

India Ratings Affirms Mahindra Lifespace Developers at 'IND AA'/Stable and its CP at 'IND A1+'

13

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India Ratings and Research (Ind-Ra) has affirmed Mahindra Lifespace Developers Limited's (MLDL) Long-Term Issuer Rating at 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund based limits	-	-	-	INR1,750 (increased from 1,250)	IND AA/Stable IND A1+	Affirmed
Commercial paper (CP)	-	-	90-180 days	INR750	IND A1+	Affirmed
Non-fund-based limits	-	-	-	INR500	IND AA/Stable IND A1+	Affirmed
Proposed bank facilities*	-	-	-	INR250 (reduced from INR750)	IND AA/Stable IND A1+	Assigned

*Unallocated

ANALYTICAL APPROACH

Ind-Ra continues to take a consolidated view of MLDL and its [subsidiaries/joint ventures](#) while arriving at the ratings. This approach has been adopted to reflect Ind-Ra's assessment of the strong operational and strategic ties between MLDL and its subsidiaries/joint ventures.

MLDL's ratings continue to factor in support from its 51.5% parent Mahindra & Mahindra Limited (M&M; 'IND AAA/Stable').

KEY RATING DRIVERS

Strategic Linkages with Parent: MLDL has strategic linkages with M&M, indicated by an equity infusion of INR1.99 billion by the parent in the subsidiary over FY07-FY08, and the subscription by M&M to its shares in a rights issue of INR3 billion in 1QFY18. Both entities share a common brand name, Mahindra. Moreover, MLDL is part of the Mahindra Group, which provides it both operational and financial flexibility.

Strong Brand Name and Long Track Record: MLDL has the advantage of a strong brand name. The company has been present in the real estate market since 2001, and has since developed over 17.5 million square feet (msf) of completed residential and commercial projects. The company had about 7.81msf of ongoing and forthcoming residential projects at FYE20 (FYE19: 8.8msf).

Execution-Focused Approach: The company keeps project execution in line with the demand. At FYE20, of its 3.60msf of ongoing residential projects (FYE19: 3.68msf), the company had sold 64% (55%) and had completed/incurred costs equivalent to 57% (61%) of the likely project cost. During FY20, residential sales volume and amount decreased by 17% and 20% yoy, respectively, as the company did not launch any new projects in 1HFY20 and 4QFY20 was adversely impacted by the outbreak of COVID-19. MLDL's completed inventory stood at a manageable 220 units at FYE20 (FYE19: 353 units).

Diversified across Geographies and Ticket Sizes: MLDL has significant exposure to six markets across India. Ind-Ra expects the Mumbai Metropolitan Region to account for the bulk of future residential sales (50%), followed by National Capital Region (20%), Chennai (23%), Pune (1%) and Nagpur (6%). The typical ticket size for the company is in the INR2 million-45 million range. The diverse geographical presence mitigates the inventory and price risk related to one particular area. The company's different ticket sizes help it cater to a large customer base from low-income-group to high-income-group.

Strong Collection Visibility: As of March 2020, MLDL had sold units worth INR13.3 billion of the ongoing projects (FY19: INR13.8 billion) where it had received INR4.1 billion (INR5.8 billion). This provides the company with a strong collection visibility of INR9.2 billion over FY21-FY24. Additionally, MLDL has INR2.6 billion worth of completed inventory.

Liquidity Indicator - Superior: MLDL has committed cash flow from sold units, along with completed unsold inventory and available cash and cash equivalent of INR2.6 billion and available fund-based limits of INR2.1 billion. The agency believes this provides the company with comfortable liquidity in the near-to-medium term to meet its construction cost in the ongoing projects (INR5.6 billion as of March 2020) and current maturities of INR0.85 billion. The company has not

sought any moratorium on its debt servicing obligations.

Moderate Sales Performance/Leverage: In FY20, MLDL's operating performance ratio (consolidated pre-sales/net debt) improved to 101% (FY19: 98%) and its leverage (net debt/adjusted working capital) to 31% (39%) owing to the generation of positive free cash flows.

Moderate Project Concentration: Ind-Ra expects MLDL's top five projects to account for around 73% of the likely sales from ongoing projects. Some comfort is drawn from the company's strategy of executing projects in phases.

Moderate Standalone Financial Profile: MLDL reported revenue of INR4.399 billion in FY20 (FY19: INR4.860 billion) and EBITDA of INR-0.642 billion (INR0.243 billion). The company had other income of INR0.808 billion in FY20 (FY19: INR0.688 billion) while its finance cost was INR0.018 billion (INR0.055 billion). At end-FY20, MLDL had net debt of INR0.235 billion (FY19: net cash of INR0.974 billion).

Cyclicality and Regulatory Risk: The Indian real estate industry is highly cyclical with volatile cash flows. The real estate sector is also subject to multiple regulatory approvals; thus, the timely receipt of regulatory approval is critical for timely launches of new projects and future sales/collections. Ind-Ra believes some key markets for MLDL have high inventories such as Delhi National Capital Region and Mumbai Metropolitan Region.

RATING SENSITIVITIES

Negative: Higher-than-expected debt-funded land acquisitions, higher-than-expected project costs, any weakening of the linkages with the parent or a weakening of the credit profile of the parent could lead to a negative rating action.

COMPANY PROFILE

MLDL was formed in 2001 through a merger of Gesco Corporation and Mahindra Realty & Infrastructure Developers. The company was renamed Mahindra Gesco Developers Ltd in 2003 and then Mahindra Lifespace Developers Limited in 2007. MLDL primarily operates in project management and development activities and operations of commercial complexes.

FINANCIAL SUMMARY

Consolidated Financials (IND-AS)	FY20	FY19
Revenue (INR billion)	6.109	5.928
EBITDA (INR billion)*	-0.568	0.258
Finance cost (INR billion)	0.76	0.125
Net financial leverage (x)	NA	-2.54x
Source: Annual report, Ind-Ra		
*EBITDA does not include other income		

RATING HISTORY

Instrument type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	28 February 2020	31 December 2018	15 September 2017
Issuer Rating	Long-term		IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Fund-based limits	Long-/short-term	INR1,750	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+
Non-fund-based limits	Long-/short-term	INR500	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+
CP	Short-term	INR750	IND A1+	IND A1+	IND A1+	IND A1+
Proposed bank facilities*	Long-/short-term	INR250	IND AA/Stable/ IND A1+	Provisional IND AA/Stable/ Provisional IND A1+	NA	NA

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

[Corporate Rating Methodology](#)
[Parent and Subsidiary Rating Linkage](#)

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