

Housing Development and Infrastructure Ltd. (HDIL)

2Q FY11: Higher TDR realization drives the earnings beat; Phase I handover remains a key overhang

- 2Q FY11 results beat expectations:** HDIL reported 2Q FY11 net earnings of Rs2.1B (down 9% Q/Q, up 43% Y/Y), ahead of our estimate of Rs1.9B driven by higher-than-expected TDR realization of Rs3,000psf (vs. JPMe – Rs2,900psf). TDR volumes remained largely stable during the Q at 1msf, thereby taking 1H volumes to 2.1msf. 2Q results included Rs700MM of FSI sales (Rs1.3B in 1Q). Gross debt (Rs41B) remained largely stable Q/Q.
- Visibility improving on Phase II of Airport project:** As per recent news reports (source: DNA), HDIL is close to buying a 105-acre land parcel in Kanjurmarg (a central Mumbai suburb) for Rs7B. We believe that this acquisition, if concluded, should entirely cover its land requirements for phase II/III of the airport project. While management confirmed that it was in the advanced stage of tying up land for Phase II/III, it did not provide any details on this. On the Phase I handover (53 acres, 25,000 families), the company is in discussions with the concerned government authorities; however there are no clear timelines on this as yet. Delays in the Phase I handover remain a key overhang for the stock.
- Recent QIP issuance closes the funding gap for the airport project:** HDIL has Rs15B of liquid funds post the recent QIP issuance. In addition to this, the company recently closed the sale of a land parcel (FSI) in Goregoan for Rs6.5B (1.1msf) in Oct. (cash to accrue over 2H). These funds would primarily be used to (a) tie up land parcels for Phase II/III of the airport project, and b) new project acquisitions – the company added 13msf of projects in Sep-Q (Novinon Property) and is proposing to redevelop Motilal Nagar in Goregaon (15msf in prime Mumbai suburb).
- Sales momentum in Mumbai remains healthy; launches to accelerate in 2H:** HDIL has achieved cumulative sales bookings of Rs50B on 7msf launched to date. Encouraged by the strong response to its residential launches over the past year, HDIL has outlined an aggressive launch target for FY11/12 comprising a) 9msf in Mumbai suburbs, b) Palghar township project (12msf), and Kochi project (6.3msf) to be launched in phases.
- We maintain OW with a new Mar-11 PT of Rs330** and revised FY11/12 EPS estimates (-6%/-34%) as we factor in the recent equity issuance and higher FSI sales in FY11 and remove land sales for FY12. A key risk to our price target is a slowdown in the Mumbai RE market.

Bloomberg: HDIL IN; Reuters: HDIL.BO

Rs in millions, year-end March	FY08	FY09	FY10	FY11E	FY12E
Sales	23,804	17,284	15,021	20,479	31,357
Net profit	14,111	6,714	5,722	8,944	12,264
EPS (Rs)	51.2	24.4	16.6	21.5	27.8
P/E (x)	5.0	10.4	15.3	11.8	9.1
Net Debt/Equity	76%	92%	47%	27%	11%
BPS	132.1	160.5	201.9	222.1	248.1
P/B	1.9	1.6	1.3	1.1	1.0
ROE (%)	65%	17%	10%	11%	12%

Source: Company reports and J.P. Morgan estimates.

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

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Overweight

HDIL.BO, HDIL IN

Price: Rs265.45

▼ **Price Target: Rs330.00**
Previous: Rs350.00

India

Property

Saurabh Kumar^{AC}

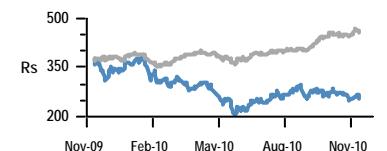
(91-22) 6157-3590
saurabh.s.kumar@jpmorgan.com

Gunjan Prithyani

(91-22) 6157-3593
gunjan.x.prithyani@jpmorgan.com

J.P. Morgan India Private Limited

Price Performance



	YTD	1m	3m	12m
Abs	-29.7%	-6.7%	-7.3%	-32.1%
Rel	-47.0%	-7.9%	-21.2%	-54.3%

Company data

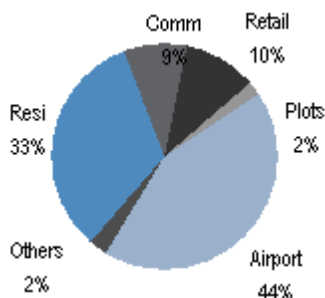
52-wk range (Rs)	393.75 - 201.7
Mkt cap. (Rs MM)	105,536
Mkt cap. (US\$ MM)	2,382
Avg. daily volume (MM)	6.0
Average daily value (US\$ MM)	1629.1
Shares O/S (MM)	36.8
Index (BSE Sensex)	415
Exchange rate	20,589
Share price date	11 Nov. 2010

Source: Bloomberg

Company Description

HDIL is one of the leading real estate developers and slum rehabilitation firms in the Mumbai Metropolitan Region (MMR). HDIL has land reserves of ~190msf (including the Airport project), of which 88msf is under construction. Since incorporation in 1996, the company has delivered over 26 projects covering 19.3msf of saleable area (including 12.7msf of land development) and has completed rehabilitation projects covering 30,000 families, which implies a market share of 40%.

NAV breakdown



Source: J.P. Morgan estimates.

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY11E	21.5	20.3
FY12E	27.8	32.0

Source: Bloomberg, J.P. Morgan.

Valuation and EPS sensitivity metrics

	NAV impact (%)	EPS impact (%)
Price growth post FY10		
Impact of each 5% point change	23%	9%
Cap rate assumption		
Impact of each 1% point change	4%	8%

Source: J.P. Morgan estimates

Price target and valuation analysis

Our Mar-11 price target of Rs330 is based on 12x FY12E stabilized FCFE (in line with the multiple used for its peer group). Key risks to our PT include 1) a slowdown in the Mumbai RE market, and 2) lower-than-expected valuation for new Mumbai RE IPOs.

Stabilized FCFE assumptions

	Msf p a	ASP
TDR	5.0	3,000
Mumbai	3.0	7,000
Vasai Virar (Plotted)	3.0	600

Source: J.P. Morgan estimates.

Table 1: HDIL: 2Q FY11 results

Rs MM, YE Mar.	2QFY10	1QFY11	2QFY11	Q/Q ch (%)	Y/Y ch (%)	1HFY10	1HFY11	Y/Y ch (%)
Sales	3,537	4,509	3,727	-17%	5%	6,491	8,236	27%
Increase/Dec in inventory	3,743	7,074	5,090	-28%	36%	7,594	12,164	60%
Cost of Construction and development	(4,331)	(7,474)	(4,893)	-35%	13%	(8,513)	(12,367)	45%
Administrative expenses	(169)	(144)	(154)	7%	-9%	(278)	(297)	7%
Staff Cost	(56)	(104)	(98)	-5%	75%	(109)	(202)	85%
Project interest	(927)	(1,189)	(1,299)	9%	40%	(2,227)	(2,487)	12%
Expenditure	(1,740)	(1,835)	(1,354)	-26%	-22%	(3,533)	(3,190)	-10%
EBITDA	1,797	2,674	2,372	-11%	32%	2,958	5,046	71%
EBITDA margin (%)	51%	59%	64%	4%	13%	46%	61%	16%
Depreciation	(9)	(19)	(16)	-17%	70%	(18)	(35)	97%
EBIT	1,788	2,655	2,356	-11%	32%	2,940	5,011	70%
EBIT Margin (%)	51%	59%	63%	4%	13%	45%	61%	16%
Other Income	274	342	339	-1%	24%	506	681	35%
Interest	(185)	(215)	(212)	-1%	15%	(354)	(426)	21%
PBT	1,876	2,782	2,483	-11%	32%	3,092	5,265	70%
Tax	(390)	(439)	(355)	-19%	-9%	(532)	(794)	49%
Tax rate (%)	21%	16%	14%	-2%	-7%	17%	15%	-2%
Profit after Tax	1,486	2,343	2,129	-9%	43%	2,560	4,472	75%
PAT margin (%)	42%	52%	57%	5%	15%	39%	54%	15%
PAT post prior period adjustment	1,486	2,343	2,138	-9%	44%	2,560	4,481	75%

Source: Company

Table 2: HDIL TDR volume trends

Rs MM, YE March	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
TDR Volumes (msf)	1.5	0.3	1	1.8	1.7	1.5	1.475	1.1	1
% ch		-80%	233%	80%	-6%	-12%	-2%	-25%	-9%
Average price	2,300	1,400	1,100	1,500	2,000	2,500	2,700	2,950	3,000
% ch		-39%	-21%	36%	33%	25%	8%	9%	2%
Total Realization	3,450	420	1,100	2,700	3,400	3,750	3,983	3,245	3,000
Total Sales	4,776	3,138	3,579	2,954	3,537	4,089	4,341	4,509	3,727
TDR as % of total sales	72%	13%	31%	91%	96%	92%	92%	72%	81%

Source: Company

Table 3: HDIL: Key balance sheet

Rs MM, YE Mar.	2QFY11
Share holder funds	91,120
Loans	41,333
Fixed assets	1,764
Investments	9,431
Inventories	92,369
Sundry Debtors	4,508
Cash and Bank Balance	12,037
Loans and Advances	26,776
Other current asset	23
Total Current Assets	135,713
Current Liabilities	13,607
Provisions	786
Total Current Liabilities	14,393

Source: Company

HDIL: Summary of financials

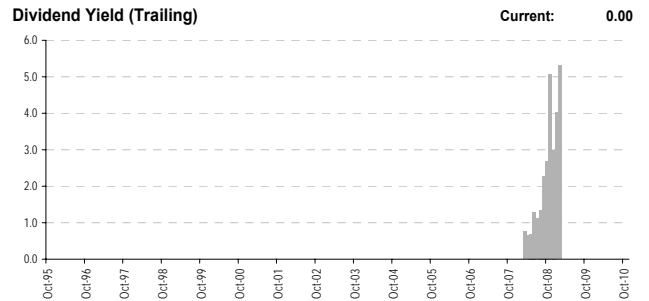
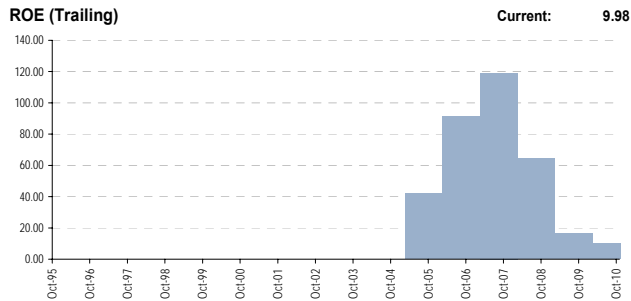
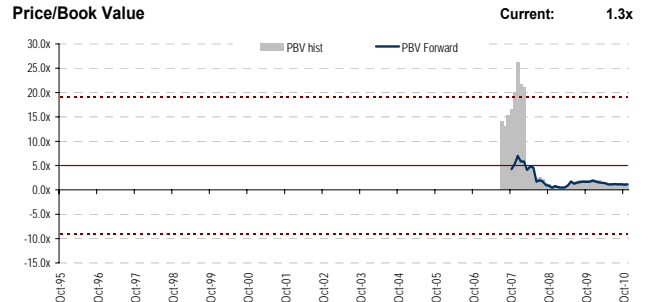
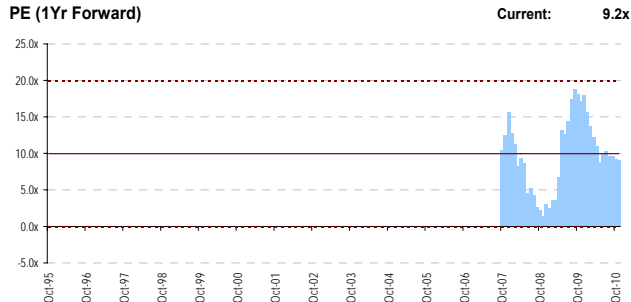
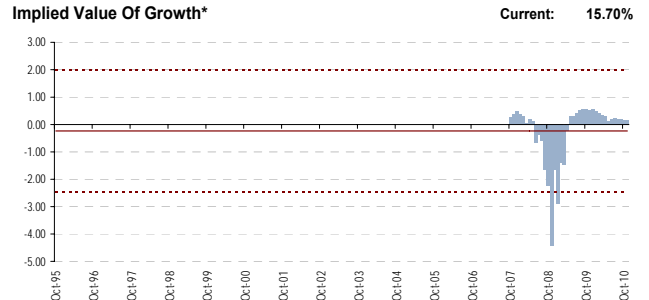
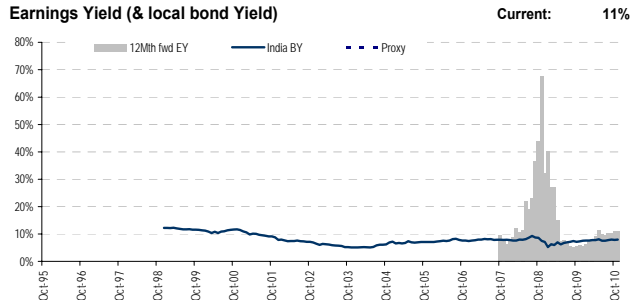
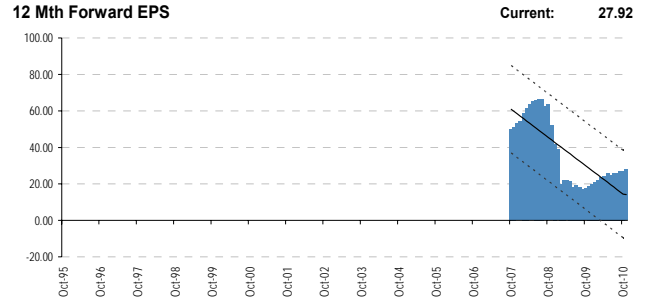
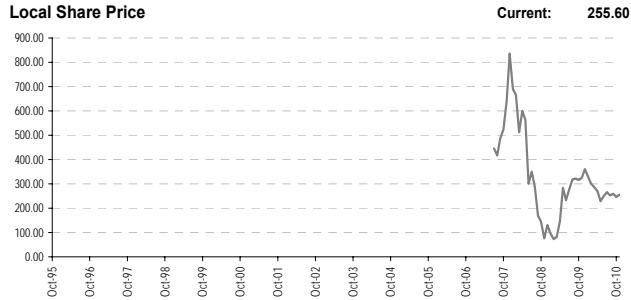
Profit and Loss statement					Cash flow statement				
Rs in millions, year-end Mar.	FY09A	FY10	FY11E	FY12E		FY09A	FY10	FY11E	FY12E
Revenues	17,284	15,021	20,479	31,357	EBIT	7,699	7,169	10,561	15,478
% change Y/Y	-27%	-13%	36%	53%	Depreciation & amortisation	83	723	723	723
EBITDA	7,782	7,892	11,284	16,201	Change in working capital	(18,246)	(15,452)	(16,443)	(1,763)
% change Y/Y	-50%	1%	43%	44%	Taxes	(1,922)	(1,329)	(1,329)	(1,832)
EBITDA Margin (%)	45%	53%	55%	52%	Other Income	529	345	345	1,025
EBIT	7,699	7,169	10,561	15,478	Cash flow from operations	(11,857)	(8,545)	(6,143)	13,631
% change Y/Y	-50%	-7%	47%	47%	Capex	(540)	(3,410)	423	(59)
EBIT Margin (%)	45%	48%	52%	49%	Change in investments	576	(62)	-	-
Net financial income	(582)	(462)	(811)	(241)	Interest	(582)	(462)	(811)	(241)
Earnings before tax	7,657	7,052	10,776	15,928	Free cash flow	(12,974)	(11,893)	(5,720)	13,572
% change Y/Y	-52%	-8%	53%	48%	Equity raised/ (repaid)	-	16,800	13,356	5,356
Tax	(943)	(1,329)	(1,832)	(3,663)	Debt raised/ (repaid)	10,306	(416)	(14,000)	(19,000)
as % of EBT	12%	19%	17%	23%	Dividends paid	(229)	(286)	(345)	(366)
Net Income (adjusted)	6,714	5,722	8,944	12,264	Beginning cash	3,505	755	7,918	1,427
% change Y/Y	-52%	-15%	56%	37%	Ending cash	755	7,918	1,427	(3,961)

Balance sheet					Ratio Analysis				
	FY09A	FY10	FY11E	FY12E	%, year-end Mar	FY09A	FY10	FY11E	FY12E
Cash and Bank Balance	755	7,918	1,427	-3,961	EBITDA margin	45%	53%	55%	52%
Debtors	1,669	2,030	2,404	2,644	EBIT margin	45%	48%	52%	49%
Inventories	69,128	87,567	106,234	123,779	Net profit margin	39%	38%	44%	39%
Loans and Advances	17,097	15,677	27,677	29,677	Sales growth	-27%	-13%	36%	53%
Current assets	88,649	113,191	137,741	152,139	EBITDA Growth	-50%	1%	43%	44%
Total Investments	2,491	2,429	2,429	2,429	Net profit growth	-52%	-15%	56%	37%
Net fixed assets	1,228	4,638	4,215	4,274	Interest coverage (x)	13.4	17.1	13.9	67.4
Liabilities	6,509	8,436	23,033	41,055	Debt to Equity	94%	58%	29%	7%
Provisions	184	325	325	325	Net debt to equity	92%	47%	27%	11%
Total current liabilities	6,693	8,761	23,358	41,380	ROE	17%	10%	11%	12%
Total assets	92,375	120,270	144,397	158,853	ROCE	9%	6%	7%	8%
Total debt	41,433	41,017	27,017	8,017					
Total liabilities	48,156	49,841	50,406	49,428					
Shareholders' equity	44,218	70,429	93,991	109,425					

Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile
Housing Development & Infrastructure Ltd. (INDIA / Financials)
 As Of: 04-Nov-2010

Global Equity Quantitative Analysis
 Quant_Strategy@jpmorgan.com



Summary

Housing Development & Infrastructure Ltd.		SEDOL		B1RPZ09		As Of: 4-Nov-10					
INDIA						Local Price: 255.60					
Financials						EPS: 27.92					
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	9.16x	1.48	18.75	9.81	9.96	19.95	-0.03	-84%	105%	7%	9%
P/BV (Trailing)	1.30x	0.51	26.33	1.88	5.01	19.12	-9.09	-61%	1922%	44%	285%
Dividend Yield (Trailing)	0.00	0.00	5.30	0.00	0.69	3.48	-2.11				
ROE (Trailing)	9.98	9.98	119.03	64.46	59.25	136.96	-18.47	0%	1092%	546%	493%
Implied Value of Growth	15.7%	-4.44	0.57	0.20	-0.24	1.98	-2.45	-2926%	264%	26%	-250%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

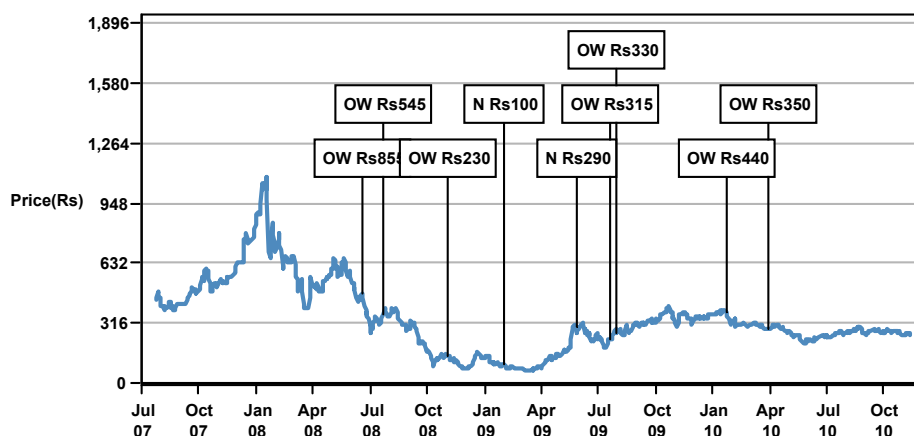
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Housing Development and Infrastructure Ltd. (HDIL) (HDIL.BO) Price Chart



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	267.85	330.00
20-Jan-10	OW	371.15	440.00
30-Mar-10	OW	286.20	350.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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