



## Housing Development and Infrastructure

### IPO Fact Sheet

#### Issue details

Issue opens	: June 28, 2007
Issue closes	: July 3, 2007
Issue size	: 2.97 crore equity shares
Reservation for employees	: 6 lakh shares
Fresh issue to public	: 2.91 crore shares
Face value	: Rs10 each
Break-up of fresh issue to public (excluding green-shoe option of 0.45 crore shares) :	
- QIB's portion	: 1.75 crore shares
- Retail portion	: 0.87 crore shares
- Non-institutional portion	: 0.29 crore shares
Price band	: Rs430-500

#### Company background

Housing Development and Infrastructure Ltd (HDIL), promoted by the Mumbai-based Wadhawan group (formerly known as the Dheeraj group), is a real estate developer that has been primarily focused on the Mumbai Metropolitan Region (MMR). The company's business focuses on real estate development, including construction and development of residential projects and more recently, commercial and retail projects, slum rehabilitation and development, including clearing slum land and re-housing slum dwellers, and land development, including development of infrastructure on land which can be sold to the other property developers.

#### Objects of the issue

The fresh issue of 2.97 crore equity shares is aimed at raising Rs1,277-1,485 crore (depending on the price band of Rs430-500 per share and excluding the green-shoe option) to (1) fund acquisition of land and land development rights for the company's ongoing and planned projects; (2) finance construction of the company's ongoing projects; and (3) to meet general corporate expenses.

#### Utilisation of issue proceeds

Particulars	Rs crore
Acquisition of land and development rights	128.8
Construction of ongoing projects	1,198.4

HDIL has developed 24 projects covering around 11.3 million square feet (msf) of saleable area. The Wadhawan group (including the other group companies) has developed and delivered 78.7msf of saleable area in the past three decades of its existence.

#### Break-up of completed projects

	Area (msf)
Residential saleable area	13.7
Commercial saleable area	15.3
Retail area	0.7
Land development area	35.6
Slum rehabilitation scheme area	7.9
Slum rehabilitation housing area	5.5
Total area developed	78.7

#### Shareholding pattern

Shareholder category	Pre-issue		Post-issue			
	No of shares	% holding	No of equity shares (including green-shoe option)	% holding	No of equity shares (excluding green-shoe option)	% holdings
Promoters	131,772,000	73.1	131,772,000	61.5	131,772,000	62.7
Non-promoters	31,590,000	17.5	31,590,000	14.7	31,590,000	15.0
Others	16,938,000	9.4	16,938,000	7.9	16,938,000	8.1
Public issue			34,155,000	15.9	297,00,000	14.1
Total equity capital	180,300,000	100.0	214,455,000	100.0	2,100,00,000	100.0

The company's total land reserve comprises 112.1msf of saleable area to be developed through 32 ongoing or planned projects. It currently has 21 ongoing projects aggregating to around 45.5msf of saleable area and additional 11 planned projects in the pipeline. The planned projects have a saleable area of 66.6msf. The management aims to complete all the 32 projects over the next five years (by 2012).

#### Break-up of ongoing and planned projects

	Ongoing projects (msf)	Planned projects (msf)	Total saleable area (msf)	% of total
Residential	31.2	55.4	86.6	77.2
Commercial	0.1	-	0.1	0.1
Retail	7.7	11.2	19.0	16.9
Slum rehabilitation	6.5	-	6.5	5.7
Total area	45.5	66.6	112.1	100.0

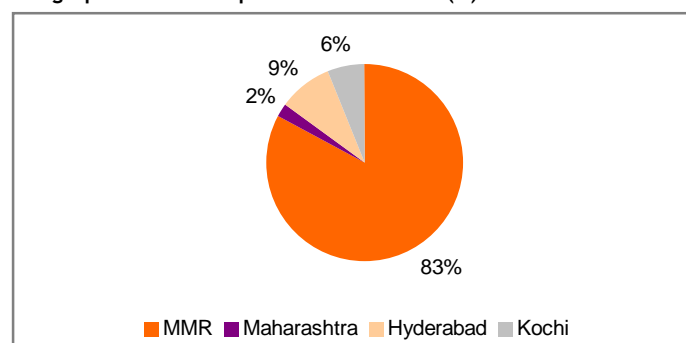
Source: Red Herring Prospectus

### Key positives

#### Land reserves concentrated in MMR

HDIL has the bulk of its land reserves in the MMR market. Almost 82.8% (or 92.8msf) of the company's land reserves are in and around Mumbai, which is the commercial capital of India and an important real estate market. The land reserves have been built over the past couple of decades and the management indicated that the average cost of the land reserves works out to less than Rs200 per square feet (sf).

#### Geographical break-up of land reserves (%)



Source: Red Herring Prospectus

On the flip side, HDIL's land reserves in MMR are concentrated in the relatively not so lucrative Virar/Vasai belt (far flung outskirts of Mumbai) where the average realisations are comparable with any tier-II or even some of the tier-III cities. For instance, almost 70.5msf (out of total of 92.8msf in MMR) of its ongoing and planned residential projects in the Virar/Vasai belt would command an average realisation of just Rs1,700-1,800/sf. Moreover, the company also has around 6msf of retail projects in the Virar/Vasai belt.

Consequently, HDIL's average realisation for its total saleable area is estimated in the range of just Rs2,300-2,350/sf and would have limited profitability. This is also after assuming that such a huge supply of constructed area from a single developer would be absorbed in the Virar/Vasai area over the next five years (which itself is an uphill task).

#### Established player in the slum rehabilitation segment

HDIL is an established and leading player in the projects under the Slum Rehabilitation Scheme (SRS). Under the SRS, real estate developers are authorised to rehabilitate land areas owned by the government upon the consent of 70% of the eligible slum dwellers. The developer constructs residential units (225sf each) for the slum developers in the form of multi-storeyed buildings. This results in significant amount of spare land/area that is available for the developer in return for providing residential units to the slum dwellers. In case the spare land is not sufficient, the government issues transferable development rights (TDR) that can be used for development in certain areas in Mumbai or can be sold to a third party.

Though this market segment has a high gestation period (as it involves building consensus among the slum developers), it also has high entry barriers and margins. With around two million slum dwellers in Greater Mumbai alone, the SRS segment offers a huge opportunity to companies that specialise in SRS projects. That's not all. HDIL is well poised to garner a fair share of the proposed project to redevelop Dharavi (530 acre of slum in the heart of the city with 6 lakh slum dwellers). The total cost of the Dharavi project is estimated at around Rs6,000 core.

#### Other related businesses

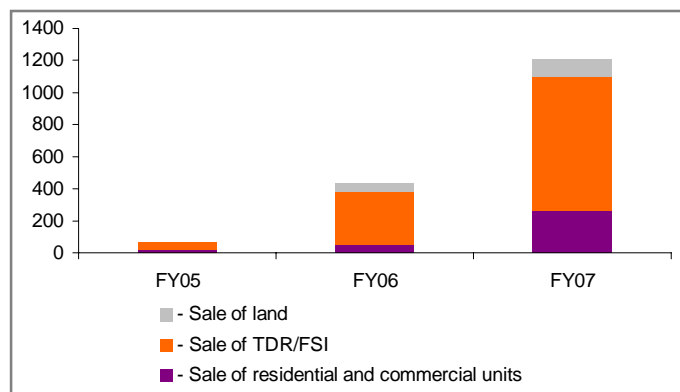
HDIL is focusing on tapping the huge potential in related businesses like hotels, mega structures and special economic zones (SEZ). It has already got in-principle approval from the government for setting up a multi-service SEZ at Vasai, Thane district.

### Key concerns

#### Financial performance driven by sale of TDRs

HDIL's revenue and earnings have grown at compounded annual growth rates of 331% and 513% respectively over the two-year period FY2005-07. However, a major portion of the revenues and earnings has been derived from the sale of the TDRs and land. On an average, during the past three years the sale of the TDRs contributed around 70.5% of the revenues whereas the sale of land constituted 9.9% of the revenues. Thus, the sale of residential and commercial units contributed only 20% of the revenues.

## Revenue growth driven by sale of TDR and land



Source: Red Herring Prospectus

## Risk of over dependence on Virar/Vasai belt

HDIL proposes to construct over 76msf (almost 68% of land reserves) of residential units and retail space in the Virar/Vasai belt over the next five years. This essentially means that the Virar/Vasai belt would witness supply of around 70,000 residential units (assuming each unit of 1,000sf) by HDIL alone in the next five years. Even if we assume a market share of 20% for HDIL, the Virar/Vasai belt would have to absorb around 3.5 lakh residential units in five years, which appears to be unviable and anyway such a huge supply could lead to a severe pressure on the realisations.

## Financials

Profit and Loss account		Rs (cr)			
Particulars	FY2004	FY2005	FY2006	FY2007	
Net sales	5.8	64.9	434.9	1204.2	
Other income	1.6	10.0	18.6	20.6	
increase/(decrease) in stock in trade	2.4	-0.1	10.5	11.4	
Increase/(decrease) in work in progress	150.2	75.5	206.6	836.2	
Cost of premises capitalised as investment	0.0	37.4	0.1	8.5	
Cost of premises capitalised as assets	1.4	0.0	0.0	15.5	
Total	161.5	187.6	670.6	2096.4	
Expenditure	147.4	153.5	518.2	1415.9	
PBIDT	14.1	34.1	152.4	680.5	
Interest	14.4	16.6	17.6	54.6	
Depreciation	0.1	0.1	0.3	0.8	
PBT	(0.4)	17.3	134.5	625.1	
Tax	0.0	2.7	17.0	77.1	
PAT	(0.4)	14.6	117.5	548.0	

## Valuation

At a price band of Rs430-500 the issue is offered at an 18-37% premium to its net asset value (NAV) of Rs365 per share. Though some of the front-line real estate companies (like Unitech) with pan-India presence, a well-diversified land bank and business model do command around 20% premium to their NAVs, we believe the premium is not justified in case of HDIL. That's because it is a regional player and is over-dependent on the not so lucrative Virar/Vasai belt in MMR.

## Fair value of land reserves (figures in Rs crore)

Fair value of land reserves (figures in Rs crore)	
<b>Total saleable area (msf)</b>	<b>112</b>
Average realisation (Rs)	2336
Total revenue	26186
Less: Construction cost	8969
Less: Overheads cost (@5% of revenue)	1047
PBT	16170
Less: Tax	5498
PAT	10673
Discounting rate	14
Average number of years	3
Discounted value of PAT (or implied EV)	7204
Less : Debt	376
Less: Balance payment for land acquisition	144
Less: Advances from customers	512
Add: cash	5.7
Add: IPO proceeds@ Rs500	1485
Equity value (implied market cap)	7662
No of equity shares (post issue)	21
<b>Value per share (Rs)</b>	<b>365</b>

Balance sheet		Rs (cr)			
Particulars	FY2004	FY2005	FY2006	FY2007	
Share capital	2.0	10.0	50.0	180.0	
Reserves	-3.5	61.1	136.6	554.2	
Miscellaneous expenditure	0.0		-1.4	-1.9	
Networth	-1.5	71.1	185.2	732.3	
Debt	0.7	91.4	196.5	375.7	
Deferred liability	0.0	0.3	0.5	0.8	
Capital employed	-0.8	162.7	382.1	1108.8	
Fixed asset	3.1	3.3	5.5	25.1	
CWIP	0.0	0.0	1.0	0.3	
Goodwill	0.0	0.0	2.9	2.3	
Investments	32.6	57.7	108.8	157.8	
Net current assets	-36.6	101.8	263.9	923.3	
Capital deployed	-0.8	162.7	382.1	1108.8	

The views expressed in this report are our views only and have been arrived at after a thorough analysis of the public offering details. The note is advisory in nature, but is not a Recommendation under our "Stock Idea" category. It may/may not be considered as a "Stock Idea" by our analysts at a later date.

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