Ratings

CRISIL
An S&P Global Company

Pursuant to SEBI notifications, CRISIL Limited (CRISIL) has transferred its Ratings business to its wholly owned subsidiary, CRISIL Ratings Limited (CRISIL Ratings), with effect from December 31st 2020. Any reference to CRISIL in the documents published by the Ratings division of CRISIL, such as Rating Rationales, Credit Rating Reports, Press Releases, Criteria, Methodology, FAQs, Policies and Disclosures, shall henceforth refer to CRISIL Ratings.

Rating Rationale

April 30, 2021 | Mumbai

Mahindra Lifespace Developers Limited

Rating Reaffirmed

Rating Action

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

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

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

The rating continues to reflect strong support from the parent, Mahindra & Mahindra Ltd (M&M; 'CRISIL AAA/Stable/CRISIL A1+'), a strong brand name, high saleability, healthy collections and construction progress of ongoing projects, and an established track record. These strengths are partially offset by a moderately sized and concentrated land bank, and exposure to cyclicality inherent in the real estate segment.

Construction activities were impacted in the first half of fiscal 2021 owing to the nationwide lockdown imposed by the Government of India to contain the Covid-19 pandemic. However, post lifting of restrictions, construction activities have resumed to pre-pandemic levels since August 2020. Though new project launches and completions are expected to be lower for fiscal 2021 as compared with the previous fiscal, recovery is expected in fiscal 2022. However, with the second intensified wave of the pandemic coupled with the company's fairly high exposure to hotpots like Maharashtra and the National Capital Region (NCR), this would remain a monitorable.

Despite lower collections for fiscal 2021, debt protection metrics should remain comfortable over the medium term, with debt-to-total assets ratio below 20.0% and debt service coverage ratio at around 3 times. Liquidity is strong, as indicated by cash and equivalents of Rs 217 crore and undrawn bank lines of about Rs 340 crore, as on December 31, 2020.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of MLDL with its subsidiaries and joint ventures (JVs). That's because all 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.

CRISIL Ratings has also applied its parent notch-up framework to factor in distress support available from M&M owing to the strategic importance to the parent.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strength:

- **Strong support from the parent, M&M**
  The company represents the Mahindra group's interest in real estate, and is strategically important to the parent given its visibility and branding as a Mahindra venture. M&M oversubscribed to a rights issue by MLDL in fiscal 2018, in which it invested about Rs 157 crore. The rating factors in the financial flexibility arising from the ability to raise funds in the capital markets. The ratings are further supported by the operational oversight from M&M.

- **Established brand and strong market position**
  The company has an established track record, backed by a strong brand, focus on timely execution and high saleability of projects. Its ongoing projects have had adequate bookings, with about 54% area sold, and around 62% of construction completed as of December 31, 2020. The company has cumulatively completed 17.8 million square foot (msft) of residential real estate across the premium, mid-income and affordable housing segments in Mumbai Metropolitan Region (MMR), NCR, Chennai, Hyderabad and Bengaluru, and Pune, and Nagpur in Maharashtra. Currently, it has ongoing projects with 3.52 msft area under development, and is planning to launch another 4.39 msft over the medium term.

  In fiscal 2020, collections from residential projects were stable at Rs 930 crore (Rs 963 crore in fiscal 2019). However, with the decline in launches and completions owing to the pandemic, collections will contract in fiscal 2021. With the vaccination drive and favourable market sentiment, new project launches as well as project completions are expected to rebound in fiscal 2022. The strong business risk profile is thus likely to be sustained over the medium term, backed by stable saleability in ongoing projects, thereby improving overall profitability.

- **Healthy financial risk profile**
  The financial risk profile is supported by healthy collections from the real estate segment, which is likely to generate customer advances of over Rs 1,000 crore per year, over the medium term (CRISIL Rating estimates). Further, financial flexibility is enhanced by significant deleveraging over past few fiscals, with consolidated external debt at Rs 710 crore as on December 31, 2020. Debt is likely to remain low over the medium term, given the continued funding through JVs, modest investment in the integrated cities & industrial cluster (IC&IC) segment, and healthy cash flows expected from residential projects.

  Debt protection metrics are expected to remain comfortable over the medium term, with debt-to-total assets ratio below 20.0% and debt service coverage ratio at around 3 times (CRISIL Ratings estimates).

Weaknesses

- **Exposure to risks and cyclicality inherent in the residential and integrated cities segment of the real estate sector**
  The risks and cyclicality inherent in both residential and IC&IC segments of the real estate sector may result in volatility in saleability as well as realisations.

  In its residential segment, the company benefits from a diversified presence across segments (luxury, mid-premium and value) and across several cities. However, its projects in Gurugram (NCR) comprise a sizable portion of the overall portfolio by value.

  In the IC&IC segment, the company is developing integrated business city projects in Chennai, Jaipur and Ahmedabad. In its commercial segment, total sale of area on long-term lease is subject to local demand, which depends on industrial activity. The company has entered into a strategic partnership with International Finance Corporation (IFC) for its projects in Jaipur and Ahmedabad.

- **Concentrated and moderately-sized land bank**
  As of December 31, 2020, the land bank was 10.4 msft, of which 9.5 msft was in a single site at Mahindra World City, Chennai. Nevertheless, the existing land bank and subsequent phases of ongoing projects should sustain the current pace of development in the near term. Going ahead, land could either be acquired independently or through the joint development model. Any major, debt-funded land acquisition that results in significant weakening of the capital structure will remain a key rating monitorable.

Liquidity: Strong

Cash equivalents were about Rs 217 crore and undrawn bank lines Rs 340 crore, as on December 31, 2020. Healthy surplus cash flows from residential projects should continue in the medium term. In the commercial segment, operations and maintenance income and lease premium income is 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 repayment obligation of around Rs 106 crore in fiscal 2022 and Rs 218 crore in fiscal 2023. Internal cash accrual, cash and equivalents and unutilised bank lines should be sufficient to meet repayment obligation as well as incremental construction costs. Moreover, the parent, M&M, is likely to continue to provide need-based support.

Outlook: Stable

MLDL should continue to maintain its adequate business and financial risk profiles, given the strong brand name and execution capabilities, while increasing the land bank over the medium term.

Rating Sensitivity Factors

Upward Factors

- Improvement in developmental track record and potential in the residential segment to above 30 msft, coupled with substantial progress in leasing/selling land in the commercial segment
- Increase in shareholding by M&M or higher strategic importance of MLDL

Downward Factors

- A sharp decline in revenue and profitability, triggered by slackened saleability of the existing and proposed projects, or significantly larger-than-expected debt-funded land acquisition leading to sustained debt-to-total assets ratio of over 30.0%
- A downgrade in the rating of M&M by one notch

About the Company

MLDL was incorporated as Gesco Corporation Ltd in 1999, renamed Mahindra Gesco Developers Ltd in fiscal 2003, and got the current name in fiscal 2008. It operates mainly in two major segments - residential development and integrated business cities.

The company is executing 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 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, Mahindra Homes Pvt Ltd, and projects in MMR through its 51:49 JV with HDFC Capital, Mahindra Happinest Developers Ltd.

MLDL is listed on the Bombay Stock Exchange and the National Stock Exchange, and M&M held 51.46% stake in the company as on March 31, 2021.

Key Financial Indicators

As on/for the period ended March 31	Units	2020	2019
Revenue	Rs.Crore	621	593
Profit After Tax (PAT)	Rs.Crore	-195	119
PAT Margin	%	-31.3	19.6
Adjusted debt/adjusted networth	Times	0.14	0.12
Adjusted Interest Coverage*	Times	5.17	5.62

**Coverage calculated as cash available for debt servicing to Interest expense*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity Level	Rating Assigned with Outlook
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	100	NA	CRISIL AA/Stable

Annexure – List of entities consolidated

Name of Entity	Extent of Consolidation	Rationale for Consolidation
Mahindra World City (Jaipur) Ltd (MWCJL)	Full consolidation	All 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
Mahindra Industrial Parks (MIPPL)	Full consolidation	
Mahindra World City Developers Ltd (MWCDL)	Full consolidation	
Mahindra Industrial Park Chennai Ltd (MIPCL)	Full consolidation	
Mahindra Integrated Township Ltd (MITL)	Full consolidation	
Mahindra Residential Developers Ltd (MRDL)	Full consolidation	
Mahindra Happinest Developers Ltd (MHDL)	Full consolidation	
Mahindra Bloomdale Developers Ltd (MBDL)	Full consolidation	
Mahindra Homes Pvt. Ltd (MHPL)	Full consolidation	

Annexure - Rating History for last 3 Years

	Current				2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	100.0	CRISIL AA/Stable		--	31-01-20	CRISIL AA/Stable		--		--	Withdrawn
Non-Fund Based Facilities	ST		--		--		--		--		--	Withdrawn
Non Convertible Debentures	LT		--		--	31-01-20	Withdrawn	10-01-19	CRISIL AA/Stable		--	CRISIL AA-/Stable

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Proposed Fund-Based Bank Limits	**100**	**CRISIL AA/Stable**	**Proposed Fund-Based Bank Limits**	**100**	**CRISIL AA/Stable**

Total	**100**	**-**	**Total**	**100**	**-**

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

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com	Manish Kumar Gupta Senior Director **CRISIL Ratings Limited** B:+91 124 672 2000 manish.gupta@crisil.com Ankit Hakhu Director **CRISIL Ratings Limited** B:+91 124 672 2000 ankit.hakhu@crisil.com Vignesh Srinivasan Senior Rating Analyst **CRISIL Ratings Limited** B:+91 22 3342 3000 Vignesh.Srinivasan@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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For more information, visit www.crisil.com/ratings

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