

Macrotech Developers

Estimate change



TP change



Rating change



Bloomberg	LODHA IN
Equity Shares (m)	963
M.Cap.(INRb)/(USDb)	733.1 / 8.8
52-Week Range (INR)	829 / 356
1, 6, 12 Rel. Per (%)	-2/58/46
12M Avg Val (INR M)	815

Financials & Valuations (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Sales	106.8	135.7	143.6
EBITDA	25.6	36.0	39.5
EBITDA (%)	24.0	26.5	27.5
Net profit	15.3	24.0	27.0
EPS (INR)	15.8	24.9	28.0
EPS Growth (%)	-0.7	57.2	12.5
BV/Share (INR)	144.2	164.1	186.5

Ratios

Net D/E	0.3	0.1	0.0
RoE (%)	11.5	16.2	16.0
RoCE (%)	8.5	12.4	13.5
Payout (%)	20.0	20.0	20.0

Valuations

P/E (x)	47.7	30.4	27.0
P/BV (x)	5.2	4.6	4.1
EV/EBITDA (x)	30.0	20.9	18.5
Div Yield (%)	0.4	0.7	0.7

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	74.9	75.0	82.2
DII	3.6	4.1	2.7
FII	20.5	19.8	13.9
Others	0.9	1.1	1.2

CMP: INR760

TP: INR900 (+19%)

Buy

Operational performance in-line; Miss on P&L due to lower recognition

Steady (in-line) operating performance despite unfavorable seasonality

- Macrotech Developers (LODHA) reported sales bookings of INR35.3b, which grew 12% YoY/5% QoQ in 2QFY24. Sales stood in-line with our estimates. With pre-sales of INR69b in 1HFY24 (up 15% YoY), the company has already achieved ~50% of the pre-sales guidance and is on track to surpass its FY24 guidance of INR145b.
- Sales volume jumped 24% YoY but dipped 7% QoQ due to seasonality and limited new project launches. LODHA launched 1.8msf of area across five existing projects. It is aiming to launch projects in seven new locations in 2HFY24, including its first project in Bengaluru that will drive pre-sales growth.
- Higher contribution from South and Central Mumbai led to 16% QoQ growth in realization to INR13,300/sqft, which resulted in 8% QoQ jump in residential pre-sales to INR34.5b (up 20% YoY) during the quarter.
- P&L performance:** Revenue was flat YoY at INR17.5b in 2QFY24, 31% below our estimate led by lower recognition despite the transition to POC method of accounting. EBITDA came in at INR4.2b, flat YoY but 38% below our estimate. EBITDA margin stood at 24%. Adjusted margin was up 170bp to 31%. Adjusted PAT declined 42% YoY to INR2.1b; PAT margin was at 12%.

Net debt reduced by over INR5b; on track to achieve its full-year target

- Gross collections recovered and were up 16% YoY at INR27.5b, which led to a 24% YoY rise in OCF to INR12.6b. Lower spending on land and investments led to a surplus of INR5.4b that was utilized for debt reduction.
- Net debt now stands at INR67.3b, or 0.52x of equity. With a significant debt reduction plan in 2HFY24, LODHA remains on track to achieve its full-year leverage target of below 0.5x of equity or 1.0x of OCF.
- LODHA added two projects during the quarter with a saleable area of 1.2msf and a GDV potential of INR23b. With these, it has cumulatively added INR143b of projects which is >80% of its full-year target of INR175b.

Key conference call highlights

- New launches:** LODHA is aiming to commence sales at its new Bengaluru project in Nov'23. Similar to Pune, its initial years will be spent on understanding the local market/building the brand, and then building on it in a sustainable manner.
- Overall, LODHA intends to have 7-8 new launches with a development potential of 8msf and GDV of INR120b in 2HFY24.
- Management is confident of achieving 20% CAGR in pre-sales over the next few years.
- Pricing:** Growth in price has been 3% in FY24YTD, which is in line with the company's strategy to maintain price growth below wage growth. This is a critical factor in ensuring the longevity of the current upcycle.

- **Eastern Suburbs:** Having entered the market in 2HFY22, LODHA achieved sales of INR12b in FY23 and in FY24 it is aiming for 40-50% growth that translates into INR17-18b (1HFY24 – INR8b) of sales. The goal is to increase market share to 20% and LODHA will add 2-3 new projects each year in order to achieve its targeted growth/market share.

Valuation & view: Debt reduction on track; focus intensifies on growth

- LODHA delivered in-line operating performance and remains on track to exceed its FY24 pre-sales guidance of INR145b. Hence, we maintain our pre-sales and cash flow estimates.
- LODHA reported lower-than-estimated revenue/EBITDA/PAT due to lower-than-expected recognition. We revise our FY24E EBITDA/PAT by -13%/-21%.
- The company reduced its debt significantly in 2QFY24 and remains on track to further reduce it by INR15-20b to <INR50b. With comfortable leverage, the company will incrementally focus on growth with an aim to sustain the pre-sales CAGR of 20% over the next few years.
- We continue to prefer companies with an ability to outperform peers on the growth front. LODHA is one of our top picks in the sector. **We roll forward our estimates to Sep'24 and reiterate BUY with an increased TP of INR900, indicating 19% upside potential.**

Financial performance (INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E 2QE	Variance (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Gross Sales	26,758	17,654	17,738	32,554	16,174	17,496	32,033	41,075	94,704	1,06,778	25,438	-31
YoY Change (%)	67	-17	-14	-5	-40	-1	81	26	2.6	12.7	44.1	
Total Expenditure	22,091	13,414	13,701	24,837	12,874	13,335	23,897	31,045	74,042	81,152	18,768	
EBITDA	4,667	4,240	4,038	7,717	3,300	4,161	8,136	10,029	20,661	25,627	6,669	-38
Margins (%)	17.4	24.0	22.8	23.7	20.4	23.8	25.4	24.4	21.8	24.0	26.2	
Adj. EBITDA (as per co.)	9,030	5,250	5,700	9,800	4,600	5,500	8,136	10,029	29,780	28,266	6,669	-18
Margins (%)	33.7	29.7	32.1	30.1	28.4	31.4	25.4	24.4	31.4	26.5	26.2	
Depreciation	196	219	217	296	240	293	280	265	928	1,078	250	
Interest	1,193	1,249	1,176	1,172	1,241	1,231	945	647	4,791	4,064	1,088	13
Other Income	0	-42	1,286	163	544	55	356	470	1,408	1,425	564	-90
PBT before EO expense	3,278	2,730	3,931	6,412	2,363	2,692	7,268	9,587	16,350	21,909	5,896	-54
Extra-Ord expense	0	-11,774	0	0	0	0	0	0	-11,774	0	0	
PBT	3,278	-9,044	3,931	6,412	2,363	2,692	7,268	9,587	4,576	21,909	5,896	-54
Tax	559	270	-119	-1,080	556	624	2,180	3,212	-370	6,573	1,769	
Rate (%)	17.0	-3.0	-3.0	-16.8	23.5	23.2	30.0	33.5	-0.1	0.3	30.0	
Minority Interest & Profit/ Loss of Asso. Cos.	6	16	0	58	15	40	24	1	80	80	18	
Reported PAT	2,713	-9,330	4,050	7,434	1,792	2,028	5,063	6,373	4,866	15,256	4,109	-51
Adj PAT (as per co.)	1,200	3,670	3,000	7,500	1,700	2,100	5,063	6,373	15,370	15,236	4,109	-49
YoY Change (%)	-2	28	8	31	42	-43	69	-15	21.9	-0.9	12.0	
Margins (%)	4.5	20.8	16.9	23.0	10.5	12.0	15.8	15.5	16.2	14.3	16.2	-415bp

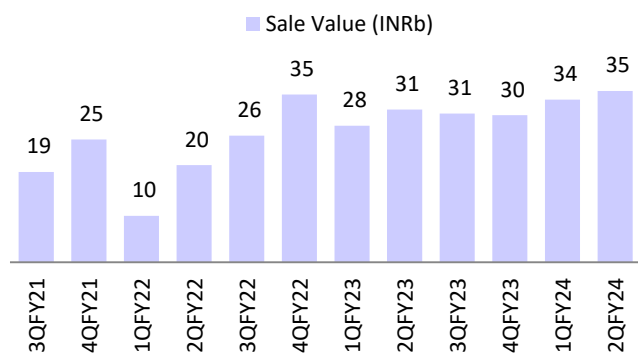
Operational performance

Key metrics	FY23				FY24				FY23	FY24	FY24E 2QE	Variance (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sale Volume (msf)	2.2	2.1	2.5	2.5	2.8	2.6	3.1	2.8	9.3	11.3	2.5	2
Sale Value (INRb)	28.1	31.5	30.7	30.3	33.5	35.3	39.0	42.1	120.6	149.9	35.2	0
Collections (INRb)	26.2	23.8	26.8	29.3	24.0	27.5	34.2	36.8	106.0	131.6	30.9	-11
Realization (INR/sft)	11,027	13,743	11,920	11,680	11,429	13,308	12,516	15,177	12,056	13,278	13,880	-4

Source: Company, MOFSL

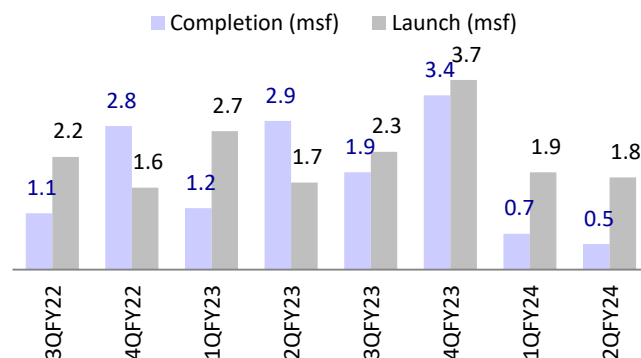
Key exhibits

Exhibit 1: Reported pre-sales of INR35b, up 12% YoY



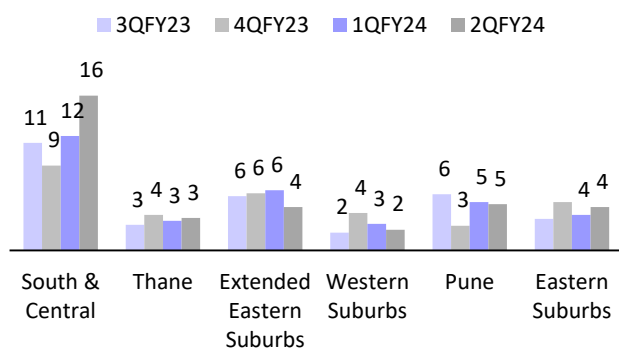
Source: Company, MOFSL

Exhibit 2: Launched 1.8msf and delivered 0.5msf in 1Q



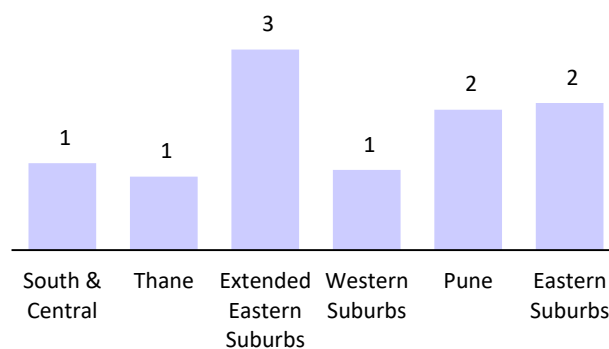
Source: Company, MOFSL

Exhibit 3: Well-distributed sales across all markets



Source: Company, MOFSL

Exhibit 4: Strong launch pipeline of 11msf for the next 12 months



Source: Company, MOFSL

Exhibit 5: Launch pipeline for 2HFY24 has a healthy mix of Own/JDA projects

Micro-market	Own/JDA	Area (msf)	Est. GDV (INRb)	No. of Projects
South Central	JDA	0.5	24	1
South Central	Own	0.3	14	1
Extended Eastern Suburbs	Own	1.5	10	2
Eastern Suburbs	JDA	1.6	27	3
Western Suburbs	JDA	0.8	15	3
Pune	Own	0.6	6	2
Pune	JDA	0.9	7	3
Thane	Own	0.8	9	2
Bangalore	JDA	1.2	9	2
Total		8.2	120	19

Source: Company, MOSL

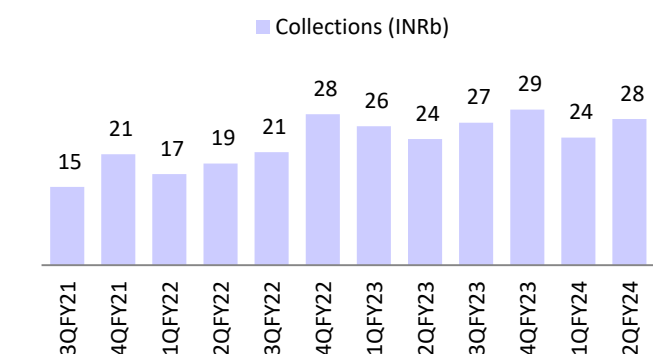
Exhibit 6: In 1HFY24, the company signed new projects worth INR143b (GDV)

Micro-market	Saleable Area (msf)	Est GDV (INRb)
Signed in FY24		
MMR - South Central	4.3	74
MMR - South Central	1.1	16
MMR - South Central	0.4	12
MMR - Western Suburbs	0.3	10
Bengaluru - South	1	8
MMR - Eastern Suburbs	0.7	13
MMR - Western Suburbs	0.5	10
Total	8	143

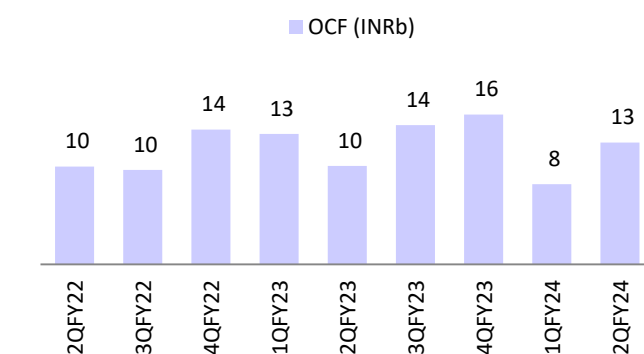
Exhibit 7: Annualized cost inflation for the company's portfolio moderated since Mar'22

Commodity/Component	% Share in total cost	% Change over Mar'21 to Mar'22	Mar'21 to Jun'23	
			% Change	Weighted Impact
Steel	12.9	35.1	5.4	0.7
Flooring Tiles	5.0	23.9	10.4	0.5
Electrical/Plumbing	11.8	10.1	4.5	0.5
Labour	34.4	3.0	4.3	1.5
External Windows	3.9	21.9	8.4	0.3
RMC	11.0	6.3	13.6	1.5
Lifts & Elevators	3.3	16.6	37.7	1.2
Carpentry Materials	3.5	15.5	5.6	0.2
Painting	3.8	13.1	29.5	1.1
Overall		13.7		10.1

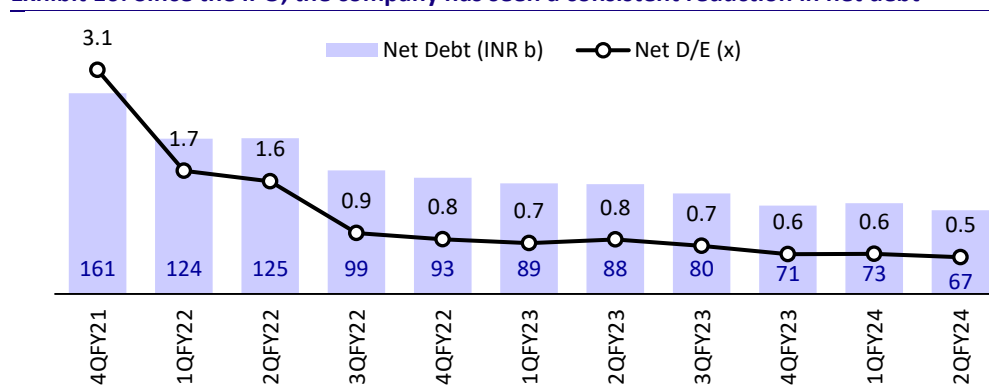
Source: Company, MOFSL

Exhibit 8: Collections healthy at INR28b

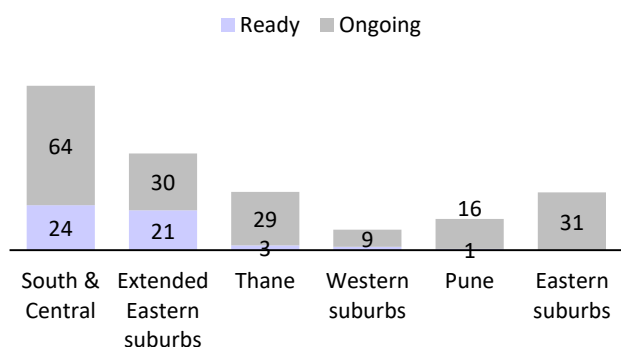
Source: MOFSL, Company

Exhibit 9: Generated an OCF of INR13b

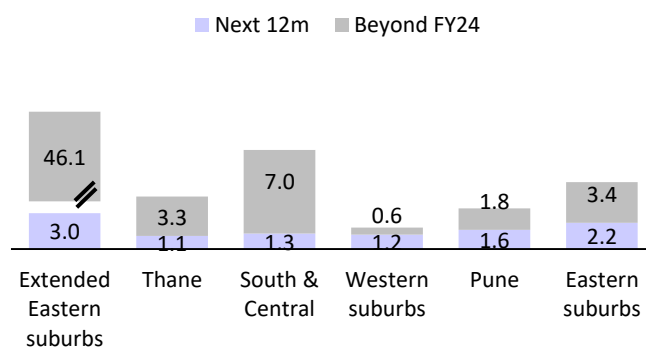
Source: MOFSL, Company

Exhibit 10: Since the IPO, the company has seen a consistent reduction in net debt

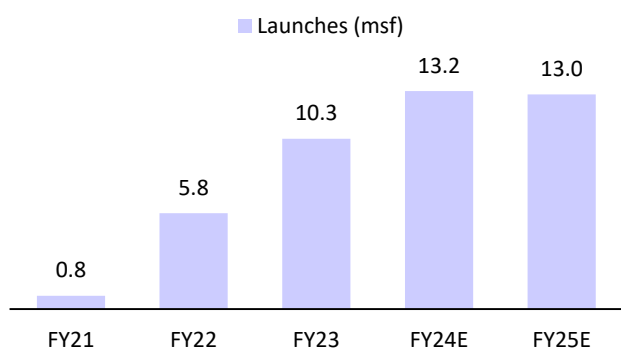
Source: MOFSL, Company

Exhibit 11: Currently has ~INR230b worth of inventory including INR45b of completed stock

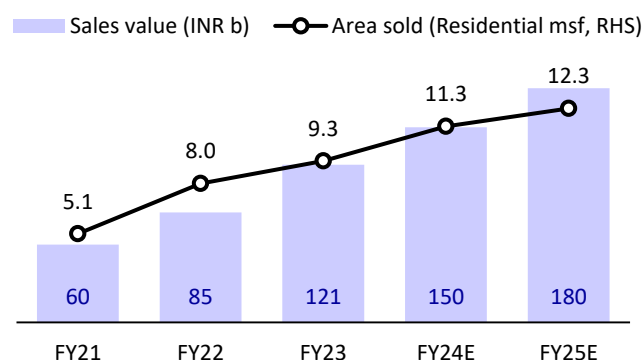
Source: Company, MOFSL

Exhibit 12: Has a strong ~70msf of pipeline to be launched in the medium term

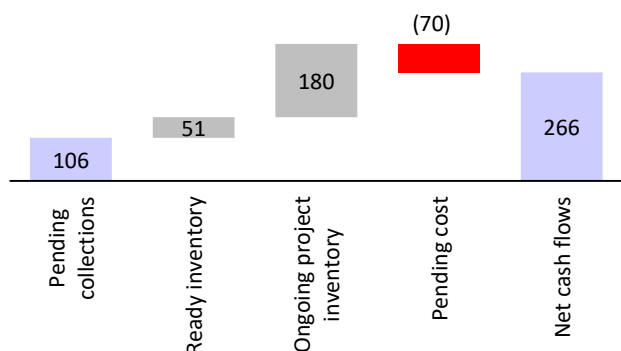
Source: Company, MOFSL

Exhibit 13: Expect launches to further rise from FY24

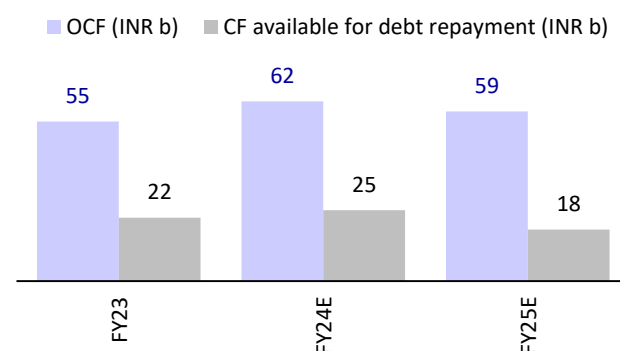
Source: MOFSL, Company

Exhibit 14: To report 22% CAGR in pre-sales over FY23-25 to INR180b

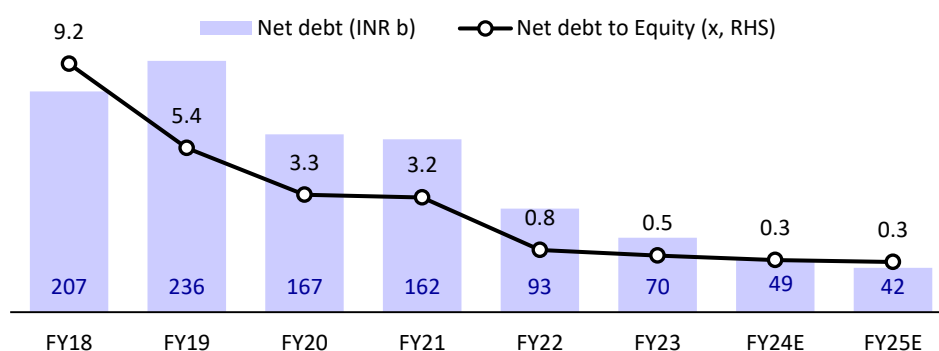
Source: MOFSL, Company

Exhibit 15: Over the next 4-5 years, ongoing and completed project pipeline can generate ~INR250b of net cash inflows

Source: Company, MOFSL

Exhibit 16: Expect the company to generate ~INR60b OCF for the next two years

Source: Company, MOFSL

Exhibit 17: Healthy cash flows could enable accelerated deleveraging

Source: MOFSL, Company

Exhibit 18: Revisions to our estimates

(INR m)	Old		New		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	1,13,056	1,34,604	1,06,778	1,35,702	-6%	1%
EBITDA	29,395	35,670	25,627	35,961	-13%	1%
Adj. PAT	18,476	22,889	14,610	23,939	-21%	5%
Pre-sales	1,53,730	1,79,867	1,53,730	1,79,867	0%	0%
Collections	1,18,264	1,29,462	1,18,264	1,29,462	0%	0%
OCF	62,257	58,777	62,257	58,777	0%	0%

Source: MOFSL, Company



Highlights from the management commentary

Pune market:

- LODHA achieved INR11b of sales in FY23 and in 1HFY24, sales stood at INR9b. Sales would surpass INR20b by end of the year and the company will be among the top 3 builders in the city. It is targeting to double its pre-sales from this market in three years.

Pricing:

- The starting price of any project will be at a premium to competition given the kind of product the company offers but price growth will continue to remain below wage growth even if demand momentum remains strong

Business development:

- LODHA continues to target 30%+ IRR from JDA projects, and management sees healthy opportunities to acquire projects that can generate this return.
- The key criteria are the size of the project and its ability to generate the required margin or IRR. Within this framework, LODHA is open to looking at outright, JDA, and redevelopment projects.

Palava Land:

- During the IPO, the industrial land was valued at INR25m/acre and currently the transactions are being concluded at INR50m/acre. This will further grow to INR60m/acre soon and to INR100m/acre over the next 2-3 years. The well-built ecosystem and the large infra projects nearing completion are improving the attractiveness of Palava

Valuation and view: Profit-led growth trajectory intact; reiterate BUY

- We value LODHA on an SoTP basis: 1) the residential segment is valued by using the DCF of four-year cash flows at a WACC of 12% and a terminal growth rate of 2.5%; 2) the commercial business is valued at a cap rate of 8% for operational assets and DCF for ongoing assets; 3) the industrial and the UK Investments are valued at a present value of future cash flows, discounted at a WACC of 12%.
- We arrive at a NAV of INR869b, assuming net debt of INR38b in FY25. Applying zero discount to its NAV, we arrive at a TP of INR900, indicating a 19% upside potential.

Exhibit 19: Based on SoTP approach, we arrive at a NAV of INR869b (or INR890 per share), implying a 19% upside potential

Particulars			Value (INR b)	Per share	% contribution
Residential	❖	DCF of 4 years cash flow at WACC of 12% and terminal value assuming 5% long term growth	784	814	90%
Commercial	❖	Cap rate of 8% for operational assets and DCF for ongoing assets	29	30	3%
Industrial	❖	PV of future cash flows discounted at WACC of 12%	88	91	10%
UK Investment	❖	PV of future cash flow discounted at WACC of 12%	6	6	1%
Gross asset value			906	941	104%
Net debt	❖	FY24E	(38)	(40)	-4%
Net asset value			868	901	100%
No. of share (m)			963.0		
Price Objective			900		
CMP			760		
Upside			19%		

Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	1,24,426	54,486	92,332	94,704	1,06,778	1,35,702	1,43,592
Change (%)	4.5	-56.2	69.5	2.6	12.7	27.1	5.8
Total Expenditure	1,05,353	40,766	71,085	74,042	81,152	99,741	1,04,104
% of Sales	84.7	74.8	77.0	78.2	76.0	73.5	72.5
EBITDA	19,073	13,720	21,247	20,661	25,627	35,961	39,488
Margin (%)	15.3	25.2	23.0	21.8	24.0	26.5	27.5
Depreciation	2,924	734	748	928	1,078	1,134	1,192
EBIT	16,149	12,985	20,499	19,733	24,549	34,828	38,296
Int. and Finance Charges	6,544	11,257	6,803	4,791	4,967	3,180	2,180
Other Income	435	3,231	3,460	1,408	1,405	2,666	2,473
PBT bef. EO Exp.	10,039	4,959	17,156	16,350	20,986	34,313	38,589
EO Items	2	-4,628	0	-11,774	0	0	0
PBT after EO Exp.	10,041	332	17,156	4,576	20,986	34,313	38,589
Total Tax	2,615	-147	5,080	-370	6,296	10,294	11,577
Tax Rate (%)	26.0	-44.4	29.6	-8.1	30.0	30.0	30.0
Minority Interest	139	77	61	80	80	80	80
Reported PAT	7,286	402	12,014	4,866	14,610	23,939	26,932
Adjusted PAT	7,285	7,084	12,014	15,370	14,610	23,939	26,932
Change (%)	-55.5	-2.8	69.6	27.9	-4.9	63.9	12.5
Margin (%)	5.9	13.0	13.0	16.2	13.7	17.6	18.8

Consolidated - Balance Sheet

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	3,959	3,959	4,815	4,815	4,815	4,815	4,815
Total Reserves	41,564	42,031	1,16,235	1,21,809	1,33,497	1,52,648	1,74,194
Net Worth	45,523	45,990	1,21,050	1,26,624	1,38,312	1,57,463	1,79,009
Minority Interest	5,192	5,269	568	596	596	596	596
Total Loans	1,84,232	1,81,669	1,15,367	90,602	73,602	53,602	33,602
Deferred Tax Liabilities	-935	-2,098	1,911	332	3,161	10,097	18,821
Capital Employed	2,34,011	2,30,829	2,38,896	2,18,153	2,15,671	2,21,758	2,32,028
Gross Block							
Less: Accum. Deprn.	17,499	17,608	18,318	19,487	20,565	21,699	22,891
Net Fixed Assets	5,649	6,383	7,130	8,059	9,137	10,270	11,462
Investment Property	11,851	11,226	11,187	11,429	11,429	11,429	11,429
Goodwill on Consolidation	2,882	2,767	2,650	1,539	1,539	1,539	1,539
Capital WIP	5,477	5,471	5,388	5,303	5,303	5,303	5,303
Total Investments	63	63	0	0	0	0	0
Curr. Assets, Loans&Adv.	15,529	15,794	5,740	2,460	2,380	2,300	2,220
Inventory							
Account Receivables	3,70,188	3,55,663	3,59,824	3,70,816	3,91,742	4,24,456	4,70,889
Cash and Bank Balance	2,90,314	2,83,007	2,73,583	3,01,167	2,85,230	3,16,019	3,26,524
Loans and Advances	7,943	6,545	6,461	7,393	4,388	5,577	5,901
Curr. Liability & Prov.	1,870	3,668	12,457	18,242	33,111	28,848	28,452
Account Payables	70,061	62,442	67,322	44,013	69,013	74,013	1,10,013
Other Current Liabilities	1,71,979	1,60,153	1,45,892	1,73,393	1,96,722	2,23,269	2,59,352
Provisions	22,728	16,978	15,087	20,962	20,478	26,025	27,538
Net Current Assets	1,49,012	1,42,963	1,30,581	1,52,129	1,75,942	1,96,942	2,31,512
Misc Expenditure	239	212	224	302	302	302	302
Appl. of Funds	1,98,210	1,95,509	2,13,932	1,97,422	1,95,020	2,01,187	2,11,537

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	20.7	9.2	8.9	12.5	16.0	15.2	24.9	28.0
Cash EPS	23.1	12.9	9.9	13.3	16.9	16.3	26.0	29.2
BV/Share	48.5	57.5	58.1	125.7	131.5	143.6	163.5	185.9
DPS	0.0	0.0	0.0	0.0	0.0	3.0	5.0	5.6
Payout (%)	0.0	0.0	0.0	0.0	0.0	20.0	20.0	20.0
Valuation (x)								
P/E	36.6	82.2	84.5	60.6	47.4	49.8	30.4	27.0
Cash P/E	32.7	58.6	76.6	57.0	44.7	46.4	29.0	25.9
P/BV	15.6	13.1	13.0	6.0	5.7	5.3	4.6	4.1
EV/Sales	7.1	6.3	14.3	9.0	8.5	7.2	5.5	5.1
EV/EBITDA	26.8	40.9	56.6	39.1	38.7	30.0	20.9	18.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.4	0.7	0.7
FCF per share	-7.1	47.3	32.0	27.4	28.7	44.0	25.1	27.9
Return Ratios (%)								
RoE	54.0	17.4	15.5	14.4	12.4	11.0	16.2	16.0
RoCE	7.4	4.2	10.2	7.3	10.1	8.5	12.4	13.5
RoIC	7.9	4.8	8.8	6.7	10.2	9.1	13.1	13.7
Working Capital Ratios								
Fixed Asset Turnover (x)	6.7	7.1	3.1	5.0	4.9	5.2	6.3	6.3
Asset Turnover (x)	0.4	0.5	0.2	0.4	0.4	0.5	0.6	0.6
Inventory (Days)	1,273	852	1,896	1,082	1,161	975	850	830
Debtor (Days)	15	23	44	26	28	15	15	15
Creditor (Days)	69	67	114	60	81	70	70	70
Leverage Ratio (x)								
Current Ratio	2.3	2.2	2.2	2.5	2.1	2.0	1.9	1.8
Interest Cover Ratio	5.4	2.5	1.2	3.0	4.1	4.9	11.0	17.6
Net Debt/Equity	6.5	4.0	3.9	0.9	0.6	0.3	0.2	0.0

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	24,889	10,007	4,959	17,156	4,576	20,986	34,313	38,589
Depreciation	1,944	3,064	734	748	928	1,078	1,134	1,192
Interest & Finance Charges	30,032	31,119	25,246	19,923	13,890	9,031	6,360	4,360
Direct Taxes Paid	-3,116	-821	857	-1,778	-2,110	-3,466	-3,358	-2,852
(Inc)/Dec in WC	-59,476	-4,112	-1,218	-7,271	-1,091	17,271	-10,431	-10,746
CF from Operations	-5,726	39,257	30,579	28,778	16,194	44,901	28,018	30,542
Others	1,095	-1,525	-5,339	-2,500	11,306	-1,405	-2,666	-2,473
CF from Operating incl EO	-4,632	37,732	25,239	26,278	27,499	43,496	25,352	28,069
(Inc)/Dec in FA	-991	-292	65	78	149	-1,078	-1,134	-1,192
Free Cash Flow	-5,622	37,439	25,304	26,356	27,648	42,418	24,219	26,878
(Pur)/Sale of Investments	-300	-2,822	-176	1,491	6,817	0	0	0
Others	-552	5,231	4,310	9,820	10,812	1,405	2,666	2,473
CF from Investments	-1,843	2,117	4,199	11,389	17,778	327	1,532	1,281
Issue of Shares	0	0	0	63,466	100	0	0	0
Inc/(Dec) in Debt	37,050	-11,362	-10,325	-72,916	-25,393	-17,000	-20,000	-20,000
Interest Paid	-29,691	-30,534	-18,027	-19,427	-11,756	-9,031	-6,360	-4,360
Dividend Paid	0	0	0	0	0	-2,922	-4,788	-5,386
Others	0	0	0	0	-6	0	0	0
CF from Fin. Activity	7,359	-41,896	-28,351	-28,878	-37,054	-28,953	-31,148	-29,747
Inc/Dec of Cash	885	-2,047	1,087	8,789	8,223	14,869	-4,264	-396
Opening Balance	2,552	6,575	1,870	3,668	12,457	20,680	35,549	31,286
Closing Balance	3,437	4,529	2,956	12,457	20,680	35,549	31,286	30,890

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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