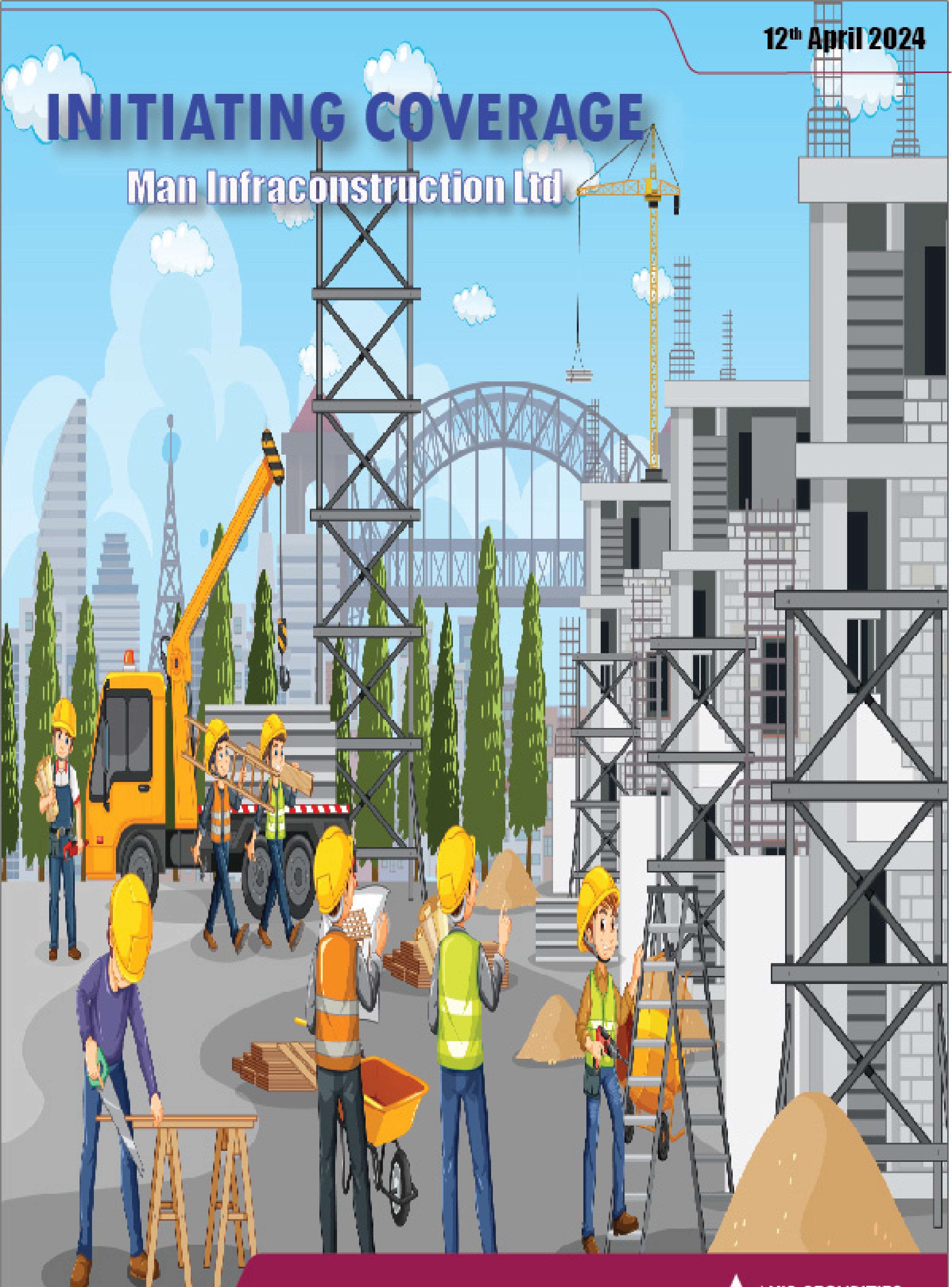
12th April 2024

INITIATING COVERAGE

Man Infraconstruction Ltd



AXIS SECURITIES

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Initiating Coverage
12th April, 2024

Man Infraconstruction Ltd. (MICL)
Real Estate

BUY
Target Price
270

'REDEVELOPING' INTO REAL ESTATE SPACE

We are initiating coverage on Man Infraconstruction Ltd. (MICL) with a BUY recommendation and a target price of Rs 270/share, which implies an upside of 28% from the CMP. With roots tracing back to 1964, the company started as an engineering contractor and has since completed numerous landmark projects across various sectors such as ports, infrastructure, residential developments, townships, and commercial projects.

Investment Thesis

Asset-light Business Model – Efficient and Scalable

Diversified Business: MICL has strategically adopted a business model that can be divided into two segments, each with multiple streams of income. The first segment is **Real Estate Projects**, and the second is **EPC Projects.** These segments have different streams of income, which helps diversify the company's risk profile. For the real estate business, MICL has adopted a Joint Venture (JV)/Development Management (DM)/Joint Development (JD) model, which spreads its leverage with other partners. This model is both value-accretive and scalable, allowing the company to maximize cash flows while maintaining low leverage.

MICL's Income Streams and Business Model Innovation: The income streams for MICL include DM fee (~12-14%), EPC margin on ports (~20%), interest margin (~10-14%), and PMC margin (~10%). Currently, the ratio of JV/DM projects to owned projects is 1:3, but the company plans to adjust this to 2:3 in the coming years, ensuring efficient use of capital and high scalability. Under DM all cost and revenue is booked in landlord, while in JV all costs and revenue is booked in SPV while MICL receives share of profit based on its stake in JV entity. This approach maximizes the company's bottom line without exerting stress on the balance sheet.

MICL's Real Estate Investments and Sales Performance: Being asset-light model, As of June 30, 2023, MICL has invested only Rs ~700 Cr in real estate projects, covering a portfolio of 4.6 million square feet. This relatively low investment for a real estate developer makes MICL an attractive company in this segment. Furthermore, MICL has near-zero inventory left in completed projects. The company boasts an impressive sales record at the launch, with over 70% of its ongoing projects already sold, this does not include new launches done in last six months - Avaan and Aaradhya One Park.

Robust Order Book & Pipeline of Upcoming Projects

Currently, MICL has ~2.0 Mn square feet of ongoing projects, including development projects in Dahisar, Ghatkopar, Mulund, Juhu, and Tardeo-Avaan. Its upcoming projects comprises around 3.7 Mn square feet of real estate projects. This includes – 1) two residential towers of Aaradhya Parkwood in Dahisar, 2) one of the largest redevelopment project in western suburbs in Goregaon on a 10 acre land parcel with a topline potential of over Rs 4000 Cr, 3) an ultra-luxury project in Pali Hill, Bandra, and 4) a gated community project comprising cluster of 10 socities spanning over 10,000 square meters in Ghatkopar East. Additionally, it has the potential for further development in the Dahisar project totaling about 10 Lc square feet and ~3 Lc square feet in the Vile Parle project. Moreover, MICL has expressed interest in launching atleast 3-4 upcoming projects in FY25 which mainly could comprise another balance two residentials towers of Aaradhya Parkwood in Dahisar, recently acquired Marine Lines project. and Vile Parle project. Furthermore, its EPC business order book stands healthy at Rs 1,047 Cr, which includes ongoing ports and infrastructure projects covering ~110 hectares. MICL is also determined to bid for future government and commercial projects.

Healthy Balance Sheet and Financial Discipline

The company has maintained a very healthy balance sheet with only Rs 205 Cr in borrowings, which include short-term borrowings of Rs 135 Cr (secured debt). It has considerably reduced its debt by around Rs 300 Cr in FY23, Year-to-Date. The company exhibits a very low debt book for a real estate developer, combined with healthy and consistent cash flow. Despite paying back a majority of debt in FY23-24, it has cash and cash equivalents of Rs ~545 Cr as on Dec-23. Additionaly, In Dec-23, compmany issued Rs 543 Cr of preferential shares for future growth expansion. A low leverage and high cash flow blend present a very efficient and attractive scenario in the real estate development business. Due to its asset-light business model, it can scale up without significant capital pressure, thereby improving the bottom line in coming years.

Valuation & Recommendation

We initiate coverage on Man Infraconstruction (MICL) with a BUY recommendation. Our recommendation is supported by a) Healthy project pipeline; b) Asset–light business model, and c) Strong execution capabilities. Based on our DCF valuation method, we arrive at a Target Price of Rs 270/share, implying an upside of 28% from the current levels.

Key Financials (Consolidated)

(Rs Cr)	FY23	FY24E	FY25E	FY26E
Net Sales	1,890	1,343	1,465	1,193
EBIDTA	414	381	415	318
Net Profit	259	323	413	336
EPS, Rs	7.0	8.7	11.1	9.0
PER, x	30.3	24.2	19.0	23.3
EV/EBIDTA, x	18.7	18.0	15.3	18.3
P/BV, x	7.2	4.4	3.6	3.2
ROE, %	23.7	18.2	19.1	13.6
Debt/Equity (%)	18.9	11.6	9.5	8.4

Source: company, Axis Research

CMP as of 10th April, 2024	
CMP (Rs)	211
Upside /Downside (%)	28%
High/Low (Rs)	249/75
Market cap (Cr)	7870
Avg. daily vol. (6m) Shrs.	1820
No. of shares (Cr)	37

Shareholding (%)

	Jun-22	Sept-23	Dec-23
Promoter Group	67.1	67.2	67.2
FII	2.4	3.7	3.5
MF's/Banks	1.6	2.0	2.1
Others	0.0	0.0	0.0

Financial & Valuations

Y/E Dec (Rs Cr)	FY23	FY24E	FY25E	FY26E
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Key Drivers (%) (Growth in %)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Net Sales	96.6%	-29.7%	-4.6%	-16.1%
EBITDA	67.2%	-8.0%	8.9%	-23.2%
Net Profit	19.5%	25.1%	27.7%	-18.7%

ESG disclosure Score**

Environmental Disclosure	19.0
Social Disclosure Score	14.4
Governance Disclosure Score	43.9
Total ESG Disclosure Score	23.9
Sector Average	41.6

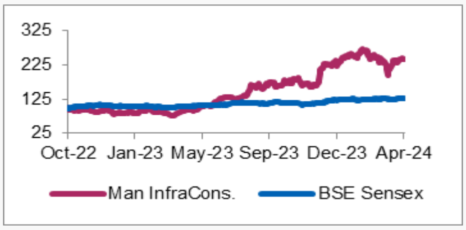
Source: LSEG Workspace: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2023 disclosures, The Sector average is for NSE500 companies

Axis vs. Consensus

EPS Est.	FY23	FY24E	FY25E	FY26E
Axis	7	9	11	9
Consensus	NA	NA	NA	NA
Mean Consensus TP (12M)				**NA**

Relative performance



Source: Ace Equity, Axis Securities

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Financial Story in Charts

Exhibit 1: Robust order book driving healthy Net Profit (Rs Cr)

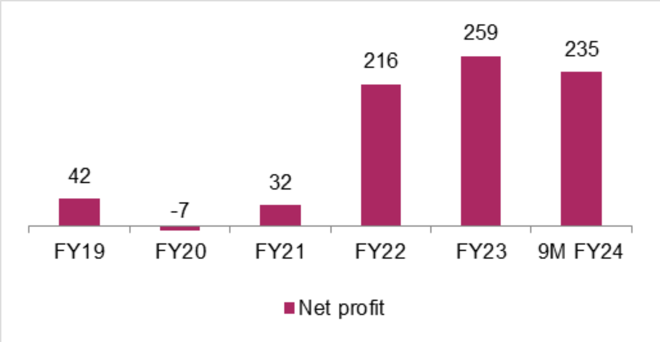
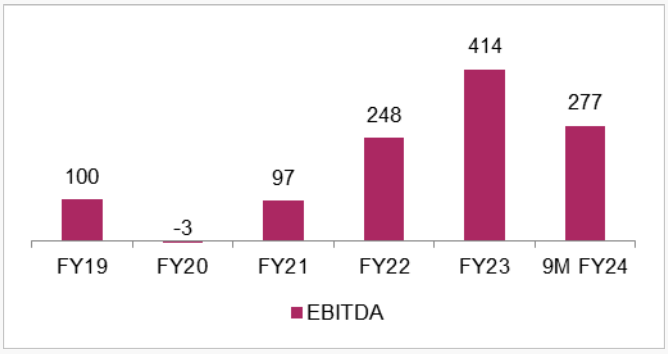


Exhibit 2: Operating efficiencies leading to Improved EBITDA (Rs Cr)



Source: Company, Axis Securities

Exhibit 3: Robust order book leading to better sales performance

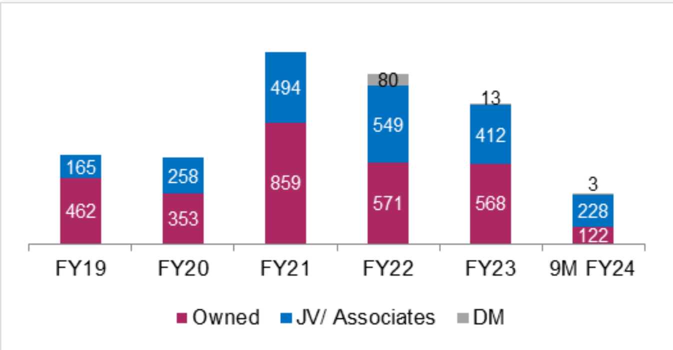
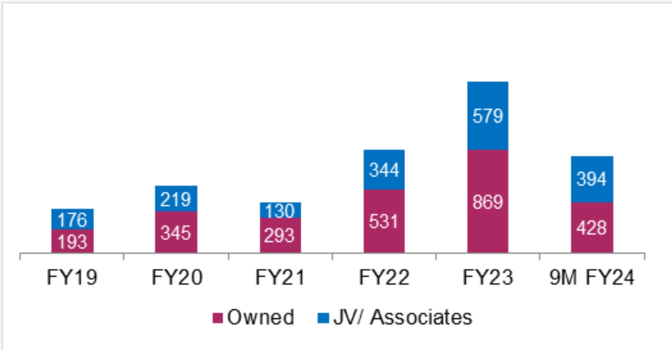


Exhibit 4: Improving collections summary (Rs Cr)



Source: Company, Axis Securities

Exhibit 5: Launch Trend

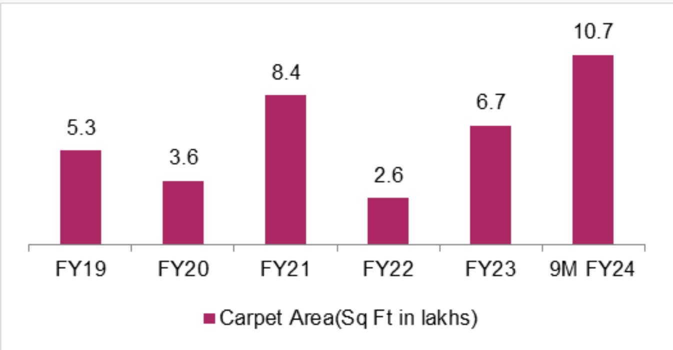
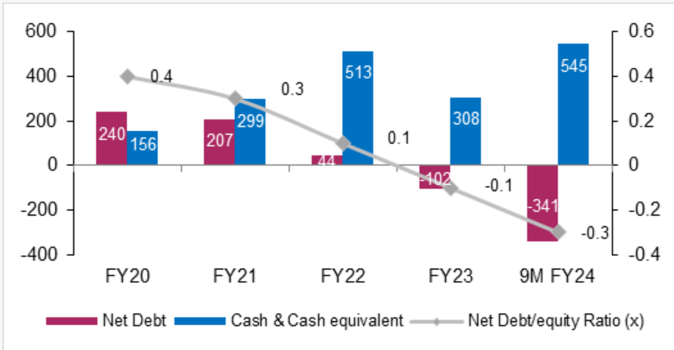
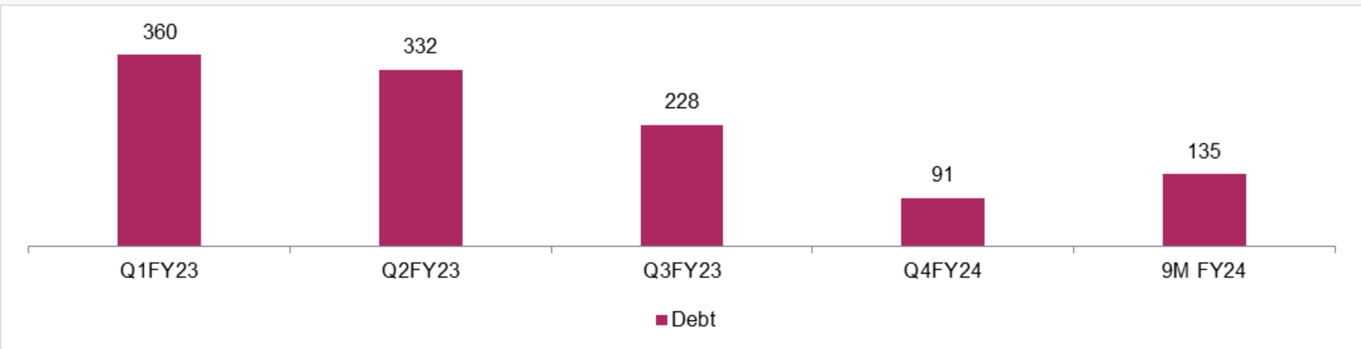


Exhibit 6: Balance sheet strength (Rs Cr)



Source: Company, Axis Securities

Exhibit 7: Vigorous focus on reducing debt



Source: Company, Bloomberg, Axis Securities

Company Overview

Man Infraconstruction Limited (MANINFRA) commenced its operations in 1964, boasting a rich heritage spanning more than five decades. Initially established as an engineering contracting firm, the company has successfully undertaken and completed numerous landmark projects throughout India across various sectors. Leveraging its expanding engineering capabilities, MANINFRA ventured into the real estate market in 2012, marking a strategic diversification. With a decade-long presence in the real estate sector, the company has garnered extensive expertise, particularly in Mumbai, where it has delivered exceptional projects. Renowned as a leading integrated real estate entity, MANINFRA possesses in-house execution prowess in infrastructure development, thereby augmenting the overall customer experience.

MICL has established a formidable position in Real Estate business

Their 3rd generation is now in business with a focused mindset and a consistent track record

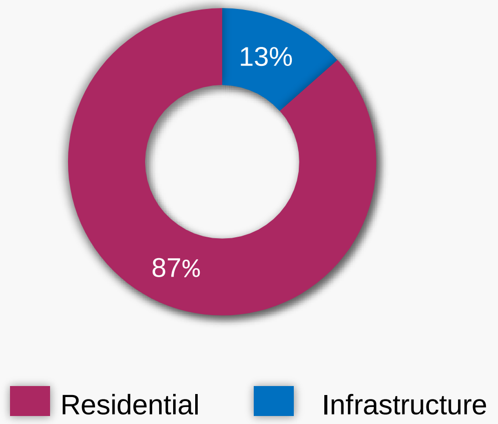
Company Structure

MICL, headquartered in Mumbai, Maharashtra, operates across two primary business segments: **Real Estate Development and EPC (Engineering, Procurement, and Construction) services.** Within these segments, the company generates revenue through various streams. Embracing an asset-light model, MICL focuses on Joint Ventures (JV), Development Management (DM), and Joint Development (JD) agreements. Consequently, their revenue streams encompass JV/DM fees, EPC margins, and interest margins.

MICL is known for their before time completion of projects which is mainly due to their in-house construction and architecture.

The company has strategically adopted a low-leverage, high-cash-flow, and bottom-line-focused approach. While this strategy may result in a stable top-line performance with limited growth,(as revenues from DM/JV sales or collections are not reflected directly in the books), the bottom-line figures are expected to demonstrate significant growth. This growth will be driven by MICL's share of profits from these projects, as well as fees earned across verticals within such collaborative models.

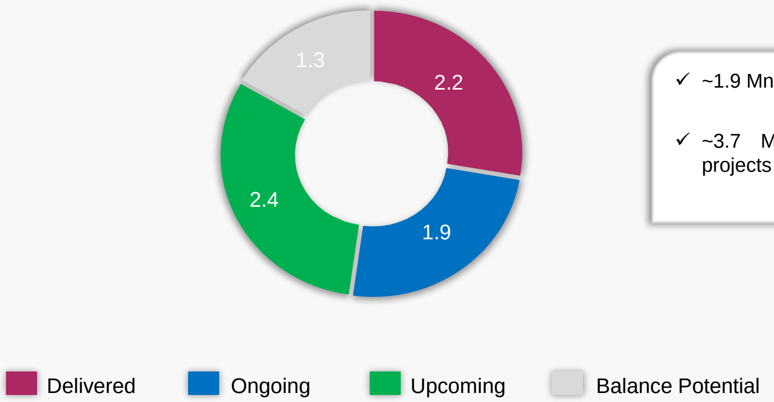
Exhibit 8: ManInfra Project Portfolio – EPC Business



- ✓ ~110 hectares of ongoing ports and infra projects
- ✓ ~4.8 Mn. Sq. ft. of ongoing residential, Govt. & commercial projects

Source: Company, Axis Securities

Exhibit 9: EPC Portfolio Mix (%)

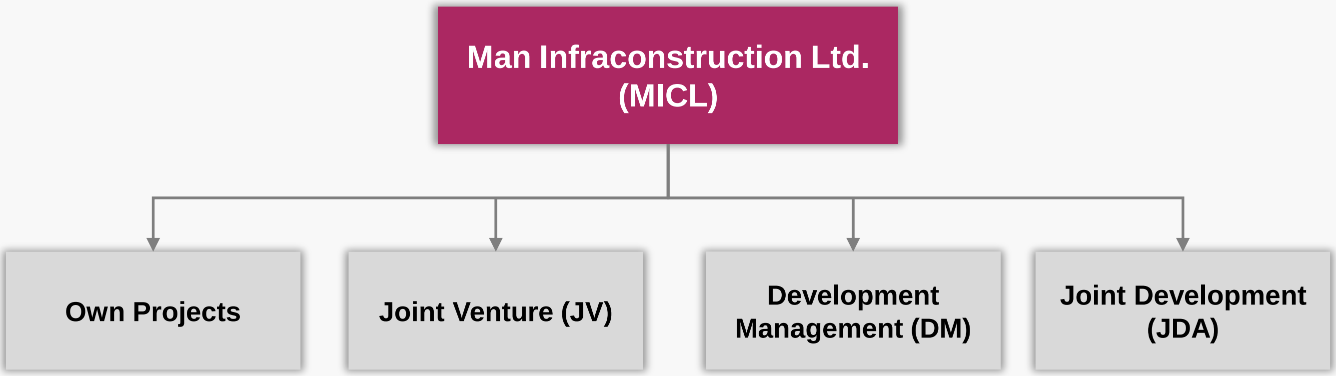


- ✓ ~1.9 Mn. Sq. ft. of ongoing projects
- ✓ ~3.7 Mn. Sq. ft. of upcoming projects and balance potential

Source: Company, Axis Securities

MICL Business Model:

Exhibit 10: MICL Business Model



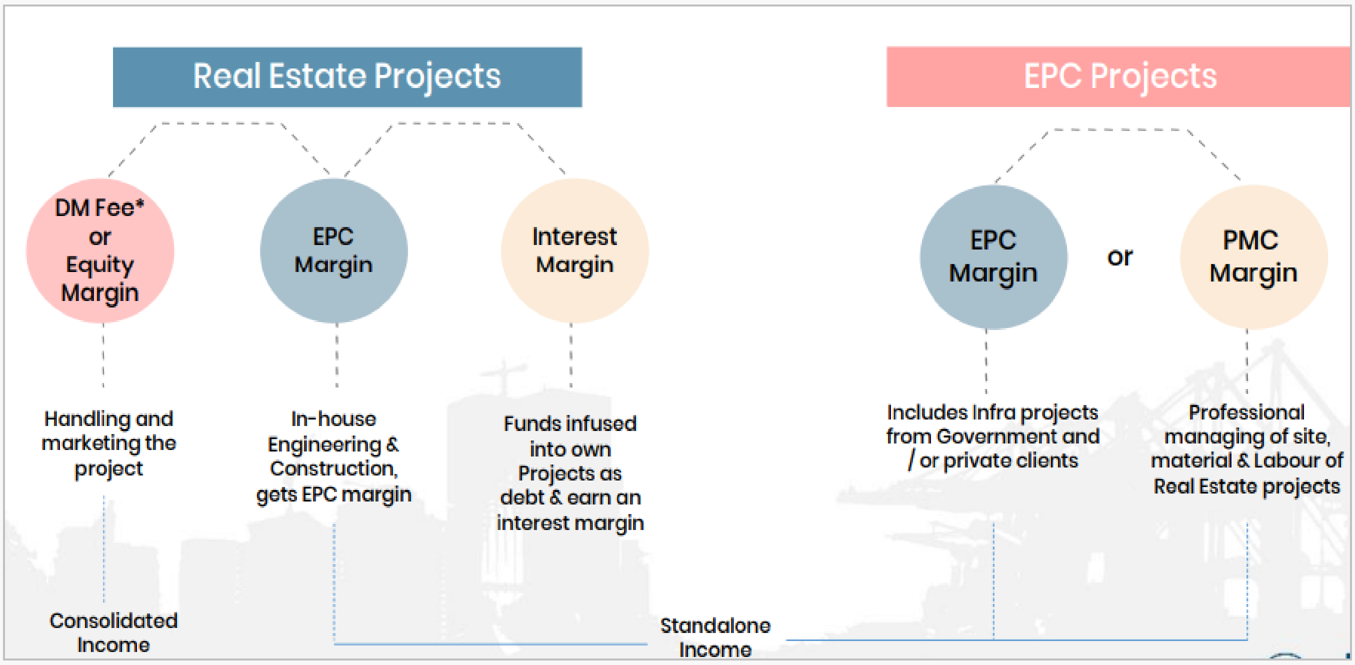
Source: Company, Axis Securities

Upcoming Real Estate Projects: Model Wise

Project Name	Location	MICL's Stake	MICL's Model (JDA/JV/ DM)	Real Estate Projects Income Streams		EPC Project Income Streams		Total Sales Potential (Rs Cr)
				DM Fee	Equity Margin	EPC Margin	PMC Margin	
Aaradhya High Park –	Near Dahisar	99.99%	Own	-	✓	✓	-	~1,100+
Aaradhya One Earth*	Ghatkopar	63.93%	Own	-	✓	-	-	~1,100+
Aaradhya Evoq	Juhu	70.00%	Own	-	✓	-	-	~250+
Aaradhya Parkwood	Near Dahisar	99.99%	Own	-	✓	-	-	~900+
Atmosphere O2	Mulund	30.00%	JV	-	✓	✓	✓	~1,650+
Atmosphere Tower G	Mulund	30.00%	JV		✓	✓	✓	~750+
Aaradhya Avaan	Tardeo	99.99%	DM	✓	-	-	✓	~3,000+

Source: Company, Axis Securities

Exhibit 11: MICL's Business Segments with Multiple Streams of Income



Source: Company, Axis Securities

- MICL's business model is lean towards a more asset-light strategy. In doing so, it is keen on taking up projects in the JV/DM space.
- **In JV projects, the top line of the company might not show significant growth as the revenue is booked in the P&L of the landlord but the bottom line will directly reflect in share of profit from associates/JV.** This further enhances their cash flow stability and lowers the risk of capital upto the stake in the project.
- In the case of the DM – Development Management model the 'DM fees' of ~12-14%% will be reflected directly into their Revenue and PAT margins
- Under DM all cost and revenue is booked in landlord, while in JV all costs and revenue booked in SPV while MICL receives share of profit based on its stake in JV entity. This approach maximizes the company's bottom line without exerting stress on the balance sheet.
- EPC (ports) / PMC margins of around ~20%/10% will be generated out of the Ports and in-house EPC business from the residential projects.
- Interest margins of around 10%-14% will be collected over any funds given on debt to the developers.

JV projects income is directly reflected in share of profit from associates/ JV in P&L

Real Estate Business - Journey So Far:

Exhibit 12: Ongoing Projects

Sr. No	Project Name	Location	MICL's Stake	MICL Model	RERA Carpet Area	Area sold	Total Units	Units Sold	Completion Status	Date of Completion
1	Aaradhya HighPark - Tower E & F	Near Dahisar	99.99%	Own	2,21,460	1,94,186	468	406	~97%	Dec-25
2	Aaradhya Parkwood - Phase 1	Near Dahisar	99.99%	Own	3,01,329	1,82,776	546	341	~23%	Dec-28
3	Aaradhya Evoq	Juhu	70.00%	Own	60,065	46,650	29	23	~51%	Jun-26
	Sub-total				**5,82,854**	**4,23,612**	**1,043**	**770**		
4	Atmosphere O2	Mulund	30.00%	JV	3,62,659	3,17,114	716	635	~81%	Dec-26
5	Atmosphere Tower – G	Mulund	30.00%	JV	3,17,390	1,10,598	436	153	~17%	Dec-26
	Sub-total				**6,80,049**	**4,27,712**	**1,152**	**788**		
6	Aaradhya Avaan	Tardeo	99.99%	DM	6,55,813	-	325	-	Initial Stage	Dec-29
	Sub-total				**6,55,813**	**-**	**325**	**-**		
	Total				**19,18,716**	**8,51,324**	**2,520**	**1,558**		

Source: Company, Axis Securities

Exhibit 13: Upcoming Projects

Sr. No.	Project Name	Location	MICL's Stake	MICL's Model	RERA Carpet area^	Total Units	Expected Launch Date*
1	Aaradhya OnePark	Ghatkopar, East	60.00%	Own	4,14,141	244	Project already launched in Jan-24
2	Aaradhya Parkwood - Phase 2	Near Dahisar Ph.2	99.99%	Own	2,30,136	455	FY25
3	Royal Netra$	Goregaon (W)	33.32%	JV	~17,50,000	-	-
4	Pali Hill$	Bandra West	34.00%	JV	~50,000		FY25
5	Balance Potential**				~13,00,000		-
	Total				**37,44,277**		

Source: Company, Axis Securities

Exhibit 14: Completed Projects

Sr. No.	Projects	Towers	Type	Location	Model	Total Units	Units Sold	Total Carpet Area	Carpet Area Sold	Completed time before scheduled Date	Project Completion Timeline
1		Tower E, F, G, H & I	Residential		Own	277	237	328150	256288	12 Months	Sep-20 - Jan-24
2		Tower D	Residential		Own	45	45	31998	31998	7 Months	Sep-20 - Aug-23
3	Aaradhya OneEarth	Tower A & C	Residential	Ghatkopar east	Own	140	140	109567	109567	14 Months	Sep-20 - Jan-23
4		Aarahya Square (Tower B)	Commercial		Own	57	57	29513	29513	20 Months	Jan-21 - Jan-23
					Sub-Total	**519**	**479**	**499228**	**427366**		
5	Aaradhya Highpark	(Tower A, B, C & D)	Residential	Mira Road East (Near Dahisar)	Own	833	819	417518	412491	16 Months	Oct-18 - Nov-22
6		Aarahya Primus	Commercial		Own	26	26	11170	11170	4 Months	Oct-18 - Nov-22
					Sub-Total	859	845	428688	423661		
7	Aaradhya Eastwind	-	Residential	Vikroli east	Own	164	164	102484	102484	17 Months	Mar-19 - Jul-22
8	Aaradhya Signature	-	Residential	Sion West	Own	27	27	32590	32590	9 Months	Oct-15 - Apr-18
9	Aaradhya	-	Residential	Ghatkopar West	Own	46	46	30210	30210	6 Months	Oct-15 - May-17
	Residency										
10	Aaradhya Nalanda	-	Residential	Ghatkopar east	Own	10	10	8405	8405	9 Months	Aug-15 - Oct-16
11	Aaradhya Saphalya	-	Residential	Ghatkopar east	Own	5	5	4244	4244	10 Months	Feb-15 - May-16
					Sub-Total	252	252	177933	177933		
12	Atmosphere O2	Tower D & E	Residential	Mulund West (Nahur)	JV	467	442	358724	336952	39 Months	Nov-19 - Sep-23
13	Atmosphere	Towers A, B and C	Residential	Mulund West (Nahur)	JV	721	720	517775	516777	7 Months	Jan-15 - Feb-19
14	Insignia	-	Residential	Vile Parle West	JV + DM	41	41	33916	33916	19 Months	Feb-21 - May-23
15	Aaradhya Nine	-	Residential	Ghatkopar east	JV	155	155	109062	109062	10 Months	Mar-17 - Dec-19
16	Aaradhya Tower	-	Residential	Ghatkopar east	JV	48	48	46994	46994	1 Months	Mar-13 - May-15
					Sub-Total	**1432**	**1406**	**1066471**	**1043701**		
					Total	**3062**	**2982**	**2172320**	**2072661**		

Source: Company, Axis Securities

Aaradhya Avaan – Tallest Tower in India

- Announced in Oct-23, MICL is poised to develop India's iconic residential tower in Mumbai, a project characterized by ultra-luxury offerings spanning a saleable carpet area of 6.5 Lc square feet and a construction area of ~18 Lc square feet, with a revenue potential of Rs 4,000 Cr and expected to complete the project by end of 2029.
- Pushing the boundaries of architectural excellence, the company endeavours to metamorphose these properties into extraordinary living spaces. This towering edifice is projected to soar to a height of ~307 meters, positioning it among India's tallest structures. Distinguished by world-class amenities and design, the tower aspires to deliver an unparalleled living experience.
- Adhering to the regulatory mandates of RERA, the management anticipates the tower's completion by December 2030, with an expected revenue generation of Rs 4,000 Cr. Undertaken under the development management (DM) model, the project is forecasted to yield a DM margin ranging between 12.5% to 13%. By Q3FY24, ~16% of the total project area, equivalent to 70,000 square feet, has been sold.
- Expecting a favourable price per square foot for the project, given its unique stature, the company anticipates potential price escalations upon project completion. The launch of the project is slated for completion by Q1FY25.

Exhibit 15: India's iconic tallest residential tower

Source: Company, Axis Securities

The Redeveloping Story

Mumbai grapples with the challenge of land scarcity, exacerbated by the presence of ageing buildings that are in dire need of redevelopment. Redevelopment emerges as the optimal solution, promising enhanced lifestyles and amenities for existing owners. By leveraging the available Floor Space Index (FSI), developers can replace outdated chawls and low-rise structures with high-rise buildings, effectively optimizing land utilization.

Developers benefit from reduced cash outflows and consequently enjoy a higher Internal Rate of Return (IRR) compared to outright land acquisitions. Simultaneously, owners stand to gain from larger residences and improved facilities, marking a significant infrastructural upgrade. With the city's redevelopment market estimated at over Rs. 30,000 Cr, the share of redevelopment projects is poised to escalate further amidst persistent space shortages.

MICL stands out as a major player in the Mumbai Metropolitan Region (MMR) redevelopment landscape. The company boasts a stellar track record and extensive experience in executing cluster projects and large-scale redevelopment initiatives. Particularly renowned for its expertise in redeveloping clusters, private societies, and MHADA (Maharashtra Housing and Area Development Authority) properties, MICL has carved a niche for itself in the realm of redevelopment.

Having established a formidable presence in the Central suburbs, MICL is now expanding its footprint across the western and southern suburbs of Mumbai. Through its commitment to excellence and innovation, MICL continues to spearhead transformative redevelopment endeavours, shaping the urban landscape of Mumbai for the better.

MICL to build gated community (Redevelopment Project) in Ghatkopar East – 'Aaradhya OnePark'

MICL is currently spearheading an ambitious ultra-luxury cluster redevelopment venture situated along the prominent 60 ft. road in Ghatkopar East. This project marks a significant milestone as MICL has secured redevelopment rights from ten societies in the area. Having obtained all requisite approvals from regulatory authorities, including the Issuance of Development (IOD), Commencement Certificate (CC), MahaRERA certification, and clearance from aviation authorities, MICL is well-positioned to commence construction without delay. The project boasts a saleable carpet area of 4 Lc square feet, with an anticipated revenue generation of Rs. 1,200 Cr over the ensuing four years. Impressively, MICL has already secured sales worth Rs. 333 Cr, underscoring robust market demand and investor confidence in the project's success. With a steadfast commitment to timely delivery and excellence, MICL aims to complete the project within the next 3.5 years, further enhancing its reputation for reliability and efficiency in the real estate sector.

Redevelopment of Residential Abode at Pali Hill

MICL Group has announced its new venture into the redevelopment of the luxury residential project at Pali Hill. The company will hold a 34% stake in the undertaking, which belongs to Virgo Co-Operative Housing Society, Bandra (West). The project has the potential to offer a carpet area of 50,000 sq. ft. for sale, with expected revenue generation of around Rs 500 Cr. Bollywood star Aamir Khan owns several apartments in this joint venture by Atmosphere Realty.

Redevelopment – Goregaon West Project, Royal Netra Constructions

MICL has acquired one of the largest redevelopments on a 10-acre land parcel in the western suburbs of the city. The project will be undertaken through MICL's associate entity – Royal Netra Constructions Pvt. Ltd. Currently, MICL holds a 33.3% stake in the project, with an indicative topline of Rs 4,000 Cr. The indicative saleable carpet area is 17.5 Lk.sq.ft., and the project is still in its initial stages. The company anticipates the project to be sold out before OC approvals.

EPC Business

The company's order book currently stands at Rs 980 Cr, encompassing 110 hectares of ports and 4.2 mn sq. ft. of ongoing projects. In Jun'23, the company secured an EPC order valued at Rs 680 Cr as part of Phase II of Bharat Mumbai Container Terminal Private Limited (BMCTPL) for pavement works on JNPT, Navi Mumbai. Additionally, the EPC business is poised for further expansion in the upcoming financial year, supported by the in-house Real Estate EPC order book. The company is also actively pursuing opportunities to participate in forthcoming government tenders. With the government's increased capital expenditure cycle in infrastructure, there is a notable uptick in momentum, indicating a robust growth trajectory ahead.

PORT INFRASTRUCTURE

Onshore container terminals and Freight Stations, Land Reclamation, Soil Consolidation, Operational services like Firefighting, Sewerage, Drainage systems etc.

RESIDENTIAL CONSTRUCTIONS

High Rise Building, Townships, Luxury Villas and more.

COMMERCIAL & INSTITUTIONAL CONSTRUCTIONS

IT Parks, Office Complexes, Hotels, Shopping Malls, Schools, Hospitals etc.

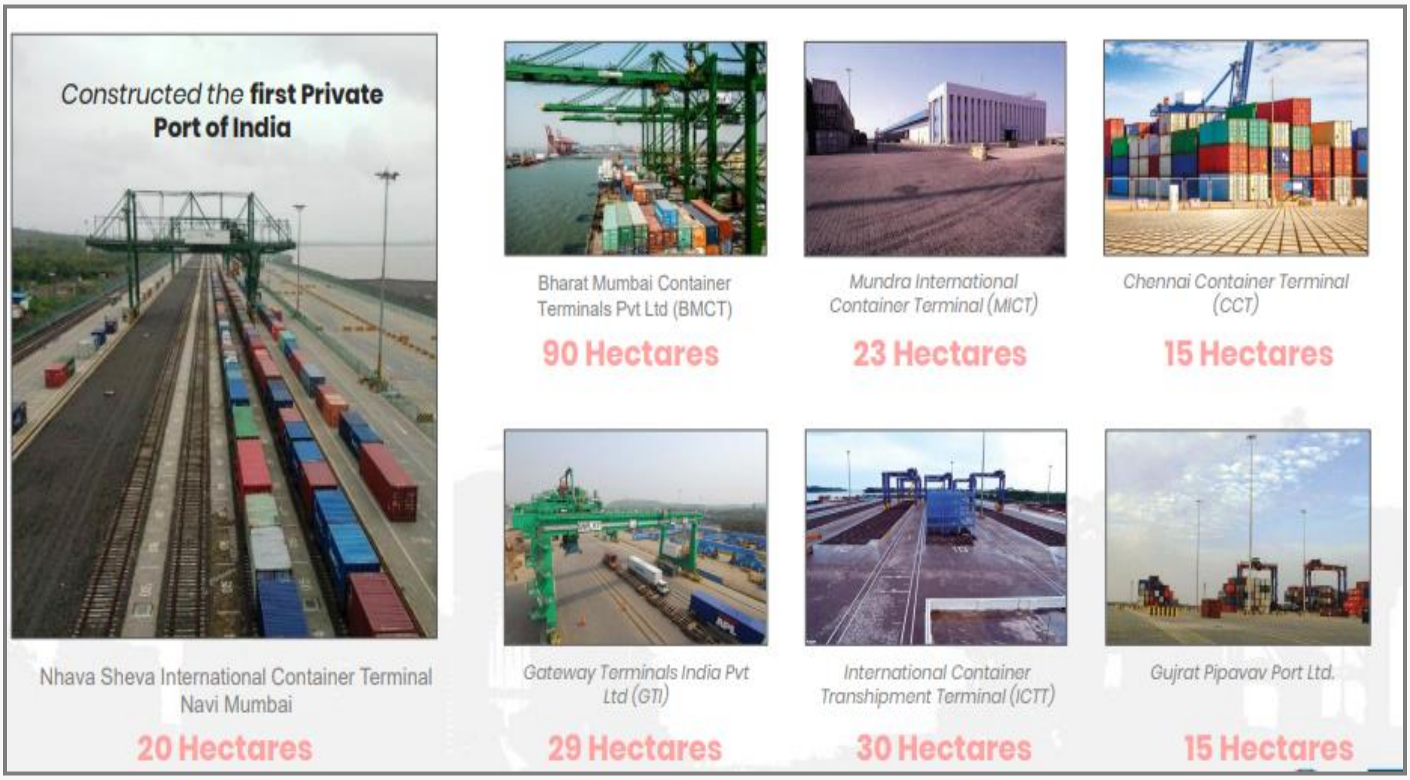
INDUSTRIAL CONSTRUCTIONS

Factories, Cold Storages, Warehouse Facilities, Heavy Engineering, Manufacturing and Processing Units etc.

ROAD CONSTRUCTIONS

Earthwork & Paving, Electrification, Landscaping, Widening, Up-gradation and Drainage and beyond.

Exhibit 16: Completed EPC Projects (Port Infrastructure):



EPC Milestones:

- Built 200+ hectares of port projects across India
- Constructed India's first trans-shipment port in Kochi
- Acting EPC contractor for major residential projects
- Construction of mass housing society - 70 residential buildings for SRA Township, covering 7.3 mn sq ft in Mahul, Mumbai
- Anandam City, one of the tallest construction in Nagpur with 6 towers was built by them

Gaining International Presence

MICL's portfolio also includes international realty business mainly from the USA. It is holding off around $58 Mn for its international business. The company has been working on 3-4 Florida-based projects. MICL Global, a subsidiary company, launched a Joint Venture 'Edition Residences, the first branded project by "Marriott International' in Fort Lauderdale. The project is a 2,18,500 sq. ft. saleable area. Other projects like URBIN in Miami Beach are still in the initial phases of approval.

MICL's Director - Vatsal Shah is set to establish MICL's global presence which includes the projects in Miami. He has completed his education in Miami wherein he is seizing the real estate growth opportunity

Projects in Miami:

Project	Location	Type	Size
Edition Residences	Fort Lauderdale, Florida, USA	Residential	81 luxury residence units with saleable 2.18Lk.sq.ft.
URBIN Miami Beach	Washington Avenue, Miami Beach, Florida	Commercial, Lease Model	Initial stages
1505 Ponce	Coral Gables, Florida, USA	Residential	2.52Lk.sq.ft. saleable area with 87 luxury units
3090 McDonald Avenue	Coconut Grove, Florida	Residential	Saleable area of 6,000 sq. ft.

Exhibit 17: Edition Residences

Exhibit 18: URBIN Miami Beach

Source: Company, Axis Securities

Management meeting Takeaways

Key Takeaways

- The company has in-house construction which goes hand in hand with its objective of completing the projects before time. This also saves the company an additional cost of 10%-12% on outsourcing the EPC.
- The company's total debt stands at Rs 208 Cr, which is nominal for this industry. It is not looking to raise more funds via debt and has streamlined its capital allocation.
- The company's upcoming projects have a revenue potential of ~5,700 Cr over 3.7 mn.sq.ft. carpet area.
- The real estate industry is seeing greater demand in the premium and luxury segment where the company has future project launches.
- The company is playing to its strengths and taking over projects where it has higher consumer association and legal prowess.
- 2 out of 3 projects are expected to have a JV/DM business model, further diversifying its risk and giving better PAT margins.
- The company is focused on delivering superior projects, collaborating with renowned architects and providing a better living lifestyle.
- The company has created its niche in redevelopment and cluster projects which provide better returns on capital.

Domestic market

- The Indian residential market continues its upward trajectory, despite ongoing global uncertainties.
- The sustained healthy demand and momentum can be partially attributed to the RBI's decision to pause the repo rate.
- Moreover, anticipated rate cuts in FY24-25, specifically in Q1 and Q2, are expected to further bolster sales of Indian residential properties.
- A notable shift in consumer behaviour, particularly among millennials, is evident as they increasingly prefer owning a house over renting one.
- Rental prices have witnessed a significant increase, particularly in cities like Bengaluru.
- The share of large players in the market is on the rise compared to local developers.
- Lower inventory months indicate more property launches, which in turn drive better cash flows.
- Many developers have successfully reduced their debt since FY20-21. They exhibit a heightened sense of caution and rationality in their approach to expansion and cash flow management.
- In the port sector, there is a visible trend of robust infrastructure-led economic growth.

Key Growth Drivers

Residential Real Estate in a long-term upcycle

Real estate markets are poised for a multi-year growth cycle. Residential sales in the top 8 cities grew by 5% YoY leaving further headroom for growth. The demand is at a multi-year high and despite gradual price hikes, the affordability of consumers is improving YoY. We see a revival of demand in the affordable housing segment amidst rising per capita income.

Prudent Business strategies

Since it entered into the Real Estate space, MICL has focused on only Mumbai and within Maharashtra regions. It will continue to focus on core areas where it can attain its market leadership position. The company is aware of the regulatory environment and has the necessary understanding of the local market. The company is focusing on redevelopment projects where it has historically been successful and has better consumer connections. The company is concentrating on its strengths and is building on them to establish a strong foundation in that particular space.

Operating efficiency occurrence

The company has a track record of delivering projects before time with superior quality and execution. The company's financial relationships and in-house construction capabilities help it in delivering projects in a timely and efficient manner. In-house construction also lines up with its aim to complete the project in a time-efficient manner, thus aligning its goals as opposed to when the same is outsourced. The company has an EBITDA margin of 22% and a PAT margin of 14%. The ROIC is 21% and the average inventory days is 380 days. For DM/JV projects, the interest income, DM fees, and PMC fees are fixed sources of cashflows, thus reducing the overall risk.

Value Accertive Business Models

MICL has embraced a DM/JD/JV project model, wherein it receives DM fees or an equity partnership for the project. This approach significantly enhances its margin growth. Notably, its flagship project, 'Aaradhya Avaan,' is also developed under the DM fee method. The company's DM margin typically ranges from 11% to 13%. In a capital-intensive industry, such combinations of JV and DM models add value and contribute to improved bottom-line growth for businesses. MICL maintains a well-balanced portfolio of DM and JV projects, complemented by in-house PMC margins. This strategy further enhances its margins, as in-house executions result in savings of 10% to 15% on margins and reduce capital risk.

Strong Execution Track Record

In a relatively brief period, MICL has successfully cultivated goodwill among its customers under the 'Aaradhya' banner. Additionally, it has fostered robust relationships with its channel partners, leading to an impressive 90% to 95% of inventory being sold out before project completion. The company's senior management boasts over a decade of experience with a stellar track record in the EPC infrastructure business. Notably, MICL has achieved remarkable YoY growth, witnessing nearly a twofold increase in consolidated revenues and over a 100% surge in PAT figures.

Efficient and Scalable Arrangement

MICL's business strategy revolves around maintaining low leverage, maximizing cash flows, and maintaining a bottom-line focus. The company aims to deliver superior products while aligning with its financial objectives. Leveraging its expertise, MICL emphasizes strong in-house EPC capabilities and collaborations with renowned architects and consultants. This strategic matrix, combining a solid financial foundation with focused leadership, is expected to result in strong revenue visibility and a higher track record of collections.

Outlook & Valuation

We are Initiating Coverage on Man Infraconstruction Ltd. (MICL)with a BUY recommendation and a target price of Rs 270/share, which implies an upside of 28% from the CMP.

Our recommendation is supported by:

- **Asset-light Business Model** – MICL's current ratio of JV/DM projects to owned projects is 1:3, which it plans to increase to 2:3 in the coming years, ensuring efficient use of capital and high scalability. This will lead to improving the bottom line over the coming years.
- **Robust Project Pipeline** – Currently, MICL has ~2.0 Mn square feet of ongoing projects, including development projects in Dahisar, Ghatkopar, Mulund, Juhu, and Tardeo-Avaan. Its upcoming project comprises around 3.7 Mn square feet of real estate projects. This includes – 1) two residential towers of Aaradhya Parkwood in Dahisar, 2) one of the largest redevelopment project in western suburbs in Goregaon on a 10 acre land parcel with a topline potential of over Rs 4000 Cr, 3) an ultra-luxury project in Pali Hill, Bandra, and 4) a gated community project comprising cluster of 10 socities spanning over 10,000 square meters in Ghatkopar East. Additionally, sevaral other upcoming projects.
- **Financial Discipline –**The company has maintained a very healthy balance sheet with only Rs 205 Cr in borrowings, which include short-term borrowings of Rs 135 Cr (secured debt). It has considerably reduced its debt by around Rs 300 Cr in FY23, Year-to-Date. The company exhibits a very low debt book for a real estate developer, combined with healthy and consistent cash flow. Despite paying back a majority of debt in FY23-24, it has cash and cash equivalents of Rs ~545 Cr as on Dec-23. Additionaly, In Dec-23, compmany issued Rs 543 Cr of preferential shares for future growth expansion. A low leverage and high cash flow blend present a very efficient and attractive scenario in the real estate development business. Due to its asset-light business model, it can scale up without significant capital pressure, thereby improving the bottom line in coming years.
- **We have used a DCF approach to value the real estate developer, taking into account a going-concern assumption. We believe an earnings-based valuation would not reflect the correct picture as the income statement lags the actual cash flows. Major projects going forward will be on a JV/DM model which will directly impact the PAT margins and the cashflows and not the revenue.**

Key Assumptions:

- We have used a WACC of 9% to discount the cash flows. The company has an overall lower debt and plans to reduce the same further. We have projected cash flows to grow at 10% depending on the kind of business model (owned/JV/DM) and project.
- We have built-in overall construction cost escalation of roughly 3% as a major PMC expense is in-house.
- We have assumed the completion schedule as per the management guidance and the current completion of the projects. Most of the projects going forward are going to be DM/JV or redevelopments.
- We have taken a growth of 5% for cashflows from the EPC/PMC business, considering its ongoing projects and upcoming bids.
- We have assumed a terminal growth of 1% for the company.

Exhibit 19: Valuation based on DCF

Metrics	Value	Comments
Net Present Value - Cash flows (FY24-FY32)	**3,569**	**CF for DM/JV/Owned project grew at 10% and EPC at 5%**
Net Present Value - Terminal Value (FY32)	**5,807**	**WACC is at 9% and terminal growth of 1%**
NPV (TOTAL)	9,376	
Net Debt (Dec-23)	-341	
Equity Value (EV)	9,717	
No. of Shares	37	
Per Share Value	**270**	
Upside %	**28%**	

Key Risks

- **Geographically Concentrated:** MICL predominantly operates within Mumbai and the Mumbai Metropolitan Region (MMR). Recent trends indicate that absorptions in the MMR regions have begun to peak, signalling a potential increase in inventory overhang or execution delays, which could potentially impact sales.
- **Rise in Input Costs & Regulatory Changes:** Fluctuations in input prices have the potential to impact margins, while delays in approval processes could hinder cash flows.
- **Adverse Changes in the Interest Rate:** An additional increase in interest rates could potentially dampen the demand for housing, thereby affecting the margins of the company. This underscores the importance of closely monitoring macroeconomic indicators and adapting strategic approaches to mitigate potential impacts on MICL's business operations.
- **Government Policies:** Any significant changes in government policies related to the 'Affordable Housing' subsidy scheme or alterations in government support could potentially have adverse effects on the company. MICL should remain vigilant and adapt its strategies accordingly to navigate potential impacts on its operations and financial performance.
- **Labor Intensive Business:** Any hindrance caused by labour shortages or labour-related issues has the potential to disrupt project timelines and increase overall project costs. Given the company's reliance on having an adequate and cost-effective labour force, addressing labour-related challenges effectively is crucial to ensure the smooth execution of projects and to maintain profitability.
- **Property Litigation:** One of the common issues in India that could lead to project delays and adversely impact costs is bureaucratic red tape and regulatory hurdles. Delays in obtaining necessary approvals and permits from various government agencies can significantly prolong project timelines and increase associated costs. Companies like MICL need to navigate these challenges effectively through proactive planning and engagement with regulatory authorities to mitigate potential disruptions to project schedules and budgets.

Management Profile

Key Management Personnel	Experience
Mr. Parag Shah *Chairman Emeritus*	• Mr. Parag Shah is the Chairman of the company and has 30+ years of experience in the construction industry.
Mr. Manan Shah *Managing Director*	• Joined the business in 2013, with a vision to diversify and grow in the real estate space.
Mr. Vatsal Shah *Director, MICL Global*	• Mr Vatsal Shah earned a M.S. in business analytics from the University of Miami in 2021 and has also worked in Manulife Asset Management • He has set sights on establishing MICL Group's presence on the global stage.
Mr. Ashok Mehta *Executive Director & Chief Financial Officer, MICL*	• Mr. Ashok Mehta is a qualified chartered accountant with experience of over 35 years both in India and abroad. • He is responsible for managing the liquidity and treasury operations of the company.
Mr. Berjis Desai *Chairman and Non-Executive Independent Director*	• A Master of Law from the University of Cambridge, he is an independent legal counsel engaged in Private Client Practice. • Retired as managing partner of J Sagar Associates, a National Law Firm; he guides the company towards strong corporate governance and a culture of compliance.
Mr. Kamlesh Vikamsey *Independent Director*	• Former President of the Institute of Chartered Accountants of India and a Member of the Audit Advisory Committee to The United Nations and UNICEF. • He guides the company in the areas of tax policies, audits, and accounting.
Mr. Dharmesh Shah *Independent Director*	• Member of the Institution of Mechanical Engineers and a Fellow of the Institution of Valuers, he guides the company in overall financial planning and asset allocation.
Ms. Kavita Upadhyay *Independent Director*	• A Chartered Accountant, practising in the name of Kavita B Upadhyay and Associates. She has over a decade of experience in the fields of Accounting, Direct and Indirect Taxation, Transfer Pricing, and Tax Compliance.

Source: Company

Industry Overview

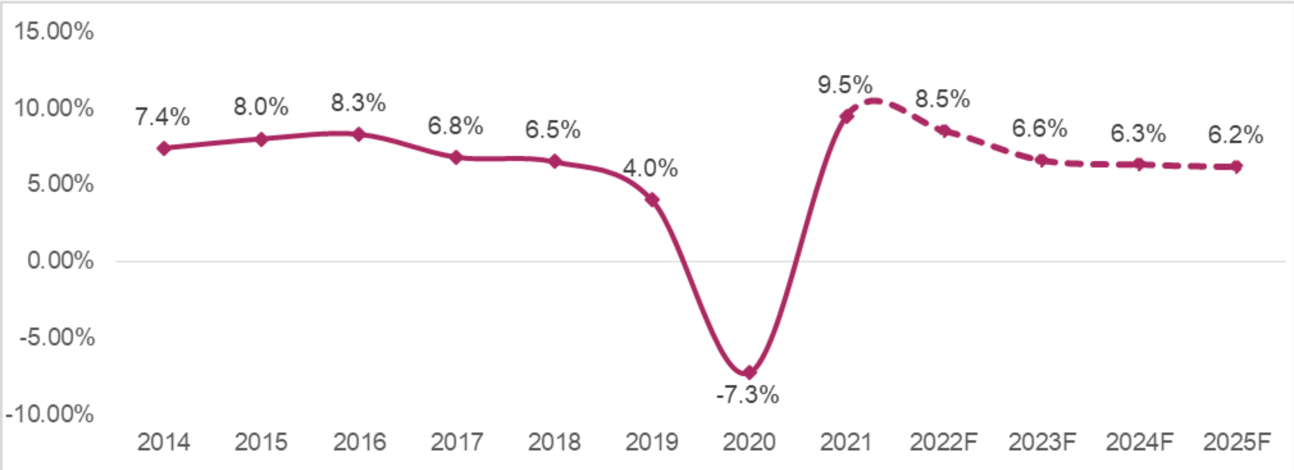
Indian Market

India has been among the fastest-growing economies globally over the past few years. Notably, its GDP witnessed robust growth, with rates of 8.3% in 2016, 6.8% in 2017, and 6.5% in 2018. However, in 2019, the growth rate moderated to 4%. The first quarter of 2021 saw the International Monetary Fund initially estimating a significant decline of approximately 10.3% in India's real GDP growth rate for 2020. Nonetheless, the actual contraction turned out to be -7.3%, indicating an improvement of 3% from the initial estimates.

Residential demand continues to remain strong. Consumer sentiments are high with timely project completions, mostly by branded developers.

Positive sentiment may continue in the upcoming quarters as well.

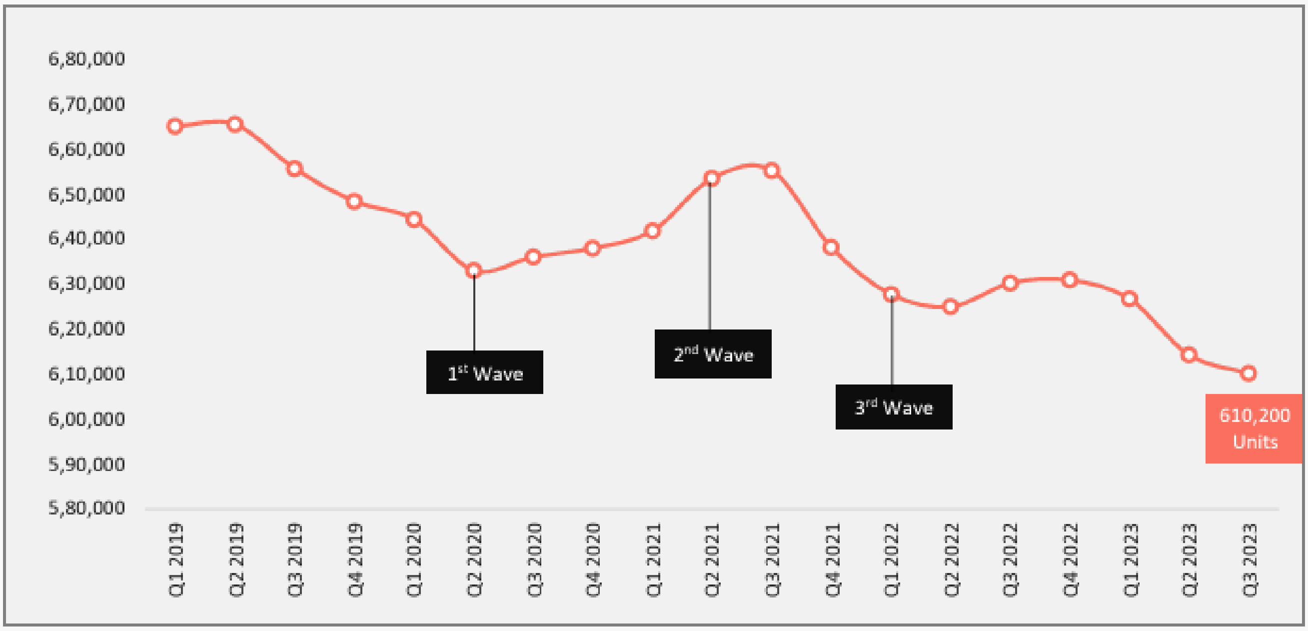
Exhibit 20: Real GDP Growth Rate



Source: IMF

- **Evolving Landscape: Real Estate Sector in India**: In the past three to four years, the Indian real estate sector has undergone significant transformations due to demonetization, liquidity crises, and the enforcement of RERA and GST regulations.
- **Resilience Amidst Adversity: Indian Residential Sector's Rebound**: Despite widespread challenges posed by the COVID-19 pandemic, the Indian residential sector showcased a remarkable recovery in Q3 2021, achieving an absorption level equivalent to 113% of the corresponding period in 2020.
- **Surging Housing Units: Q3 2023 Overview**: In the third quarter of 2023, the top 7 cities experienced a substantial surge in newly launched housing units, reaching approximately 1,16,000 units. This signifies an impressive annual growth rate of 24% and a QoQ increase of 000 units, marking a notable escalation from previous quarters.
- **Regional Dynamics: Contributors to New Property Launches:** The surge in new property launches in Q3 2023 was primarily driven by Mumbai Metropolitan Region (MMR), Pune, and Hyderabad, collectively contributing 74% of the overall housing supply. Among these, MMR led with the highest volume of new unit launches, representing 31% of the total supply, while Chennai and Kolkata held the smallest market shares.
- **Market Segment Insights: New Supply Distribution:** Mid-segment homes priced between INR 40-80 lakhs continued to dominate the new supply share with 28%, followed by premium (INR 80 lakhs - 1.5 Cr) and luxury segments (>1.5 Cr), each accounting for 27% share. The affordable segment (<40 lakhs) witnessed a further decline in its supply share, shrinking to 18% in the quarter.
- **Inventory Dynamics: Availability Trends:** Despite an increase in supply, available inventory across the top 7 cities experienced a 3% annual drop in Q3 2023, totalling over 6.10 Lc units by the quarter's end. Notably, the National Capital Region (NCR) witnessed the highest yearly drop of 21%.

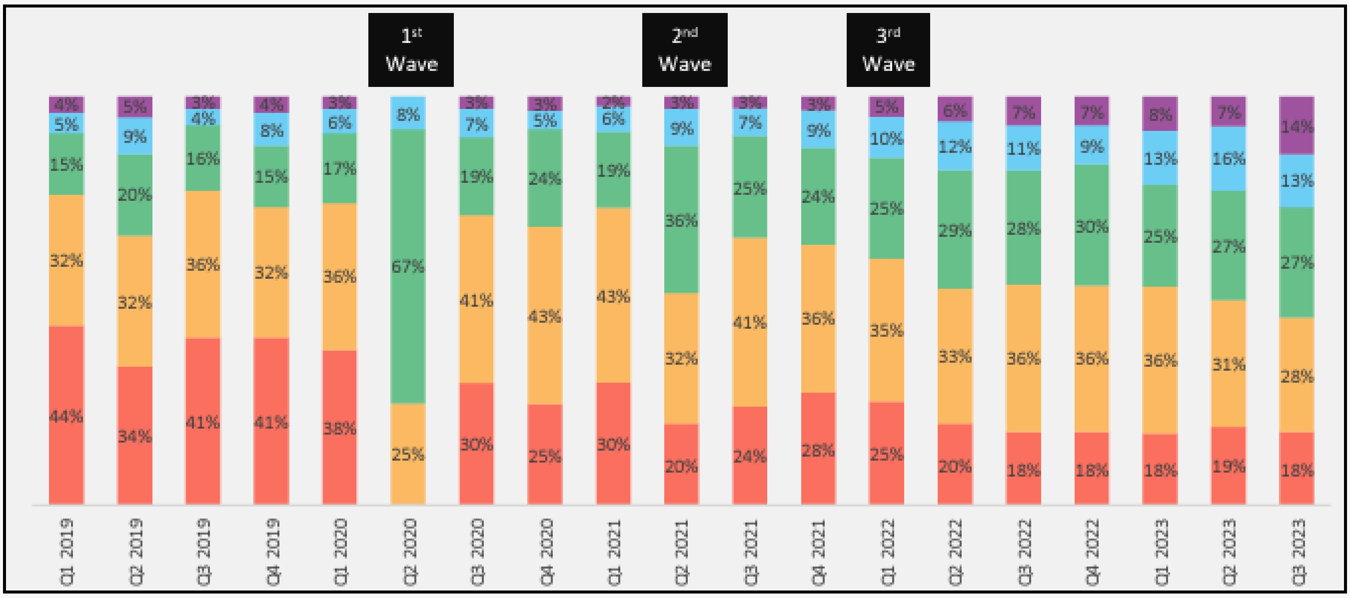
Exhibit 21: Available Inventory Trend - Quarterly



Source :Industry, Company, Axis Securities

- During Q3FY23, all cities, except Hyderabad and Pune, showed a reduction in their available inventory, declines ranging from 1% to 7% in comparison to the preceding quarter. Pune and Hyderabad, however, diverged from this trend, registering increases of 2% and 11%, respectively, in their available housing stock by the end of Q3FY23 when compared to Q2FY23.
- Mumbai Metropolitan Region (MMR) dominates the market with the highest proportion of available housing inventory, comprising 33%, while the National Capital Region (NCR) and Pune represent 17% of the total available housing units. In contrast, Bengaluru, Kolkata, and Chennai showcase unsold inventory levels that fall below the 10% threshold, with respective percentages of 8%, 5%, and 4%.

Exhibit 22: New Launch Supply Trend - Quarterly



Source: Industry, Company, Axis Securities

- In the top 7 cities of India, the mid-segment housing units, priced between INR 40 Lc and INR 80 Lc, dominated the market with a significant 28% share of new residential launches in Q3 2023. Following closely, the high-end segment, comprising units priced between INR 80 Lc and INR 1.5 Cr, captured a substantial 27% share.
- In contrast, the affordable segment, priced below INR 40 Lc, the ultra-luxury segment, priced above INR 2.5 Cr, and the luxury segment, priced between INR 1.5 Cr and INR 2.5 Cr, held shares of 18%, 14%, and 13%, respectively.
- A detailed quarterly analysis reveals that the ultra-luxury budget segment achieved its highest-ever quarterly supply in Q3 2023. Notably, there was a remarkable surge in the new supply for the ultra-luxury price bracket, escalating from 7% in Q2-2023 to an impressive 14% in Q3-2023, effectively doubling its share of new launches. Furthermore, this quarter witnessed an expansion of the ultra-luxury category beyond the Mumbai Metropolitan Region (MMR), with significant contributions from regions such as the National Capital Region (NCR), Kolkata, and Hyderabad within this budget segment.

AXIS SECURITIES

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Dec	FY23	FY24	FY25E	FY26E
Net sales	**1,890**	**1,343**	**1,465**	**1,193**
Growth, %	96.6	(29.0)	9.1	(18.5)
Other operating income	-	-	-	-
Total income	1,890	1,343	1,465	1,193
Raw material expenses	(1,158)	(723)	(822)	(683)
Employee expenses	(71)	(53)	(51)	(43)
Other Operating expenses	(248)	(186)	(177)	(149)
EBITDA (Core)	**414**	**381**	**415**	**318**
Growth, %	67.2	(8.0)	8.9	(23.2)
Margin, %	21.9	28.4	28.3	26.7
Depreciation	(11)	(12)	(14)	(17)
EBIT	**403**	**369**	**401**	**302**
Growth, %	69	(8)	9	(25)
Margin, %	21	27	27	25
Interest paid	(58)	(29)	(28)	(26)
Other Income	48	55	63	73
Share of profits from associates	5	37	114	99
Pre-tax profit	**397**	**431**	**551**	**447**
Tax provided	(108)	(108)	(138)	(112)
Profit after tax	**289**	**323**	**413**	**336**
Growth, %	19.5	25.1	27.7	(18.7)

Source: company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Dec	FY23	FY24e	FY25E	FY26E
Cash & bank	298	1,187	1,671	2,217
Marketable securities at cost	3	3	3	3
Debtors	333	234	223	187
Inventory	380	269	150	(80)
Loans & advances	259	272	285	300
Other current assets	125	125	125	125
Total current assets	1,397	2,089	2,458	2,752
Investments	10	10	10	10
Gross fixed assets	104	114	139	164
Less: Depreciation	(43)	(56)	(70)	(87)
Net fixed assets	61	59	69	78
Non-current assets	171	171	171	171
Total assets	**1,781**	**2,471**	**2,850**	**3,153**
Current liabilities	608	608	608	608
Provisions	7	7	7	7
Total current liabilities	615	615	615	615
Non-current liabilities	20	20	20	20
Total liabilities	635	635	635	635
Paid-up capital	74	74	74	74
Reserves & surplus	1,015	1,705	2,085	2,387
Shareholders' equity	1,146	1,836	2,215	2,517
Total equity & liabilities	**1,781**	**2,471**	**2,850**	**3,153**

Source: company, Axis Securities

Cash Flow **(Rs Cr)**

Y/E Dec	FY23	FY24E	FY25E	FY26E
PBT	397.0	431	551	447
Adjustments for:				
Share of profit of associates and JV	(4.8)			
Depreciation	11.9	12	14	17
Provision for inventory				
Net gain of financial assets measured at FV through PL	(5.4)			
Profit on sales of rights to flats/investment properties	(1.0)			
Gain on disposal of PPE	(1.6)			
Bad debts/assets written off	(0.1)			
Reversal of impairment of trade receivables	(0.0)			
Interest income	(38.9)			
Share issue expenses				
Dividend income	(0.0)			
Finance cost and net gain on foreign currency transactions and translation	63.5	29	28	26
Operating profit before WC	**420.5**	**472**	**593**	**491**
(Increase)/Decrease in inventories	68.7	111	119	230
(Increase)/Decrease in trade receivables	(154.8)	99	11	36
(Increase)/Decrease other non-current assets				
(Increase)/Decrease other current assets		(13)	(14)	(14)
Increase/(Decrease) in trade payables	181.1	-	-	-
Increase/(Decrease) in current liab	8.2	-	-	-
Changes in working capital	**103.1**	**197**	**116**	**252**
Taxes paid	(75.6)	(108)	(138)	(112)
Exceptional Items				
Net cash flow from operation	**448.0**	**562**	**571**	**631**
Purchase/sale of PPE	(7.4)	(10)	(25)	(25)
Sales of investments	0.2			
Loans and advances given to associates/JV	(109.2)			
Interest received	37.7			
Dividend received	(0.0)			
Changes in FD other than cash and cash equi	(23.0)			
Net cash flow from Investing	**(101.6)**	**(10)**	**(25)**	**(25)**
(Repayment) / proceeds from borrowings	(369.0)	543		
Redemption of pref. Share capital	-			
Share issue expenses				
Finance cost	(55.4)	(29)	(28)	(26)
Dividend Paid	(33.4)	(33)	(33)	(33)
Dividend distribution tax		-	-	-
Others				
Exceptional Items				
Net cash flow from financing	**(457.8)**	**480**	**(61)**	**(60)**
Net (decrease)/increase in cash & cash equivalent	(111.4)	1,032	484	546
Cash at the beginning	200.5	89	1,121	1,606
Closing cash	89.1	1,121	1,606	2,152

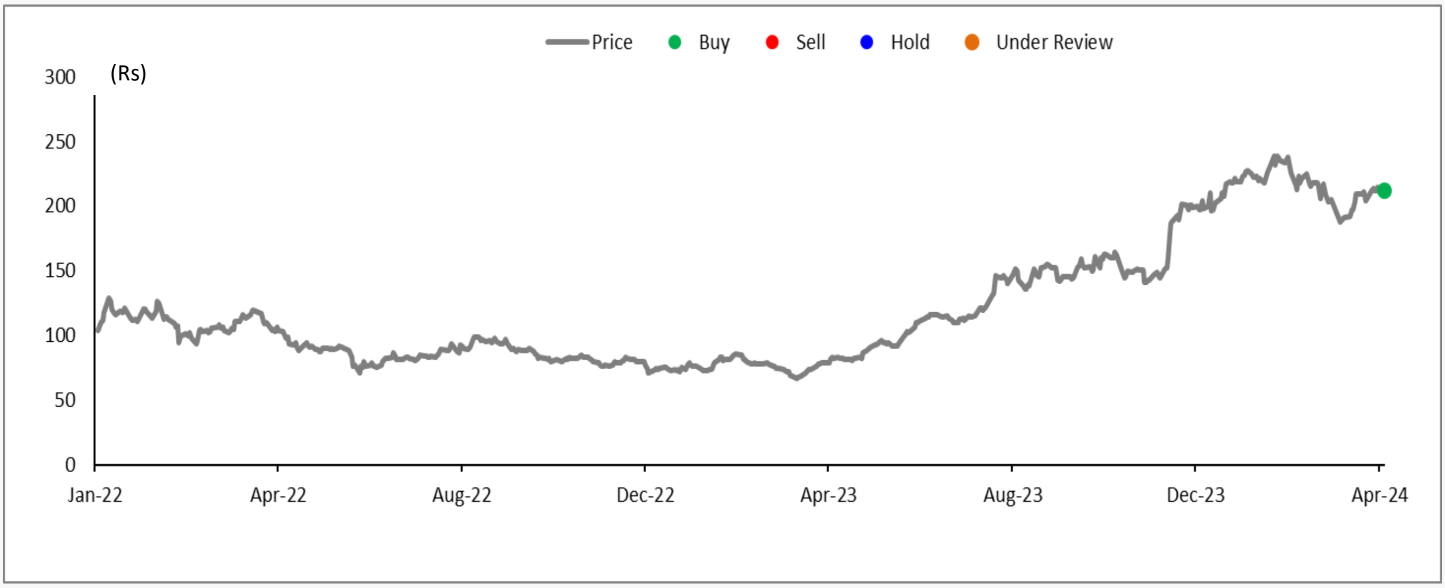
Source: company, Axis Securities

Ratio Analysis (x) / (%)

Y/E Dec	FY23	FY24E	FY25E	FY26E
EPS (INR)	7.0	8.7	11.1	9.0
Growth, %	19.5	25.1	27.7	(18.7)
Book NAV/share (INR)	29.4	47.9	58.2	66.3
FDEPS (INR)	7.0	8.7	11.1	9.0
CEPS (INR)	7.3	9.0	11.5	9.5
CFPS (INR)	7.8	11.9	9.8	11.6
DPS (INR)	0.9	0.9	0.9	0.9
Return ratios				
Return on assets (%)	19.9	16.6	16.6	12.1
Return on equity (%)	23.7	18.2	19.1	13.6
Return on capital employed (%)	27.9	23.2	21.5	15.1
Turnover ratios				
Asset turnover (x)	2.5	2.1	3.0	3.9
Sales/Total assets (x)	1.1	0.6	0.6	0.4
Sales/Net FA (x)	30.7	22.5	22.9	16.2
Working capital/Sales (x)	0.3	0.2	0.1	(0.1)
Receivable days	64.2	63.5	55.6	57.3
Inventory days	73.4	73.1	37.5	(24.4)
Payable days	49.1	75.4	69.1	82.9
Working capital days	94.4	79.2	43.8	(23.2)
Liquidity ratios				
Current ratio (x)	2.3	3.4	4.0	4.5
Quick ratio (x)	1.7	3.0	3.8	4.7
Interest cover (x)	6.9	12.6	14.4	11.4
Net debt/Equity (%)	(8.4)	(55.1)	(67.9)	(81.7)
Valuation				
PER (x)	30.3	24.2	19.0	23.3
PEG (x) - y-o-y growth	1.6	1.0	0.7	(1.2)
Price/Book (x)	7.2	4.4	3.6	3.2
EV/Net sales (x)	4.1	5.1	4.3	4.9
EV/EBITDA (x)	18.7	18.0	15.3	18.3
EV/EBIT (x)	19.2	18.6	15.9	19.3

Source: company, Axis Securities

Man Infraconstruction Price Chart and Recommendation History



Date	Reco	TP	Research
12-Apr-24	BUY	270	Initiating Coverage

Source: Axis Securities

AXIS SECURITIES

About the analyst

Analyst: Eesha Shah

Contact Details: eesha.shah@axissecurities.in

Sector: Real Estate

Analyst Bio: Eesha Shah has completed CFA and has over 5.5 yrs of experience in the field of Finance. Eesha was involved in developing option trading strategies in her previous company and is currently handling the special situation analysis and the Real Estate sector.

About the analyst

Analyst: Preeyam Tolia

Contact Details: preeyam.tolia@axissecurites.in

Sector: FMCG & Retail

Analyst Bio: Preeyam Tolia has completed MBA and part of the Axis Securities Research Team.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

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