

# MAHINDRA LIFESPACE DEVELOPERS



Robust quarter

## Revenues and EBITDA in line, PAT ahead of estimates

Mahindra Lifespace Developers (MLIFE) reported standalone Q2FY11 revenues at INR 890 mn, against our estimate of INR 824 mn. EBITDA, at INR 234 mn, was in line with our estimate of INR 224 mn, with reported EBITDA margin of 26% against our expectation of 27%. PAT, at INR 247 mn, was ahead of our estimate of INR 184 mn, primarily due to higher other income arising from dividend payment from MLIFE's subsidiaries.

## Robust sales momentum with ~INR 2.6 bn of fresh sales this quarter

MLIFE has achieved sales from residential units (including subsidiaries of ~INR 3.5 bn in H1FY11; ~0.9 bn in Q1FY11) versus ~INR 1.5 bn in H1FY10. This was driven by sales in ongoing projects and new residential launches in *Eminent* (final phase) at Goregaon, Mumbai, *Aura* (second phase) in Gurgaon and *Aqualily* (first phase) at Mahindra World City (MWC) in Chennai.

## 0.38 msf added to land bank through 2 new acquisitions in Mumbai

MLIFE has increased its land bank by 0.38 msf during the quarter by adding two new projects in Mumbai at Kandivali (0.15 msf) and Ghatkopar (0.23 msf). We have factored in value accretion of ~INR 0.4 bn (INR 9/share) from these new projects over FY12-15E.

## Steady leasing activity at Chennai and Jaipur SEZs

MLIFE's Chennai SEZ has added four new customers during H1FY11 (new customers include Australia-based Tridon, and Japan-based NTN Corporation, Alpha Packaging, and JSP Foams), taking total customers to 53, of which, 34 are operational. The Jaipur SEZ has three operational customers (Infosys, Deutsche Bank, and Eexcel) with ~2,500 employees, with another six customers (including ICICI Bank) having initiated construction this quarter.

## Outlook and valuations: Fairly valued; maintain 'HOLD'

Our previous NAV estimate for MLIFE stood at INR 524/share. Post the acquisition of new Mumbai projects and balance sheet adjustments, we increase our NAV estimate for MLIFE to INR 536/share. At CMP of INR 475/share, the stock is currently trading at 11% discount to NAV. We maintain our 'HOLD/Sector Underperformer' recommendation on the stock.

October 20, 2010

Reuters: MALD.BO Bloomberg: MLIFE IN

### EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

Note:  
Please refer last page of the report for rating explanation

### MARKET DATA

CMP	:	INR 475
52-week range (INR)	:	550 / 312
Share in issue (mn)	:	40.8
M cap (INR bn/USD mn)	:	19 / 437
Avg. Daily Vol. BSE/NSE ('000):	:	102.5

### SHARE HOLDING PATTERN (%)

Promoters*	:	51.0
MFs, FIs & Banks	:	10.6
FIIIs	:	21.9
Others	:	16.5
* Promoters pledged shares (% of share in issue)	:	NIL

### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Real Estate Index
1 month	4.4	2.4	4.1
3 months	(4.1)	11.9	15.7
12 months	34.1	17.2	(18.5)

### Financials

(INR mn)

Year to March	Q2FY11	Q2FY10	% Chg	Q1FY11	% Chg	FY10	FY11E
Net revenues	890	635	40.1	679	31.0	3,207	5,588
EBITDA	234	147	58.6	163	43.7	852	2,262
Reported net profit	247	173	42.2	145	70.3	794	1,533
Diluted EPS (INR)	6.0	4.2	42.2	3.5	70.3	19.2	37.6
Diluted P/E (x)						24.7	12.6
EV/EBITDA (x)						19.3	8.6
ROAE (%)						8.2	14.4

Note: quarterly and FY10 figures on standalone basis; FY11 is consolidated

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## Financial snapshot

(INR mn)

Year to March	Q2FY11	Q2FY10	% Change	Q1FY11	% Change	FY10	FY11E	FY12E
Net revenues	890	635	40.1	679	31.0	3,207	5,588	7,786
Increase/decrease in stocks								
Cost of construction	(578)	(419)	NA	(434)	NA	(2,083)	(3,039)	(4,012)
Other expenses	(45)	(36)	NA	(42)	NA	(152)	(286)	(321)
Total expenditure	(656)	(488)	NA	(517)	NA	(2,354)	(3,326)	(4,333)
EBITDA	234	147	58.6	163	43.7	852	2,262	3,453
Depreciation	(6)	(5)	NA	(6)	NA	(23)	(67)	(93)
EBIT	228	142	60.2	157	45.2	829	2,195	3,360
Other income	114	131	(12.8)	49	134.0	290	128	190
Others	0	(44)	NM	0	NM			
Interest							(166)	(113)
Profit before tax	342	229	49.4	206	66.3	1,075	2,157	3,436
Provision for taxes	(95)	(56)	NA	(61)	NA	(281)	(427)	(548)
Core profit	247	173	42.2	145	70.3	794	1,730	2,889
Reported net profit	247	173	42.2	145	70.3	794	1,533	2,515
Diluted EPS (INR)	-	-		-		19.2	37.6	61.6

## As % of net revenues

Cost of construction	65.0	65.9		63.8		64.9	54.4	51.5
Other expenses	5.0	5.7		6.2		4.7	5.1	4.1
Total expenses	73.8	76.8		76.1		73.4	59.5	55.7
EBITDA	26.2	23.2		23.9		26.6	40.5	44.3
Depreciation	0.6	0.8		0.8		0.7	1.2	1.2
EBIT	25.6	22.4		23.1		25.9	39.3	43.1
Interest expenditure	-	-		-		-	3.0	1.5
Reported net profit	27.7	27.3		21.3		24.8	27.4	32.3
Tax rate	27.9	24.2		29.6		26.2	19.8	15.9

Note: quarterly and FY10 figures on standalone basis; FY11-12E are consolidated numbers

## ■ Company Description

MLIFE is part of the Mahindra Group, which is among the largest business houses in India, with interests in auto, farm equipment software, among others. The group has a history of over 60 years, with more than 75,000 employees and group revenues exceeding USD 6 bn. MLIFE, along with its sister concern Mahindra Holidays, is part of the group's infrastructure development sector business vertical. Mahindra Holidays is a vacation ownership company, while MLIFE is the real estate arm.

MLIFE's business is divided into standalone real estate and integrated development. The former focuses on residential and commercial development in tier I and II cities, leveraging on the Mahindra brand. All developments in this business sub-vertical are undertaken by MLIFE directly. The company has delivered 5.8 msf of residential and commercial development in this sub-vertical till date.

MLIFE's integrated development business focuses on building destinations. This is implemented by developing SEZs, industrial parks, etc., through multi-format developments such as land and built to suit (BTS) structures. The company is the promoter of corporate India's first operational SEZ and is the promoter of two largest IT SEZs in the country. Business of this sub-vertical is undertaken through Mahindra World City (MWC) SPVs. MWC has completed 2,000 acres of land development till date and has served clients like BMW, Infosys, Renault Nissan, Wipro, Capgemini, among others.

It is currently developing four industrial parks / SEZs—MWC Chennai, MWC Jaipur, and MWC Pune. Of the three, two SEZs (MWC Chennai and MWC Jaipur) are operational and the other two is in the land acquisition stage.

## ■ Key Risks

### **Value creation from SEZs back-ended in nature**

A major part of MLIFE's valuation emanates from MWCC and MWCJ. Being part of SEZs, monetisation of the projects can get back-ended, and hence valuations are subject to higher volatility.

### **SEZ tax laws**

The current tax code allows significant tax benefits to companies operating out of SEZs and developers of SEZs. The central government is overhauling direct tax laws in India. While we do not expect materially adverse developments on this front, any such development can impair the attractiveness of SEZs for companies and / or business viability and their valuations.

### **Land acquisition a risk**

MLIFE does not maintain a large land bank for its developmental needs. Instead, it acquires land and develops it within a relatively short duration of time. Inability to sustainably replenish land bank can negatively impact its standalone real estate business.

## Financial Statements (Consolidated)

<b>Income statement</b>					<b>(INR mn)</b>
Year to March	FY08	FY09	FY10	FY11E	FY12E
Income from operations	2,311	3,418	4,179	5,588	7,786
Direct costs	1,433	2,427	2,713	3,039	4,012
Other expenses	223	265	339	286	321
Total operating expenses	1,657	2,692	3,052	3,326	4,333
EBITDA	654	726	1,127	2,262	3,453
Depreciation and amortisation	42	(39)	66	67	93
EBIT	613	765	1,061	2,195	3,360
Other income	335	294	221	128	190
Interest expenses	21	38	93	166	113
Profit before tax	926	1,022	1,189	2,157	3,436
Provision for tax	237	299	383	427	548
Core profit	689	723	805	1,730	2,889
Profit after tax	689	723	805	1,730	2,889
Minority interest	26	65	20	197	374
Adjusted PAT	664	657	785	1,533	2,515
Basic shares outstanding (mn)	41	41	41	41	41
Basic EPS (INR)	16.3	16.1	19.2	37.6	61.6
Diluted equity shares (mn)	41	41	41	41	41
Diluted EPS (INR)	16.3	16.1	19.2	37.6	61.6
Dividend per share (INR)	3.0	3.0	3.5	3.5	3.5
Dividend payout (%)	18.2	18.4	18.2	9.3	5.7

<b>Common size metrics</b>					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating expenses	71.7	78.8	73.0	59.5	55.7
Depreciation	1.8	(1.1)	1.6	1.2	1.2
Interest expenditure	0.9	1.1	2.2	3.0	1.5
EBITDA margins	28.3	21.2	27.0	40.5	44.3
Net profit margins	29.8	21.1	19.3	31.0	37.1

<b>Growth ratios (%)</b>					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	6.8	47.9	22.3	33.7	39.3
EBITDA	112.1	11.0	55.2	100.8	52.7
PBT	240.1	10.3	16.4	81.5	59.3
Net profit	234.0	4.8	11.4	114.8	67.0
EPS	214.9	(1.0)	19.4	95.4	64.0

**Balance sheet****(INR mn)**

As on 31st March	FY08	FY09	FY10	FY11E	FY12E
Equity capital	408	408	408	408	408
Reserves & surplus	8,049	8,841	9,380	10,913	13,428
Shareholders funds	8,557	9,349	9,888	11,421	13,936
Preference share capital (JVs)	39	39	0	0	0
Minority interest (BS)	449	856	822	822	822
Secured loans	2,855	3,247	4,131	3,131	2,131
Unsecured loans	-	74	76	56	46
Borrowings	2,855	3,321	4,207	3,187	2,177
<b>Sources of funds</b>	<b>11,901</b>	<b>13,565</b>	<b>14,916</b>	<b>15,430</b>	<b>16,935</b>
Gross block	990	1,708	1,862	1,675	2,334
Depreciation	244	205	232	299	392
Net block	746	1,503	1,631	1,376	1,942
Capital work in progress	332	455	127	127	127
Total fixed assets	1,078	1,958	1,758	1,504	2,069
Goodwill	290	290	290	290	290
Investments	3,304	1,085	1,481	1,481	1,481
Inventories	6,626	7,677	9,063	8,683	7,952
Sundry debtors	447	733	1,213	1,198	1,669
Cash and equivalents	461	1,449	1,330	2,560	3,805
Loans and advances	1,135	1,993	2,075	4,075	4,675
Other current assets	258	288	255	255	255
Total current assets	8,927	12,140	13,936	16,770	18,356
Sundry creditors and others	1,398	1,573	2,153	4,219	4,866
Provisions	268	250	299	299	299
Total current liabilities & provisions	1,666	1,823	2,452	4,518	5,165
Net current assets	7,261	10,317	11,484	12,252	13,191
Net deferred tax	(32)	(86)	(97)	(97)	(97)
<b>Uses of funds</b>	<b>11,901</b>	<b>13,565</b>	<b>14,916</b>	<b>15,430</b>	<b>16,935</b>
Book value per share (INR)	207.2	226.6	239.8	277.4	339.0

**Free cash flow****(INR mn)**

Year to March	FY08	FY09	FY10	FY11E	FY12E
Net profit	689	723	805	1,730	2,889
Depreciation	42	(39)	66	67	93
Gross cash flow	731	684	871	1,797	2,982
Less: Changes in WC	2,653	2,039	1,319	(462)	(306)
Operating cash flow	(1,922)	(1,355)	(448)	2,259	3,288
Less: Capex	512	841	(134)	(187)	659
<b>Free cash flow</b>	<b>(2,434)</b>	<b>(2,196)</b>	<b>(313)</b>	<b>2,447</b>	<b>2,629</b>

**Cash flow metrics**

Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating cash flow	(1,922)	(1,355)	(448)	2,259	3,288
Investing cash flow	(512)	(841)	134	187	(659)
Financing cash flow	2,247	609	743	(1,163)	(1,153)
Net cash flow	(187)	(1,587)	430	1,284	1,476
Capex	(512)	(841)	134	187	(659)
Dividends paid	(127)	(121)	(143)	(143)	(143)
Share issuance/(buyback)	-	265	-	-	-

## Profitability & efficiency ratios

Year to March	FY08	FY09	FY10	FY11E	FY12E
ROAE (%)	8.2	7.3	8.2	14.4	19.8
ROACE (%)	8.1	7.3	8.2	16.0	22.9
Inventory day	1,340	1,076	1,126	1,066	757
Debtors days	53	63	85	79	67
Payable days	302	223	251	383	413
Cash conversion cycle (days)	1,091	915	961	762	411
Current ratio	5.4	6.7	5.7	3.7	3.6
Debt/EBITDA	4.4	4.6	3.7	1.4	0.6
Debt/Equity	0.3	0.4	0.4	0.3	0.2
Adjusted debt/equity	0.3	0.3	0.4	0.3	0.2

## Operating ratios

Year to March	FY08	FY09	FY10	FY11E	FY12E
Total asset turnover	0.2	0.3	0.3	0.4	0.5
Fixed asset turnover	3.8	3.0	2.7	3.7	4.7
Equity turnover	0.3	0.4	0.4	0.5	0.6

## Du pont analysis

Year to March	FY08	FY09	FY10	FY11E	FY12E
NP margin (%)	28.7	19.2	18.8	27.4	32.3
Total assets turnover	0.2	0.3	0.3	0.4	0.5
Leverage multiplier	1.2	1.4	1.5	1.4	1.3
ROAE (%)	8.2	7.3	8.2	14.4	19.8

## Valuation parameters

Year to March	FY08	FY09	FY10	FY11E	FY12E
Diluted EPS (INR)	16.3	16.1	19.2	37.6	61.6
Y-o-Y growth (%)	214.9	(1.0)	19.4	95.4	64.0
CEPS (INR)	17.3	15.1	20.8	39.2	63.9
Diluted PE (x)	29.2	29.5	24.7	12.6	7.7
Price/BV (x)	2.3	2.1	2.0	1.7	1.4
EV/Sales (x)	8.2	6.2	5.2	3.5	2.2
EV/EBITDA (x)	28.9	29.0	19.2	8.6	5.0
Dividend yield (%)	0.6	0.6	0.7	0.7	0.7



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Anant Raj Industries	BUY	SO	M	Brigade Enterprises	BUY	SP	M
DLF	BUY	SP	L	Orbit corporation	BUY	SP	L
Mahindra Lifespace Developers	HOLD	SU	M	Sobha Developers	HOLD	SU	L
Parsvnath Developers	BUY	SP	M				
Unitech	BUY	SP	M				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Ideas create, values protect



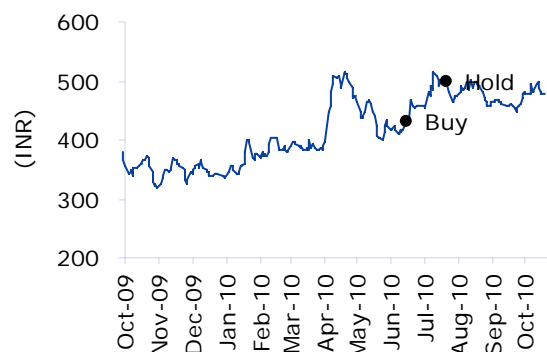
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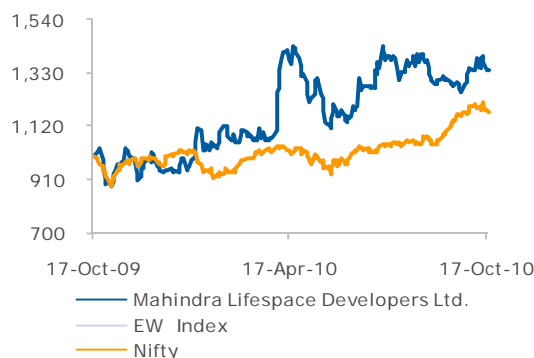
## Coverage group(s) of stocks by primary analyst(s): Real Estate

Anant Raj Industries, Brigade Enterprises, DLF, Mahindra Lifespace Developers, Orbit corporation, Parsvnath Developers, Sobha Developers, Unitech

### Mahindra Lifespace Developers



### EW Indices



### Distribution of Ratings / Market Cap

#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	116	45	12	176
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	110	53	13	

### Recent Research

Date	Company	Title	Price (INR)	Recos
11-Oct-10	<b>Prestige Estates</b>	Limited margin of safety; IPO Note	172-183	Do Not Subsc.
05-Oct-10	<b>Obero Realty</b>	Fairly priced; subscribe with 253-260 long-term perspective!; IPO Note		Subsc.
01-Oct-10	<b>Real Estate</b>	Markets steady; festival season to usher in renewed action; Monthly Update		

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