Mahindra Lifespace Developers Limited

Credit rating report

September 2022

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Instruments and ratings

Total Bank Loan Facilities Rated	Rs.100 Crore
Long Term Rating	CRISIL AA/Stable (Reaffirmed)

(Refer to annexure for Details of Instruments & Bank Facilities)

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Rating history

Date	Long Term	Fixed Deposit	Short Term	Rating Watch/Outlook
January 31, 2020	CRISIL AA	-	-	Stable

Analytical approach and adjustments

Portfolio performance/networth/gearing/parent or group support	Analytical treatment
Consolidation of subsidiaries	To arrive at its ratings, CRISIL Ratings has combined the business and financial risk profiles of Mahindra Lifespace Developers Ltd (MLDL) with some of its subsidiaries & joint ventures (JVs). This is because these entities operate in the real estate and related space, with significant operational and financial linkages with MLDL, and share a common management with the parent entity.
Parent/group support	CRISIL Ratings has also applied its parent notch-up framework to factor in distress support available from the parent, Mahindra & Mahindra Ltd (M&M; rated 'CRISIL AAA/Stable/CRISIL A1+') given the strategic importance of MLDL to the latter.

Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA/Stable' rating on the proposed long-term bank facility of Mahindra Lifespace Developers Limited (MLDL).

The rating continues to reflect the strong brand name and track record, high saleability, healthy collections and progress in construction of ongoing projects. The ratings also draw comfort from strong parentage and expectation of need-based support from Mahindra & Mahindra Ltd (M&M; 'CRISIL AAA/Stable/CRISIL A1+'). These strengths are partially offset by exposure to cyclicality inherent in the real estate business.

Operating performance of MLDL recovered well in fiscal 2022, after an adverse impact of weak economic activity and the Covid-19 pandemic over fiscals 2020 and 2021, respectively. Construction activity picked up and the company reported the highest ever sales, collections and surplus in fiscal 2022. Financial risk profile has been healthy with a debt to total assets ratio of around 20% over the four years through March 2022.

With adequate cash flow expected over the medium term, debt protection metrics should also be comfortable, with debt-to-total assets ratio below 20.0% and debt service coverage ratio at over 3 times. Liquidity is strong, as indicated by cash and equivalents of around Rs 570 Crore and undrawn bank limit of about Rs 340 Crore, as on March 31, 2022.

MLDL plans to incur capital expenditure (capex) towards land acquisition and construction over the medium term. It is acquiring land parcels in Pune under its industrial cluster segment and is evaluating land parcels in Bengaluru, Pune and Mumbai for its residential business. Capex will be funded through a mix of cash accrual, external debt and external equity partnerships. Finalisation of such deals and their impact on the financial risk profile is a key monitorable.

Rating drivers

Supporting factors	Constraining factors
• Strong support from parent, M&M • Established brand and market position • Healthy financial risk profile	• Exposure to risk and cyclicality inherent in the residential and integrated cities segments of the real estate sector

Outlook: Stable

MLDL will maintain healthy business and financial risk profiles, given its strong brand name and execution capabilities, while improving its land bank in the medium term.

Rating sensitivity factors:

Upward factor

- Substantial and sustained growth in cash flow, driven by higher sales in residential projects, along with healthy liquidation of inventory, in the absence of any large, debt-funded capex
- Better operating performance, leading to significant and sustained deleveraging, and strengthening of financial risk profile with debt to total assets sustaining under 13-15% and lower refinancing requirement
- Increase in shareholding by M&M or higher strategic importance of MLDL to the parent

Downward factor

- Sharp decline in revenue and profitability, triggered by slackened saleability of existing and proposed projects, or any major debt-funded land acquisition, leading to sustained debt-to-total assets ratio of over 30%
- Downgrade in the rating of M&M or change in its support philosophy towards MLDL

Company overview

MLDL was incorporated as Gesco Corporation Ltd in 1999, renamed as Mahindra Gesco Developers Ltd in fiscal 2003, and got the current name in fiscal 2008. It is mainly engaged in development of residential real estate projects and integrated business cities.

The company executes integrated business city projects in Chennai through Mahindra World City Developers Ltd (MWCDL; 89% shareholding) and Mahindra Industrial Park Chennai Ltd (MIPCL; a 60:40 JV between MWCDL and Sumitomo Corporation), and in Jaipur through MWCJL (74:26 JV with Rajasthan Industrial Development and Investment Corporation). Further, it has acquired land in Ahmedabad through its subsidiary, Mahindra Industrial Parks Pvt Ltd (held 100%). It has a strategic partnership with International Finance Corporation (IFC) for development of the industrial parks in Jaipur and Ahmedabad.

In the residential segment, the company is developing projects in Gurugram and Bengaluru through its 50:50 JV with Actis and Mahindra Homes Pvt Ltd. Projects in the Mumbai Metropolitan Region (MMR) are undertaken through the 51:49 JV with HDFC Capital and Mahindra Happinest Developers Ltd.

MLDL is listed on the Bombay Stock Exchange and the National Stock Exchange, and M&M held 51.33% stake in the company as on March 31, 2022.

Ownership structure as on March 31, 2022

Shareholder	Holding (%)
Promoters (partners in case of a partnership firm)	51.33
Mahindra and Mahindra Ltd	51.33
Public	48.67
Mutual Funds	18.56
Foreign Portfolio Investors	10.60
Non-institutions	19.15
Others	0.36
Total	**100.00**

Key credit factors

Industry risk profile

Residential: Sales rebounded to nearly pre-pandemic levels in fiscal 2022, to grow moderately in fiscal 2023

CRISIL Research estimates that sales have grown sharply by 35-40% at an aggregate level in fiscal 2022, even as the second wave of the Covid-19 pandemic disrupted demand. This is largely because of a low base of the previous year and multi-year high affordability propped by the lowest interest rates in a decade, which led to those sitting on the fence hoping for an opportunity to buy a property.

Mumbai exhibited continued momentum of positive sale growth trajectory even in fiscal 2022, largely driven by growth income from the banking and finance sector and the state government waiving off premium charges for developers until December 2021. Rest of the cities witnessed a huge bounce back in sales by upto 40-60% in fiscal 2022.

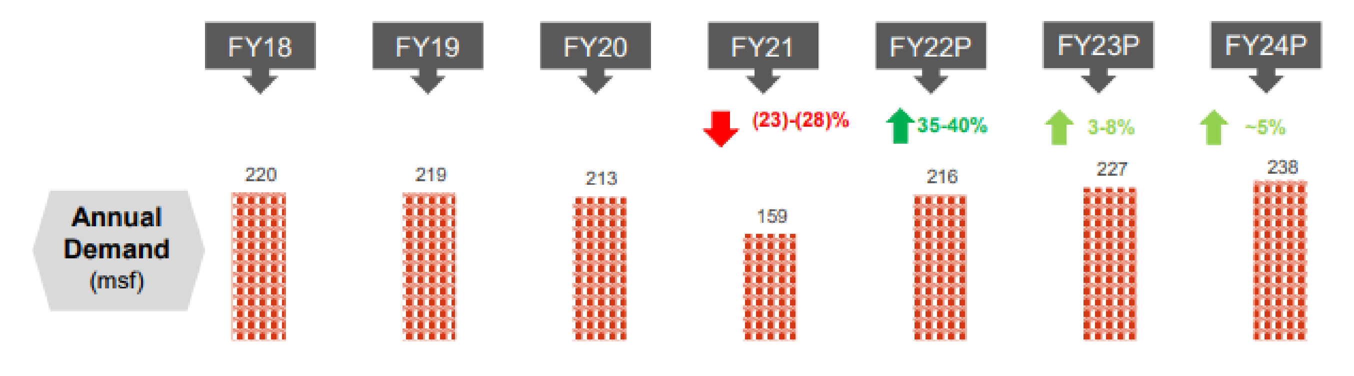
Cities with exposure to an IT and ITeS employee base, such as Bengaluru and Hyderabad also estimated to have witnessed a healthy recovery as income from these industries largely remained unaffected through the pandemic and many residents opted for owned over rented apartments during the pandemic.

In fiscal 2023, overall residential primary sales are expected to witness moderate growth of 3-8% on an already high base of the last fiscal, as affordability is at a multi-year high. Though, rising interest rates and capital values due may offset incremental demand partially.

On the supply side, most major cities saw resumption in construction and issues with respect to labour getting resolved in the last fiscal itself. Organised players, especially in cities such as Bengaluru and Hyderabad, fared well, as they were able to retain or recall labourers during the second wave of the pandemic. Many developers have incurred additional cost for either residential arrangements for migrant labour or have been paying slightly higher wages.

As a result, fiscal 2022 is estimated to have seen completions of over 250 Million sq. ft, while fiscal 2023 is projected to witness completions to the tune of over 400 Million sq. ft.

Chart 1: Healthy demand revival in fiscal 2022 (top 10 cities)



Source: CRISIL Research

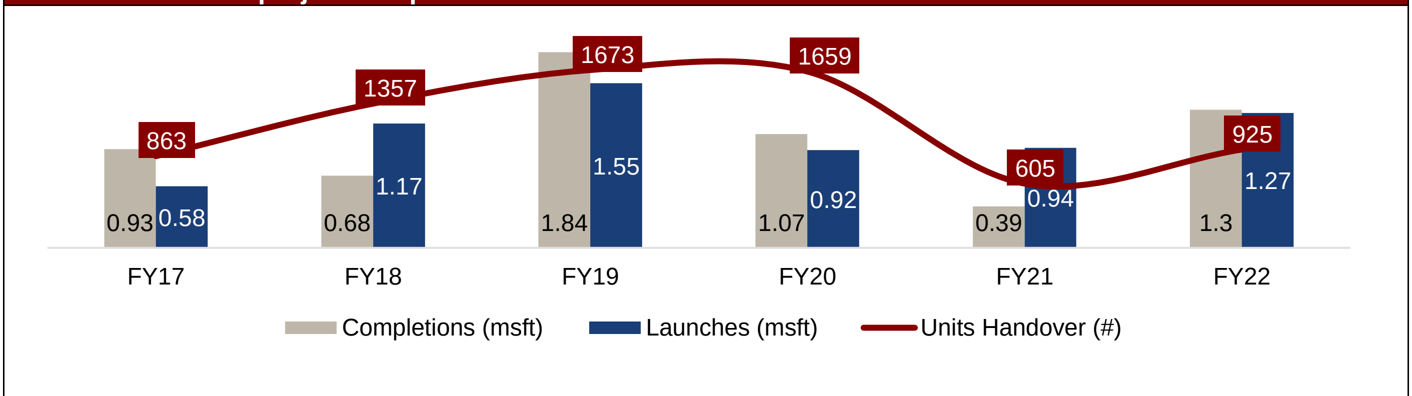
Business risk profile

Established brand and market position

MLDL has an established track record, backed by a strong brand, focus on timely execution and high saleability of projects. The company has cumulatively developed 19.23 Million square foot (msft) of residential space across the premium, mid-income and affordable housing segments in MMR, NCR, Chennai, Hyderabad, Bengaluru, and Pune and Nagpur in Maharashtra. It also has several ongoing projects with 4.04 msft area under development and plans to launch additional 6.72 msft over the medium term.

Collections from residential projects rose to Rs 1,153 Crore in fiscal 2022, from Rs 758 Crore in fiscal 2021. The strong business risk profile should sustain going forward, with stable saleability in ongoing projects improving overall profitability.

Chart 2: Increased project completion on fiscal 2022



Source: Company reports

Exposure to risks and cyclicality inherent in the residential and integrated cities segments

Exposure to risks and cyclicality inherent in the residential segment and the integrated cities & industrial cluster (IC&IC) within the real estate sector may cause volatility in saleability and realisations.

The company is present across various segments (luxury, mid-premium and value) and several cities in the residential space.

In the IC&IC segment, the company is developing integrated business city projects in Chennai and Jaipur and industrial cluster projects in North Chennai and Ahmedabad. In the commercial segment, the total sale of area on long-term lease depends on local demand and hence, the level of industrial activity. The company has a strategic partnership with IFC for its projects in Jaipur and Ahmedabad.

Strong support from the parent, M&M

The company represents the Mahindra group's interest in real estate, and hence, remains strategically important to the parent, given its visibility and branding as a Mahindra venture. The rating factors in the financial flexibility arising from its ability to raise funds in the capital market and the operational oversight from the parent.

Financial risk profile

Healthy financial risk profile

Financial risk profile is supported by healthy collections from the real estate segment, with customer advances of over Rs 1,000 Crore expected per year over the medium term (as per CRISIL Ratings estimates). Financial flexibility is further enhanced by significant deleveraging over the past few fiscals, with consolidated external debt at Rs 759 Crore as on March 31, 2022. Debt may remain low, given the continued funding through JVs, modest investment in the IC&IC segment and healthy cash flows likely from residential projects. Financing of growth plans and their impact on the financial risk profile would be a key monitorable.

Debt protection metrics are likely to remain comfortable, with debt-to-total assets ratio below 20% and debt service coverage ratio at over 3 times (CRISIL Ratings estimates) over the medium term.

Liquidity: Strong

The company held cash equivalents of Rs 573 Crore and an undrawn bank limit of Rs 340 Crore as on March 31, 2022. Healthy surplus cash flow from residential projects should continue in the medium term. In the commercial segment, income from operations and maintenance activity and lease premium was stable at Rs 80-100 Crore per fiscal, while incremental investments are expected to be modest.

The company, including its subsidiaries and JVs, has long-term debt obligation of Rs 100-200 Crore per fiscal over the medium term. Internal cash accrual, cash and equivalents and unutilised bank limit should suffice to cover the debt obligation and incremental construction cost.

Management Strategy

Strong professional management with moderate risk appetite

MLDL has a strong professional management, which has demonstrated its ability to diversify its business risk profile by expanding its residential spread across different major cities. The moderate risk appetite of the management is reflected in funds raised for residential projects via JVs, and partnership with IFC that has invested in the integrated business parks at Jaipur and Ahmedabad.

Financial summary

(Standalone; CRISIL-adjusted numbers)				
		As on/ For the year ended March 31		
	Unit	2022	2021	2020
		Actual	Actual	Actual
Net sales	Rs Crore	253	90	440
Operating income	Rs Crore	255	92	447
OPBDIT	Rs Crore	-104	-99	-47
PAT	Rs Crore	42	-52	-226
Net cash accrual	Rs Crore	48	-46	-250
Equity share capital	Rs Crore	155	51	51
Adjusted networth	Rs Crore	1491	1445	1496
Adjusted debt	Rs Crore	165	111	119
OPBDIT margin	%	-40.6	-107.9	-10.5
Net profit margin	%	16.4	-56.8	-50.5
ROCE	%	-3.9	-4.3	-0.6
PBDIT / Int. & finance charges	Times	-6.24	-7.43	-0.27
Net cash accrual / Adjusted debt	Times	0.29	-0.41	-2.10
Adjusted debt / Adjusted networth	Times	0.11	0.08	0.08
Adjusted debt / PBDIT	Times	4.55	-2.03	-0.56
Current ratio	Times	1.83	2.22	2.41
Cashflow from operations	Rs Crore	-57	-99	-118
TOL/ ANW	Times	0.51	0.37	0.31
Operating income/Gross block	Times	8.93	3.28	16.24
Gross Current Assets	Days	2033	4832	917
Debtor Days	Days	98	204	74

Above reflects analytical adjustments made by CRISIL Ratings.

Annexure 1 – Details of bank facilities

1. Proposed Fund-based bank limits			
#	Bank Facility	Amount (Rs Crore)	Outstanding Rating
a.	-	100.0	CRISIL AA/Stable
	Total	**100.0**	-

Criteria details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Rating criteria for Real Estate Developers
CRISILs Criteria for Consolidation

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