



SMC Ranking
★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Real estate
Offer for sale (Shares)	51,440,329
Employee reservation	617,284
Net Offer to the Public	50,823,045
Issue Size (Rs. Cr.)	2485-2500
Price Band (Rs.)	483-486
Offer Date	7-Apr-21
Close Date	9-Apr-21
Face Value	10
Lot Size	30

Issue Composition

	In shares
Total Issue for Sale	50,823,045
QIB	25,411,523
NIB	7,623,457
Retail	17,788,066

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	87.01%
QIB	0.00%	6.42%
NIB	0.00%	1.93%
Employee reservation	0.00%	0.16%
Retail	0.00%	4.49%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- To reduce aggregate outstanding borrowings of the company on consolidated basis.
- To acquire land or land development rights.
- To meet general corporate purposes.

Book Running Lead Manager

- Axis Capital Limited
- BOB Capital Market Limited
- Edelweiss Financial Services Limited
- ICICI Securities Limited
- IIFL holdings Limited
- J.P.Morgan India Private Limited
- JM Financial Consultant Private Limited
- Kotak Mahindra Capital Company Limited
- SBI Capital Markets Limited
- Yes Securities (India) Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 1995 by Mangal Prabhat Lodha, Lodha developers, now rechristened as Macrotech Developers, is one of India's largest real estate players by sales bookings, which develops real estate across the residential and commercial sectors in the Mumbai Metropolitan Region (MMR), Pune and London. In 2019, it entered into the development of logistics and industrial parks and also develop commercial real estate. Under the logistic and industrial park portfolio, it has planned to develop an industrial park of over 800 acres of land near Palava. However, the commercial real estate portfolio includes projects like corporate offices, IT campuses, and boutique office spaces. As on Dec 31 2020, the firm has successfully completed 91 projects comprising 77.22 million sq. ft. of developable area, with 59.13 million sq. ft. in the affordable housing segment.

Strength

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 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. Furthermore, it has a strong presence in the Extended Western Suburb micro-market of the MMR, with the 2nd largest share of absorption (by value) and the 5th largest share of supply (of units) of residential developments, among the 5 largest developers in the respective micro-market, from 2015 to 2020.

Well-established brand: The strong and recognizable brand is a key attribute in this industry, since it increases customer confidence, influences buying decision and helps target premium pricing for products. The company typically aims to sell over 80% of the Saleable Area of a project during the construction phase. It leverages its brand value and focus on selling sizeable percentage of units within 1 year from the launch of a project as well as prior to the receipt of the occupation certificate ("OC"), which assists it in generating operating cash flows during the construction phase. The company launched its project Lodha Sterling at a premium in the range of approximately 5% to 8% over the micro-market average price psf and Lodha Trinity at a premium of approximately 20% over the micro-market average price psf.

Proven end-to-end execution capabilities: The company has adopted an integrated real estate development model, with capabilities and in-house resources to carry on a project from its initiation to completion. Its design team innovates and designs products with a focus on integrated developments across several price points, in line with the consumer demand. It also works closely with external consultants to drive improvements in the design of its products. In 2019, it has launched 'Crown' as a new brand of affordable homes, priced between ₹ 25 lakh and ₹ 50 lakh. In addition, it has recently started developing plotted developments (plots and villas) as a separate project named 'Lodha Villa Royale', which is located in proximity to Viviana Mall, Thane.

Strong focus on sustainable development: The company follows a comprehensive approach to sustainable development from an early design phase through the construction period. The design of most of its residential developments includes passive features such as ventilation to ensure low energy usage. It has implemented environmentally friendly building concepts in many of its projects and aims to increase green cover in its developments to minimize the net carbon impact. The company has obtained leadership in energy and environment design (“LEED”) certifications as well as 5-stars from the Bureau of Energy Efficiency for various developments. It is a member of the U.S. Green Building Council.

Highly diversified portfolio across price points and micro-markets in the MMR: The company has a diversified portfolio of residential developments, spread across price points and micro-markets in the MMR, catering to a wide spectrum of economic and demographic segments, from luxury residences in South Mumbai to large, integrated townships in the extended suburbs offering affordable homes. Over the years, it has established a strong reputation and track record in affordable and mid-income as well as premium housing projects. The company’s ability to design a high-quality and differentiated product and positioning it to the target segment through appropriate marketing and branding strategy, has enabled it to deliver several prominent projects in this category.

Significant inventory of completed, ready-to-move units: The residential customers in India have started to prefer ready-to-move homes and the COVID-19 pandemic has further accentuated this trend. As of December 31, 2020, the company had approximately 5.5 msf of ready-to-move inventory of residential projects in India, which accounted for 29.6% of its total unsold residential inventory, by area. As of December 31, 2020, 18% of its ready-to-move inventory of residential developments were priced under ₹ 1 crore, 11% priced between ₹ 1 crore and ₹ 3 crore, 11% priced between ₹ 3 crore and ₹ 5 crore, 25% priced between ₹ 5 crore and ₹ 8 crore and 35% priced over ₹ 8 crore.

Unique ability to develop townships: The company has the ability to identify land, acquire it at competitive cost, aggregate it from several landowners and design a master plan to develop township projects. As of December 31, 2020, it has land reserves of 3,303 acres at Palava and 500 acres at Upper Thane, and total Saleable Area of 37.6 msf and 5.6 msf with respect to its completed and on-going projects at Palava and Upper Thane, respectively.

Innovative marketing and sales strategies: The company’s marketing and sales team, which comprised 605 professionals, as of December 31, 2020, track market trends which enables it to position its projects appropriately in terms of location and price points, and creates a cohesive marketing strategy designed to secure and build brand value and awareness. It uses differentiated sales strategies and multiple channels to sell its products. It has 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. It also has an experienced customer care team with approximately 279 professionals, as of December 31, 2020, who regularly interact with its customers and are responsible for assisting them throughout the entire period from initial booking to handover of their homes.

Strategy

Focus on enhancing leadership position in residential developments by growing in the MMR: The company intends to continue to grow in the MMR real estate market. The Company’s market leadership, industry knowledge and know-how of the regulatory environment in the MMR will enable it to benefit from the expected increase in real estate demand as the Government commits infrastructure spending in the MMR. Further, it intends to use its primary expertise and know-how to expand into and identify additional residential development opportunities, with a focus on affordable and mid-income housing, in select micro-markets in the MMR where the company is under-represented.

Leverage the leadership position to act as a partner of choice for landowners and grow using a joint development or joint venture approach: The company intends to leverage its brand and

leadership position to grow its business by entering into joint development agreements or joint ventures with landowners and other smaller developers.

Pursue a value-accretive land acquisition strategy: The company intends to continue to evaluate and acquire strategically located parcels of land at competitive prices while ensuring a disciplined capital structure with the goal of maximizing returns and developing a robust pipeline of projects in the MMR as well as select tier-1 Indian cities. The company focuses on acquiring land parcels of select size, which can be completed in one or two phases and has a typical completion timeline of 4 years (single phase) to 7 years (two phases). The company has identified key locations where it is under-represented and intends to grow in such markets through land acquisitions as well as its joint development or joint venture approach.

Develop large-scale industrial parks: The company has planned to develop a logistics and industrial park of over 800 acres near Palava, which is strategically located near the Jawaharlal Nehru Port, the proposed international airport in Navi Mumbai and the industrial hub of Talaja. Out of this area, approximately 290 acres is under-construction, as of December 31, 2020.

Focus on development of commercial projects: The company has developed commercial projects across various formats, focusing on the target clientele for each location. It has developed city-centric front office spaces under its “Lodha Excelus” brand, campus style back offices focused on the IT and ITeS sector under its “iThink” brand and boutique offices for SMEs under its “Lodha Supremus” brand. Its “One Lodha Place” is being developed as a premium office building, while commercial developments at Thane are focused on the IT and ITeS sectors.

Risk factors

- The company revenues are fluctuating and on declining mode. For 9 months ended Dec-20, its revenue has fallen to almost 1/4 of FY20 revenues. Covid-19 impact was very high in real estate business.
- The company has substantial amount of debt which could affect its ability to obtain future financing or pursue its growth strategy.
- The company had negative cash flows in the past and may continue to have in future too.

Peer comparison

Company	Net sales	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Brigade Enterprises Limited	2632.16	143.83	6.39	20.66	1.19	111.20	10	260.10	5485.86
DLF Limited	6082.77	191.05	-2.36	-ve	0.99	139.16	2	276.35	68405.24
Godrej Properties Limited	2441.42	217.28	10.60	56.86	3.16	190.64	5	1353.70	37625.15
Oberoi Realty Limited	2237.63	684.07	18.96	17.63	1.41	237.33	10	571.80	20790.78
Prestige Estates Projects Ltd	8124.8	371.19	10.05	16.73	1.26	133.70	10	299.45	12003.80
Sobha Limited	3753.85	281.38	29.70	4.56	0.53	256.33	10	429.95	4077.90
Sunteck Realty Limited	607.83	100.22	7.14	29.45	1.01	208.03	1	275.55	4033.90
Macrotech Developers Ltd	12,442.59	744.84	18.81	25.83	3.79	128.11	10	486.00	19239.67

Notes: *Financials are based of FY20

** Price and MCAP of peers companies are latest

Valuation

Considering the P/E valuation on the upper price band of Rs.486, EPS and P/E of Actual Annualised FY2020 are Rs.18.81 and 25.83 multiple respectively and at a lower price band of Rs. 483, P/E multiple is 25.67. Looking at the P/B ratio on the upper price band of Rs.486, book value and P/B of actual annualised FY20 are Rs. 128.11 and 3.79 multiple respectively and at a lower price band of Rs. 483 P/B multiple is 3.77. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry overview

Food services is a key segment in the Indian economy, which accounted for approximately US\$ 56.5 billion in FY 2020, of which approximately US\$ 22.8 billion comes from the organized market (chain and organized standalone outlets). Changing consumer dynamics paired with increasing market proliferation of brands in India are expected to continue to boost the food services sector's growth. The share of food services in Indian GDP is expected to increase to 2.2% by FY 2025 from 2.1% in FY 2020 on account of its growth at faster pace compared to GDP growth. Also, growth of food services market is expected to outpace its growth till now i.e., from 8.1% (FY15 to FY20) to 9% (FY20- FY25). It is rational to anticipate that the food services market will see growth in tandem with this economic growth, and there is every indication that such expansion will be substantial. The overall food delivery market in India is expected to grow at a CAGR of 12.2% to reach US\$ 18.1 Bn by FY 2025 from US\$ 10.2 Bn in FY 2020. Overall food delivery market in India was US\$ 4.7 Bn in FY 2016 and has grown at a CAGR of 21.4% between FY 2016 and FY 2020.

Outlook

Macrotech Developers is one of the largest real estate developers in India. The company plans to pare its debt obligations by 15 billion rupees using proceeds from the sale. However, the company has high leverage, which signifies that it has little ability to absorb any shocks of unforeseen events. Moreover, its balance sheet is stressed. In this scenario where many listed players are available with healthy balance sheet, this IPO can be given a miss.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	April 07, 2021
Bid/Offer Closing Date	April 09, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about April 16, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about April 19, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about April 20, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about April 22, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	31-Dec-20 (9 Months)	31-Mar-20 (12 Months)	31-Mar-19 (12 Months)
Revenue from operations	2915.01	12442.59	11906.98
Total expenditure	2351.44	10522.33	8739.95
Operating Profit	563.58	1920.27	3167.03
OPM%	56.77	65.87	48.53
Other Income	245.47	118.39	71.89
PBDIT	809.05	2038.66	3238.92
Depreciation	56.42	306.39	194.45
PBIT	752.63	1732.27	3044.48
Interest	810.96	731.52	555.59
PBT	-58.34	1000.75	2488.88
Exceptional item	463.01	-5.58	0.00
PBT	-521.34	1006.33	2488.88
tax	257.04	261.50	-844.91
Profit After Tax	-264.30	744.84	1643.98

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-20	As on 31-Mar-20	As on 31-Mar-19
Asset			
Non-current assets			
Property, plant and equipment	1136.37	1185.06	1282.74
Capital Work-in-Progress	6.29	6.29	6.29
Investment property	281.37	288.16	193.33
Goodwill	546.68	546.67	661.06
Other intangible assets	0.50	1.02	1.69
Investment accounted for using the equity method	58.49	58.32	13.96
Financial Assets	0.00	0.00	0.00
Investments	217.19	204.25	121.58
Loans	3702.11	4256.01	194.52
Other Financial Assets	188.89	131.72	55.99
Deferred tax assets	408.41	93.59	320.62
Non current tax assets	222.83	363.54	297.80
Other Non-Current Assets	75.24	70.21	64.00
Total non-current assets	6844.36	7204.83	3213.57
Current assets			
Inventories	29200.11	29031.44	41512.41
Financial assets	0.00	0.00	0.00
Investments	1298.35	1290.37	1269.42
Trade receivables	650.17	794.29	484.32
Cash and cash equivalents	205.05	118.54	352.53
Bank balances other than Cash and cash equivalents	90.29	68.41	305.02
Loans	413.84	416.66	480.21
Other financial assets	680.73	616.36	750.53
Other current assets	1211.72	1151.64	1495.94
Total current assets	33750.26	33487.71	46650.37
Total Assets	40594.62	40692.55	49863.94
Non-current liabilities			
Borrowings	2488.60	2133.86	513.51
Trade payable-MSE	72.14	18.30	17.54
others	102.33	204.77	188.17
Other Financial Liabilities	146.43	86.37	13.88
Provisions	17.54	17.67	26.20
Other Non-Current liabilities	95.54	96.90	0.00
Deferred Tax liabilities (Net)	0.03	0.05	0.04
Total Non-Current Liabilities	2922.61	2557.93	759.34
Current liabilities			
Borrowings	16144.90	16280.31	22848.83
Trade Payables – MSME	312.28	47.66	70.36
Trade Payables – Other than MSME	1589.97	2002.05	1987.07
Other Financial Liabilities	2493.09	2361.80	4439.64
Provisions	5.37	6.25	9.20
Other Current Liabilities	12243.05	12346.72	15372.87
Current Tax Liabilities (Net)	71.21	18.36	0.84
Total current liabilities	32859.86	33063.14	44728.81
Total	35782.47	35621.07	45488.15
NET Worth	4812.15	5071.48	4375.79
Net worth represented by:			
Share capital	395.88	395.88	395.88
share premium	212.80	212.80	212.80
Retained earning	1877.11	2147.55	1426.29
Other Reserves	1801.11	1796.10	1806.03
Non controlling interest	525.26	519.16	534.80
Total Networth	4812.15	5071.48	4375.79

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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