

Housing Development & Infrastructure **BUY**

Maintained

Rs372

TDRs all the way

Reason for report: Q3FY10 results review

Housing Development & Infrastructure's (HDIL) Q3FY10 results were impressive – revenues rose 15.6% QoQ to Rs4.1bn (l-Sec: Rs3.9bn) and PAT increased 9.5% QoQ to Rs1.6bn (l-Sec: Rs1.6mn). Earnings were driven by strong TDR sales (1.5mn sqft at Rs2,500/sqft) led by 15% QoQ uptick in prices. Through 9MFY10 HDIL launched ~3.3mn sqft of residential projects (~90% sold) and plans to launch another 2.75mn sqft in the next two quarters. The company's 4.5mn sqft commercial space in Virar (60% sold), Kurla (20% pre-leased) and Andheri (retail space pre-leased) has received good response. Airport project, Phase I, is expected to be completed by April '10 and development will start on five additional sites. HDIL is focussed towards faster execution and is expanding in premium slum rehabilitation scheme (SRS) projects, particularly in South Mumbai. Watch out for continued momentum in TDR sales and project launches (residential & SRS). Further, HDIL would require additional funding of ~Rs15bn for airport project (Rs7bn), Virar rental housing scheme (Rs4bn) and commercial developments (Rs4bn). Accumulate at dips; maintain BUY with Rs414 target price.

- **Revenues surge, but margin under pressure.** Revenues rose 15.6% QoQ to Rs4.1bn; however, EBITDA margin declined to 46% (51% in Q2FY10) due to lower margins on land sale (Rs0.4bn) and higher construction cost. TDR price rose 15% at Rs2,500/sqft. We expect TDR sales realisations to be stable at the current levels. Till date, HDIL has sold 7.5mn sqft TDRs and 2.5mn sqft is unsold in Phase1.
- **Strong demand across new projects.** Owing to strong residential demand, HDIL sold ~90% of its 3.3mn sqft residential launches in the past nine months, with a project pipeline of ~2.75mn sqft. Also, HDIL received approvals to launch Virar project, wherein it is likely to generate ~48mn sqft FSI in the next 5-6 years. HDIL's 4.5mn sqft of commercial space in Virar (60% sold), Kurla (20% pre-leased at Rs65-75/sqft) & Andheri (retail space pre-leased at Rs120/sqft) has received good response.
- **Focus on execution and SRS projects.** HDIL is focussing on faster execution of its residential & commercial projects. Phase I of the airport project will be completed in April '10 and five sites have been identified for Phase II (~28,000 tenements). The company is exploring opportunities in premium SRS & redevelopment projects in South Mumbai & Worli. Commercial project of 6mn sqft in Kochi has been converted into SEZ and in-principal approval is in place.

Market Cap	Rs138bn/US\$3.0bn
Reuters/Bloomberg	HDIL.BO/HDIL IN
Shares Outstanding (mn)	372
52-week Range (Rs)	411/63
Free Float (%)	51.7
FII (%)	28.4
Daily Volume (US\$'000)	103,440
Absolute Return 3m (%)	(7.8)
Absolute Return 12m (%)	274.5
Sensex Return 3m (%)	2.7
Sensex Return 12m (%)	99.0

Year to March	FY09	FY10E	FY11E	FY12E
Revenue (Rs mn)	17,284	14,914	21,213	39,586
Net Income (Rs mn)	7,865	5,979	7,994	15,753
EPS (Rs)	21.2	16.1	21.5	42.4
% Chg YoY	(44.2)	(24.0)	33.7	97.1
P/E (x)	17.6	23.1	17.3	8.8
CEPS (Rs)	21.3	16.3	21.9	42.8
EV/E (x)	23.0	24.1	16.3	7.7
Dividend Yield	0.0	0.0	0.5	0.8
RoCE (%)	11.0	6.9	8.0	13.9
RoE (%)	19.4	10.5	10.7	17.9

Real Estate

Target price Rs414

Target price revision

Rs414 from 387

Shareholding pattern

	Jun '09	Sep '09	Dec '09
Promoters	60.7	48.4	48.3
Institutional investors	8.3	28.8	30.5
MFs and UTI	1.1	2.6	2.1
Insurance Cos.	0.1	0.1	0.1
FII	7.0	26.0	28.4
Others	31.1	22.9	21.2

Source: NSE

Price chart

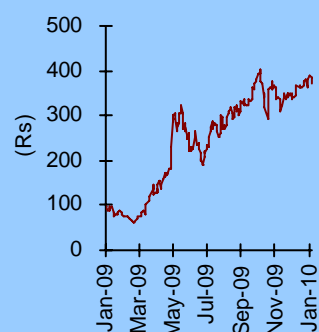
**Gaurav Pathak**gaurav.pathak@icicisecurities.com
+91 22 6637 7339**Shaleen Silori**shaleen.silori@icicisecurities.com
+91 22 6637 7188

Table 1: Q3FY10 results review*(Rs mn, year ending March 31)*

	Q3FY10	Q3FY09	% chg (YoY)	Q2FY10	% chg (QoQ)
Gross sales	4,089	3,138	30.3	3,537	15.6
Excise duty					
Net Sales	4,089	3,138	30.3	3,537	15.6
Other operating income					
Total Operating income	4,089	3,138	30.3	3,537	15.6
Raw Materials	1,280	1,855	(31.0)	1,515	(15.5)
Personnel Cost	73	50		56	
Research & Development					
Other Expenses	848	283		169	
Total Expenses	2,201	2,188	0.6	1,740	26.5
EBITDA	1,888	950	98.7	1,797	5.1
Interest (Net)	190	142	34.4	185	2.8
Depreciation	12	18	(35.0)	9	24.5
Other Income	266	209	27.0	274	(2.8)
Recurring pre-tax income	1,952	1,000	95.2	1,876	4.0
Taxation	324	244	33.1	390	(16.9)
Recurring Net Income	1,628	757	115.1	1,486	9.5
Extraordinary item		(1,092)			
Reported Net income	1,628	1,849	(12.0)	1,486	9.5

Source: Company data, I-Sec Research

Valuations

We raise HDIL's FY10E NAV to Rs487/share (Rs177bn) from Rs455/share, based on 10% increase in TDR prices. Our target price is Rs414/share based on 15% discount to NAV. We factor in TDR prices of Rs2,200/sqft for FY11E versus the current price of ~Rs2,500/sqft, providing significant comfort to our valuations. We believe TDR prices will remain stable in the short term; however, any further uptick may lead to NAV upgrade. HDIL has been able to showcase better-than-expected progress in the Mumbai Airport SRS, with Phase I nearing completion within the scheduled timeframe.

Table 2: NPV/share calculation*(NPV Rs/share)*

Projects	Latest
Land bank	178
Mumbai airport SRS project	284
SEZ Vasai Virar	17
SEZ Bhyander	3
DS Construction	5
Total NAV	487
Target Price	414

Source: I-Sec Research

HDIL trades at FY11E & FY12E P/E of 17.3x and 8.8x and FY11E P/BV of 1.8x. We believe at lower levels, the stock can be accumulated at a target price of Rs414.

HDIL's balance sheet is healthy at 0.5x DE ratio; it has repaid ~Rs14bn loans, with no outstanding principal till mid-CY10E. Also, there are no significant land payments outstanding. This has helped HDIL reduce its annual interest payment by ~Rs2bn. The company's debt and cash position, as on Q3FY10, is Rs33.5bn and Rs1bn respectively. It also issued Rs4bn NCDs at 12% interest rate and is looking to issue another Rs12bn.

Financial Summary

Table 3: Profit and Loss Statement

(Rs mn., year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Income (Sales)	17,284	14,914	21,213	39,586
of which Domestic	17,284	14,914	21,213	39,586
Operating Expenses	9,487	7,788	10,847	18,775
EBITDA	7,797	7,126	10,366	20,811
% margins	45.1	47.8	48.9	52.6
Depreciation & Amortisation	41	66	137	162
Gross Interest	582	745	739	765
Other Income	540	975	259	312
Recurring PBT	7,715	7,292	9,749	20,197
Less: Taxes	(151)	1,312	1,755	4,443
- Current tax	(151)	0	0	0
Net Income (Reported)	7,865	5,979	7,994	15,753
Recurring Net Income	7,865	5,979	7,994	15,753

Source: Company data, I-Sec Research

Table 4: Balance Sheet

(Rs mn., year ending March 31)

	FY09	FY10E	FY11E	FY12E
Assets				
Total Current Assets	88,673	108,901	139,455	148,384
of which cash & cash eqv.	752	1,453	1,734	4,513
Total Current Liabilities & Provisions	6,296	10,690	33,029	33,103
Net Current Assets	82,377	98,211	106,426	115,281
Investments				
of which	3,029	3,332	3,665	4,032
Strategic/Group	3,029	3,332	3,665	4,032
Other Marketable	0	0	0	0
Net Fixed Assets	728	2,162	2,425	2,663
Capital Work-in-Progress	147	1,029	606	521
Total Assets	86,134	103,705	112,517	121,976
Liabilities				
Borrowings	41,433	34,933	31,933	26,933
Deferred Tax Liability	24	24	24	24
Equity Share Capital	2,755	3,718	3,718	3,718
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	41,922	65,029	76,841	91,300
Net Worth	44,676	68,748	80,559	95,019
Total Liabilities	86,134	103,705	112,517	121,976

*Excluding revaluation reserves; # = not written off

Source: Company data, I-Sec Research

Table 7: Quarterly trend

(Rs mn., year ending March 31)

	Mar-09	Jun-09	Sep-09	Dec-09
Net sales	3,579	2,954	3,537	4,089
% growth (YoY)	(63.3)	(48.2)	20.8	16.6
EBITDA	965	1,161	1,797	1,888
Margin (%)	27.0	39.3	50.8	46.2
Other income	309	233	274	266
Add: Extraordinaries	0	0	0	0
Net profit	619	1,075	1,486	1,628

Source: Company data, I-Sec Research

Table 5: Cashflow Statement

(Rs mn., year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Cash flow	5,818	5,106	7,915	15,655
Working Capital Changes	(18,794)	(15,169)	(7,977)	(6,129)
Capital Commitments	(1,075)	(1,803)	(733)	(767)
Free Cash Flow	(14,051)	(11,867)	(795)	8,760
Cash flow from Investing Activities	540	975	259	312
Issue of Share Capital	612	964	0	0
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	10,306	(6,500)	(3,000)	(5,000)
Dividend paid	0	0	(863)	(1,294)
Extraordinary Items	0	0	0	0
Chg. in Cash & Bank balance	(2,742)	701	282	2,778

Source: Company data, I-Sec Research

Table 6: Key Ratios

(Year ending March 31)

	FY09	FY10E	FY11E	FY12E
Per Share Data (Rs)				
EPS(Basic Recurring)	21.2	16.1	21.5	42.4
Diluted Recurring EPS	21.2	16.1	21.5	42.4
Recurring Cash EPS	21.3	16.3	21.9	42.8
Dividend per share (DPS)	0.0	0.0	2.0	3.0
Book Value per share (BV)	120.1	184.9	216.6	255.5
Growth Ratios (%)				
Operating Income	(27.4)	(13.7)	42.2	86.6
EBITDA	(53.8)	(8.6)	45.5	100.8
Recurring Net Income	(44.2)	(24.0)	33.7	97.1
Diluted Recurring EPS	(44.2)	(24.0)	33.7	97.1
Diluted Recurring CEPS	(44.0)	(23.5)	34.5	95.7
Valuation Ratios (x)				
P/E	17.6	23.1	17.3	8.8
P/CEPS	17.5	22.9	17.0	8.7
P/BV	3.1	2.0	1.7	1.5
EV / EBITDA	23.0	24.1	16.3	7.7
EV / Operating Income	10.4	11.5	7.9	4.1
EV / Operating FCF	(12.7)	(14.5)	(212.0)	18.4
Operating Ratio				
Raw Material/Sales (%)	50.5	32.4	36.5	38.8
SG&A/Sales (%)	3.1	18.0	13.3	7.8
Other Income / PBT (%)	7.0	13.4	2.7	1.5
Effective Tax Rate (%)	(2.0)	18.0	18.0	22.0
NWC / Total Assets (%)	94.8	93.3	93.0	90.8
Inventory Turnover (days)	2,400	5,233	4,009	2,300
Receivables (days)	23.4	56.1	66.9	52.0
Payables (days)	212.2	388.7	727.5	637.3
D/E Ratio (x)	0.9	0.5	0.4	0.3
Return/Profitability Ratio (%)				
Recurring Net Income Margins	44.1	37.6	37.2	39.5
RoCE	11.0	6.9	8.0	13.9
RoNW	19.4	10.5	10.7	17.9
Dividend Payout Ratio	0.0	0.0	9.3	7.1
Dividend Yield	0.0	0.0	0.5	0.8
EBITDA Margins	45.1	47.8	48.9	52.6

Source: Company data, I-Sec Research

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)

BUY: +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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