

IPO Note

06th April 2021

Company Overview

Macrotech Developers Limited ("Macrotech Developers") was incorporated as 'Lodha Developers Private Limited' on September 25, 1995. Macrotech Developers is the largest real estate developer in India, by residential Sales value for the financial years 2014 to 2020. Their core business is residential real estate developments with a focus on affordable and mid-income housing. Currently, they have residential projects in the Mumbai Metropolitan Region ("MMR") and Pune. In 2019, they forayed into the development of logistics and industrial parks and entered into a joint venture with ESR Mumbai 3 Pte. Ltd ("ESR"), a subsidiary of ESR Cayman Ltd., an Asia Pacific focused logistics real estate platform. Company's brands include "Lodha", "CASA by Lodha" and "Crown – Lodha Quality Homes" for their affordable and mid-income housing projects, the "Lodha" and "Lodha Luxury" brands for their premium and luxury housing projects, and the "iThink", "Lodha Excelus" and "Lodha Supremus" brands for their office spaces.

Objects of the issue

The issue consist of Fresh issue (INR 25 bn). Company proposes to utilize the net proceeds from fresh issue for:

- A) Reduction of the aggregate outstanding borrowings of the company on a consolidated basis (INR 15 bn)
- B) Acquisition of land or land development rights (INR 3.7 bn)
- C) General Corporate Purposes (INR 6.3 bn)

Investment Rationale

India's largest residential real estate developer with a leadership position in the attractive MMR market

The MMR is considered the most attractive real estate market in the Top 7 Indian Markets, having the largest share of supply and absorption, as well as the highest average base selling price, of residential units from 2016 to 2020, catering to a wide spectrum of income and demography. The MMR has significant depth of demand for real estate developments across price points. The MMR real estate market has high barriers to entry due to limited land availability, high prices of land and knowledge of the regulatory and approval processes required for developing a project. The company has attained a leadership position in the South Central Mumbai, Thane and the Extended Eastern Suburbs micro-markets of the MMR, with the largest share of supply (by units), absorption (by value) and completion (by area) of residential developments, among the 5 largest developers in the respective micro-market, from 2015 to 2020. In addition, they have a strong presence in the Extended Western Suburb micro-market of the MMR, with the 2 nd largest share of absorption (by value) and the 5 th largest share of supply (of units) of residential developments, among the 5 largest developers in the respective micro-market, from 2015 to 2020.

Innovative marketing and sales strategies

Company's marketing and sales team, which comprised 605 professionals, as of December 31, 2020, track market trends which enables them to position their projects appropriately in terms of location and price points, and creates a cohesive marketing strategy designed to secure and build brand value and awareness. Some of these strategies include invitation-only sales for their luxury projects; limited edition designer residences; exclusive code names for each project; large public launches with a book-building approach; and the implementation of the concept of self-sustained communities. They use differentiated sales strategies and multiple channels to sell their products. They have an in-house sales team that has separate teams focusing on pre-sales (in-house tele-callers), easy lease, corporate sales, NRI clients, outstation customers and loyalty sales. They also has an experienced customer care team with approximately 279 professionals, as of December 31, 2020, who regularly interact with their customers and are responsible for assisting them throughout the entire period from initial booking to handover of their homes.

Valuation and Outlook

Macrotech Developers Ltd. (MDL) is one of the largest real estate developers in India. Its core business is residential real estate developments with a focus on affordable and mid-income housing. Currently it has residential projects in the MMR and Pune. The company also develops commercial real estate including as part of mixed use developments in and around its residential projects. On the valuation front, at the upper price band, the company is valued at 29x P/E based on FY20 numbers considering its diluted equity shares. Company's fluctuating topline over last years, increasing leverage i.e debt to equity ratio - 3.63x, negative bottom line in 9MFY21 and ongoing pandemic crises creates an uncertain environment for its future growth prospects. Therefore, we assign an 'AVOID' rating to this IPO issue.

Issue Details

Offer Period	Apr 07th - 09th Apr 2021
Price Band	INR.483 to INR.486
Bid Lot	30
Listing	BSE&NSE
Issue Size (no. of shares in mn)	51.44
Issue Size (INR. in bn)	25
Face Value (INR)	10

Issue Structure

QIB	50%
Retail	35%
HNI	15%
BRLM	ICICI Securities, Edelweiss Financial, IIFL Securities, JM Financial, Yes Securities, SBI Capital, BOB Capital
Registrar	Link Intime India Pvt. Ltd

Particulars Pre Issue % Post Issue %

Promoter	100	88.5
Public	-	11.5
Total	100	100

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Revenue				
Revenue from operations	1,35,272	1,19,070	1,24,426	29,150
Total revenue	1,35,272	1,19,070	1,24,426	29,150
Expenses				
Cost of Projects	89,085	73,780	95,500	20,524
Employee benefit expenses	4,930	3,899	3,904	2,015
Other expenses	8,361	9,721	5,819	976
Total Operating expenses	1,02,375	87,399	1,05,223	23,514
EBITDA	32,897	31,670	19,203	5,636
Depreciation and amortisation expense	3,979	1,944	3,064	564
Other income	1,994	719	1,184	2,455
EBIT	30,911	30,445	17,323	7,526
Finance costs	3,816	5,556	7,315	8,110
PBT	27,095	24,889	10,008	(583)
Current tax	(4,994)	(907)	(339)	(578)
Deferred Tax charge	(4,207)	(7,542)	(2,276)	3,148
Total tax	(9,201)	(8,449)	(2,615)	2,570
Share of Net profit/Loss of associates	-	-	(0)	(3)
Exceptional items	-	-	56	(4,628)
PAT	17,894	16,440	7,448	(2,643)
Diluted EPS	40.0	36.8	16.7	(5.9)

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Cash Flow from operating activities	6,960	(4,632)	37,732	14,367
Cash flow from investing activities	(6,552)	(1,843)	2,117	2,904
Cash flow from financing activities	239	7,359	(41,896)	(16,456)
Net increase/(decrease) in cash and cash equivalents	647	885	(2,047)	815
Cash and cash equivalents at the beginning of the period	1,858	2,552	3,525	1,185
Effect of exchange rate changes on cash and cash equivalents	(127)	89	10	50
Cash and Cash Equivalents on Disposal	-	-	(303)	-
Cash and Cash Equivalents acquired on account of Acquisition	173	-	0	-
Cash and cash equivalents at the end of the period	2,552	3,525	1,185	2,051

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Equity				
Share Capital	3,959	3,959	3,959	3,959
Other Equity	18,231	34,451	41,564	38,910
Non-Controlling Interest	359	5,348	5,192	5,253
Net worth	22,549	43,758	50,715	48,121
Long-Term Borrowings	24,935	5,135	21,339	24,886
Trade payables	2,324	2,057	2,231	1,745
Other Financial Liabilities	73	139	864	1,464
Long-Term Provisions	248	262	177	175
Other Non-Current Liabilities	-	-	969	955
Total Non Current Liabilities	27,580	7,593	25,579	29,226
Short Term Borrowings	2,01,069	2,28,488	1,62,803	1,61,449
current tax liability	884	8	184	712
Other current liabilities	1,81,369	1,53,729	1,23,467	1,22,430
Trade payables	19,246	20,574	20,497	19,022
Short Term Provisions	92	92	63	54
Other Financial Liabilities	25,323	44,396	23,618	24,931
Total Current Liabilities	4,27,983	4,47,288	3,30,632	3,28,598
Total liabilities	4,78,113	4,98,639	4,06,926	4,05,946
Assets				
Tangible Assets	12,853	12,827	11,851	11,364
Capital work in Progress	59	63	63	63
Intangible Assets	24	17	10	5
Goodwill	7,481	6,611	5,467	5,467
Investments accounted for using equity method	140	140	583	585
Other Financial Assets	511	560	1,317	1,889
Investments	1,216	1,216	2,043	2,172
Deferred Tax Assets (net)	11,033	3,206	936	4,084
Investment Property	1,990	1,933	2,882	2,814
Loans	455	1,945	42,560	37,021
non current assets	1,500	2,978	3,635	2,228
Other non-current assets	626	640	702	752
Total Non current assets	37,887	32,136	72,048	68,444
Other Financial Assets	5,172	7,505	6,164	6,807
Trade Receivables	7,340	4,843	7,943	6,502
Cash and cash equivalents	2,552	3,525	1,185	2,051
Bank Balances	2,672	3,050	684	903
Inventories	3,91,635	4,15,124	2,90,314	2,92,001
Loans	5,632	4,802	4,167	4,138
Investments	12,486	12,694	12,904	12,984
Other current assets	12,737	14,959	11,516	12,117
Total Current Assets	4,40,226	4,66,504	3,34,877	3,37,503
Net Current Assets	12,242	19,216	4,246	8,904
Total Assets	4,78,113	4,98,639	4,06,926	4,05,946

Source: RHP, BP Equities Research

Key Risks.

- ⇒ *The extent to which the coronavirus disease (COVID-19) may affect its business and operations in the future is uncertain and cannot be predicted*
- ⇒ *There are material outstanding legal proceedings involving company, subsidiaries, associates, Directors, Promoters and Group companies.*
- ⇒ *They are subject to certain risks with respect to its investments in the United Kingdom. .*

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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