

Mahindra Lifespaces Developers

As clean as it comes

Mahindra Lifespaces Developers (MLIFE) is a mid and premium housing developer catering to strong demand in tier-1 cities and small metros in the country. Apart from real estate development, MLIFE also operates two integrated business cities – Mahindra World City (MWC) Chennai and Jaipur [special economic zones (SEZ) and domestic tariff area (DTA)]. MLIFE's strong balance sheet (FY2013E D/E ratio – 0.2x), good corporate governance, diversified land bank and solid brand name sets it apart from many of its peers. We also prefer MLIFE's high turnover real estate business model, which is more focused on development rather than land bank accumulation. **We Initiate Coverage on the stock with a Buy recommendation.**

MLIFE in the right markets: With slowing demand in super metros (Mumbai and NCR), we favor MLIFE's exposure to tier-1 cities (Pune and Nagpur) and small metros (Hyderabad), given their strong demand dynamics. Pune, Nagpur and Hyderabad now form 68% of MLIFE's exposure in terms of saleable area. With 5.2mn sq. ft. of forthcoming projects (~4.3x its FY2012 sales), we expect strong sales momentum during FY2013E and FY2014E, which is our primary catalyst. We also note that with the initiation of the rate cut cycle, mid-market housing will lead the recovery in demand, which has been a focus area for MLIFE.

Being conservative on MWC is the key: Impact on demand due to direct tax code has been an overhang on MWC's portfolio. We note that ~53% of MLIFE's invested capital is in the MWC portfolio; however, we have conservatively valued it at ₹97/share (contributes 20.6% to our SOTP value of ₹470). Moreover, MWC Chennai's current occupancy levels, at 92%, provide stable revenue visibility.

MLIFE deserves a premium to its peers: MLIFE is currently trading at 1.0x and 0.9x on our FY2013E and FY2014E BVPS estimates. On PB basis (one-year forward), MLIFE is trading at a 35% premium to BSE Realty Index, which we hold is justified, given its strong balance sheet, good corporate governance, asset-light model and solid brand name along with solid parent backing. We value MLIFE on an SOTP basis to arrive at a value of ₹470, we apply a 20% discount to our SOTP value to arrive at our target price of ₹376, implying a PB (FY2014E) of 1.1x.

Key Financials (Consolidated)

| Y/E March (₹ cr) | FY2011 | FY2012E | FY2013E | FY2014E |
|--------------------|-------------|-------------|-------------|-------------|
| Net Revenue | 612 | 701 | 814 | 897 |
| % chg | 46.4 | 14.6 | 16.1 | 10.2 |
| Net Profit | 108 | 119 | 128 | 139 |
| % chg | 37.8 | 10.1 | 7.4 | 8.3 |
| EBITDA (%) | 28.8 | 27.3 | 26.9 | 27.0 |
| EPS (₹) | 26.5 | 29.2 | 31.3 | 33.9 |
| P/E (x) | 11.8 | 10.7 | 10.0 | 9.2 |
| P/BV (x) | 1.2 | 1.1 | 1.0 | 0.9 |
| RoE (%) | 10.2 | 10.3 | 10.2 | 10.1 |
| RoCE (%) | 10.5 | 10.4 | 10.6 | 9.8 |
| EV/Sales (x) | 2.6 | 2.3 | 2.1 | 1.9 |
| EV/EBITDA (x) | 8.9 | 8.5 | 8.0 | 7.0 |

Source: Company, Angel Research; Note: CMP as on May 16, 2012

BUY

| | |
|--------------|------|
| CMP | ₹312 |
| Target Price | ₹376 |

| | |
|-------------------|-----------|
| Investment Period | 12 Months |
|-------------------|-----------|

| Stock Info | |
|--------------------|-------------|
| Sector | Real Estate |
| Market Cap (₹ cr) | 1,323 |
| Beta | 0.9 |
| 52 Week High / Low | 418 / 235 |
| Avg. Daily Volume | 11,326 |
| Face Value (₹) | 10 |
| BSE Sensex | 17,374 |
| Nifty | 5,291 |
| Reuters Code | MALD.BO |
| Bloomberg Code | MLIFE IN |

| Shareholding Pattern (%) | |
|--------------------------|------|
| Promoters | 51.1 |
| MF / Banks / Indian FIs | 5.9 |
| FII / NRIs / OCBs | 31.2 |
| Indian Public / Others | 11.8 |

| Abs. (%) | 3m | 1yr | 3yr |
|----------|------|--------|------|
| Sensex | 3.8 | (10.8) | 58.2 |
| MAHLIFE | 26.6 | (17.4) | 71.2 |

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MLIFE: In the right markets

MLIFE is a real estate developer, focusing on premium and mid-market housing and operating in two integrated business cities – MWC Chennai and MWC Jaipur)

MLIFE is a mid-market and premium housing developer. The company caters to strong demand present in tier-1 cities and small metros, which are typically end-user driven, as opposed to investor-led demand in super metros – National Capital Region (NCR) and Mumbai.

Tier-1 cities better placed than metros

Over the past few quarters, real estate in NCR (with the slight exception of Gurgaon) and Mumbai has been marred by declining absorptions, growing vacancy rates and falling affordability, owing to increasing prices and reluctance on the part of developers to cut prices. Demand in small metros and tier-1 cities, on the other hand, has been steady due to better affordability and stable end-user demand.

Pune, Hyderabad and Chennai have seen stable inventory levels, with inventory months as of March 2012 at 6 months, 7 months and 8 months, respectively

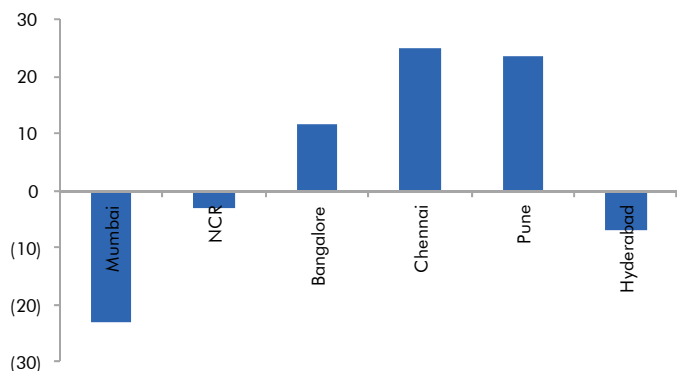
According to data provided by Liasas Foras, inventory months as of March 2012 (Exhibit 3-8), have been stable for Pune (6 months vs. 6 months yoy), Hyderabad (7 months vs. 10 months yoy) and Chennai (8 months vs. 8 months yoy) over the past few quarters along with strong absorptions observed in Pune and Chennai. Hyderabad absorption has decreased during the year due to fewer launches in 4QFY2012. On the other hand, falling absorptions in Mumbai and NCR have led to rising inventory levels, with inventory months touching 15 months vs. 11 months yoy and 11 months vs. 9 months yoy, respectively.

Well-diversified projects, with a focus on tier-1 cities

Pune, Hyderabad and Nagpur together form 68% of MLIFE's exposure in terms of area yet to be sold

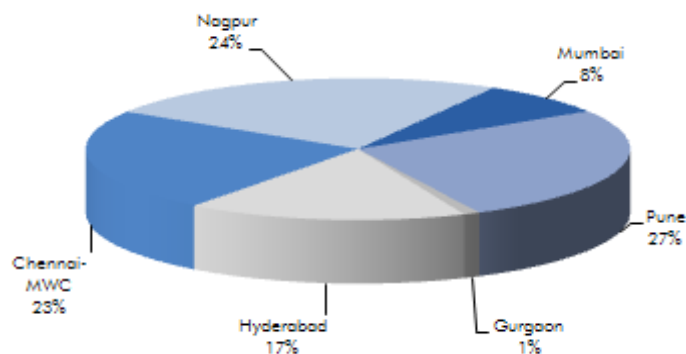
Pune, Hyderabad and Nagpur together form 68% of MLIFE's exposure, in terms of saleable floor area (ongoing and forthcoming projects), which is expected to be launched/sold over the coming years, with the remaining share contributed by NCR (Gurgaon) – 1%; Mumbai – 8%; and New Chennai – 23% (projects linked to MWC – New Chennai). We believe MLIFE is well placed to benefit from the relatively stable housing demand in small metros and tier-1 markets, given its strong brand name, on-time execution track record and lesser competition from organized players. MLIFE also recently announced that it plans to enter the affordable housing space (₹5lakh-15lakh category) in tier-2 cities.

Exhibit 1: India city residential sales trend: FY2012 vs. FY2011 (yoy %)



Source: Liasas Foras, Bloomberg, Angel Research

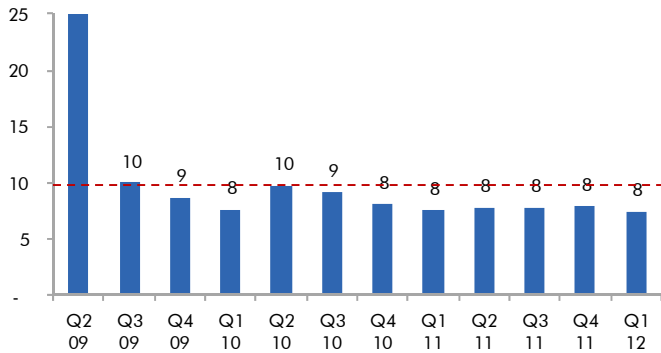
Exhibit 2: MLIFE: City wise project exposure- FORTHCOMING and ongoing projects



Source: Company, Angel Research

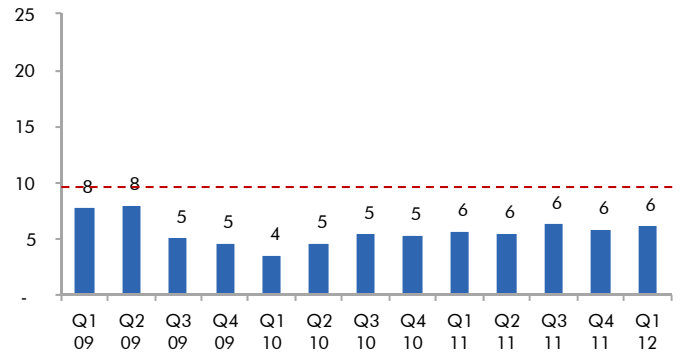
Inventory months: Chennai, Pune and Hyderabad remain stable, with Mumbai and NCR under pressure

Exhibit 3: Chennai: Stable inventory levels



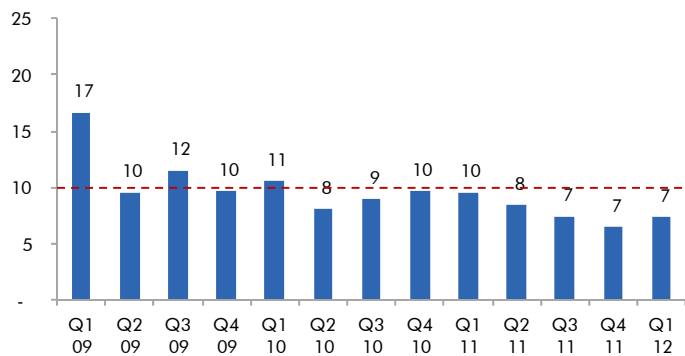
Source: Liasas Foras, Angel Research

Exhibit 4: Pune: Stable inventory levels



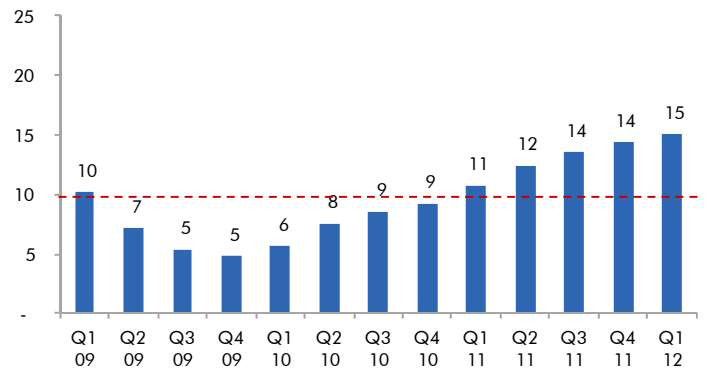
Source: Liasas Foras, Angel Research

Exhibit 5: Hyderabad inventory levels stable due to slow additions



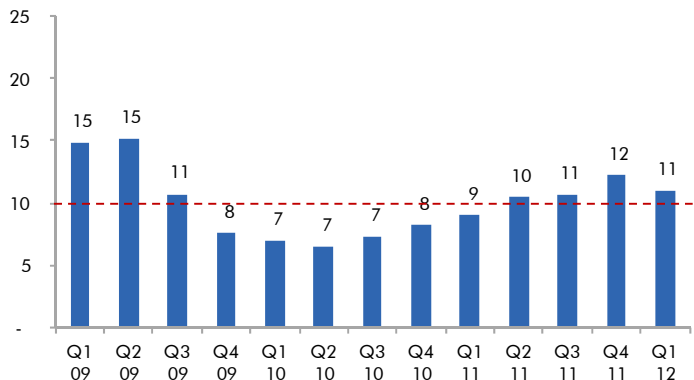
Source: Liasas Foras, Angel Research

Exhibit 6: Declining sales in Mumbai leading to high inventory levels



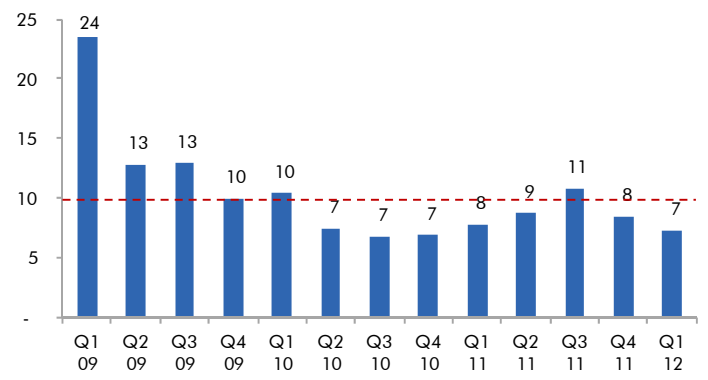
Source: Liasas Foras, Angel Research

Exhibit 7: NCR: Strong additions impacting inventory



Source: Liasas Foras, Angel Research

Exhibit 8: Bangalore inventory months



Source: Liasas Foras, Angel Research

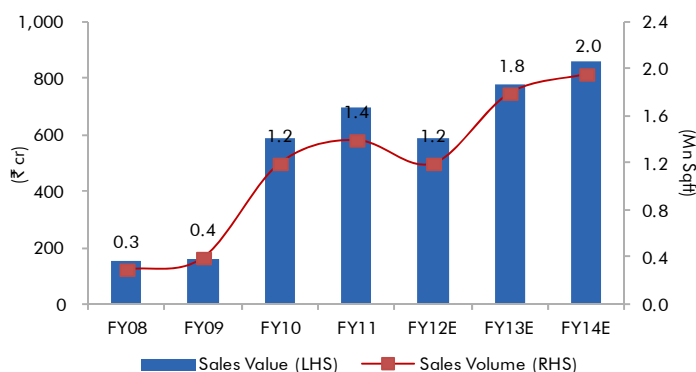
The right time to launch new projects

With 5.2mn sq. ft. of forthcoming projects, MLIFE enjoys a sales coverage of ~4.3x its FY2012 sales, thus providing a strong sales outlook for FY2013 and FY2014E. MLIFE's forthcoming projects are spread across Nagpur (25% of total upcoming area), New Chennai (18%), Hyderabad (19%), Pune (31%) and Mumbai (7%). We highlight that MLIFE's residential projects in New Chennai (outside the main Chennai city) are linked to its MWC Chennai portfolio, which should be the main demand driver for the residential project. Given the high occupancy (~92%) being observed in MWC Chennai currently, we expect strong demand for its projects.

We expect strong sales from new residential launches during FY2013E and 2014E owing to MLIFE's focus on small metros and tier-1 cities and a possible demand revival due to lower interest rates. Strong sales (volume and value) during FY2013E will be a key catalyst, in our view. We forecast sales volume of 1.6mn sq. ft. and 1.8mn sq. ft. and sales value of ₹765cr and ₹834cr for FY2013E and FY2014E, respectively.

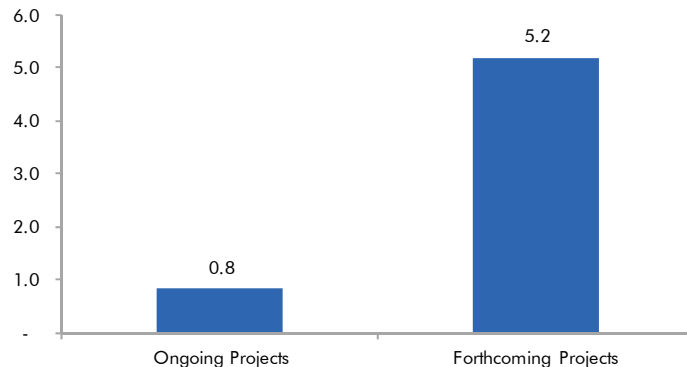
With most Mumbai projects close to completion and only one project left to be sold (GE Garden – only 7% sold till March 2012), revenue and profit contribution from Mumbai projects is set to decline, thus pulling down the company's profit margins going forward. We forecast EBITDA margin at 26.9% and 27.0% for FY2013E and FY2014E, down from 27.3% in FY2012.

Exhibit 9: Strong sales expected during FY2013E and FY2014E



Source: Company, Angel Research

Exhibit 10: Demand for new launches to remain strong – Ongoing vs. Forthcoming projects



Source: Company, Angel Research

Exhibit 11: MLIFE's forthcoming projects breakdown

| City | Forthcoming Projects | Area (mn sq. Ft.) |
|--------------|----------------------------|-------------------|
| Mumbai | Ghatkopar | 0.2 |
| Mumbai | GE Garden | 0.1 |
| Pune | Pimpri Residential Project | 1.6 |
| Hyderabad | Kukatapally Project | 1.0 |
| Chennai | Aqua Lily | 0.6 |
| Chennai | Iris Court phase 3 | 0.3 |
| Nagpur | Bloomdale | 1.3 |
| Total | | 5.2 |

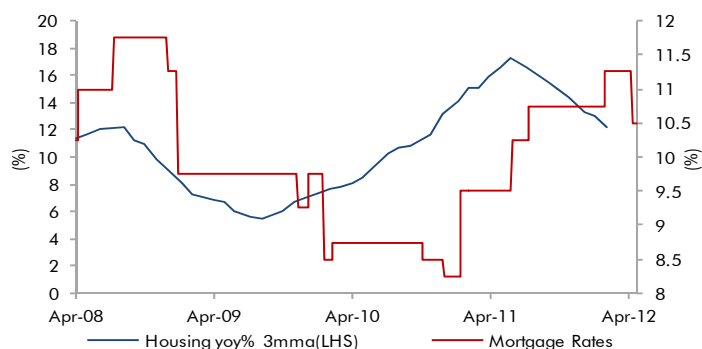
Source: Company, Angel Research

Rate cut cycle initiated, mid market to lead demand revival

Housing demand revival to be led by mid-market housing, with the initiation of the rate cut cycle: The middle and upper-middle class segments are more dependent on housing loans and, thus, are more sensitive to rate cuts than premium housing, in our view.

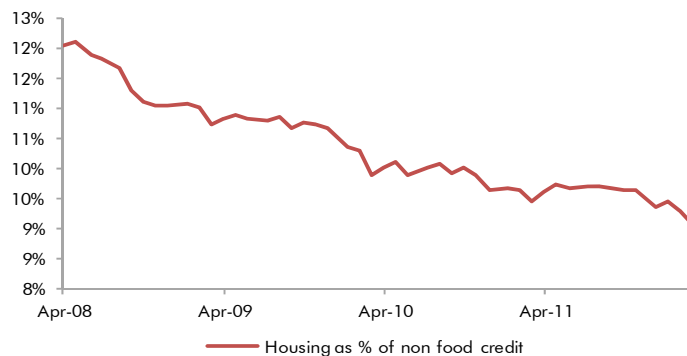
MLIFE, with its focus on upper-middle and middle class housing and its plans to enter affordable housing, should see strong pent-up demand over the next few quarters, especially in light of the fact that housing loan growth has been lagging total credit growth, which can see a possible reversion due to the recent 50bp rate cut, which should reflect in mortgage rates. Housing loans as a percentage of total non-food credit outstanding have reduced to 9% as of March 2012 compared to 11.8% in April 2008. Further rate cuts by housing finance companies (HFCs) would act as a near-term catalyst for MLIFE's share price.

Exhibit 12: Housing loan growth* has remained subdued due to increasing mortgage rates



Source: RBI, Bloomberg, Angel Research *3-month moving average

Exhibit 13: Housing loans has been decreasing as a % of total non-food credit



Source: RBI, Angel Research

Exhibit 14: MLIFE focussed on the mid-market and premium segments (Ongoing projects)

| Project name | City | Area launched (mn sq. ft.) | Units | Base selling price (₹/ sq. ft.) | City Average Selling Price | Variation (%) |
|--------------------|---------|----------------------------|-------|---------------------------------|----------------------------|---------------|
| Eminente Aspen | Mumbai | 0.15 | 68 | 10,350 | 10,833 | (4.5) |
| Eminente Angelica | Mumbai | 0.15 | 67 | 9,650 | 10,833 | (10.9) |
| Splendour -II | Mumbai | 0.36 | 246 | 8,200 | 10,833 | (24.3) |
| GE Garden | Mumbai | 0.12 | 60 | 10,747 | 10,833 | (0.8) |
| Aura- I | NCR | 0.27 | 231 | 2,450 | 3,570 | (31.4) |
| Aura- II | NCR | 0.24 | 166 | 3,175 | 3,570 | (11.1) |
| Aura- III | NCR | 0.21 | 110 | 4,100 | 3,570 | 14.9 |
| Aura- IV | NCR | 0.28 | 141 | 4,375 | 3,570 | 22.6 |
| Aura- V | NCR | 0.25 | 110 | 4,375 | 3,570 | 22.6 |
| Aqua Lily Villas B | Chennai | 0.11 | 33 | 4,350 | 4,035 | 7.8 |
| Aqua Lily Villas C | Chennai | 0.11 | 40 | 4,550 | 4,035 | 12.8 |
| Aqua Lily Villas D | Chennai | 0.12 | 37 | 4,550 | 4,035 | 12.8 |
| Aqua Lily Apts A | Chennai | 0.14 | 80 | 3,230 | 4,035 | (20.0) |
| Aqua Lily Apts B | Chennai | 0.32 | 178 | 3,230 | 4,035 | (20.0) |
| Iris Court Ph I | Chennai | 0.27 | 244 | 2,850 | 4,035 | (29.4) |
| Iris Court Ph II* | Chennai | 0.3 | 229 | 2,950 | 4,035 | (26.9) |

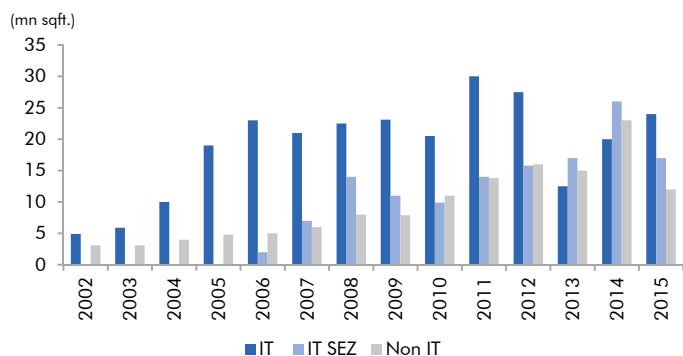
Source: Company, Industry Data, Angel Research

Impact of tax code has been an overhang on MWC's portfolio

Direct tax code, which is proposed to be implemented by March 2013 and seeks to replace profit-based tax benefit with investment-linked incentives along with gradual removal of other existing incentives benefiting SEZ occupants, remains the main drag on SEZ demand in India. The proposed tax code along with the implementation of minimum alternative tax (MAT) and dividend distribution tax (DDT) has led to slowdown in demand for SEZ units. So far, out of the total 582 SEZs being approved, only 130 have become operational with a number of them already cancelled or stalled.

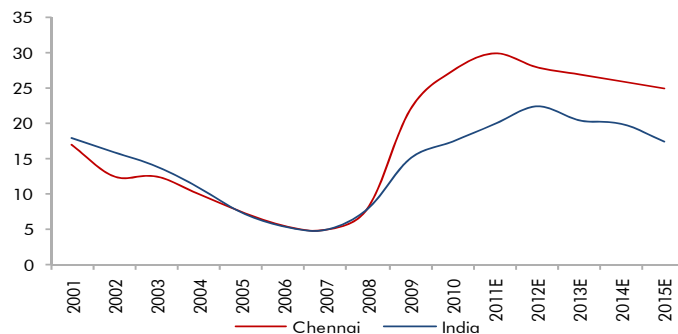
According to JLL, considerable IT SEZ supply (Exhibit 15) is expected to become operational over 2012-15E, thus keeping office vacancy rates elevated at 15-20% for India and around 20-30% for Chennai. However, we note that IT SEZ supply, expected to hit markets during 2012-15E, is at a risk of getting delayed or de-notified, which would help reduce the vacancy rates faster than expected. Office vacancy rates are expected to peak by 2012-13E.

Exhibit 15: Strong office supply expected in India



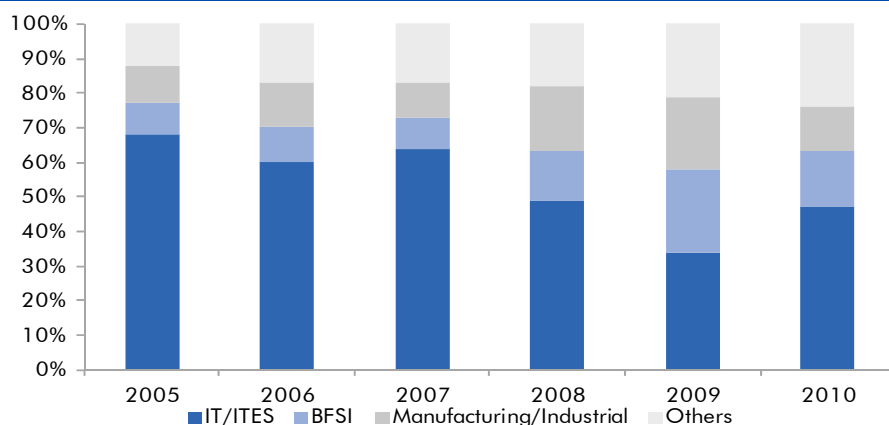
Source: JLL

Exhibit 16: High vacancy can pressurize rentals



Source: JLL

Exhibit 17: Historically, IT/ITES has been the major source of demand for office space in India, however its share has been falling



Source: JLL

Being conservative in our outlook for MWC is the key

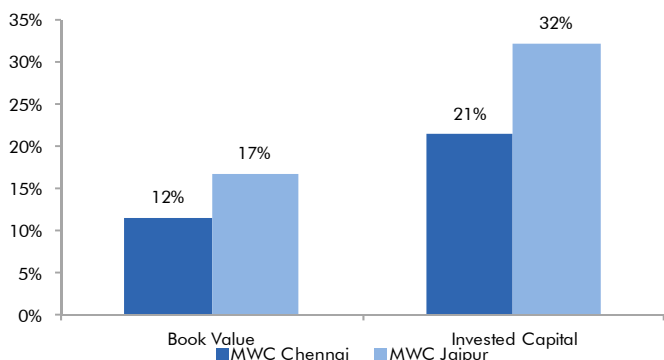
The MWC portfolio is more critical to MLIFE's stock than its financials suggest. The MWC portfolio (Jaipur and Chennai) formed only ~29% of total consolidated book value as of FY2011; but when we consider the invested capital, it forms ~53% of total capital, which is because a major portion of debt is tied to the MWC portfolio. However, MWC contributes only ₹97 (20.6%) to our SOTP value of ₹470. Therefore, we hold that any positive surprises in leasing activity (acquisition of a major client) can lead to significant rerating of the stock.

Expecting slow pick-up in leasing as our base case

Given the uncertainty related with SEZs, we expect MWC Jaipur to increase its leasing occupancy rate to 51% by FY2014E from 41% currently, which is prudent in our view. We also expect a 10% decline in FY2013E and nil growth in FY2014E lease rentals. During FY2012, MWC Jaipur added five customers and signed MoUs with a manufacturing company (DTA) and a large multinational OEM for engineering SEZ space.

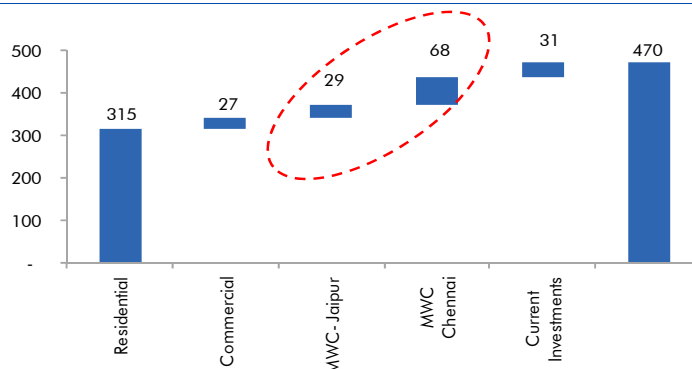
For MWC Chennai, which is relatively a mature investment with 92% of industrial area already leased out as of FY2012, we expect occupancy to remain constant at 92% going forward, with nil rental rate growth during FY2013E and FY2014E. During FY2012, MWC Chennai added four new customers and signed MoUs with five more customers.

Exhibit 18: MWC portfolio forms ~53% of MLIFE's invested capital*...



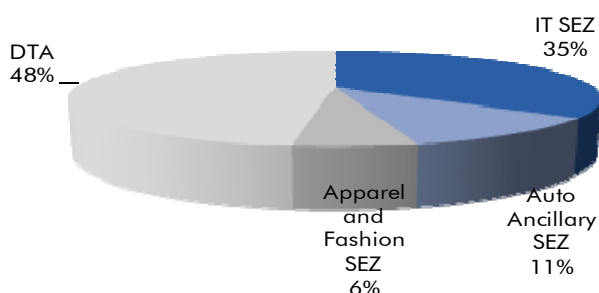
Source: Company, Angel Research *FY2011 book value

Exhibit 19: ...but contributes only ₹97 to our SOTP value of ₹470



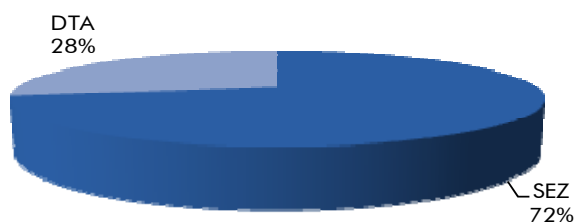
Source: Company, Angel Research

Exhibit 20: MWC Chennai - Area statement (822 acres)



Source: Company, Angel Research

Exhibit 21: MWC Jaipur - Area statement (1,350 acres)



Source: Company, Angel Research

Can we expect a policy reversal?

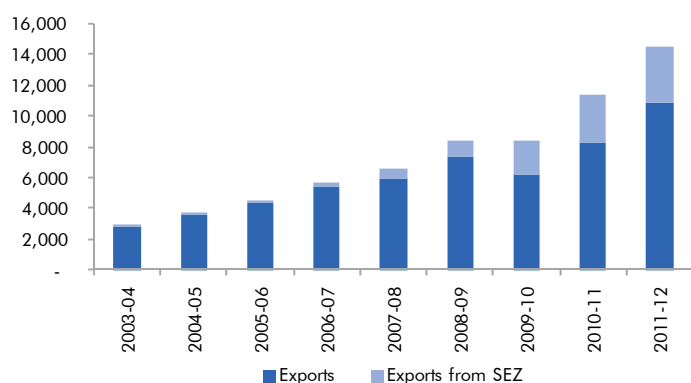
SEZ's contribution to exports has been a crucial source of exports growth and FDI

We take slow demand pick-up and minor downward pressure on rentals during FY2013 and FY2014E as our base case scenario and assume tax code will impact demand for SEZs going forward. However, we do not completely rule out the possibility of some sort of deferment/modification of the tax code or some other form of sops to encourage SEZ investments, even though the probability remains quite low currently. In spite of the controversies surrounding SEZ's land acquisition and tax revenue loss to the government, it is very hard to ignore the benefits of SEZs, especially given:

- SEZs quickly started contributing to India's total exports since the act was passed, touching a high of 28% as of FY2011, but dropped to 25% in FY2012.
- Apart from exports contribution and net foreign exchange that SEZs have been earning in the past, it has also been a major source of FDIs, touching a high of 26% of total FDI in FY2011, but later crashing to only 8% in FY2012.

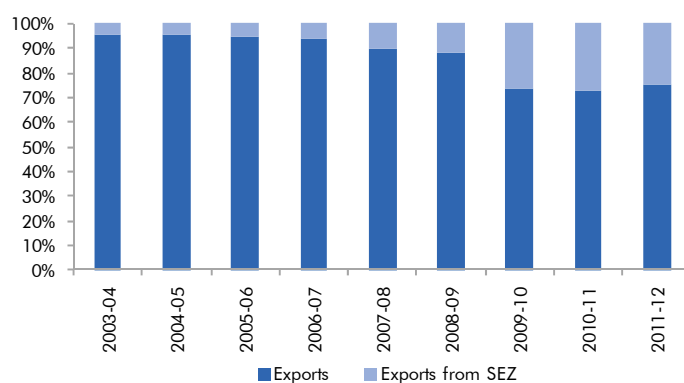
Although we take implementation of direct tax code and sluggish demand for SEZs as our base case scenario and see any changes or reversal in the policy towards SEZs as highly unlikely as of now, we highlight that a policy reversal (though the chances are low) will act as a major upside risk to our forecast and can lead to significant rerating, especially given the contribution of MWC's portfolio (Exhibit 18 and 19) to MLIFE and its levered nature.

Exhibit 22: SEZs contributed swiftly to total export growth as soon as the SEZ act was passed



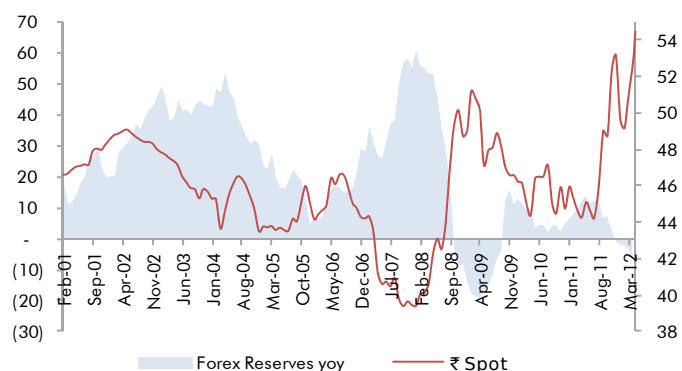
Source: RBI, Angel Research

Exhibit 23: However, export contribution has decreased lately owing to uncertain tax environment



Source: RBI, Angel Research

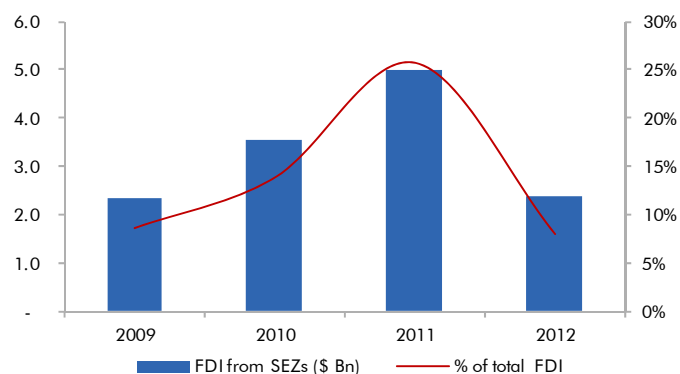
Exhibit 24: SEZs have been a major source of forex reserves in the past through exports and FDI



Source: Bloomberg, RBI, Angel Research

*Upward movement denotes ₹ depreciation

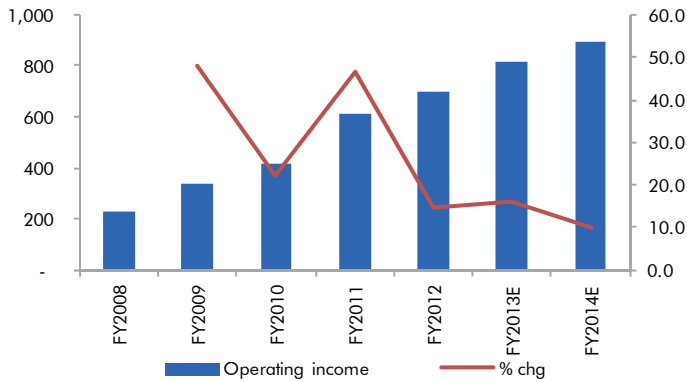
Exhibit 25: FDI in SEZs has taken a beating in FY2012



Source: Ministry of Commerce, RBI, Angel Research

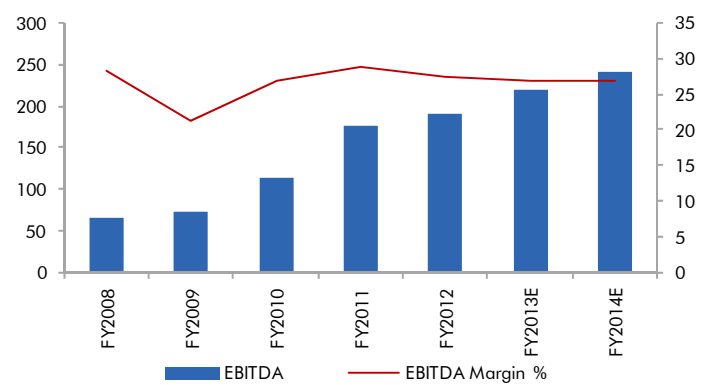
MLIFE: Expectations in brief

Exhibit 26: Revenue and revenue growth



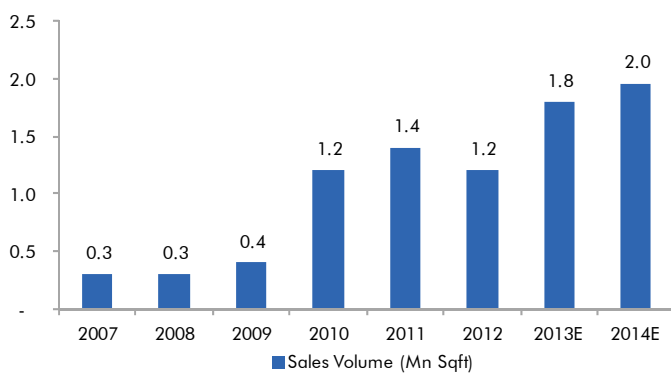
Source: Company, Angel Research

Exhibit 27: MLIFE: EBITDA and EBITDA margin



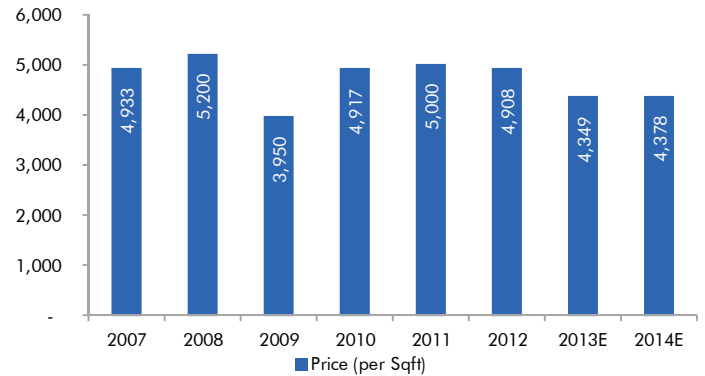
Source: Company, Angel Research

Exhibit 28: MLIFE: Sales volume (mn sq. ft.)



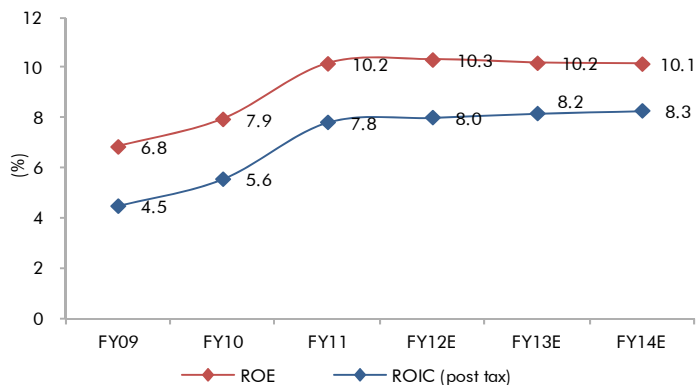
Source: Company, Angel Research

Exhibit 29: MLIFE: Average price realizations



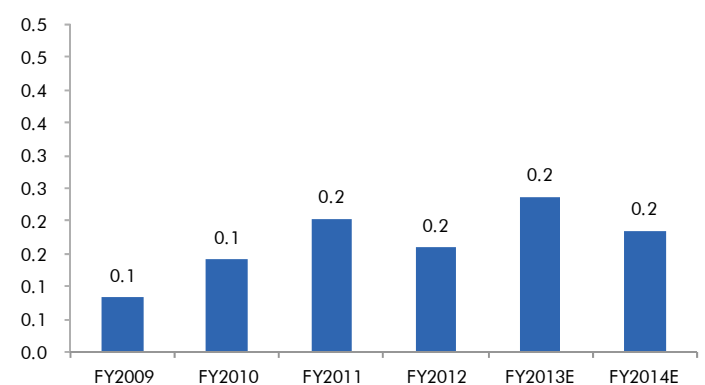
Source: Company, Angel Research

Exhibit 30: MLIFE: RoE and RoIC



Source: Company, Angel Research

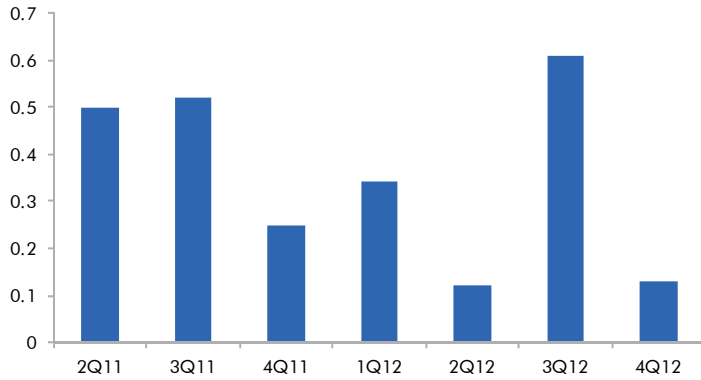
Exhibit 31: MLIFE: Net debt to equity



Source: Company, Angel Research

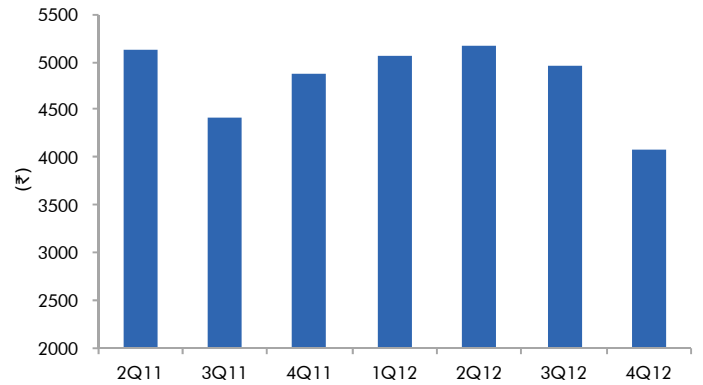
MLIFE: Operational snapshot

Exhibit 32: MLIFE: Area sold (mn sq. ft.)



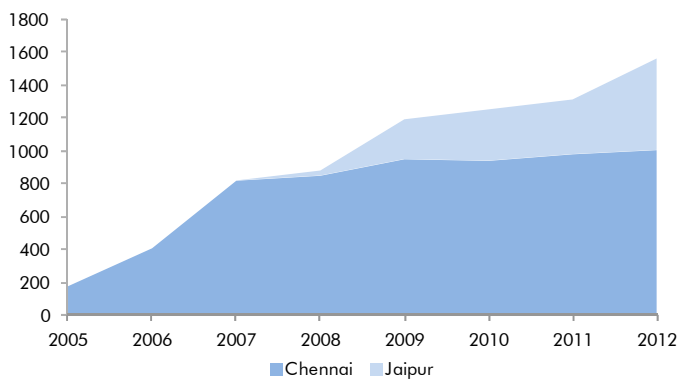
Source: Company, Angel Research

Exhibit 33: MLIFE: Average sales realization



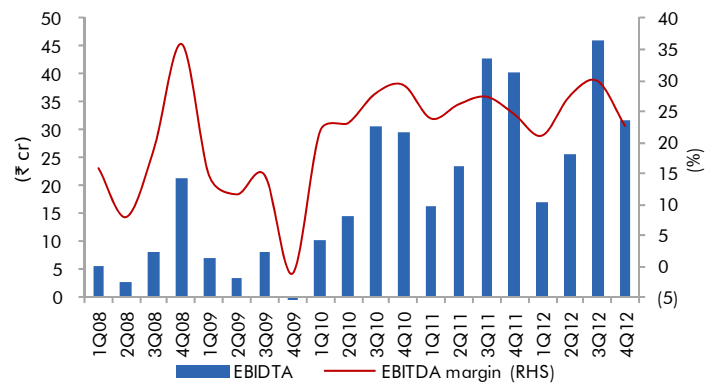
Source: Company, Angel Research

Exhibit 34: MWC: Area leased (acres)



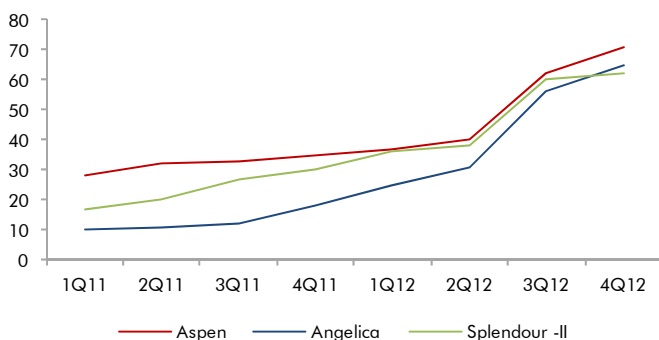
Source: Company, Angel Research

Exhibit 35: MLIFE: Quarterly EBITDA margin



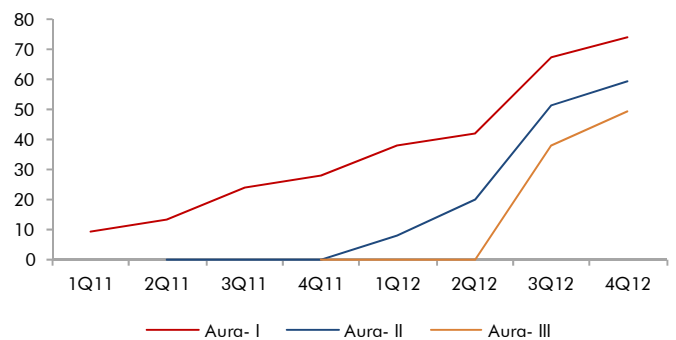
Source: Company, Angel Research

Exhibit 36: Execution schedule of Mumbai projects



Source: Company, Angel Research

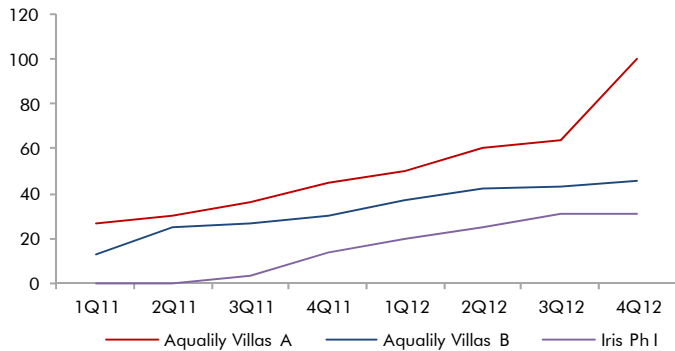
Exhibit 37: Execution schedule of NCR projects



Source: Company, Angel Research

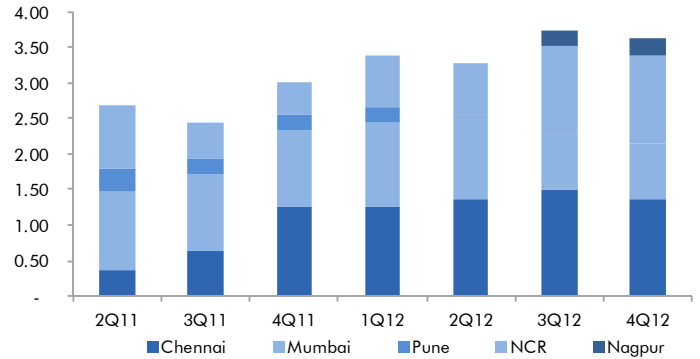
MLIFE: Operational snapshot

Exhibit 38: New Chennai: Project execution schedule



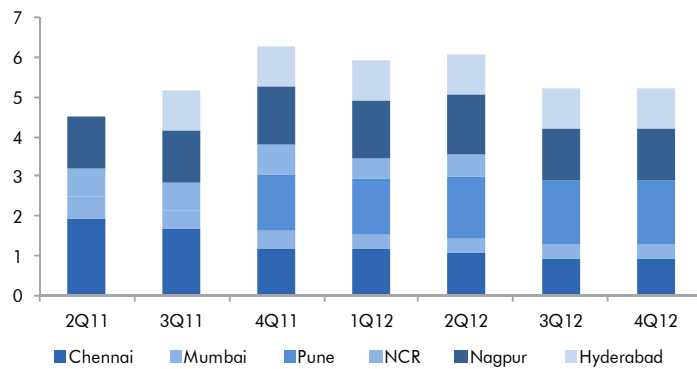
Source: Company, Angel Research

Exhibit 39: Ongoing projects evolution by city (mn sqft)



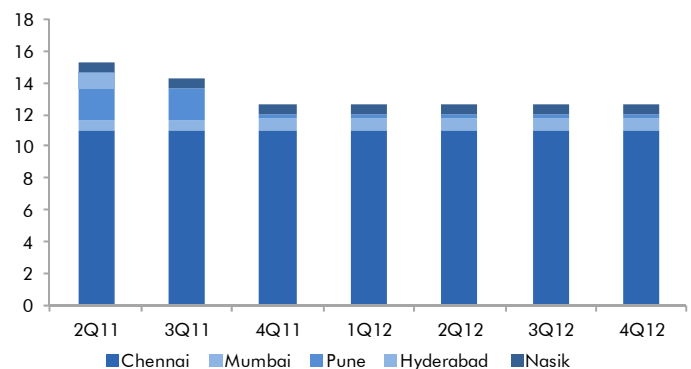
Source: Company, Angel Research *represents total area of ongoing project

Exhibit 40: Forthcoming projects evolution (mn sq. ft.)



Source: Company, Angel Research

Exhibit 41: Land bank evolution by city (mn sq. ft.)



Source: Company, Angel Research

Valuation

We value MLIFE on SOTP basis using NAV approach for its standalone business and value its subsidiaries on NAV/Cap Rate/BV basis and arrive at an SOTP value of ₹470. We apply a 20% discount to our SOTP value to arrive at our target price of ₹376, suggesting an upside of 21% from current levels. MLIFE is currently trading at PB (FY2014E) of 0.9x, with our target price of ₹376, suggesting a PB (FY2014E) of 1.1x.

Real estate development business contributes ₹315/share

We have valued MLIFE's real estate business using the NAV approach, where we value the company's standalone as well as subsidiary residential projects individually. We have assumed cost of equity of 16.9% (Beta – 1.2; risk-free rate – 8.5%; and risk premium – 7.0%), cost of debt of 12% and arrive at a WACC of 13.3%.

MWC (Chennai and Jaipur) contributes ₹97/share

MWC Chennai is relatively at a more mature stage than MWC Jaipur, with ~92% of industrial area leased. We value MWC by applying a capitalization rate of 8% on its FY2014E operating income and discounting it back. Similarly, for MWC Jaipur, we apply a capitalization rate of 8% on its FY2016E operating income and then discount it back. Despite valuing the MWC portfolio cautiously, we have arrived at a potential upside of 21%, which suggests that the stock might already have priced in an adverse impact of removal of tax benefits.

We initiate coverage of MLIFE with a Buy rating and a target price of ₹392.

Exhibit 42: MLIFE: SOTP breakdown

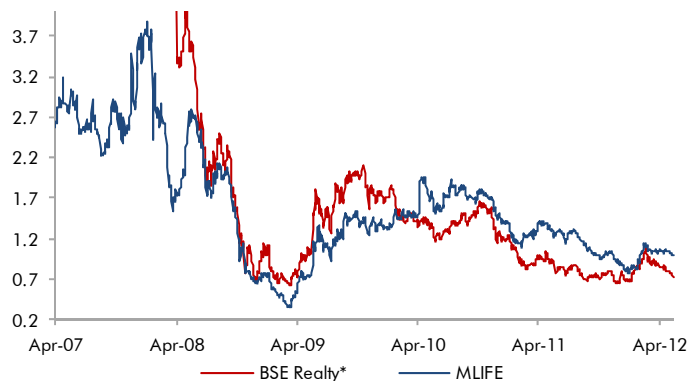
| | Valuation method | MLIFE value | Value/share |
|---------------------|------------------|--|-------------|
| Residential | NAV | 1,286 | 315 |
| Commercial | Cap rate of 8% | 109 | 27 |
| MWC- Jaipur | Cap rate of 8% | 119 | 29 |
| MWC Chennai | Cap rate of 8% | 278 | 68 |
| Current Investments | Book Value | 128 | 31 |
| | | SOTP | 470 |
| | | Target price (20% Disc. to NAV) | 376 |
| | | CMP | 312 |
| | | Upside | 21% |

Source: Angel Research, Company

MLIFE deserves a premium to BSE Realty, in our view

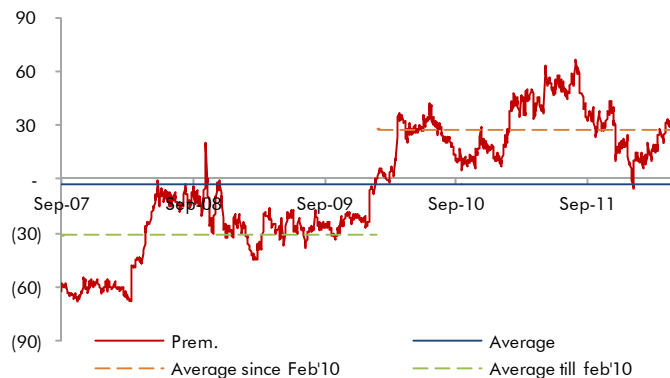
Given MLIFE's strong balance sheet, good corporate governance and brand name along with strong parent backing, we are of the opinion that MLIFE deserves to trade at a premium to sector average, especially given the corporate governance concerns regarding the real estate sector.

Exhibit 43: One-year forward PB - MLIFE vs. BSE Realty Index



Source: Company, Angel Research, Bloomberg *Bloomberg Consensus numbers

Exhibit 44: MLIFE deserves a premium to BSE Realty - Currently trading at 35% premium



Source: Company, Angel Research, Bloomberg

Exhibit 45: MLIFE vs. peers

| | Price | Market Cap (₹ cr) | Net Debt to EBITDA | | Net Debt to Equity | | ROE | | P/Book | | P/Earnings | |
|-----------|-------|----------------------|--------------------|---------|--------------------|---------|---------|---------|---------|---------|------------|---------|
| | | | FY2013E | FY2014E | FY2013E | FY2014E | FY2013E | FY2014E | FY2013E | FY2014E | FY2013E | FY2014E |
| MLIFE | 312 | 1,266 | 1.4 | 1.0 | 0.2 | 0.2 | 10.2 | 10.1 | 1.0 | 0.9 | 10.0 | 9.2 |
| DLF | 182 | 31,216 | 5.6 | 4.4 | 1.0 | 0.9 | 6.3 | 8.4 | 1.2 | 1.1 | 19.0 | 13.5 |
| HDIL | 62 | 2,581 | 3.5 | 3.1 | 0.4 | 0.4 | 8.0 | 8.7 | 0.2 | 0.2 | 2.9 | 2.5 |
| Anant Raj | 51 | 1,505 | 2.4 | 1.7 | 0.2 | 0.2 | 6.1 | 8.5 | 0.4 | 0.3 | 6.1 | 4.0 |

Source: Company, Angel Research

Key risks

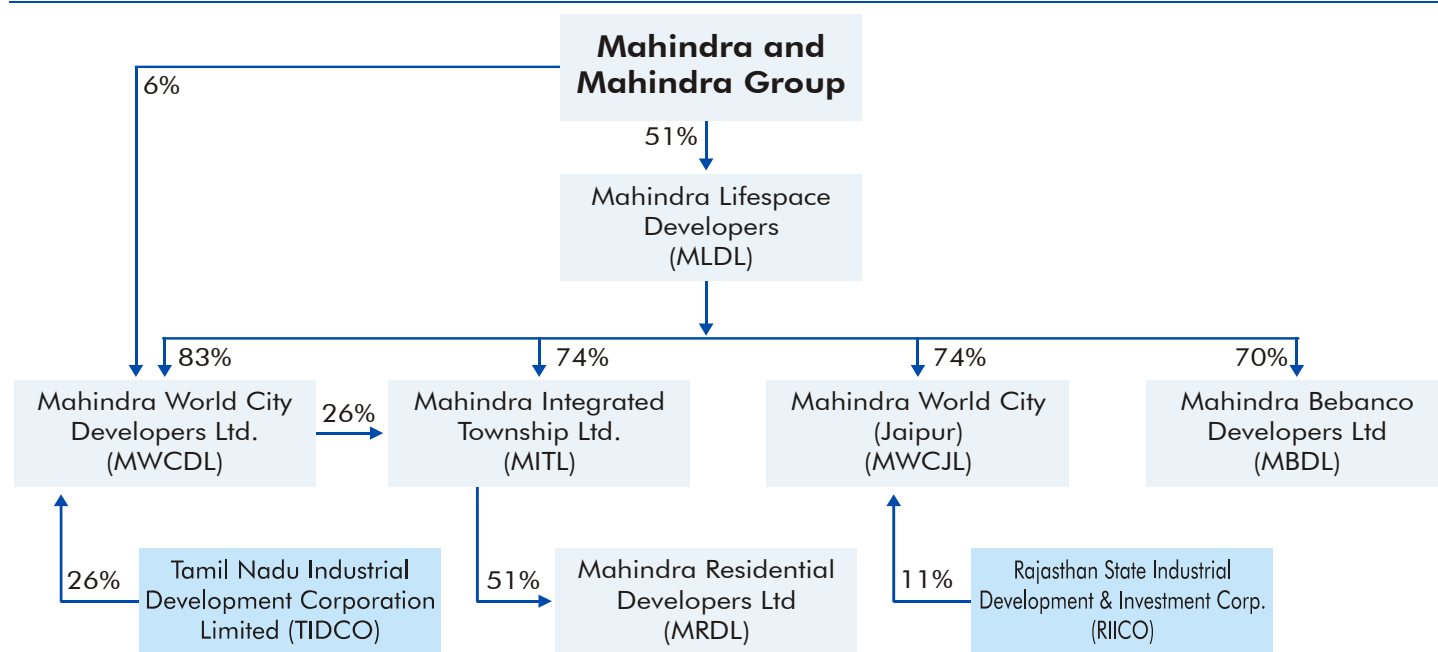
- MLIFE's projects in Chennai are based in MWC – Chennai. Therefore, their performance is linked to MWC Chennai's leasing activity. Any decline/slow growth in MWC Chennai leasing will adversely impact its Chennai projects and value of its 11 mn sq. ft. land bank.
- Delays in getting project and land approvals will lead to slowdown in future launches, which would impact sales.
- Slower-than-expected execution will delay MLIFE's revenue recognition and negatively impact its brand name.
- Failure of any meaningful rate cuts by HFCs and banks will lead to muted housing demand for MLIFE.
- Better-than-expected leasing in MWC brands, especially MWC Jaipur, poses an upside risk to the target price, as we have conservatively valued MWC's portfolio.

Company overview

Mahindra Lifespaces Developers (MLDL), a 51% owned subsidiary of Mahindra and Mahindra Group, is in the business of real estate development, with a focus on residential projects and integrated infrastructure developments such as business cities, industrial parks and SEZs. MLDL has till date developed ~7mn sq. ft. of residential projects in cities like Mumbai, Pune, NCR, Chennai and is expanding its presence to cities like Hyderabad, Nagpur and Nasik by increasing its focus on the premium and mid-market segments. The company has also announced its plans to enter the affordable housing segment in tier-2 cities.

MLDL is also present in integrated development space, with two operational projects through its subsidiaries – MWC Jaipur and MWC Chennai. These are spread over an area of ~4,200 acres with presence of SEZs and DTAs.

Exhibit 46: Corporate structure



Source: Company

Exhibit 47: MLIFE: Project snapshot

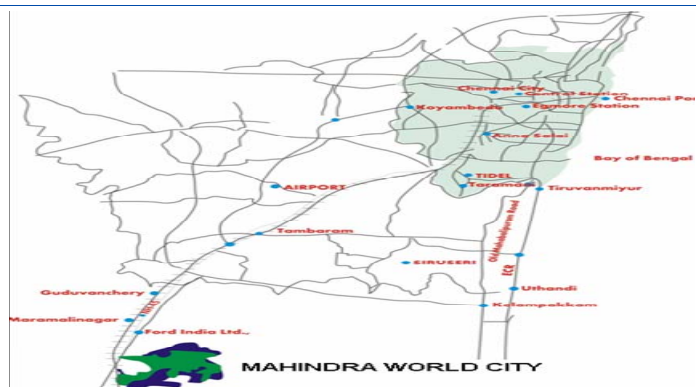
| Location (mn sq. ft.) | Completed | Ongoing | Forthcoming | Land bank |
|-----------------------|------------|------------|-------------|-------------|
| Chennai | 0.6 | 1.5 | 1.0 | 11.0 |
| Mumbai | 3.1 | 0.8 | 0.4 | 0.7 |
| Pune | 1.6 | - | 1.6 | 0.3 |
| NCR | 1.7 | 1.2 | - | - |
| Nagpur | - | 0.2 | 1.3 | - |
| Hyderabad | - | - | 1.0 | - |
| Nasik | - | - | - | 0.6 |
| Bangalore | 0.1 | - | - | - |
| Total | 7.0 | 3.8 | 5.2 | 12.6 |

Source: Company

Mahindra World City (MWC) – Chennai

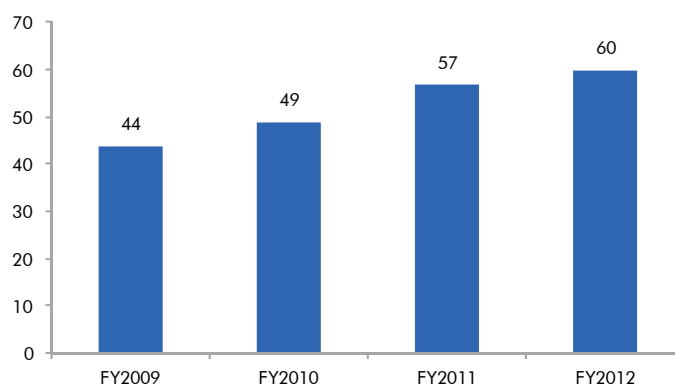
MWC Chennai is jointly promoted by Mahindra World City Developers Ltd. (MWCDL) and Tamil Nadu Industrial Development Corporation Ltd. (TIDCO), with 1) three sector-specific SEZs catering to industry sectors viz. IT (services and manufacturing), apparel and fashion accessories, and auto ancillaries; 2) a DTA; and 3) a residential and social infrastructure zone. The project is spread across an area of 1,550 acres (includes 100 acres expansion to cater to fresh demand). MWCDL has signed MoUs with multi-national companies from Japan, U.S. and Ireland in the auto ancillary sector for around 50% of the proposed expansion area. The business zone has 60 clients, of which 28 are in SEZ and 32 are in DTA. MWC is located on National Highway 45 and is ~60km from the Chennai city.

Exhibit 48: MWC Chennai - Location



Source: Company, Angel Research

Exhibit 49: Client base of MWC Chennai



Source: Company, Angel Research

Exhibit 50: Clients of MWC Chennai

| IT SEZ | Auto SEZ | Apparel SEZ | DTA | DTA | DTA | Social |
|----------------------|------------------------|--------------------|--------------------|---------------------------------|-------------------------|-----------------------|
| Atos Origin* | Brakes India | AI Enterprises | Alpha Packaging | Guangdong Greatoo | Netafim | Duet Hotels |
| Cap Gemini India | Madras Engineering | Bengal Hangers | American Axle | Husky Injection Molding Systems | NTN Corporation | JSP Hospitals |
| Electronic Recycling | Sundaram Brake Linings | Capella Fashions | Armstrong | Ingersoll Rand | Parker Hannifin | Mahindra World School |
| Helios & Matheson* | Sundaram Clayton | Intermode | B. Braun Medical | JCF Valves | Sakazaki Engraving | AmelioDay Care |
| Infosys Technologies | Sundram Fasteners | Leather Craft | BMW India | JSP Foams | Sanwa Synergy | BP –Petrol Station |
| Mastek | Timken Engineering | Linea Fashions | CII | Kryolan Cosmetics | Sharda Motor Industries | Canopy |
| MindTree* | UCAL Fuel Systems | Rico Group | DePuy Medical | Lincoln Electric Company | SMC Pneumatic | |
| Renault Nissan* | | Srinivasa Fashions | Federal Mogul | Mahindra & Mahindra | Tesa Tapes India | |
| Tech Mahindra* | | Slam Apparel | Freight Systems | Milton Roy India | Tridon Automotive | |
| VIPL | | Timex Garments | Fujitec India | Musashi Paints | TTK Healthcare | |
| Wipro | | | Galipoglu Hidromas | Mecaplast India | | |

Source: Company

MWC Jaipur

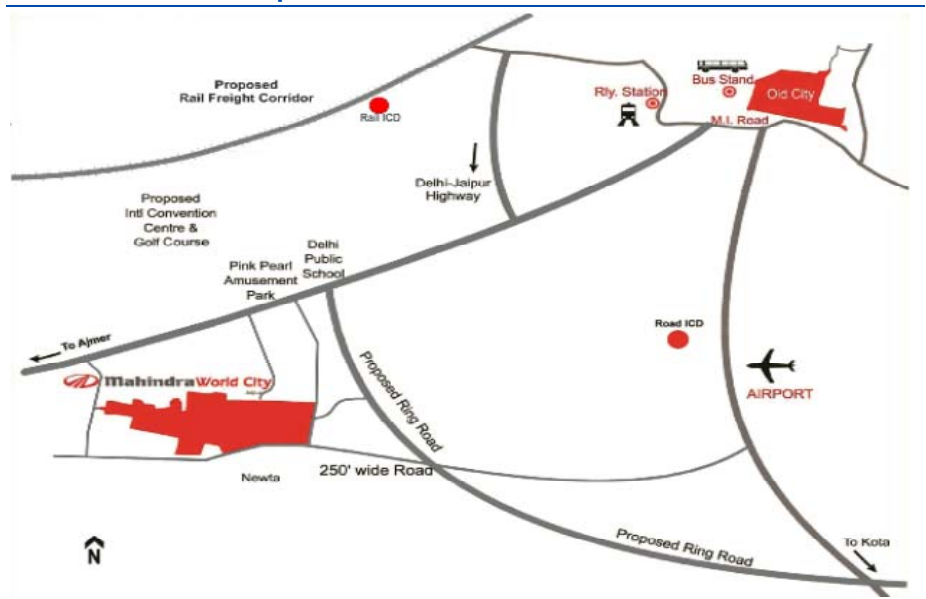
MWC Jaipur is a 74-26 joint venture between MLIFE and Rajasthan State Industrial Development and Investment Corporation Limited (RIICO). It is being developed as a multi-product SEZ and DTA across 3,000 acres. The project has received notifications for three SEZs – IT/ITeS, light engineering (including automotive and auto components) and handicrafts; and formal approval for two more SEZs, namely gems and jewelry (25 acres) and IT/ITeS (86 acres). MWC Jaipur also plans to expand in segments like apparel and logistics.

Exhibit 51: Clients of MWC Jaipur

| IT/ITeS SEZ | Handicrafts SEZ | Engineering & Related Industries SEZ | DTA |
|-----------------------|-----------------------------|--------------------------------------|---------------------|
| DBOI Global Services | GAD Industries | Dynamic Powertech | ICICI Bank |
| EXL Service | Jaipur Crafts | Gravita | State Bank of India |
| SystweakSoftware | Kirat Crafts | India Agrovision | |
| Genpact | Laxmi Ideal Interiors | KnitproInternational | |
| Girnar Software | OrviDesign | Marsons Industries | |
| Infosys BPO | Rajdhani Craft | Poly Medicure | |
| Infosys Ltd. | RatanTextiles | QH Talbros | |
| Isys Softech | Rediprint International | Tijaria International | |
| Nagarro Software | Samurai Designs & Interiors | Veto Electricals | |
| Nucleus Software | Seesham Handicraft House | Veto Polymers & Metals | |
| Truworth KPO Services | Rama Handicrafts | | |
| Wipro | Art Age Furnishings | | |
| ConnexionsIT Services | Rustic Furniture | | |
| Tech Mahindra | | | |

Source: Company

Exhibit 52: MWC Jaipur - Location



Source: Company, Angel Research

Upcoming business cities

MLIFE is planning to launch two integrated business cities, in-line with its existing MWC portfolio. The new integrated cities will be developed in Dholera (Gujarat) and in the Northern part of Chennai. Both the projects are expected to be launched in March 2013.

- **Integrated Business City, Chennai**, will be spread across 1,000 acres to cater to mid-size ancillary industries of this segment, including auto components, electronics, precision engineering and logistics. The company has already acquired 50% of land requirements. The land is being acquired through private negotiations.
- **Integrated Business City, Dholera, Gujarat** will be spread across 2,500 acres and will be located on the proposed Delhi Mumbai industrial corridor. Land acquisition will be facilitated by the Gujarat government.

Profit and Loss Account (Consolidated)

| Y/E March (₹ cr) | FY2009 | FY2010 | FY2011 | FY2012E | FY2013E | FY2014E |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Operating income | 342 | 418 | 612 | 701 | 814 | 897 |
| % chg | 47.9 | 22.3 | 46.4 | 14.6 | 16.1 | 10.2 |
| Operating Expenses | 229 | 253 | 366 | 427 | 498 | 548 |
| Personnel | 14 | 18 | 23 | 29 | 34 | 38 |
| Other | 26 | 34 | 47 | 53 | 63 | 69 |
| Total Expenditure | 269 | 305 | 436 | 510 | 595 | 655 |
| EBITDA | 73 | 113 | 176 | 191 | 219 | 242 |
| % chg | 10.9 | 55.3 | 56.6 | 8.5 | 14.5 | 10.4 |
| (% of Net Sales) | 21.2 | 27.0 | 28.8 | 27.3 | 26.9 | 27.0 |
| Depreciation | (4) | 7 | 8 | 9 | 10 | 12 |
| EBIT | 76 | 106 | 168 | 182 | 209 | 230 |
| % chg | 24.8 | 38.8 | 58.6 | 8.1 | 15.0 | 10.0 |
| (% of Net Sales) | 22.4 | 25.4 | 27.5 | 26.0 | 25.7 | 25.7 |
| Interest & other charges | 4 | 9 | 11 | 21 | 27 | 36 |
| Other Income | 29 | 22 | 15 | 27 | 24 | 35 |
| (% of sales) | 1.1 | 2.2 | 1.9 | 3.0 | 3.4 | 4.1 |
| PBT | 102 | 119 | 172 | 188 | 206 | 229 |
| % chg | 10.2 | 16.4 | 44.7 | 9.3 | 9.8 | 10.8 |
| Tax | 31.3 | 38.3 | 58.7 | 59.3 | 65.1 | 72.1 |
| (% of PBT) | 30.7 | 32.3 | 34.1 | 31.5 | 31.5 | 31.5 |
| PAT (reported) | 71 | 81 | 113 | 129 | 141 | 157 |
| Extraordinary (Exp)/Inc. | | | | | | |
| Minority Interest | 7 | 2 | 5 | 10 | 13 | 18 |
| ADJ. PAT | 64 | 78 | 108 | 119 | 128 | 139 |
| % chg | (3.3) | 22.2 | 37.8 | 10.1 | 7.4 | 8.3 |
| (% of Net Sales) | 18.8 | 18.8 | 17.7 | 17.0 | 15.7 | 15.4 |
| Basic EPS (₹) | 16.1 | 19.2 | 26.5 | 29.2 | 31.3 | 33.9 |
| Fully Diluted EPS (₹) | 16.1 | 19.2 | 26.5 | 29.2 | 31.3 | 33.9 |
| % chg | (1.2) | 19.6 | 37.7 | 10.1 | 7.4 | 8.3 |

Balance Sheet (Consolidated)

| Y/E March (₹ cr) | FY2009 | FY2010 | FY2011 | FY2012E | FY2013E | FY2014E |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| SOURCES OF FUNDS | | | | | | |
| Equity Share Capital | 41 | 41 | 41 | 41 | 41 | 41 |
| Preference Capital | 14 | 10 | 0 | 0 | 0 | 0 |
| ESOP Outstanding | 0 | 0 | 1 | 1 | 1 | 1 |
| Reserves & Surplus | 884 | 938 | 1,024 | 1,114 | 1,215 | 1,324 |
| Shareholders' Funds | 939 | 989 | 1,065 | 1,155 | 1,256 | 1,366 |
| Minority Interest | 86 | 82 | 83 | 100 | 114 | 132 |
| Total Loans | 332 | 421 | 544 | 509 | 759 | 1,009 |
| Deferred Tax Liability | 9 | 10 | 15 | 22 | 22 | 22 |
| Total Liabilities | 1,365 | 1,501 | 1,708 | 1,786 | 2,151 | 2,528 |
| APPLICATION OF FUNDS | | | | | | |
| Net Block | 150 | 163 | 179 | 195 | 230 | 260 |
| Goodwill | 29 | 29 | 29 | 29 | 29 | 29 |
| Capital Work-in-Progress | 46 | 13 | 17 | 8 | 8 | 8 |
| Investments | 108 | 148 | 87 | 175 | 175 | 175 |
| Current Assets | 1,214 | 1,394 | 1,705 | 1,852 | 2,215 | 2,649 |
| Cash | 145 | 133 | 240 | 150 | 287 | 581 |
| Loans & Advances | 199 | 207 | 294 | 367 | 400 | 440 |
| Inventory | 768 | 906 | 936 | 1,049 | 1,215 | 1,283 |
| Debtors | 73 | 121 | 207 | 198 | 275 | 303 |
| Other current assets | 29 | 25 | 28 | 89 | 38 | 42 |
| Current liabilities | 182 | 245 | 310 | 473 | 506 | 593 |
| Net Current Assets | 1,032 | 1,148 | 1,395 | 1,379 | 1,708 | 2,056 |
| Mis. Exp. not written off | | | | | | |
| Total Assets | 1,365 | 1,501 | 1,708 | 1,786 | 2,151 | 2,528 |

Cash Flow Statement (Consolidated)

| Y/E March (₹ cr) | FY2009 | FY2010 | FY2011 | FY2012E | FY2013E | FY2014E |
|----------------------------------|--------------|-------------|------------|-------------|-------------|-------------|
| Profit before tax | 102 | 119 | 172 | 188 | 206 | 229 |
| Depreciation | (4) | 7 | 8 | 9 | 10 | 12 |
| Change in Working Capital | (80) | (88) | 6 | (33) | 119 | (140) |
| Other income | (29) | (22) | (15) | (27) | (24) | (35) |
| Direct taxes paid | (31) | (38) | (59) | (59) | (65) | (72) |
| Others | (193) | (43) | 132 | 149 | 218 | 132 |
| Cash Flow from Operations | (151) | (20) | 20 | 72 | (28) | 138 |
| (Inc.)/Dec. in Fixed Assets | 72 | 4 | 28 | 32 | 37 | 41 |
| (Inc.)/Dec. in Investments | 224 | (35) | 62 | - | - | - |
| Other income | 29 | 22 | 15 | 27 | 24 | 35 |
| Others | (133) | (19) | (64) | (78) | (86) | (104) |
| Cash Flow from Investing | 192 | (29) | 41 | (19) | (24) | (28) |
| Issue of Equity | 26 | - | 1 | - | - | - |
| Inc./(Dec.) in loans | 47 | 89 | 123 | (27) | 250 | 250 |
| Dividend Paid (Incl. Tax) | 13 | 13 | 19 | 25 | 27 | 29 |
| Others | (29) | (65) | (98) | (71) | (81) | (94) |
| Cash Flow from Financing | 57 | 36 | 46 | (73) | 196 | 185 |
| Inc./(Dec.) in Cash | 99 | (12) | 107 | (20) | 144 | 295 |
| Opening Cash balances | 46 | 145 | 133 | 240 | 220 | 364 |
| Closing Cash balances | 145 | 133 | 240 | 220 | 364 | 659 |

Key Ratio's

| Y/E March (₹ cr) | FY2009 | FY2010 | FY2011 | FY2012E | FY2013E | FY2014E |
|-------------------------------------|--------|--------|--------|---------|---------|---------|
| Valuation Ratio (x) | | | | | | |
| P/E (on FDEPS) | 19.4 | 16.2 | 11.8 | 10.7 | 10.0 | 9.2 |
| P/CEPS | 21.1 | 15.0 | 10.9 | 9.9 | 9.3 | 8.5 |
| P/BV | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 | 0.9 |
| Dividend yield (%) | 1.0 | 1.0 | 1.5 | 2.0 | 2.1 | 2.3 |
| EV/Sales | 4.3 | 3.7 | 2.6 | 2.3 | 2.1 | 1.9 |
| EV/EBITDA | 20.1 | 13.9 | 8.9 | 8.5 | 8.0 | 7.0 |
| EV / Total Assets | 1.1 | 1.0 | 0.9 | 0.9 | 0.8 | 0.7 |
| Per Share Data (₹) | | | | | | |
| EPS (Basic) | 15.7 | 19.2 | 26.5 | 29.2 | 31.3 | 33.9 |
| EPS (fully diluted) | 15.7 | 19.2 | 26.5 | 29.2 | 31.3 | 33.9 |
| Cash EPS | 14.8 | 20.8 | 28.5 | 31.4 | 33.7 | 36.7 |
| DPS | 3.2 | 3.2 | 4.7 | 6.1 | 6.6 | 7.1 |
| Book Value | 230.1 | 242.3 | 260.8 | 282.9 | 307.6 | 334.4 |
| Du pont Analysis | | | | | | |
| EBIT margin | 22.4 | 25.4 | 27.5 | 26.0 | 25.7 | 25.7 |
| Tax retention ratio | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Asset turnover (x) | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 |
| ROIC (Post-tax) | 4.5 | 5.6 | 7.8 | 8.0 | 8.2 | 8.3 |
| Cost of Debt (Post Tax) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Leverage (x) | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Operating ROE | 9.0 | 11.1 | 15.6 | 16.1 | 16.4 | 16.6 |
| Returns (%) | | | | | | |
| ROCE (Pre-tax) | 6.0 | 7.4 | 10.5 | 10.4 | 10.6 | 9.8 |
| Angel ROIC (Pre-tax) | 6.5 | 8.2 | 11.9 | 11.7 | 12.0 | 12.1 |
| ROE | 6.8 | 7.9 | 10.2 | 10.3 | 10.2 | 10.1 |
| Turnover ratios (x) | | | | | | |
| Asset Turnover | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 |
| Inventory / Sales (days) | 764 | 731 | 550 | 517 | 508 | 508 |
| Receivables (days) | 63 | 85 | 98 | 105 | 106 | 118 |
| Payables (days) | 236 | 255 | 233 | 280 | 301 | 306 |
| WC cycle (ex-cash) (days) | 837 | 831 | 647 | 621 | 594 | 590 |
| Solvency ratios (x) | | | | | | |
| Net debt to equity | 0.08 | 0.14 | 0.20 | 0.16 | 0.24 | 0.19 |
| Net debt to EBITDA | 1.1 | 1.2 | 1.2 | 1.0 | 1.4 | 1.0 |
| Interest Coverage (EBIT / Interest) | 20.4 | 11.4 | 14.9 | 8.6 | 7.7 | 6.3 |

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| Disclosure of Interest Statement | | Mahindra Lifespaces Developers |
|--|--|--------------------------------|
| 1. Analyst ownership of the stock | | No |
| 2. Angel and its Group companies ownership of the stock | | No |
| 3. Angel and its Group companies' Directors ownership of the stock | | No |
| 4. Broking relationship with company covered | | No |

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

| Ratings (Returns): | Buy (> 15%) | Accumulate (5% to 15%) | Neutral (-5 to 5%) |
|--------------------|---------------------|------------------------|--------------------|
| | Reduce (-5% to 15%) | Sell (< -15%) | |