

**NOVEMBER 27, 2009**
**UPDATE**

Coverage view: **Neutral**

Price (Rs): **318**

Target price (Rs): **350**

BSE-30: **16,855**

**Business on track.** HDIL's execution remains on track and the present correction in stock price provides an entry opportunity. HDIL has sold 2.4+ mn sq. ft of the 4.6 mn sq. ft of real estate launched since January 2009. We also note that TDR prices have moved up to Rs2,300+/sq. ft from Rs2,000/sq. ft in 2QFY10. We believe Mumbai market provides HDIL a lot of growth opportunities to accrue NAV. We reiterate our ADD rating on the stock with a target price of Rs350.

**Company data and valuation summary**

Housing Development &amp; Infrastructure

Stock data		Forecasts/Valuations			
		2009	2010E	2011E	
52-week range (Rs) (high,low)	411-63	EPS (Rs)	21.3	12.3	24.0
Market Cap. (Rs bn)	109.9	EPS growth (%)	(58.5)	(42.0)	94.9
<b>Shareholding pattern (%)</b>		P/E (X)	15.0	25.8	13.2
Promoters	48.4	Sales (Rs bn)	17.3	15.7	29.1
FIs	26.0	Net profits (Rs bn)	7.5	5.5	11.5
MFs	2.6	EBITDA (Rs bn)	13.1	7.3	15.4
<b>Price performance (%)</b>		EV/EBITDA (X)	11.4	19.1	8.0
Absolute	1M 3M 12M	ROE (%)	18.7	9.9	15.5
	(6.3) 3.2 313.8	Div. Yield (%)	0.0	0.9	1.6
Rel. to BSE-30	(7.0) (3.4) 121.6				

**Real estate business continues to show good progress**

We note that HDIL has sold 50+% of 4.6 mn sq. ft of projects launched since January 2009 including Metropolis (95% sold), Premier (95% sold), Galaxy (85% sold), Bhandup (18%) and Virar (30%). We expect these projects to generate cumulative sales of Rs24 bn and new projects to generate cumulative revenues of Rs13.1 bn as shown in Exhibit 1. This compares favorably with our revenue booking assumption of Rs26.3 bn over FY2010-12E from residential real estate. HDIL has forayed into commercial leased real estate with the launch of 2 mn sq. ft project in Kurla.

Details of the recently launched projects are given below.

- ▶ **Bhandup.** HDIL has launched a 1.3 mn sq. ft residential project in Bhandup (Kilburn Engineering) at a basic price of Rs5,750/sq. ft. HDIL has sold 18-20% of the project. We revise our selling price assumption for the project to Rs6,250/sq. ft from Rs6,000/sq. ft earlier and also increase saleable area to 1.3 mn sq. ft.
- ▶ **Kurla.** HDIL has also started work on the Kurla commercial property. Vascon has been awarded the construction contract for the 2 mn sq. ft commercial office space. This is one of the largest projects taken up by Vascon on design-and-build basis in Mumbai and it expects to complete the project in 18 months. The first phase of the project comprises three levels of basement parking and 11 floors above ground. We model average rental of Rs80/sq ft/month for this project. HDIL has awarded a Rs2 bn contract to Vascon Engineers for construction of the structure while other work such interiors and fit-outs would be taken care of by HDIL.

HDIL further intends to launch 2.7 mn sq. ft of residential projects which includes (1) 1 mn sq. ft in Goregaon (delayed by 4-5 months due to approvals), (2) Ghatkopar redevelopment project, and (3) 1.3 mn sq. ft residential project in Virar. HDIL also intends to launch a 1 mn sq. ft of commercial space in Metropolis project.

**QUICK NUMBERS**

- **HDIL has sold 2.4 mn sq. ft in projects launched since Jan 2009**
- **Launched 2 mn sq. ft commercial project in Kurla**

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### HDIL to benefit from pickup in TDR prices

We note that TDR prices have been picking up over the last quarter as developers launch more projects in Mumbai. Our market sources indicate that recent TDR transactions have taken place in the range of Rs2,300-2,500/sq. ft. We assume sale of 18 mn sq. ft of TDRs in FY2010-12E. HDIL has already sold TDRs of 3.5 mn sq. ft in 1HFY09. Exhibit 2 shows the sensitivity of valuation to our TDR pricing assumption of Rs2,300/sq. ft in a steady state in FY2012E. Every increase in TDR price assumption by Rs100 increases NAV by around 2%. We currently value the airport slum rehabilitation project at Rs67.8 bn (Rs182/share) as shown in Exhibit 4.

### Price correction provides an entry point; upside of 10%

Based on higher area for Bhandup project, we have marginally revised NAV to Rs392/share (Rs390/share earlier). We note that the stock has corrected 12% in the last one week and provides a good entry point. At CMP of Rs316, HDIL is quoting at 1.5X FY2011E BV of Rs217 and 10.2X FY2011E EPS of Rs30.9. Furthermore, full effect of recently launched projects would be visible in FY2012E as HDIL books revenues on project completion basis.

Our target price of Rs350 provides an upside of 10%. Our target price is based on a 10% discount to our March 2011 based NAV of Rs392/share. Our NAV comprises Rs270/share for real estate projects and Rs182 for airport slum rehabilitation project and we adjust for debt/other investments (Exhibit 3). We assign a discount of 10% on account of riskier nature of slum rehabilitation business. Key upside risks to NAV include better TDR prices and lower construction costs. Downside risks include lower residential demand due to higher interest rates/selling prices and delay in future phases of airport slum rehabilitation project

We believe that Mumbai market provides a lot of opportunities for NAV accretion. Management has indicated that around Rs3.5 has been spent in land acquisition in 2QFY10. HDIL has paid around Rs2.5 bn to acquire 100 acres of lands owned by Novinon Limited in Mumbai and Vadodra through a bank CDR. HDIL has also paid advances for Kandivli project. Currently, we do not incorporate these into our model and would do so as we get more clarity on their development plans.

### HDIL has 4.6 mn sq. ft of launched projects

Recently launched projects and new launches in the near future

		Sale price (Rs/sq. ft)	Volumes (mn sq. ft)	Sold (%) (mn sq. ft)		Sale value (Rs mn)	Cash flow (Rs mn)
<b>Launched</b>							
Premier*	Kurla (W)	6,000	0.9	95	0.9	5,400	3,960
Metropolis*	Andheri (W)	8,500	0.7	95	0.6	5,525	4,485
Galaxy*	Kurla (E)	5000	0.4	85	0.3	2,000	1,360
Kilburn*	Bhandup	6,250	1.3	18	0.2	8,125	6,045
Virar Industrial park	Virar	2,000	1.3	30	0.4	2,600	520
<b>Total launched</b>			<b>4.6</b>	<b>54</b>	<b>2.4</b>	<b>23,650</b>	<b>16,370</b>
<b>Fortcoming</b>							
Sidharth Nagar	Goregaon	6,500	1			6,500	4,900
Pant Nagar	Ghatkopar	6,000	0.5			3,000	2,200
Dongre Ph I	Virar	4,500	0.8			3,600	2,320
<b>Total forthcoming</b>			<b>2.3</b>			<b>13,100</b>	<b>9,420</b>
<b>Total projects</b>			<b>6.9</b>			<b>36,750</b>	<b>25,790</b>

Source: Kotak Institutional Equities estimates

Large NAV accretion from airport SRA project  
Sensitivity of airport SRA valuation to TDR prices

TDR prices (Rs/sq. ft)	NAV	NAV/share
	(Rs bn)	(Rs)
1,800	136.4	367
1,900	138.3	372
2,000	140.2	377
2,100	142.0	382
2,200	143.9	387
2,300	145.7	392
2,400	147.6	397
2,500	149.5	402

Source: Company, Kotak Institutional Equities

Our March 2011 based NAV is Rs392/share  
NAV sensitivity to growth rate in selling prices

	March '11 based NAV Growth rate in selling prices			
	0%	3%	5%	10%
<b>Valuation (Rs bn)</b>	<b>73.6</b>	<b>89.0</b>	<b>101.4</b>	<b>133.8</b>
Residential projects	31	42	50	74
Commercial/retail projects	26	29	32	38
Slum rehabilitation projects	16	18	19	21
Add: BKC rental property	1.5	1.5	1.5	1.5
Add: Money to be received from promoter	4.7	4.7	4.7	4.7
Net debt	(29.6)	(29.6)	(29.6)	(29.6)
Add: Mumbai slum rehabilitation project	67.8	67.8	67.8	67.8
<b>NAV (Rs bn)</b>	<b>117.9</b>	<b>133.4</b>	<b>145.7</b>	<b>178.2</b>
Total no of shares				371.8
NAV/share				<b>392</b>
<b>Target price @10% discount to NAV</b>				<b>350</b>

Source: Kotak Institutional Equities estimates

We expect sales of 6 mn sq. ft of TDRs each year in the period FY2010E-12E  
Mumbai airport slum rehabilitation model

	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
<b>HDIL has full benefits/ costs</b>										
Rehabilitation area constructed (mn sq. ft)	6.0	6.0	6.0	6.0						
Cost of construction (Rs bn)	(7.4)	(7.4)	(7.4)	(7.4)						
Balance purchase of land to be incurred	-	(5.0)								
Sale of TDR (mn sq. ft)	2.5	6.0	6.0	6.0	4.0	4.0	4.0	4.0	4.0	3.3
Selling price assumption of TDR (Rs/sq. ft)	1,800	1,900	2,200	2,300	2,300	2,300	2,300	2,300	2,300	2,300
Sale Inflow from TDR (Rs bn)	4.5	11.4	13.2	13.8	9.2	9.2	9.2	9.2	9.2	7.5
<b>NPV (Rs bn)</b>	<b>35.3</b>									
<b>HDIL gets 55% share of land</b>										
Saleable area constructed (mn sq. ft)		0	0	1	1	2	2	2	1	1
Selling price (Rs/sq. ft)		6,000	6,600	6,600	6,600	10,500	11,025	11,025	11,025	11,576
Construction cost(Rs/sq. ft)		1,800	1,800	1,800	1,800	3,000	3,000	3,000	3,000	3,000
Sale Inflow (Rs bn)		-	0	7	7	21	22	22	11	12
Construction cost (Rs bn)		-	-	(2)	(2)	(6)	(6)	(6)	(3)	(3)
Taxes (Rs bn)		-	-	1	1	4	4	4	2	2
<b>NPV (Rs bn)</b>	<b>32</b>									

Source: Kotak Institutional Equities estimates

#### Profit model of HDIL, March fiscal year-ends, 2007-2012E (Rs mn)

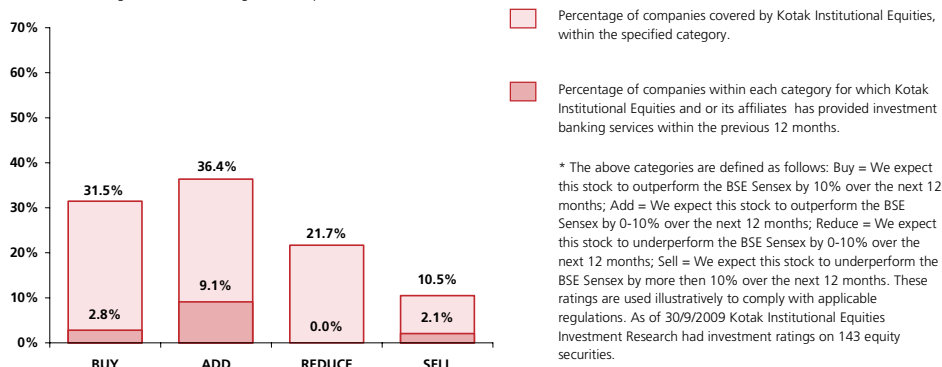
	2007	2008	2009	2010E	2011E	2012E
<b>Total revenues</b>	<b>12,165</b>	<b>23,804</b>	<b>17,193</b>	<b>15,736</b>	<b>29,055</b>	<b>52,583</b>
Land/Construction costs	(5,237)	(6,336)	(8,304)	(7,607)	(12,349)	(20,605)
Employee costs	(84)	(122)	(199)	(372)	(421)	(484)
SG&A costs	(222)	(431)	(886)	(472)	(872)	(1,577)
<b>EBITDA</b>	<b>6,622</b>	<b>16,914</b>	<b>7,804</b>	<b>7,284</b>	<b>15,413</b>	<b>29,917</b>
Other income	0	529	953	540	540	540
Interest	(430)	(1,408)	(580)	(767)	(1,708)	(2,636)
Depreciation	(10)	(15)	(24)	(48)	(74)	-
<b>Pretax profits</b>	<b>6,182</b>	<b>16,021</b>	<b>8,153</b>	<b>7,009</b>	<b>14,171</b>	<b>27,821</b>
Profit/(loss) share of associates	-	-	-	-	-	-
Current tax	(758)	(1,910)	(932)	(1,522)	(2,684)	(8,543)
Deferred tax	(4)	(7)	(9)	(14)	(16)	-
<b>Net income</b>	<b>5,420</b>	<b>14,103</b>	<b>7,212</b>	<b>5,473</b>	<b>11,471</b>	<b>19,278</b>
<b>EPS (Rs)</b>						
Primary	23.4	53.8	26.2	15.8	30.9	52
Fully diluted	23.4	53.8	26.2	15.8	30.9	52
<b>Shares outstanding (mn)</b>						
Year end	231	275	275	345	371	371
Primary	231	262	275	345	371	371
Fully diluted	231	262	275	345	371	371
<b>Cash flow per share (Rs)</b>						
Primary	26	53	24	6	25	50
Fully diluted	26	53	24	6	25	50
<b>Growth (%)</b>						
Net income (adjusted)	376	160	(49)	(24)	110	68
EPS (adjusted)	376	130	(51)	(40)	95	68
DCF/share	409	104	(54)	(77)	350	101
Cash tax rate (%)	12	12	11	22	19	31
Effective tax rate (%)	12	12	12	22	19	31

Source: Company, Kotak Institutional Equities estimates

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Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of September 30, 2009

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**ADD.** We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

**REDUCE.** We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

**SELL.** We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

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