

HDIL

Performance Highlights

HDIL reported 4QFY2010 results, which were marginally above our expectations. Revenue was largely driven by TDR sales of around 1.48mn sq ft generated from its Mumbai International Airport (MIAL) project at Rs2,700/ sq ft. Further, around 4.7mn sq ft of Residential projects launched since FY2009 have been pre-sold to the extent of 75% providing Rs2,600cr of Revenue visibility over FY2010-12E. The company intends to launch another 5-6mn sq ft and maintains its annual guidance of 5-6mn sq ft of TDR sale in FY2011E. The company's Net Debt to Equity stands at 0.47x as on date, with unpaid land cost of Rs600cr to be paid over the next two years. The stock has severely underperformed over the last three months due to group-level issues and delays in the MIAL project. The management has categorically mentioned that relocation of families for Phase I of the MIAL project will be sorted out over the next three months. **We maintain a Buy on the stock though we have increased our discount to NAV from 10% to 25% to factor in group related issues.**

Higher TDR prices drive Profitability: Revenues for 4QFY2010 increased 6.2% qoq (up 21.3% yoy) to Rs434cr on TDR sales of around 1.48mn sq ft generated from its MIAL project at an average realisation of Rs2,700/sq ft v/s Rs2,500/sq ft in 3QFY2010. EBITDA Margin came in at 52.3%, up by 615bp qoq due to higher TDR prices. Interest cost (including project specific interest) for 4QFY2010 grew 23.2% qoq to Rs142cr on increasing debt. Tax rate for 4QFY2010 stood at 20.5% as against 16.6% in 3QFY2010. Consequently, PAT grew 9.3% qoq and 187.2% yoy to Rs177.8cr.

Outlook and Valuation: HDIL is the largest listed slum rehabilitation developer in the most resilient Mumbai market, which contributes a substantial 71% of our GNAV. Smooth execution of the Rs200bn MIAL project, sustainable TDR prices and successful new launches via the conventional method provide strong visibility for HDIL. We maintain our TDR price assumption of Rs2,000/sq ft for the MIAL project in anticipation of increase in FSI from 1 to 1.33. The stock is currently trading at 43% discount to our 1-year forward NAV. We maintain our Buy recommendation on the stock, with a Target Price of Rs302, which is at 25% discount to our 1-year forward NAV.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	1,750	1,502	1,775	3,106
% chg	(26.9)	(14.2)	18.2	75.0
Net Profit	786	567	711	1,293
% chg	(44.3)	(27.9)	25.5	81.8
EBITDA Margin (%)	21.1	15.2	19.1	34.8
FDEPS (Rs)	45.8	52.5	49.1	52.4
P/E (x)	10.8	15.0	12.0	6.6
P/BV (x)	1.4	1.2	1.1	0.9
RoE (%)	19.5	9.9	9.5	15.2
RoCE (%)	10.4	7.3	7.5	13.1
EV/Sales (x)	6.8	7.5	6.1	3.3
EV/EBITDA (x)	15.0	14.2	12.4	6.4

Source: Company, Angel Research

BUY

CMP	Rs229
Target Price	Rs302

Investment Period	12
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Stock Info

Sector	Real Estate
Market Cap (Rs cr)	8,214
Beta	1.9
52 WK High / Low	411/179
Avg. Daily Volume	3375443
Face Value (Rs)	10
BSE Sensex	16,863
Nifty	5,067
Reuters Code	HDIL.BO
Bloomberg Code	HDIL@IN

Shareholding Pattern (%)

Promoters	50.2
MF/Banks/Indian FIs	15.4
FII/NRIs/OCBs	28.1
Indian Public	6.3

Abs. (%)	3m	1yr	3yr
Sensex	2.6	18.0	6.9
HDIL	(24.0)	(16.9)	(52.7)*

*Since listing on July 26, 2007

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Exhibit 1: 4QFY2010 Performance (Standalone)

(Rs cr)	4QFY09	3QFY10	4QFY10	% YoY	% QoQ
Revenues	358	409	434	21.3	6.2
Total expenditure	261	220	207	(20.8)	(6.0)
EBIDTA	97	189	227	135.3	20.3
EBIDTA margin (%)	27.0	46.2	52.3	2,535bps	615bps
Depreciation	1	1	2	141.6	83.8
Net Interest	30	19	25	(17.4)	28.8
Other income	31	27	30	(1.7)	14.3
PBT	97	195	231	138.3	18.3
Tax	35	32	47	35.6	46.1
Tax rate (%)	36.1	16.6	20.5	(1556bp)	391bps
Adjusted PAT	62	163	183	196.3	12.7
PAT margin (%)	17.3	39.8	42.3	2,497bps	246bps
EO Items/Prior items	0	0	(6)		
Reported PAT	62	163	178	187.2	9.3
Number of shares (m)	35.9	35.9	35.9		
EPS (Rs)	1.7	4.5	5.0		

Source: Company, Angel Research

New launches have been rewarding

HDIL has strategically de-leveraged its business model by launching various projects through the conventional route since March 2009 thereby reducing its overdependence on the TDR market. It has been able to pre-sell 75% of the Residential projects (4.7mn sq ft) launched since FY2009 thereby providing Rs2,600cr of Revenue visibility over FY2010-12E. It has even managed to pre-lease 20% of its Commercial launches at its Andheri (Metropolis) project for Rs140/sq ft. The company's recent launches have been successful on account of being launched at 10-20% discount to the prevailing market prices. Management has indicated that it would be adopting the same strategy for its forthcoming launches as well. In FY2011E, HDIL plans to launch new projects (Siddharth Nagar-Goregaon, Ekta Nagar-Kandivali, Pant Nagar- Ghatkopar, etc) constituting another 5-6mn sq.ft.

Exhibit 2: Launching projects through conventional route

Project	Location	Saleable area (mn sqft)	Sold/ lease	Average sales rate (Rs/ sq ft)
Residential				
Galaxy	Kurla (E)	0.47	> 90%	4,500
Premier	Kurla (W)	1.00	> 95%	5,700
Metropolis	Andheri (W)	0.65	> 95%	9,000
Majestic	Bhandup	1.30	> 40%	6,500
Residency Park	Virar	1.25	> 75%	2,600
Harmony	Goreagon	0.07	> 95%	8,451
Commercial				
Premier	Kurla (W)	2.00		
Metropolis	Andheri (W)	1.02	20%	Rs 140/sq ft
HDIL Industrial Park	Virar	1.50	>90%	
Harmony	Goregaon (W)	0.04	>75%	
Total		9.30		

Source: Company, Angel Research

Relocation of families over next three months, Phase II to start by June, 10

The relocation of 20,000 families in Phase I MIAL project got delayed owing to water crisis in Mumbai. However, management has indicated to sort out things over the next three months regards which families will be relocated. Further, Phase II construction work for rehab of another 25,000 families is expected to start within the next two months for which land has already been acquired. Management maintains its annual guidance of 5-6mn sq ft of TDR sale from the MIAL project in FY2011E.

De-leveraging hinges on timely MIAL execution and successful new launches

During the quarter, HDIL promoters converted 1.3cr of warrants resulting in cash inflow of Rs187cr. It also raised Rs1,375cr from a fresh NCD issue in FY2010, following an improved CARE A+ rating. This enabled HDIL to repay its high-cost existing NCDs and reduce overall cost of borrowings by 50-100bp to 12%. We believe that the new launches and monetisation of the MIAL project will generate enough cash flows, which will help further reduce debt. Any delay in the MIAL project or substantial fall in TDR prices may increase the debt funding requirement.

De-promoterisation could hurt stock performance

The HDIL stock price has fallen by 25% over the last three months on account of certain existing promoters pulling out from management control and day-to-day operations. Consequently, promoter holding has declined to 42.3% from 51.3% earlier. It still remains unclear whether the out going promoters will remain shareholders or not. Further, the out going promoters have started launching their own projects under different banners. Hence, we have assigned 25% discount to our NAV estimate to factor in Group-related issues.

Outlook and Valuation

HDIL is the largest listed slum rehabilitation developer in the most resilient Mumbai market, which contributes a substantial 71% of our GNAV. Smooth execution of the Rs200bn MIAL project, sustainable TDR prices and successful new launches via the conventional method provides strong visibility for HDIL. We maintain our TDR price assumption of Rs2,000/sq ft for its MIAL project in anticipation of increase in FSI from 1 to 1.33. Further, HDIL seeks to de-leverage its Balance Sheet on the back of expected high Revenue inflow from the MIAL project and the recent low-cost Rs1,375cr fresh NCD issue, which will reduce its net gearing to 0.27x in FY2012E from current levels of 0.47x. The stock is currently trading at 43% discount to our 1-year forward NAV. **We maintain a Buy on the stock, with a Target Price of Rs302, which is at 25% discount to our 1-year forward NAV.**

Exhibit 3: Valuation Summary

1 Yr forward NAV	(Rs per share)
MIAL (Airport FSI & TDR)	180
Residential	171
Commercial	117
Other SRS	109
Retail	35
Total	611
Less	
Net Debt	(95)
Unpaid land cost & Customer advances	(32)
Tax	(82)
NAV/share (Rs)	402
Target Price (Rs) 25% discount to NAV	302

Source: Company, Angel Research

Profit & Loss Statement (Consolidated)						(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	1,214	2,395	1,750	1,502	1,775	3,106
Other operating income	-	-	-	-	-	-
Total operating income	1,214	2,395	1,750	1,502	1,775	3,106
% chg	179.2	97.2	(26.9)	(14.2)	18.2	75.0
Total Expenditure	(593)	(825)	(949)	(713)	(904)	(1,479)
Cost of construction	(513)	(633)	(299)	(141)	(378)	(956)
Other operating expenditure	(51)	(136)	(537)	(477)	(410)	(370)
Personnel	(8)	(12)	(22)	(29)	(35)	(46)
Administrative Exps.	(22)	(44)	(91)	(66)	(81)	(107)
EBITDA	621	1,570	802	789	871	1,628
% chg	362.8	152.8	(48.9)	(1.6)	10.3	86.9
(% of Net Sales)	51.1	65.5	45.8	52.5	49.1	52.4
Depreciation & Amortisation	(1)	(1)	(4)	(72)	(17)	(27)
EBIT	620	1,568	798	717	854	1,600
% chg	364.4	152.9	(49.1)	(10.1)	19.2	87.3
(% of Net Sales)	51.1	65.5	45.6	47.7	48.1	51.5
Interest & other Charges	(5)	(4)	(58)	(46)	(78)	(74)
Other Income	10	38	32	35	113	90
(% of PBT)	2	2	4	5	13	6
Recurring PBT	625	1,602	771	705	889	1,616
% chg		156.3	(51.8)	(8.6)	26.1	81.8
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	625	1,602	771	705	889	1,616
Tax	(77)	(192)	(94)	(133)	(178)	(323)
(% of PBT)	12.3	12.0	12.2	18.9	20.0	20.0
PAT (reported)	548	1,410	677	572	711	1,293
Add: Share of earnings of associate	-	-	-	-	-	-
Less: Minority interest (MI)	0	(0)	(1)	(0)	-	-
Prior period items & others	-	(0)	109	(6)	-	-
PAT after MI (reported)	548	1,410	786	567	711	1,293
ADJ. PAT	548	1,410	677	567	711	1,293
% chg	367.2	157.3	(52.0)	(16.3)	25.5	81.8
(% of Net Sales)	45.1	58.9	38.7	37.7	40.1	41.6
Basic EPS (Rs)	25.6	65.8	28.5	15.8	19.1	34.8
Fully Diluted EPS (Rs)	14.7	37.9	21.1	15.2	19.1	34.8
% chg	367.2	157.3	(44.2)	(27.9)	25.5	81.8

Balance Sheet (Consolidated)						(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	180	214	275	359	372	372
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	554	3,427	4,146	6,708	7,555	8,764
Shareholders Funds	734	3,642	4,422	7,067	7,927	9,136
Minority Interest	-	-	-	-	-	-
Total Loans	376	3,113	4,143	4,102	3,702	3,702
Deferred Tax Liability	1	2	2	2	2	2
Total Liabilities	1,111	6,756	8,568	11,171	11,631	12,840
APPLICATION OF FUNDS						
Gross Block	27	58	65	235	483	700
Less: Acc. Depreciation	2	3	6	78	95	122
Net Block	25	54	60	157	388	578
Capital Work-in-Progress	0	5	15	45	45	45
Goodwill	2	9	48	259	259	259
Investments	158	191	249	243	243	243
Current Assets	1,782	7,241	8,865	11,343	12,414	13,596
Cash	6	351	75	810	817	1,252
Loans & Advances	141	1,311	1,710	1,573	1,573	1,809
Other	1,636	5,580	7,080	8,960	10,024	10,535
Current liabilities	859	748	669	876	1,718	1,881
Net Current Assets	923	6,493	8,196	10,467	10,696	11,715
Mis. Exp. not written off	2	2	(0)	-	-	-
Total Assets	1,111	6,756	8,568	11,171	11,631	12,840

Cash Flow Statement (Consolidated)						(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax	625	1,602	771	705	889	1,616
Depreciation & others	(2)	(46)	15	113	95	101
Change in Working Capital	(754)	(5,345)	(1,823)	(1,550)	(307)	(584)
Less: Other income	10	38	32	35	113	90
Direct taxes paid	(20)	(164)	(63)	(133)	(178)	(323)
Cash Flow from Operations	(161)	(3,991)	(1,132)	(900)	387	720
Inc./ (Dec.) in Fixed Assets	(62)	(45)	(62)	(200)	(248)	(217)
Inc./ (Dec.) in Investments	-	(23)	(57)	6	-	-
Other income	11	39	32	(163)	113	90
Cash Flow from Investing	(50)	(29)	(88)	(356)	(135)	(126)
Issue of Equity	(1)	1,712	-	2,078	234	-
Inc./ (Dec.) in loans	179	2,737	1,031	(42)	(400)	-
Dividend Paid (Incl. Tax)	-	(49)	(75)	-	-	(85)
Others	(4)	(35)	(11)	(46)	(78)	(74)
Cash Flow from Financing	174	4,365	944	1,991	(244)	(159)
Inc./ (Dec.) in Cash	(38)	345	(275)	735	7	435
Opening Cash balances	44	6	351	75	810	817
Closing Cash balances	6	351	75	810	817	1,252

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	15.5	6.1	10.8	15.0	12.0	6.6
P/CEPS	15.5	6.0	12.5	13.3	11.7	6.4
P/BV	6.7	1.3	1.4	1.2	1.1	0.9
Dividend yield (%)	0.2	2.2	-	-	0.9	0.9
EV/Sales	6.8	4.5	6.8	7.5	6.1	3.3
EV/EBITDA	13.4	6.8	15.0	14.2	12.4	6.4
EV / Total Assets	4.2	1.4	1.3	0.9	0.8	0.7
Per Share Data (Rs)						
EPS (Basic)	25.6	65.8	28.5	15.8	19.1	34.8
EPS (fully diluted)	14.7	37.8	21.1	15.2	19.1	34.8
Cash EPS	14.8	38.0	18.3	17.2	19.6	35.5
DPS	0.5	5.0	-	-	2.0	2.0
Book Value	34.3	169.9	160.5	190.0	213.2	245.7
Dupont Analysis						
EBIT margin	51.1	65.5	45.6	47.7	48.1	51.5
Tax retention ratio	0.9	0.9	0.9	0.8	0.8	0.8
Asset turnover (x)	1.9	0.6	0.2	0.2	0.2	0.3
ROIC (Post-tax)	85.9	36.8	9.4	6.2	6.5	11.4
Cost of Debt (Post Tax)	10.5	11.0	12.3	10.5	9.6	9.6
Leverage (x)	0.3	0.8	0.9	0.7	0.5	0.4
Operating ROE	109.3	57.3	6.8	3.1	4.9	12.2
Returns (%)						
ROCE (Pre-tax)	83.0	39.9	10.4	7.3	7.5	13.1
Angel ROIC (Pre-tax)	98.0	41.8	10.7	7.6	8.1	14.3
ROE	59.5	64.5	16.8	9.9	9.5	15.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	74	57	28	10	5	5
Inventory / Sales (days)	271	522	1,297	1,904	1,895	1,161
Receivables (days)	59	28	23	45	57	47
Payables (days)	180	104	128	182	251	198
WC cycle (ex-cash) (days)	178	538	1,487	2,160	2,009	1,195
Solvency ratios (x)						
Net debt to equity	0.5	0.8	0.9	0.5	0.4	0.3
Net debt to EBITDA	0.6	1.9	15.4	10.5	6.3	1.9
Interest Coverage (EBIT / Interest)	10.1	10.2	0.4	0.5	0.9	2.8

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Disclosure of Interest Statement	HDIL
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel and its Group companies.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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