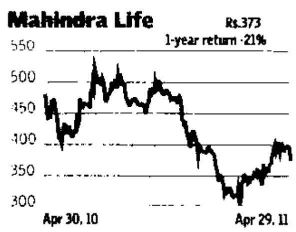
Mahindra Lifespace Developers — Buy

At a time when most realty players are finding it a demanding task to go back to their 2007-08 peak numbers, Mahindra Lifespace Developers (Mahindra Life) has easily managed it. It has expanded its sales and net profits at a comfortable pace over each of the last three years.

Negligible debt on the books, a good business mix of residential space and integrated development and sound backing of well-established parent (Mahindra & Mahindra) brighten prospects of Mahindra Life vis-à-vis other mid-size players. Investors with a three-year perspective can consider buying the stock. At the current price, the stock trades at 13 times its expected consolidated per share earnings for FY-12. Investors would do well to buy the stock in small lots on declines linked to markets.

Mahindra Life expanded consolidated sales at 38 per cent compounded annually over the last three years to Rs 612 crore in FY-11 while net profit grew 18 per cent annually to Rs 108 crore. A strong residential market in Mumbai, where volumes held up despite volatile prices and a lucrative SEZ in Chennai helped the company grow sales even during the downturn. The company closed FY-11 with a 38 per cent growth in profits.



Mahindra Life has negligible debt on a standalone basis and a consolidated debt:equity of 0.5, commendable considering the long term nature of projects such as special economic zones housed under its subsidiaries.

The residential segment is the mainstay for Mahindra Life's revenues. The company sold 1.4 million sq ft of residential space in FY-11 against 1.2 million sq ft in the previous year. This came with price hikes of 5-15 per cent in Mumbai, despite a good part of the year seeing a slump in prices in parts of the city. That inventories (other than SEZs) have sharply declined in the latest fiscal also suggests that execution as well as sales have picked up pace. Launches, though, have been sluggish in the March quarter.

The company expects to come up with over 2 million sq ft of launches in Mumbai, Hyderabad, Nagpur and Chennai over the first half of FY-12.

Mahindra's integrated cities – the Mahindra World City in Chennai and Jaipur have also been ramping up on their customer base. At its Chennai SEZ, the company added eight customers to take the total to 57. Despite the introduction of Minimum Alternate Tax, we don't foresee occupiers exiting the SEZ, given their massive investments in these zones. There is however concern over SEZs attracting fresh customers. As we write this, the Madras High Court has issued notices to the Government against the MAT levy, on a petition made by South-based SEZ developers. We are not factoring in additional revenues for Mahindra Life from SEZ space not yet leased.

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BUSINESS LINE

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