

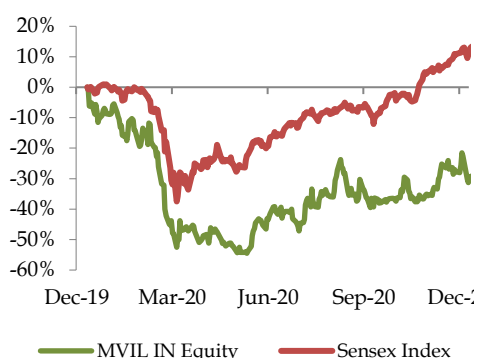
Company Update
NOT RATED

Sector- Diversified	
CMP (INR)	43
Target Price	NA
% Up Side	NA

Stock Info	
Face Value (INR)	10
Market Cap (INR Mn)	6,283
Market Cap (US \$ Mn)	85
52 Week High/ Low	61/25
Sensex	47,353
NIFTY	13,873

Shareholding Pattern (%)	
Promoters	49.7
DII's	23.2
FII's	7.8
Others	19.3

% Change	1Mths	6Mths	1 Years
Absolute	-3%	24%	-28%
Relative	-11%	-11%	-42%

Stock Chart

A Long-Term play on Commercial Real Estate; Packaging Films business in a Sweet Spot

We met the management team of Max Ventures & Industries Limited (MaxVIL) to understand the way forward for both their core businesses of commercial real estate and BOPP packaging films. MaxVIL operates Real Estate business through Max Estates Limited (MEL), Max Asset Services (MAS) and Max I. whereas specialty packaging business is being operated through Max Specialty Films Limited (MSFL) in which Japan based company 'Toppan' holds 49% stake.

MaxVIL was founded in 2016 as a result of a demerger from erstwhile Max India. MaxVIL was formed with Max Specialty Films as its subsidiary and its only business vertical. Later they entered the real estate market and its allied businesses with a strong belief that the sector will offer plenty of opportunities for growth. Within real estate, the focus has been on grade A+ commercial office spaces.

Real Estate Business looks promising

Max Estates started its journey in the real estate business with developing 22 luxury residential villas in Dehradun (Uttarakhand) in 2016. 2017 onwards, they pivoted their strategy to focus entirely on Grade A commercial real estate. Their first commercial project – Max Towers with a net leasable area of 5.5 lk Sq. Ft. (2.6 lk Sq. Ft. is sold, however leasing rights remains with MEL) was launched for leasing in Apr-2019. The total leased area at Max Towers is 3.9 lk Sq. Ft. at a weighted average rental rate of more than Rs. 100 per Sq. Ft. which is at a premium of more than 25% when compared to the micro-market it is in. Max Towers enjoys a rental premium and strong tenant profile (IEX, Yes bank, Emerson etc.) on the back of its high-quality development and differentiated experience.

Max Estates second commercial project – Max House, Okhla is being developed in 2 phases. Phase 1 comprising of 1.05 lk Sq. Ft. of leasable area has been already launched for leasing in Aug-2020. Work on Phase 2 of the project is expected to commence in Q4FY21. Their third commercial project – Max Square in Noida is a ~7 lk Sq. Ft. mixed commercial use project to be developed in partnership with New York Life (NYL). Work on the project has commenced in Q3FY21 and is expected to be delivered by Q4FY23. Average rental rates expected for Max House is Rs. 115 and Rs. 70 for Max Square. The total annual rental revenue from Max Towers, Max House (phase 1&2) and Max Square is about Rs. 120 Crores to start with followed by natural rental escalations of 15% every 3 years. Apart from these projects, the company is also under process for acquiring a 2.8 Mn Sq. Ft. project (Delhi One) under NCLT process and evaluating distressed opportunities in Gurugram.

Max Estates aims to be in the top 3 commercial real estate developers in the Delhi-NCR region where there is scarcity of Grade A office space and Max Estates intends to fill this gap with their high-quality commercial offerings. They intend to take larger commercial projects in future in partnership with domestic and foreign funds like the one with NYL for Max Square. Max Asset Services (MAS) is the facility arm currently servicing the clients of existing projects. The services provided by MAS creates a differentiated experience for the tenants.

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Max Specialty Films Limited – Focus on value-addition to drive profitability

Max Specialty Films Limited (MSFL) is one of the top BOPP films manufacturer in India. They manufacture a vast range of BOPP films across a wide field of applications: graphic art, labelling, flexible packaging for processed foods, confectionery, non-food fast moving consumer goods (FMCG) and industrial goods. MaxVIL holds 51% while Toppan holds 49% in MSFL as a partner. Toppan is a global leader in packaging industry.

MSFL is more focused on a specialty play than a volume play which enables them to create a differentiation for their products in terms of quality and offerings and at the same time earn a higher realization and profitability for their offerings. BOPP industry is currently in a sweet spot with strong demand, higher realizations, stable raw material prices and rising preference for packaged foods driving the demand. MSFL is further installing 2 metallizer lines which further improves their ability to enhance its specialty output.

Outlook – Positive

We believe Max Estates will build a sizeable and a high-quality Grade A commercial office portfolio in the next 4-5 years in the Delhi – NCR region. They have already demonstrated their execution capabilities with turning around a distressed project to Grade A commercial - Max Towers. Revenue from real estate business will gradually become a significant contributor to the overall business earning higher margins while MSFL will continue to be a strong and stable cash generator for MaxVIL. We find the company attractive as the company trades below their Real Estate Investment value while packaging business continue to post strong performance on quarter-by-quarter basis.

Key Risks

Real Estate- Work from home dampens the leasing demand if corporates partly shifts employees on permanent work from home. Most of the corporates however continues and intends to keep its office space.

Packaging Films- Simultaneous capex plans by companies in the industry, steep rise in crude oil prices can impact MSFL's revenue and profitability adversely.

About Max Ventures & Industries Limited (MaxVIL):

Max Ventures & Industries Limited (MaxVIL), a part of the leading Indian multi-business conglomerate Max Group, owns and operates a real estate business through its 100% subsidiary, Max Estates, and a packaging films business through Max Specialty Films, a 51:49 strategic partnerships with Toppan, Japan. MaxVIL also has a real estate services & management company – Max Asset Services and an investment subsidiary, Max I., which supports real estate entrepreneurial ventures.

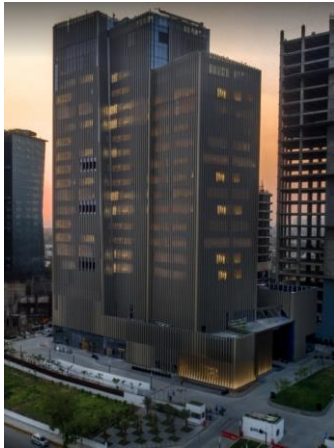
Max Estates Limited (MEL)

Established in 2016, Max Estates Limited is the real estate arm of the Max Group and a wholly owned subsidiary of MaxVIL. Its vision is to bring the Group's values of Excellence, Credibility and Sevabhav to the Indian real estate sector. Its projects include residential villas in Dehradun, Max Towers in Noida, Max House in Okhla and upcoming project – Max Square in Noida. Max Estates. It aims to be one the top Grade A commercial real estate developer in Delhi-NCR region.

Max Towers, Noida

Max Towers is a 21 storey Grade A+ Commercial development located on the edge of South Delhi within the Delhi One campus. Max Towers has been carved out from the distressed project – Delhi One by Max Estates and turned it around into a world class Grade A+ Commercial office tower proving their execution abilities. The construction of the tower started in 2017 and was completed and launched for leasing in Apr-2019 within timelines and budgets.

The net leasable area of the project stands at ~5.5 lk Sq. Ft. Out of the total net leasable area, about 2.6 lk Sq. Ft. is sold to Max Group and Investors for which the Max Estates holds the leasing rights. Net leasable area attributable to Max Estates hence, stands at 2.9 lk Sq. Ft. of which ~2.1 lk Sq. Ft. is already leased out, implying an occupancy of ~72% for area attributable to Max Estates. The total leased area in Max Towers is ~3.9 lk Sq. Ft.



Max Towers, Noida

Max Towers is occupied by top brands such as IEX, Emerson, Regus, Delphix, Udacity, Kama Ayurveda, L'Opera, Crossword among others. It recently also leased a sizeable area to Yes Bank.

The weighted average lease rentals at Max Towers is ~Rs.100 per Sq. Ft. which is at a premium of more than 25% to its micro-market for its high quality development and facilities. Management expects the towers to be leased out entirely by end of FY21. Assuming an ongoing weighted average rental rate of ~Rs. 100 per Sq. Ft., at full occupancy of 2.9 lk Sq. Ft., Max Towers has an annual rental revenue potential of ~Rs. 35 Crores.

Max House, Okhla

Max House is a re-development of office campus located within South Delhi, comprising ~105,000 Sq. Ft. in the 1st phase. Max House Phase 1 is launched for leasing in Aug-2020. Max House is the only Grade A Commercial Asset centrally located in the affluent South Delhi Market. Management expects the average rental rates of about Rs. 115 per Sq. Ft. for Max House. At full occupancy, the annual rental revenue potential from Max House Phase 1 is about Rs. 14.5 Crores.

Phase 2 of the Max House will be similar to the size of Phase 1 project. Work on Phase 2 of the project is expected to be commenced in Q4FY21 and expected to be completed in 1 year after the work is commenced. Hence, the total annual rental revenue potential from both the phases is ~Rs. 29 Crores.

Max Square, Noida

Max Square is Max Estates 3rd Grade A commercial development located in sector 129, Noida on the distressed land parcel company acquired in Nov-2019. Max Square is being designed to house commercial office space as well as F&B and entertainment areas. For Max Square – they have on boarded New York Life Insurance Company (NYL), one of the largest insurance companies in the world as co-investors. MEL will hold 51% economic interest and NYL will hold 49%. MEL will be responsible for leasing & the final delivery of the project and will be entitled to a development management fee.

The total leasable area of the project will be ~7 lk Sq. Ft. The construction of the Project has begun in Q3FY21 & is expected to be completed by Q4FY23. Management expects the average rental rates of Max Square at Rs. 70 per Sq. Ft. at which the annual rental revenue potential of the project stands at ~Rs. 59 Crores. Total cost of development is estimated to the tune of INR 400Crores comprising of Rs. 175Crores Equity &Rs. 225Crores in Debt.

222 Rajpur, Dehradun

Spread across 5 acres, 222 Rajpur is a luxury residential gated community offering a limited inventory of 22 residences. Project offers high-design residences abutting the Malsi Reserve Forest and oriented to panoramic views of the Mussoorie Hills. As of Sep-20, 16 villas have been sold out.



Max House, Okhla



Max Square, Noida (artist impression)

New Development Opportunities

Max Estates is actively looking at opportunities in the distressed space and have already successfully bid for a project in the micro market they are present in. The said distressed project is called as 'Delhi One' in which Max Towers, their first commercial project is also located. Max Towers was successfully carved out the tower from this distressed project under NCLT and turned around into a Grade A commercial tower. Max Estates intends to similarly develop & turn around the rest of the Delhi One Project. Max Estates has already received approvals from the committee of creditors and the matter is in NCLT, awaiting the final clearance and approval from NCLT court.

Delhi One is approximately a 2.8 Mn Sq. Ft. mixed use project covering commercial, high street retail and very small residential portion. If the project is successfully acquired by Max Estates, they intend to bring onboard an institutional partner for this project in line with their partnership model of development. Company is evaluating few opportunities in Gurgaon as well.

Max Asset Services (MAS)

Max Asset Services Limited (MAS) focuses on providing services such as building operations management, as well as managed offices for enterprises. MAS leverages various technological tools such as mobile app, video analytics, visitor management etc. which help in managing costs while delivering superior customer experience. In addition, it plays a pivotal role in creating a vibrant well-knit working environment by creating interesting events, activities and employee engagement initiatives through its program called 'Pulse'.

Max I.

Max I. pivoted its investment philosophy in FY20 to focus on synergistic investment and mentorship opportunities with real estate businesses through "Maxcelerate", an ecosystem for real estate technology start-ups. Max I. has already been working with many start-ups in the field of air quality management, visitor management, video analytics solution etc. which will play a crucial role in implementing new age technologies to contain the spread of the virus.

Max I's previous investments include 'FSN E-Commerce ventures Pvt. Ltd', an online multi-brand beauty retailer under the brand name 'Nykaa' & a creative food hospitality Company – 'Azure Hospitality Pvt. Ltd.' They continue to remain invested in Azure Hospitality whereas they completely exited Nykaa in Q3FY21. Max I. had invested Rs. 17.5 Crores in Nykaa in 2016 and exited completely in multiple transactions over the years. Total Exit Value stood at Rs. 82.1 Crores, an exit multiple of 4.7x.

Max Specialty Films Limited (MSFL) - Packaging Films Business

Max Specialty Films Limited (MSFL) manufactures a vast range of BOPP films across a wide field of applications: graphic art, labelling, flexible packaging for processed foods, confectionery, non-food fast moving consumer goods (FMCG) and industrial goods. MaxVIL holds 51% while Toppan holds 49% in MSFL as a JV partner. Toppan is a Japan based global leader in printing.

MSFL's total capacity stand at ~81 KTPA (increased from 46 KTPA in May-2018). MSFL's focuses to produce more profitable value-added specialty films as against commodity films. Specialty films are the product of extensive research and naturally commands higher realization and profitability as compared to the commodity films.

In Specialty Films, the R&D capabilities of the firm has brought the company at the fore front with leading FMCG brands to create a unique proposition in packaging which not only contributes to the overall product quality but also increases the product appeal for the end consumers. With the experience and capability of Toppan Group, they expect to create many winning products for the export and domestic markets thereby strengthening the brand profile and relationship with the FMCG customers.

Specialty Films contributed 42% to the total MSFL volumes in FY20 as compared to 34% in FY19 and they continue to focus on improving the specialty output. Covid-19 in general has increased awareness for hygiene and safety among consumers. As a result, there has been a preference shift among consumers to packaged foods rather than open foods as it minimises the risk of spread leading to sustainable demand for packaging films in the long run.

To move up the specialty value chain, MSFL has also planned to install 2 metallizer lines at a total investment of Rs. 60 Crores (Rs. 30 Crores for each line). 1st metallizer line has been already funded by MaxVIL and its Japanese partner Toppan in the ratio of their stake in MSFL. 2nd metallizer line is to be funded through internal accruals. These lines add a thin layer of metal, mainly aluminum to the specialty films being produced by MSFL to enhance the barrier properties and for superior appearance of the packaging. These metallizer lines will not increase the overall capacity because the base film remains the same, but it will enhance MSFL's ability to improve the value-added specialty component in its product category.

Key Management Team

Mr. Sahil Vachani, MD & CEO-Responsible for overall strategic vision, direction and growth of the company

Mr. Nitin Kansal, CFO- Max group veteran with experience across key leadership & strategic positions

Mr. Rishi Raj, CBDO - Ex-COO, Centre of Expertise for Strategy & Corporate Finance at McKinsey & Co.; Ex head of group strategy for Max Group

Mr. Ramneek Jain, CEO-MSFL- 23+ years of work experience in India and USA heading a wide spectrum of core functions in manufacturing organizations

Mr. Rohit Rajput, CEO-MAS- A Citi Banker and entrepreneur with a cumulative 19+ years of experience with a prior role as a senior principal at Hay Group

Financial Details:

Income Statement (INR Cr)	FY18	FY19	FY20
Net Sales	725	924	1,382
y-o-y	9.6%	27.5%	49.6%
EBITDA	46	20	167
y-o-y	39.5%	(56.1%)	732.9%
EBIDTA (%)	6.3%	2.2%	12.1%
Depreciation	23	30	46
EBIT	23	(10)	121
y-o-y	83.1%	NA	NA
%sales	3.1%	-1.1%	8.7%
Interest/Finance cost	23	42	71
y-o-y	(0)	1	1
EBT (without other income)	(0)	(52)	50
Other Income	11	22	17
exceptional items	-	-	-
y-o-y	(0)	1	(0)
EBT	11	(31)	67
Tax Expenses	8	(1)	23
Tax Rate (%)	69.9%	4.8%	34.1%
PAT	3	(29)	44
y-o-y	(2)	(10)	(3)
%sales	0	(0)	0
Other Income(Net of tax)	(0)	(6)	-
RPAT	4	(23)	44
%sales	0.5%	-2.5%	3.2%

Source: Company, SMC Institutional Research

Balance Sheet (INR Cr)	FY18	FY19	FY20
Share Capital	73	147	147
Reserves & Surplus	342	691	728
Total Share Holder's Funds	415	837	875
Non controlling interest	123	116	168
Long Term Borrowings	201	301	258
Short Term Borrowings	432	218	243
Total Loans	633	519	502
Financial liabilities	0	0	0
Deferred Tax Liability (Net)	36	4	46
Other non-current liabilities	29	17	13
Long Term Provisions	5	5	8
Capital Employed	1240	1499	1611
Application Of Funds			
Net Block	305	551	536
Goodwill	2	2	2
Other Intangible assets	3	2	2
Intangible assets under development	2	0	0
Capital Work in Progress	234	5	1
Investment property	0	43	697
Right of use assets	0	0	29
Investment	148	101	132
Financial Assets	49	18	24
other non-current assets	13	4	4
Total Current Assets	873	1172	452
Total Current Liability	387	399	269
Net Current Assets	486	772	183
Misc. Exp	0	0	0
Capital Deployed	1240	1499	1611

Source: Company, SMC Institutional Research

Key Ratios	FY18	FY19	FY20
Growth (%)			
Total Sales	9.6%	27.5%	49.6%
EBIDTA	39.5%	-56.1%	732.9%
PAT	NA	NA	NA
Profitability (%)			
EBIDTA Margins	6.3%	2.2%	12.1%
PAT Margins	0.5%	(2.5%)	3.2%
Return Ratios(%)			
ROCE	1.8%	(0.7%)	7.5%
ROE	0.9%	(2.8%)	5.0%
Per Share Data (Rs)			
EPS	0.5	(1.6)	3.0
BVPS	57.1	57.1	59.7
Valuations (x)			
P/E (x)	84.3	NA	14.3
P/BV (x)	0.8	0.8	0.7
EV/EBIDTA	20.6	51.4	6.2
Other Ratios			
Debt/Equity	1.5	0.6	0.6
A/TO	2.4	1.7	2.6

Source: Company, SMC Institutional Research

Key to ratings

Ratings	Definition
Buy	ESR is greater than EMR + 15%
Accumulate/ Hold	ESR falls between EMR + 5% and EMR + 15%
Sell	ESR is lesser than EMR - 5%

Notes:

ESR = Expected Security Return

EMR = Expected Market Return, defined as 1 year domestic yield + 5% (as a proxy for market risk premium)



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