

## Indian Property

### Stock and Flow - 2 stocks for a 'risk-on' rally

In a 'risk-on' rally, we think the below listed two stocks have the potential to deliver significant out performance. For both companies we note that cash generation is quite reasonable and as of now share prices have been depressed due to regulatory overhangs **which have incrementally started to recede**. Our choice in selecting these 2 stocks was based on 3 simple premises 1. **Valuations (P/E, PB, NAV) should be really cheap** (sub 5x cash PE) to enable a better risk reward and higher probability of a move up 2. **Incremental change in the business should be positive**, leading to improvement in cash flows/debt reduction or removal of key regulatory overhangs and 3. **The companies should have no credit stress on their B/S**. We have outlined the potential catalysts that could play out over the next 6 months in both the names.

- JPI infratech – Concerns:** Parent co leverage along with an adverse regulatory environment in UP post the election of new government which was expected to delay toll revenues from the road and project approvals. **What's changing?** Yamuna expressway is now operational which should further aid cash flows by Rs 3-4B (FY13 EBITDA Rs 18B). We note that with the road completion done and land in place, the co is now ex-capex and hence incremental cash flows should go towards reducing project debt or dividend payments **Key stock catalysts** would be 3/4Q earnings report on toll road collections, reduction in debt and project deliveries starting FY14.
- HDIL – Concerns:** Government's policy limbo on airport rehabilitation project and a general approvals slowdown in Mumbai RE impacting collections and new launches **What's changing?** Co has been reducing debt via operating cash flows; current Net D/E at 0.4x is low. Pace of new launches has improved with one project in Kurla already launched and another one in Ghatkopar in the pipeline. Further, HDIL has also been able to generate additional TDR (~2 msf) which should further help cash flows. **Catalysts:** Additional gearing reduction via TDR /asset sales and improvement in approvals pace aiding cash flows from pre-sold FSI/projects. Even after marking down incremental cash flows from the airport to zero, we don't think there is a case for a material book write-down given locked in profits from ongoing airport-linked RE projects and revaluation on large low cost mid income Virar portfolio.

Table 1: Valuations

	Market Cap US\$MM	EV/EBITDA		Cash P/E		P/B		Net D/E
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	
HDIL	580	4.4	4.4	3.8	3.0	0.3	0.2	0.4
JPIN	1,232	7.1	5.6	5.7	4.8	1.0	0.9	1.1

Source: Company reports and J.P. Morgan estimates. Pricing as of 17 Sep-12 (intraday)

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## HDIL - Asset sales and pick up in launch activity should aid cash flows ahead

Table 2: HDIL - Launch activity is picking up at the margin

**Launch activity is picking up at the margin with Q1 witnessing new launch (0.8msf in Kurla) after a gap of almost 15 months. Two additional large project launches are expected in Ghatkopar and Shahad project over the next 2Qs.**

Project	Location	Area (msf)	Status
Premier Exotica – Bldg. 3 & 4	Kurla	0.8	Sales launched on 11th Aug' 12
Ghatkopar	Ghatkopar	0.5	FSI Sales/Sales to be launched
Novinon Property (Shahad)	MMR	5.0	Site preparation and infrastructure work in progress
Meadows- Phase II	Goregaon	1.6	MHADA Redevelopment in progress, sales to be launched
Paradise City (Phase III)	Palghar	6.8	Sales to be launched
Kharadi	Pune	0.4	Sales to be launched in Q4

Source: Company

**Going into 2H, co. expects a meaningful scale up in revenues on the back of a) completion of 4 residential projects over FY13 (given completed project accounting); b) FSI sales of 1.5-2msf per Q in Virar Vasai & c) TDR sales (2msf) post reconfiguration of Kurla project.**

Table 3: HDIL - Projects completing in FY13

Project	Location	Area (msf)
Premier Residences	Kurla W	1.0
Metropolis	Andheri W	0.7
Residency Park	Virar	1.3
		<b>3.0</b>

Source: Company

Table 4: HDIL - Book Value and SOTP valuation

Rs B	Book Value (Rs B)	JPM Valuation (Rs B)	Implied P/B (x)	JPM Value (per share)	JPM Comments
<b>Total Assets</b>	<b>140</b>				
Mumbai Projects	42	63	1.5	150	~25msf of projects in Mumbai suburbs. Valued at 1.5x P/B, in line with our DCF estimate
Airport Project	40	21	0.5	51	Based on 50% probability for the project
Virar Vasai	10	40	4.0	95	Total land holding of >100msf+ in distant Mumbai suburbs (Virar Vasai/Palghar etc). Historical land on books at <Rs100psf. Valued at Rs400psf. FSI sales being done at Rs800-1000psf.
Debtor from FSI sales	6	3	0.5	7	Pending debtors on BS marked down by 50%. These are expected to convert into cash by FY13 end as launches for developers improve
Net working capital	(1)	(1)		(3)	
Other current Liabilities	(13)	(13)		(31)	Creditors and tax provisions
<b>Others</b>	<b>42</b>	<b>12</b>	<b>0.3</b>	<b>28</b>	
Kochi/Hyderabad etc	3	3	1.0	6	Valued at 1x P/B. 25msf of projects in Kochi/Hyderabad.
SEZ land in Virar Vasai	10	-	-	-	Marked down to zero given no progress on these SEZ projects
Interest Capitalized	10	-	-	-	Written down completely
Remaining assets	20	10	0.5	22	Other SRS/hotel projects. Marked down by 50%
<b>Total</b>	<b>126</b>	<b>126</b>	<b>1.0</b>	<b>296</b>	
Net Debt		(38)		(94)	Net Debt
<b>Equity Value</b>		<b>84</b>		<b>200</b>	
<b>Per share (Rs)</b>		<b>202</b>			

Source: Company reports and J.P. Morgan estimate

## Jaypee Infratech – Expressway now operational. Operating performance has been impressive

Figure 1: Site pictures of expressway (now operational)



Source: Company

Company has been faring fairly well in terms of pre sales and collections. 1Q pre sales were Rs9.3B (2.5msf), driven by new launches in parcel 3 and ongoing inventory sales in Noida. Collections too were reasonably strong at Rs 8B for the Q.

Average realizations for Noida parcel has increased to Rs4.5K psf levels and new launches at Gautam Buddha (parcel) are closer to Rs2.5K psf levels.

Table 5: Pre Sale performance (Rs M)

	Area sold (msf)	Avg SP (Rs psf)	Sales Value (Rs M)	Collections done (Rs M)
FY09	1.0	3,328	3,162	630
FY10	20.4	2,540	51,689	16,699
FY11	12.4	3,308	40,953	31,455
FY12	10.9	4,162	45,449	29,378
<b>1QFY13</b>	<b>2.5</b>	<b>3,724</b>	<b>9,310</b>	<b>8,050</b>
			<b>150,563</b>	<b>86,212</b>

Source: Company

**Companies Recommended in This Report** (all prices in this report as of market close on 14 September 2012)

Housing Development and Infrastructure Ltd. (HDIL) (HDIL.BO/Rs72.70/Overweight), Jaypee Infratech (JYPE.BO/Rs48.25/Neutral)

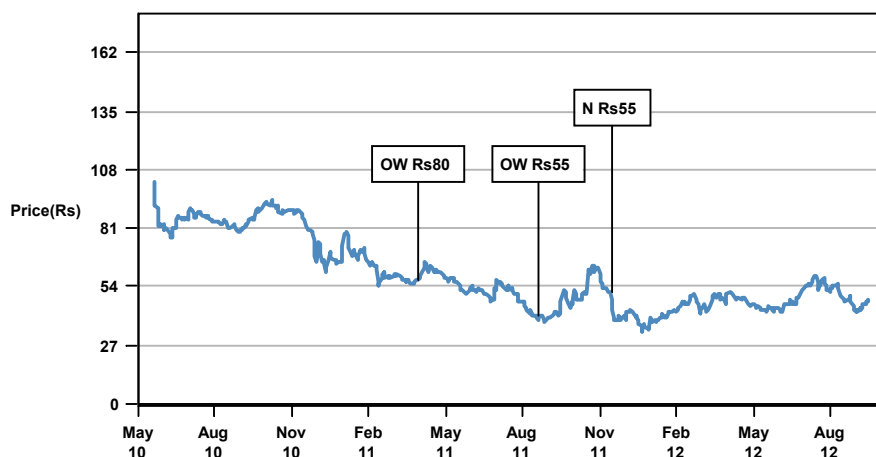
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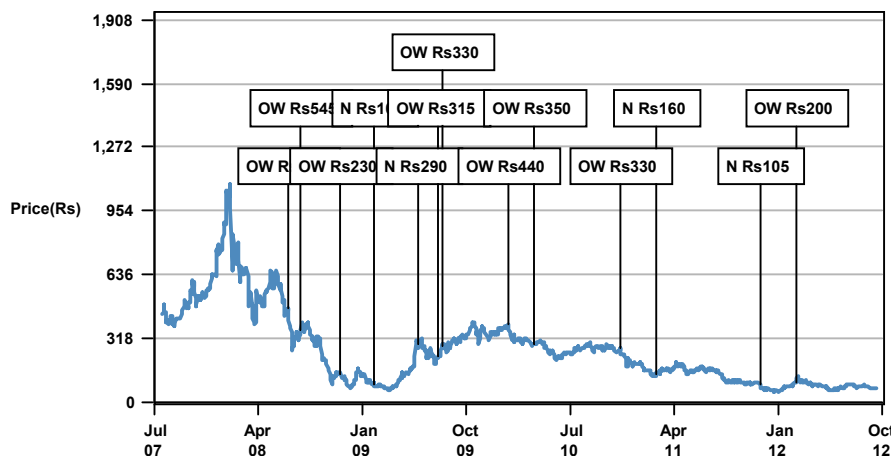
Jaypee Infratech (JYPE.BO, JPIN IN) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
30-Mar-11	OW	56.80	80.00
18-Aug-11	OW	40.40	55.00
14-Nov-11	N	51.30	55.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Mar 30, 2011.

**Housing Development and Infrastructure Ltd. (HDIL) (HDIL.BO, HDIL IN) Price Chart**



Date	Rating	Share Price (Rs)	Price Target (Rs)
18-Jun-08	OW	471.45	855.00
21-Jul-08	OW	361.67	545.00
02-Nov-08	OW	144.25	230.00
29-Jan-09	N	93.50	100.00
25-May-09	N	293.60	290.00
20-Jul-09	OW	234.10	315.00
30-Jul-09	OW	278.15	330.00
20-Jan-10	OW	386.25	440.00
30-Mar-10	OW	286.20	350.00
11-Nov-10	OW	265.45	330.00
13-Feb-11	N	137.45	160.00
14-Nov-11	N	90.90	105.00
14-Feb-12	OW	97.55	200.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Jun 18, 2008.

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