

May 22, 2008

BUY

Price	Target Price
Rs812	Rs.1,186

Sensex	17,243
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Price Performance

(%)	1M	3M	6M	12M
Absolute	13	(4)	14	0
Rel. to Sensex	10	0	23	0

Stock Details

Sector	Real Estate
Reuters	HDIL.BO
Bloomberg	HDIL@IN
Equity Capital (Rs mn)	2,143
Face Value	Rs10
52 Week H/L	1,432/474
Market Cap (Rs bn)	174
Daily Avg Volume (No of shares)	3319603
Daily Avg Turnover (US\$)	55.0

Shareholding Pattern (%)

(30th Sep.'07)

Promoters	61.5
FII	11.3
Institutions	1.3
Private Corp.	17.7
Public	8.2

Source: *Captialine***Amit Adesara**amit.adesara@emkayshare.com

+91 22 6612 1241

Naveen Jainnaveen.jain@emkayshare.com

+91 22 6612 1289

HDIL**Results marginally below expectation**

Result Update

Housing Development and Infrastructures Ltd. (HDIL) reported its Q4FY08 results which were slightly below of our expectations. Revenue for the quarter stood at Rs.9.75bn as compared to Rs.4.9bn during Q3FY08. Large portion of the revenue was driven by revenue booking of the Kaledonia property that the company sold during the quarter. HDIL had sold the property in February 2008 for a consideration of Rs.9bn. Operating profit during the quarter stood at Rs.8.6bn. For FY08, the company has reported revenue of Rs.23.8bn and net profit of Rs.13.8bn. The company has made significant progress in the Mumbai airport slum rehabilitation project and has acquired 55 acres of land from IL&FS. Construction work for the rehabilitation is expected to begin from Q1FY09 onwards and we expect the company to start receiving TDR for the same. The company has 22 ongoing projects with total developable area of 88mnsqft. We expect the company to report revenue of Rs.45.7bn in FY09 and net profit of Rs.18.9bn. We maintain our target price of Rs.1,186, at par with our NAV estimate.

Mumbai Airport Slum Rehabilitation projects making progress

HDIL has acquired 55 acres of land for the slum rehabilitation and expects to start development work from Q1FY09. We expect the company to start receiving the TDR from Q1FY09, initially for the land acquired and sub sequentially for the rehabilitation of the slum dwellers. The company estimates rehabilitation of 20,000-22,000 slum dwellers during the first phase.

Increase in debt due to land payment

During FY08, the company had debt of Rs.31.2bn as compared to Rs.16.85bn during Q3FY08. Increase in debt is due to funds raised for land acquisition for the slum rehabilitation project. We believe, debt equity ratio for HDIL will remain stretched till the time the company starts generating TDR and encash the same by selling it in the open market.

Increase in inventory suggests ramp up in the construction activity

Unlike other developers, HDIL follows revenue recognition method on 100% completion method. Therefore, just looking at the P&L statement may not suggest the strong ramp up in properties under development. We believe inventory levels would be the correct way to judge the properties under development. Inventory for the company has increased from Rs.28.4bn in Q3FY08 to Rs.51bn, suggesting strong ramp up.

Further land acquired for the SEZ project

HDIL intends to develop a 5,000 acre of SEZ in the outskirts of Mumbai. In the initial phase it intends to develop a 2,500 multi-product SEZ and has acquired 2,300 acres of land. The company intends to acquire 200 acres very soon and apply for the final approval for the SEZ.

Dharavi project – Another trigger

Dharavi is amongst the largest slums in the world. Spread over 550 acres, it houses 75,000 slum units and large industrial units as well. Mumbai Metropolitan Regional Authority (MMRDA) has short listed 19 bidders and has invited financial bids from the short listed candidate. There would be five short listed developers who would be given five different circles for rehabilitation. We believe having a long experience in the SRS project; HDIL stands a good chance to bag the project. Though, due to lack of clarity we haven't estimated the NAV accretion for HDIL, Dhavari project could further provide upside to our NAV estimate.

Diversification into Oil & Gas segment

HDIL has floated a subsidiary to enter into the oil & gas segment. The company intends to bid for the forthcoming NELP VII blocks and have tie-up with international operators as well. However, the company has still not mapped the long term plans as the concept is still in the initial phase.

Quarterly results

Y/E Mar, Rs. mn	Q3FY08	Q4FY08	FY08
Net sales	4,966.2	9,755.8	23,803.7
Expense	1,646.3	1,080.3	6,882.4
Cost of construction / development	11,076.6	24,552.9	47,039.9
(Inc)/Dec in stock in trade	-9,505.9	-23,598.2	-40,530.9
Employee Cost	30.4	45.6	122.4
Other expenditure	45.2	80.0	251.0
EBITDA	3,319.9	8,675.5	16,921.3
Operating Margin (%)	66.8	88.9	71.1
Other Income	198.9	136.4	529.2
PBITDA	3,518.8	8,811.9	17,450.5
Depreciation	3.5	13.1	22.3
PBIT	3,515.3	8,798.8	17,428.2
Interest	441.1	975.4	1,676.7
PBT	3,074.2	7,823.4	15,751.5
Tax including FBT	371.9	1,016.8	1,922.0
Deferred Tax	0.0	0.0	0.0
Total Tax	371.9	1,016.8	1,922.0
Tax %	12.1	13.0	12.2
Reported PAT	2,702.3	6,806.6	13,829.5
Equity Capital	2,142.7	2,142.7	2,142.7
EPS	12.61	31.76	66.32

Source: Emkay Research

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Emkay Share and Stock Brokers Ltd.,
Paragon Center, Ground Floor, C-6
Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299