1,821	2,452	3,103	4,152	5,012	
Net Current Assets	10,319	11,484	13,950	15,299	17,763	
Appl. of Funds	13,651	15,013	17,076	18,804	21,423	

E: MOSL Estimates

Ratios						
Y/E March	2009	2010	2011	2012E	2013E	
Basic (INR)	17.4	20.6	27.5	35.3	52.9	
Adjusted EPS	15.4	19.0	26.3	34.0	49.3	
Growth (%)	-3.6	23.0	38.2	29.5	45.0	
Cash EPS	16.7	22.4	29.8	38.4	55.9	
Book Value	226.7	239.9	261.1	290.5	337.5	
DPS	2.5	4.0	4.0	5.0	5.0	
Payout (incl. Div. Tax.)	16.1	22.3	17.1	16.6	11.1	
Valuation (x)						
P/E (consolidated)			11.1	8.6	5.9	
Cash P/E			9.9	7.7	5.3	
EV/EBITDA			8.5	6.5	4.6	
EV/Sales			2.5	1.9	1.5	
Price/Book Value			1.1	1.0	0.9	
Profitability Ratios (%)						
RoE	6.9	7.9	10.2	11.8	14.7	
RoCE	7.8	8.9	10.8	14.2	16.8	
Leverage Ratio						
Debt/Equity (x)	0.2	0.3	0.3	0.3	0.2	

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
PBT before EO Items	1,021	1,233	1,721	2,108	3,024	
Add : Depreciation	-39	66	81	115	112	
Interest	38	93	113	546	542	
Less: Dir. Taxes Paid	299	383	587	657	853	
(Inc)/Dec in WC	-2,070	-1,283	-1,398	-1,031	-1,630	
CF from Oper.	-2,278	1,197	-221	667	757	
(Inc)/Dec in FA	-802	108	-365	-609	-379	
(Pur)/Sale of Investments	2,221	-398	607	0	0	
CF from Invest.	1,367	-301	446	-349	-379	
(Inc)/Dec in Net Worth	266	-60	-126	42	137	
(Inc)/Dec in Debt	466	886	1,234	477	550	
Less : Interest Paid	38	93	493	546	542	
Dividend Paid	115	187	192	240	240	
CF from Fin. Activity	579	546	423	-268	-95	
Inc/Dec of Cash	987	-119	1,068	317	834	
Add: Beginning Balance	461	1,449	1,330	2,398	2,715	
Closing Balance	1,448	1,329	2,398	2,715	3,550	

N O T E S

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Mahindra Lifespaces

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