

Macrotech Developers Ltd.

Real Estate | India

IPO | 06 April 2021

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Strong Projects Portfolio and Focus on De-leveraging Augur Well

About the Company

Macrotech Developers Ltd. (MDL), formerly known as Lodha Developers and incorporated in 1995, is one of the largest real estate developers in India. MDL is primarily engaged in developing residential (affordable, mid-segment and premium/luxury) and commercial properties. Further, it forayed into the development of logistics and industrial parks in 2019. MDL enjoys a strong brand equity in real estate industry especially in Mumbai Metropolitan Region (MMR) and Pune with its ongoing portfolio of affordable and mid-income housing projects include Palava (Navi Mumbai, Dombivali Region), Upper Thane (Thane outskirts), Amara (Thane), Lodha Sterling (Thane), Lodha Luxuria (Thane), Crown (Thane), Bel Air (Jogeshwari), Lodha Belmondo (Pune), Lodha Splendora (Thane) and Casa Maxima (Mira Road). As of 9MFY21, MDL has 91 completed projects comprising 77.2msf of developable area, out of which 59.1msf is in affordable and mid-income housing, 12.2msf is in premium and luxury housing, 5.2msf is in office space and 0.7msf is in retail space. Currently, it has 36 ongoing projects with developable area of 23.6msf and has 18 planned projects with developable area of 45.1msf. Additionally, it possesses land reserve of ~3,803 acres in the MMR with the potential to develop projects admeasuring ~322msf of developable area.

Financials in Brief

MDL's earnings performance has not been impressive mainly marred by prolonged slowdown in the realty sector as well as COVID-19 led business disruptions. Further, MDL's gross debt witnessed sharp rise in FY18 and FY19 led by sharp increase in inventory. While its income recorded a negative CAGR of 4% over FY18-FY20, net profit clocked 35% negative CAGR during the same period owing to sharp rise in finance cost. However, the company's cash flow has been quite impressive with cumulative OCF and FCF of ~Rs54bn and ~Rs52bn, respectively through FY18-9MFY21.

Our View: SUBSCRIBE

The IPO is valued at 26.3x of FY20 earnings and 4.8x of FY20 book value, which appear to be reasonably priced vis-à-vis its peers like Godrej Properties and DLF. MDL is committed to substantially deleverage its balance sheet in ensuing quarters led by: (a) IPO proceeds (Rs15bn); (b) recovery of investment from the UK projects (~Rs16bn); and (c) improved collection. MDL's plan to reduce net debt to Rs127bn in the coming quarters negates concern over high leveraging. Further, strong project portfolio and monetization of huge land banks offer comfort. Moreover, its return ratio looks to be superior compared to peers.

Hence, we recommend SUBSCRIBE to the issue.

IPO Details

Pice Band	Rs483-486
Face Value (Rs)	10
Issue Open/Closing Date	7th / 9th Apr'21
Fresh Issues (mn)	51.4
OFS (mn)	0.0
Total Issue (mn)	51.4
Minimum Bid Qty. (Nos)	30
Issue Size (Rs bn)	25.0
QIB / HNI / Retail	50% / 15% / 35%
Implied Market Cap (Rs bn)	217.4

Object of the Issue

- ▶ To repay / prepay borrowings availed by the Company
- ▶ To acquire land or land development rights
- ▶ To fund expenditures towards general corporate purposes

Key Risks

- ▶ Reversal in interest rate cycle
- ▶ Prolonged slowdown in real estate sector
- ▶ Absence of improvement in collections

Shareholding (%)

	Pre-Issue	Post-Issue
Promoters	100.0	88.5
Public	0.0	11.5

Key Financials

(Rs bn)	FY18	FY19	FY20	9MFY21
Revenue	135.3	119.1	124.4	29.2
EBITDA	40.4	36.8	29.3	7.7
EBITDA Margin (%)	29.9	30.9	23.5	26.3
PAT	17.9	16.4	7.4	(2.6)
PAT Margin (%)	13.2	13.8	6.0	(9.1)
EPS (Rs)	45.1	41.3	18.5	(6.8)
P/E (x)	10.8	11.8	26.3	
EV/EBITDA (x)	10.9	12.7	13.7	52.3
P/BV (x)	9.8	5.7	4.8	5.1
Net Worth	22.2	38.4	45.5	42.9
RoE (%)	80.6	42.8	16.4	(6.2)
OCF	7.0	(4.6)	37.7	14.4
OCF Yield (%)	3.2	(2.1)	17.4	6.6
FCF	6.5	(5.7)	37.4	14.4
NAV (Rs)	45	86	104	97
Gross Debt	226	256	184	187
Net Debt/Equity (x)	9.96	6.50	4.01	4.28
Gross Block	16.8	17.7	17.5	17.4
Gross Collections	85.6	90.6	81.9	28.9
WCC (Days)	1,025	1,224	815	

Source: RHP

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