

Bloomberg: HDIL IN Equity  
Reuters: HDIL.BO

**BUY**

**RESULT UPDATE**

## Sluggish Quarter

HDIL's results were below our expectation with revenues (Rs3.7bn) growing at 5% YoY and profits (Rs2.1bn), rising by 43%. Margins increased QoQ owing to lower construction expenses and high margin FSI sales.

**Revenues; profits below our expectation:** Revenues (Rs3.7bn, 5% higher YoY; 17% lower QoQ) continue to be driven by sales of TDR (80% of revenue) though FSI sales have added Rs720mn (20%). HDIL sold 1mn sq.ft. of TDR at an average Rs3,000/sq.ft., TDR volumes were 20% below our expectation on account of the monsoons as well as uncertainty over the government notification permitting increase of FSI. EBITDA margin improved from 59% to 64% QoQ due to lower construction expenses and high-margin FSI sales. Net profit at Rs2.1bn was higher by 43% YoY and lower by 9%QoQ.

**Balance sheet healthy; net D/E 0.32x:** Debtors increased by Rs863mn on account of FSI sales at end-1QFY11; and has reduced during October 2010. QIP proceeds of Rs11.5bn has aided in lowering the D/E to 0.32x, this amount will be utilized to acquire land for phases II and III of the MIAL project.

**Airport project update:** Phase I relocation — MMRDA, collectorate and government agencies are working on the eligibility norms. We expect families to start relocating from end-November to Kurla wherein 7,000 units are ready for occupation. Pending land payment for phases II and III is about Rs7bn.

**Residential launch pipeline strong:** HDIL has planned for a 27mn sq.ft. residential project over the next one year. The gross unbilled revenue on launched projects is about Rs50bn, which is expected to be booked during FY12E and FY13E on a 50-50 basis, as HDIL follows the full completion method of accounting. FSI sales of 1.1mn sq.ft. in the Goregaon land parcel, for Rs6,500mn, would accrue from 3QFY11. Margins expected from the sale of FSI is 65%. Management has indicated that going forward the focus will be on execution of the current land bank through rational product pricing.

### Outlook and Valuation

We believe that HDIL's continued focus on execution and robust project pipeline coupled with ample balance sheet liquidity will yield good growth numbers. Most of the funding requirements have been met through QIP proceeds, promoter warrants and organic cashflows. The Mumbai airport project is witnessing improved traction and the balance sheet remains healthy. We maintain **BUY** on HDIL with an NAV of Rs320.

#### Exhibit 1: Key financials

	FY08	FY09	FY10	FY11E	FY12E
Revenue	23,805	17,284	14,920	23,824	45,008
EBITDA	15,550	7,782	7,117	11,863	22,635
EBITDA mgns (%)	65.3%	45.0%	47.7%	49.8%	50.3%
Net profit	14,103	6,772	5,967	10,067	17,284
EPS (Rs)	34.0	16.3	14.4	24.3	41.6
RoE (%)	35.2%	13.9%	7.4%	9.8%	14.5%
RoCE (%)	20.9%	8.3%	5.2%	8.0%	13.7%
P/E (x)	7.5	15.6	17.7	10.5	6.1

Source: Company, Ambit Capital research

#### Analyst contact

**Parikshit Kandpal**

Tel: +91 22 3043 3201

parikshitkandpal@ambitcapital.com

#### Recommendation

CMP:	Rs254
<b>Target Price:</b>	<b>Rs320</b>
<b>Upside:</b>	<b>26%</b>
EPS (FY11E):	Rs24.3
Change from previous:	-

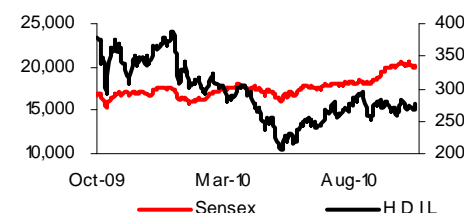
#### Stock Information

Mkt cap:	Rs106bn/US\$2,382mn
52-wk H/L:	Rs394/202
3M Avg. daily vol.:	6mn
Beta:	2.0x
BSE Sensex:	20,589
Nifty:	6,194

#### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	-5.1	-10.6	-30.5	-29.5
Rel. to Sensex	-6.9	-21.6	-43.7	-40.2

#### Performance (%)



Source: Bloomberg, Ambit Capital research

**Exhibit 2: Quaterly performance**

	2Q FY10	1QFY11	2QFY11	YoY	QoQ
Net sales	3,537	4,509	3,727	5%	-17%
<b>Expenses</b>	<b>1,515</b>	<b>1,588</b>	<b>1,103</b>	-27%	-31%
(Increase)/Dec in stock in trade	(3,743)	(6,974)	(5,059)		
Land Purchase Cost					
Construction Exps	5,258	8,563	6,161	17%	-28%
Raw Material Exps					
Production Expenses/others		189.9%	165.3%		
<b>Gross margin</b>	<b>2,022</b>	<b>2,921</b>	<b>2,624</b>	30%	-10%
<b>Gross margin (%)</b>	<b>57%</b>	<b>65%</b>	<b>70%</b>		
SG&A	56	104	98	75%	-5%
Other expenses	169	144	154	-9%	7%
<b>EBITDA</b>	<b>1,797</b>	<b>2,674</b>	<b>2,372</b>	32%	-11%
<b>EBITDA margin (%)</b>	<b>51%</b>	<b>59%</b>	<b>64%</b>		
Depreciation	9	19	16	70%	-17%
<b>EBIT</b>	<b>1,788</b>	<b>2,655</b>	<b>2,356</b>	32%	-11%
<b>EBIT margin (%)</b>	<b>51%</b>	<b>59%</b>	<b>63%</b>		
Interest expense	185	215	212	15%	-1%
Other income	274	342	339	24%	-1%
<b>Profit before tax</b>	<b>1,876</b>	<b>2,782</b>	<b>2,483</b>	32%	-11%
Tax- total	390	439	355	-9%	-19%
<b>Rate of tax -total (%)</b>	<b>21%</b>	<b>16%</b>	<b>14%</b>		
<b>Net profit</b>	<b>1,486</b>	<b>2,343</b>	<b>2,129</b>	43%	-9%

Source: Company, Ambit Capital research

## Institutional Equities Team

### Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Amit Ahire	Telecom / Media & Entertainment	(022) 30433202	amitahire@ambitcapital.com
Ankur Rudra	IT/Education Services	(022) 30433211	ankurrudra@ambitcapital.com
Ashish Shroff	Technical Analysis	(022) 30433209/3221	ashishshroff@ambitcapital.com
Ashvin Shetty	Consumer	(022) 30433285	ashvinshetty@ambitcapital.com
Bhargav Buddhadev	Power/Capital Goods	(022) 30433252	bhargavbuddhadev@ambitcapital.com
Chandrani De	Metals & Mining	(022) 30433210	chandrani@ambitcapital.com
Chhavi Agarwal	Infrastructure	(022) 30433203	chhaviagarwal@ambitcapital.com
Gaurav Mehta	Derivatives Analysis	(022) 30433255	gauravmehta@ambitcapital.com
Krishnan ASV	Banking / NBFC	(022) 30433205	krishnan@ambitcapital.com
Navin Matta	Auto & Auto Ancillaries	(022) 30433228	navinmatta@ambitcapital.com
Nitin Bhasin	Infrastructure	(022) 30433241	nitinbhasin@ambitcapital.com
Pankaj Agarwal	NBFCs	(022) 30433206	pankajagarwal@ambitcapital.com
Parikshit Kandpal	Construction / Real estate	(022) 30433201	parikshitkandpal@ambitcapital.com
Puneet Bambha	Power/Capital Goods	(022) 30433259	puneetbambha@ambitcapital.com
Rajesh Kumar Ravi	Cement	(022) 30433274	rajeshravi@ambitcapital.com
Ritika Mankar	Economy	(022) 30433216	ritikamankar@ambitcapital.com
Ritu Modi	Metals & Mining	(022) 30433292	ritumodi@ambitcapital.com
Subhashini Gurumurthy	IT/Education Services	(022) 30433264	subhashinig@ambitcapital.com
Vijay Chugh	Consumer (incl FMCG, Retail, Automobiles)	(022) 30433054	vijaychugh@ambitcapital.com

### Sales

Alok Dhoshi	Manager Sales	(022) 30433229	alokdhoshi@ambitcapital.com
Deepak Sawhney	VP - Ins Equity	(022) 30433295	deepaksawhney@ambitcapital.com
Dharmen Shah	VP - Ins Equity	(022) 30433289	dharmenshah@ambitcapital.com
Dipti Mehta	Senior Manager Equities	(022) 30433053	diptimehta@ambitcapital.com

## Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

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**Ambit Capital Pvt. Ltd.**

Ambit House, 3rd Floor  
449, Senapati Bapat Marg, Lower  
Parel, Mumbai 400 013, India.  
Phone : +91-22-3043 3000  
Fax : +91-22-3043 3100