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## Company Update

## Real Estate

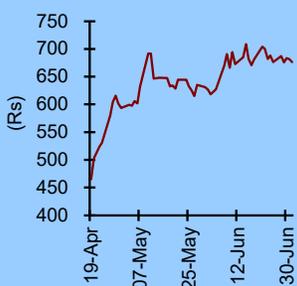
Target price Rs800

## Shareholding pattern

	Mar '21
Promoters	88.5
Institutional investors	8.8
MFs and others	0.2
FIs and Banks	0.0
FIIIs	8.6
Others	2.7

Source: BSE India

## Price chart



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## Macrotech Developers Limited

BUY

Maintain

Rs688

## Resilient performance in challenging quarter

As per Macrotech Developers Ltd.'s (LODHA) Q1FY22 business update, the company has clocked sales bookings of Rs9.6bn which are up 88% YoY and down 62% QoQ. Seen in context of significant second Covid wave impact in the Mumbai Metropolitan Region (MMR), we believe that this is a resilient performance. The company also reduced its India business net debt by Rs36bn QoQ to Rs125bn enabled by net IPO proceeds of Rs24bn and promoter loan repayment of Rs16bn during the quarter. While Q1FY22 has been a challenging quarter, we believe that the company is on track to achieve Rs80-90bn of sales bookings in FY22E and also reduce its India net debt to Rs100bn by Mar'22. We maintain our BUY rating with an unchanged Mar'22 SoTP based NAV of Rs800/share. Key risks to our rating are a demand slowdown in the MMR residential market and rising interest rates in India.

- **Q1FY22 saw improvement from June 2021 in sales bookings:** LODHA clocked Q1FY22 sales bookings worth Rs9.6bn which were up 88% YoY and down 62% QoQ. While April and May 2021 saw sales worth just Rs3.0bn owing to impact of second Covid wave in the Mumbai Metropolitan Region (MMR), the company has clocked sales worth Rs6.5bn in June 2021. The company has to clock ~Rs80.4bn of sales bookings in the remaining nine months of FY22E to meet its sales guidance of ~Rs90bn for FY22E. We believe that meeting the guidance will be contingent on no further impact from a third Covid wave in FY22, possible fillip from stamp duty cuts in Maharashtra, contribution from logistics/warehousing land monetization and new launches through the JDA route.
- **India business net debt reduces by Rs36bn QoQ to Rs125bn:** As of Mar'21, the company had consolidated India business net debt of Rs160.8bn. Post listing, the company has made significant progress towards debt reduction in Q1FY22 with net IPO proceeds of Rs24bn along with repayment of Rs16bn of promoter loans. Against the total inflow of Rs40bn from IPO proceeds/promoter loan repayment, the company's India business net debt has reduced by Rs36bn QoQ to Rs125bn as of June'21 which implies a cash flow deficit of Rs4bn for the core residential business. While the company clocked collections of Rs17.1bn during the quarter, we believe that estimated spend of Rs12bn on construction/overheads, interest costs of ~Rs4bn along with Rs3-4bn of land capex and forex adjustments may have led to the deficit. We await further details on the same. Company has given a formal guidance to reduce its India business net debt to ~Rs10bn by Mar'22 and improvement in sales of completed inventory, higher collections and reduction in interest costs remain key to achieve this target.
- **New JDAs of 1.5msf added during the quarter in MMR:** The company has added two new projects in MMR under the Joint Development Agreement (JDA) model spread over 1.5msf with 1.2msf in the Western suburbs and 0.3msf in Eastern suburbs. As per our channel checks, these projects would be in the micro-markets of Malad-Borivali and Mulund East, respectively with a possible launch targeted in H2FY22.
- **Valuations:** We reiterate our **BUY** rating with an unchanged target price of Rs800/share based on 1x March 2022 DCF based NAV of Rs358bn. Our Gross Asset Value (GAV) of Rs458bn includes Rs324bn for FY23-30E post-tax-FCFF, Rs114bn for company's land bank of 3,800 acres (25% discount to market value) and Rs20bn of UK project surplus. Adjusted for FY22E India business net debt of Rs101bn, we arrive at our NAV of Rs358bn. Our NAV excludes value accretion from potential JDAs in FY22-23E.

Market Cap	Rs308bn/US\$4.1bn	Year to Mar	FY21P	FY22E	FY23E	FY24E
Bloomberg	LODHA IN	Revenue (Rs bn)	54.5	90.9	104.9	104.8
Shares Outstanding (mn)	447.3	Adj. Net Income (Rs bn)	5.1	12.5	16.4	18.6
52-week Range (Rs)	692/465	Adj. EPS (Rs)	12.9	28.0	36.7	41.7
Free Float (%)	11.5	% Chg YoY	NM	116.6	31.1	13.7
FII (%)	8.6	P/E (x)	NA	24.6	18.7	16.5
Daily Volume (US\$/'000)	NA	P/B (x)	NA	3.7	3.1	2.6
Absolute Return 3m (%)	(0.4)	Adjusted EV/E (x)	NA	6.5	5.1	4.9
Absolute Return 12m (%)	NA	Dividend yield (%)	-	-	-	-
Sensex Return 3m (%)	6.2	RoCE (%)	7.2	11.0	13.9	15.3
Sensex Return 12m (%)	46.3	RoE (%)	11.2	19.2	17.8	17.0

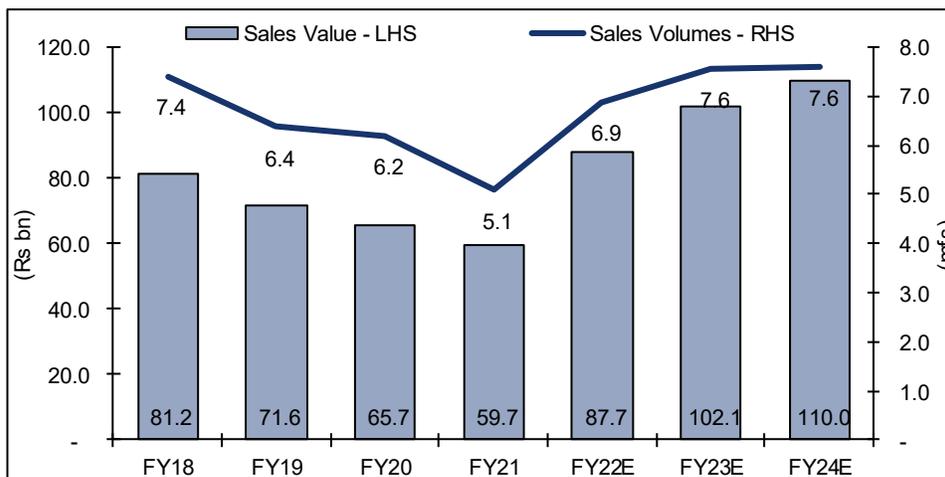
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**Table 1: LODHA’s Key Quarterly Operating Metrics**

Details (Rs mn)	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)
Pre-Sales (Sales Bookings)	9,570	5,090	25,310	88.0	(62.2)
Collections	17,140	3,840	20,890	346.3	(18.0)
Reduction in Consolidated Net Debt	36,000	710	5,440		

Source: Company, Isec research

**Chart 1: Lodha’s India business sales trajectory for FY18-24E**



Source: Company, Isec research estimates

**Table 2: SoTP Valuation of LODHA**

Details	Amount (Rs bn)	Rs/share
<b>Post-tax-Free Cash Flow (FY23-30E)</b>	<b>324.3</b>	<b>726</b>
Add: Land bank @ 25% discount to market value	114.0	255
Add: UK proceeds	20.0	45
<b>Total EV</b>	<b>458.3</b>	<b>1,026</b>
Less: FY22E India Net Debt	100.7	226
<b>FY22E NAV</b>	<b>357.6</b>	<b>800</b>

Source: Isec research estimates

**Table 3: Sensitivity of Target Price to WACC and Sales price increase**

NAV	800	WACC (%)				
		10%	11%	12%	13%	14%
Price Growth CAGR (%)	3%	782	755	730	706	683
	4%	809	781	755	730	707
	5%	837	809	781	755	731
	6%	867	837	808	782	756
	7%	898	866	837	809	782

Source: Isec research estimates

## Financial summary (consolidated)

Table 4: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	<b>54,486</b>	<b>90,899</b>	<b>1,04,925</b>	<b>1,04,773</b>
<b>Operating Expenses</b>	<b>40,766</b>	<b>69,435</b>	<b>81,026</b>	<b>81,105</b>
<b>Reported EBITDA</b>	<b>13,720</b>	<b>21,463</b>	<b>23,899</b>	<b>23,668</b>
% margins	25%	24%	23%	23%
<b>Adjusted EBITDA*</b>	<b>17,110</b>	<b>29,498</b>	<b>33,787</b>	<b>31,668</b>
% Adjusted EBITDA margins*	31%	32%	32%	30%
Depreciation & Amortisation	734	771	809	850
Interest expenses	11,257	9,373	7,911	5,441
Other Income	3,231	1,938	2,035	2,137
Exceptional items	(4,628)	-	-	-
<b>PBT</b>	<b>9,587</b>	<b>13,258</b>	<b>17,214</b>	<b>19,514</b>
Less: Taxes	(147)	743	807	854
<b>PAT before</b>				
<b>Minority/Associate</b>	<b>9,734</b>	<b>12,515</b>	<b>16,406</b>	<b>18,659</b>
Minority/Associate share	(4,624)	(20)	(25)	(30)
<b>Net Income (Reported)</b>	<b>402</b>	<b>12,495</b>	<b>16,381</b>	<b>18,629</b>
<b>Net Income (Adjusted)</b>	<b>5,110</b>	<b>12,495</b>	<b>16,381</b>	<b>18,629</b>

Source: Company data, I-Sec research, \*Reclassification of interest costs

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	3,28,358	3,23,396	3,03,231	2,94,642
of which cash & cash eqv.	3,668	13,049	10,993	19,390
Total Current Liabilities & Provisions	1,38,145	1,54,174	1,54,120	1,53,881
<b>Net Current Assets</b>	<b>1,90,213</b>	<b>1,69,222</b>	<b>1,49,112</b>	<b>1,40,761</b>
Goodwill/Investments	21,261	20,761	21,161	21,361
Other Non-Current Assets	5,296	5,296	5,296	5,296
Net Fixed Assets	13,996	13,475	12,916	12,316
Capital WIP	63	83	103	123
<b>Total Assets</b>	<b>2,30,829</b>	<b>2,08,837</b>	<b>1,88,587</b>	<b>1,79,857</b>
<b>Liabilities</b>				
Borrowings	1,81,669	1,21,652	84,996	57,606
Equity Share Capital	3,959	4,469	4,469	4,469
Reserves & Surplus	42,031	79,526	95,907	1,14,536
<b>Net Worth</b>	<b>45,990</b>	<b>83,994</b>	<b>1,00,375</b>	<b>1,19,005</b>
Minority Interest	5,269	5,289	5,314	5,344
Deferred Taxes	(2,098)	(2,098)	(2,098)	(2,098)
<b>Total Liabilities</b>	<b>2,30,829</b>	<b>2,08,837</b>	<b>1,88,587</b>	<b>1,79,857</b>

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>PBT</b>	<b>9,587</b>	<b>13,258</b>	<b>17,214</b>	<b>19,514</b>
Depreciation	734	771	809	850
Non-Cash Adjustments	(712)	(1,429)	(2,035)	(2,137)
Working Capital Changes	(1,218)	14,373	19,053	17,748
Taxes Paid	857	(743)	(807)	(854)
<b>Operating Cashflow</b>	<b>9,248</b>	<b>26,230</b>	<b>34,234</b>	<b>35,120</b>
Capital Commitments	65	(270)	(270)	(270)
<b>Free Cashflow</b>	<b>9,313</b>	<b>25,960</b>	<b>33,964</b>	<b>34,850</b>
Other investing cashflow	4,134	18,438	635	937
<b>Cashflow from Investing Activities</b>	<b>4,199</b>	<b>18,168</b>	<b>365</b>	<b>667</b>
Issue of Share Capital	-	25,000	-	-
Inc (Dec) in Borrowings	(10,325)	(60,017)	(36,656)	(27,390)
Dividend paid	-	-	-	-
<b>Cashflow from Financing activities</b>	<b>(10,325)</b>	<b>(35,017)</b>	<b>(36,656)</b>	<b>(27,390)</b>
<b>Chg. in Cash &amp; Bank balances</b>	<b>3,122</b>	<b>9,381</b>	<b>(2,057)</b>	<b>8,397</b>

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	12.9	28.0	36.7	41.7
Cash EPS	14.8	29.7	38.5	43.6
Dividend per share (DPS)	0.0	0.0	0.0	0.0
Book Value per share (BV)	116.2	188.0	224.6	266.3
<b>Growth (%)</b>				
Net Sales	(56.2)	66.8	15.4	(0.1)
EBITDA	(28.1)	56.4	11.3	(1.0)
PAT	(29.7)	144.5	31.1	13.7
<b>Valuation Ratios (x)</b>				
P/E	NA	24.6	18.7	16.5
P/BV	NA	3.7	3.1	2.6
EV / Adjusted EBITDA	NA	6.5	5.1	4.9
Dividend Yield	NA	0.0	0.0	0.0
<b>Operating Ratios</b>				
Debt/EBITDA (x)	13.2	5.7	3.6	2.4
Net D/E	3.9	1.3	0.7	0.3
<b>Profitability/Return Ratios (%)</b>				
RoE	11.2	19.2	17.8	17.0
RoCE	7.2	11.0	13.9	15.3
EBITDA Margins	25.2	23.6	22.8	22.6
Net Income Margins	9.4	13.7	15.6	17.8

Source: Company data, I-Sec research

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