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VALUE PICK

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April 2016

Company Name	:	**Mahindra Lifespace Developers**
BSE Code	:	**532313**
Time Duration	:	**1 year**
CMP	:	**₹436 (as on 7 April, 2016)**
Target Price	:	**₹530**

Mahindra Lifespace Developers, part of Mahindra Group, is a mid and premium segment residential market player, who has added in 2014 an affordable housing scheme in its offering. The company operates through associates and joint ventures in the commercial space under the name of Mahindra World City. We believe the company has strong potential to give an upside of 22% to reach the levels of 530 due to ongoing projects payment realisation, traction in commercial space and improvement in macroeconomic factors.

Ongoing project realisations in residential segment: We see that the ongoing projects in MMR, Pune, Nagpur and Chennai have reached the range of 30-57% completion, and the price realisations of ₹700 crore are going to trickle in from Q1FY17 and will gain momentum towards the second half of FY17. Despite muted growth in the realty sector, company till Q3FY16 registered a 17% growth over the previous year, translating into approx. ₹530 crores of presales as opposed to ₹450 crores in the last year. We believe the company with its renewed focus on affordable housing and strategic expansion plans in Maharashtra will augur well over FY17. It has received great response for its project Vivante I in Andheri (70% of inventory booked as of Q3 FY16) and in its 'Happinest' (affordable housing offering) in Boisar.

In the mid to premium segment, company plans to launch Vivante II in Andheri and new project in Kandivali in H1FY17.

Commercial spaces: The company has two flag ship projects of Mahindra World City, located in Chennai and Jaipur, spread over 4,437 acres. The space currently attracts customers across sectors such as IT/ITES; automotive and auto ancillaries; light engineering; and handicrafts. As per the management's statistics, company's revenue from its Jaipur and Chennai world city will remain muted and if the facility is not used, it hurts the bottomline to the tune of 6-8 crores. Company is planning to keep a check on the supply side issues by reaching out to a wider group of industries who would like to lease space, rather than build like an ecommerce sector. Company plans to launch the new DTA area in Mahindra world city Jaipur.

We believe company will see a trend reversal and will gain from the increased impetus offered by the government on FDI (Foreign Direct Investment); "Make in India"; Smart Cities; and development of industrial corridors. With improved economic activity the decision cycles will become shorter. We believe the prices will be stable in commercial spaces.

Macroeconomic: As per the survey by JLL (Jones Lang LaSalle) in Jan 2016, the top two asset classes that will see a growth of more than 60% are official, commercial and residential mid-segment ,while growth will range between 20 -40% for warehousing, office- ITes and affordable residential space. This points towards pick up in residential and commercial activity in the space that Mahindra operates in.

JLL survey also pointed out that investors have ranked Mumbai as the top city, they would like to invest in, followed by Bangalore and Pune.

The easing of interest rate by the RBI has provided a much needed boost to consumers, and will shorten the decision making cycles, particularly in the affordable market segment.

Regulatory framework:

The Real Estate (Regulation & Development) Bill, 2013 passed by both the houses attempts to ensure a planned, efficient and transparent development of the real estate sector. This will help boost investor confidence in the projects being launched. For the company it will provide a level playing field as it has launched all its projects post approval. This factor has also created its brand name in the market, known for quality projects.

Maharashtra Government is planning to eradicate the red- tapeism associated with the process involved in gaining approvals, and set up a single window for approval. Though this will take some time for implementation, the government's perseverance and improved processes will pace up the approval cycle. This will help companies to proceed with the construction as per the schedule, as also will facilitate the realisation of payments.

Emphasis of the government on the 'Housing for all by 2022' initiative will also help Mahindra in getting approvals for redevelopment of slums in cities.

Valuations:

Net sales on TTM basis were down by 19.4% due to poor realisations and subdued demand; margins have also contracted to 18% vs 43% Y-oY on TTM basis. We see that the company will be able to return to the growth levels of 15-20% and will improve on margins. Current valuation of 17.5x P/E looks cheap and we expect it to reach levels of ₹530.

We believe the company will be able to maintain EBITDA margins at the levels of 30% in FY17. We also find the stock secure due to low leverage.