Macquarie Equities Research





The Global Property Specialist

INDIA		
HDIL IN	Οι	ıtperform
Price 27 May 10	F	Rs229.00
12-month target	Rs	325.00
Upside/Downside	%	41.9
Valuation - DCF (WACC 14.7%)	Rs	294.48
GICS sector		Real Estate
Market cap	Rsm	82,165
30-day avg turnover	US\$m	8.1
Market cap	US\$m	1,596
Number shares on iss	sue m	358.8

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	m	14,960	19,291	36,852	49,535
EBITDA	m	11,241	15,093	29,989	40,423
EBITDA growth	%	-14.6	34.3	98.7	34.8
Recurring profit	m	6,338	10,622	25,705	35,716
Adjusted profit	m	5,197	8,498	20,564	28,574
EPS adj	Rs	15.03	24.57	59.46	82.62
EPS adj growth	%	-45.1	63.5	142.0	38.9
PER adj	Х	15.2	9.3	3.9	2.8
Total DPS	Rs	0.00	0.00	0.00	0.00
ROA	%	10.4	11.8	20.7	23.2
ROE	%	8.9	11.1	22.6	24.7
EV/EBITDA	Х	9.7	7.3	3.7	2.7
Net debt/equity	%	42.0	41.0	-12.4	-15.9
P/BV	Х	1.1	1.0	0.8	0.6

HDIL IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2010 (all figures in INR unless noted)

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28 May 2010

HDIL

Successful projects launches continue

Event

HDIL reported net sales of Rs4,340m, up 6.2% QoQ. PAT increased by 9.3% QoQ and was around 7% above our estimates. Growth is primarily driven by pick-up in Transferable Development Rights (TDR) prices. We reiterate our Outperform rating and revise our target price to Rs325.

Impact

- Successful project launches continue. HDIL has successfully launched 4.7m sqf of residential projects since CY09 beginning. The company should recognise around Rs26bn of sales from these projects. As the company follows the project completion method, the major part of revenue from these launches should come in FY12. The company also plans to launch around 4-6m sqf of residential projects in Mumbai suburbs region in FY11.
- TDR sales continue to boost revenue. Almost 90% of company's 4Q FY10 revenue came in the form of TDR sales. During the quarter, the company sold around 1.5m sqf of TDR at an average rate of ~Rs2500, in line with 3Q FY10 levels but over 150% higher than 4Q FY09 levels.
- Rehabilitation for 1st Phase of the Airport project expected to start in three months. Around 75% of the work is completed for the 1st phase of the Mumbai airport slum rehabilitation project. Rehabilitation process is delayed and is expected to start in next three months. This delay is not going to have any significant impact on our valuations but successful completion of this phase would allow the company to prove its execution capabilities for further phases. This project (all three rehab phases and the consequent reward of TDR and land) contributes ~75% to our core NAV estimate.
- Balance sheet improves mildly. Net debt/Equity has gone down to 0.45x against 0.49x in 3QFY10. Average cost of debt for the company stands at 12.5%.

Earnings and target price revision

As a result of delay in projects we have cut our earnings estimate for FY11E, FY12E and FY13E by 23%, 12% and 1%. We have revised our target price to Rs325 from Rs441. We have excluded parts of Virar project and a few other longer term projects—which are not expected to take off before FY14—in our NAV calculation. If these projects were included in our financial model, they would add another Rs106/share to our NAV.

Price catalyst

- 12-month price target: Rs325.00 based on a Sum-of-the-Parts methodology.
- Catalyst: Progress on the airport site rehabilitation project, Macro triggers

Action and recommendation

 Maintain Outperform. Successful project launches combined with consistent TDR sales and postponement of debt repayments provides steady cash inflow visibility. We maintain our Outperform rating with a sum-of-the-parts based target price of Rs325.

Fig 1 HDIL 4Q FY10 results – sequential growth continues

(Rs mn)	4QFY10	4QFY09	% change YoY	3Q FY10 % c	hange QoQ
Net Sales	4,341	3,579	21.3%	4,089	6.2%
Expenditure	(2,070)	(2,614)	-20.8%	(2,201)	-6.0%
EBITDA	2,271	965	135.3%	1,888	20.3%
Depreciation	(22)	(9)	141.6%	(12)	83.8%
Other Income	304	309	-1.7%	266	14.3%
EBIT	2,554	1,265	101.8%	2,142	19.2%
Interest	(245)	(297)	-17.4%	(190)	28.8%
PBT	2,309	969	138.3%	1,952	18.3%
PBT(excl. exceptional items)	2,309	969	138.3%	1,952	18.3%
Tax	(531)	(350)	51.9%	(324)	63.7%
PAT (recurring)	1,778	`619	187.1%	1,628	9.2%
PAT (reported)	1,778	619	187.1%	1,628	9.2%
Source: Company data, Macquarie	Research, May 201	0			

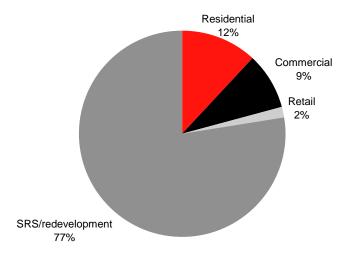
Fig 2 HDIL – sum of parts valuation

NAV calculation			
	Value (Rs m)	Value per share (Rs)	% of Gross NAV
Residential projects	18,362	53	13.6%
Retail projects	3,661	11	2.7%
Commercial projects	112,920	327	83.7%
-of which 'Airport project'	102,174	295	75.7%
Gross NAV	134,943	390	
Less			
- Debt/ (cash)	33,099	96	
Core' net NAV	101,844	294	
Assuming 15% discount to NAV		250	
Longer term projects	Value (Rs m)	Value per share (Rs)	Upside to Net NAV
Projects in Vasai and Virar	20,172	58	15%
Projects in Hyderabad, Pune and Kochi	16,940	49	12%
Total	37,112	107	36%
Net NAV (including option value) Target Price (Assuming 15% discount to core NAV and 30% discount to Option Value)	138,956	402 325	
Source: Macquarie Research, May 2010			

Fig 3 Approximately Rs26bn of sales should be recognised in FY12, FY13

Project	Saleable Area (sqf)	Average Sales I Rate (Rs psf)	Expected Sales Realisation(Rs m)	Completion Period	Rehabilitation Area (sqf)
Premiere (Kurla, West)	1,000,000	5,700	5,700	FY12	7,500,000
Galaxy (Kurla, East)	475,000	4,500	2,138	FY12	800,000
Metropolis (Andheri, West)	650,000	9,000	5,850	FY13	-
Majestic (Bhandup)	1,300,000	6,500	8,450	FY13	900,000
Residency Park (Virar)	1,250,000	2,600	3,250	FY12	-
Harmony (Goregaon, West)	65,850	8.451	556	FY12	_
, (11.3	4,740,850	-, -	25,944		9,200,000
Source: Company data, Macqua	arie Research, May 2	2010	· 		

Fig 4 HDIL – Ongoing project breakup



Source: Company data, Macquarie Research, May 2010

Housing Development and Infrastructure (HDIL IN, Outperform, Target Price: Rs325.00)

Net Property Income	Housing Developm	ent and	d Infrastr	ucture (l	HDIL IN,	Outperfor	m, Target Price: Rs325.00)					
Development florome	Quarterly Results		4Q/10A	1Q/11E	2Q/11E	3Q/11E	Profit & Loss		2010A	2011E	2012E	2013E
Development florome	Net Property Income	m	0	0	0	0	Net Property Income	m	0	0	0	0
Other Newmork M 5,084 3,685 3,885 4,915 70st Revenue M 10 10 0 0 0 0 0 0 0												
Total Revenue m 5,844 3,865 3,858 4,051 Management Pees m 1,450 19,201 3,865 4,953 Management Pees m 1,450 19,201 3,865 4,953 Management Pees m 1,050 19,201 3,050 4,												0
Management Frees	Total Revenue		5,984	3,665	3,858	4,051			14,960		36,852	49,535
BBITDA	Management Fees						Management Fees					
Dep & Amoritaation m	Other Expenses	m	-1,488	-798	-840		Other Expenses	m	-3,719	-4,198	-6,863	-9,113
EBIT m 4,466 2,892 2,881 3,130	EBITDA	m	4,497	2,868	3,019	3,170	EBITDA	m	11,241	15,093	29,989	40,423
Nel Interest Income m 2.131 -935 - 964 - 1,034	Dep & Amortisation											
Associates m 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0												
Exceptionals m 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0												
Other Pers Tax Income												
Pre-Tax Profit m 2,535 2,016 2,124 2,231 Tax Expense m 4,141 4,224 2,576 35,716 Tax Expense m 4,141 4,2124 5,141 2,143 4,146 4,25 4,140 1,												
Tax Expense m 4-56 4-04 4-25 4-46												
Net Profit m 2,079 1,614 1,699 1,784 Morely Interests m 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0												
Millorofty Interests m												
Reported Earnings	Minority Interests											
EPS (rip) 6.01 4.67 4.81 5.16 EPS (rip) 6.03 4.67 4.81 5.16 EPS (rip) 6.04 4.67 4.81 5.16 EPS (rip) 6.05 4.67 4.81 5.16 EPS (rip) 6.06 4.67 4.81 5.16 EPS (rip) 7.07 1.07 1.07 1.07 1.07 1.07 1.07 1.07	Reported Earnings									,		
EPS (adj)	Adjusted Earnings	m	2,079	1,615	1,700	1,785	Adjusted Earnings	m	5,197	8,498	20,564	28,574
EPS (adj)	EPS (rep)		6.01	4.67	4.91	5.16	EPS (rep)		15.03	24.57	59.46	82.62
EPS Growth yoy (adj)	EPS (adj)											
FE (rep)	EPS Growth yoy (adj)	%						%				
EBITDA Margins												
EBIT Margins							PE (adj)	Х	15.2	9.3	3.9	2.8
EBIT Margins	EBITDA Margins	%	75 1	78 2	78 <i>2</i>	78 2	Total DPS		0.00	0.00	0.00	0 00
Earnings Spirit								%				
Revenire Growth												
Profit & Loss Ratios 2010A 2011E 2012E 2013E Cashflow Analysis 2010A 2011E 2012E 2013E	Revenue Growth		-13.4	28.9	28.9	28.9		m	346	346	346	346
Revenue Growth	EBIT Growth	%	-14.9	33.4	33.4	33.4						
EBITD Growth % 144,6 934,3 98,7 94,8 97,3 34,8 Tax Paid m 11,141 2,124 5,141 7,143 EBIT Growth % 14,9 33.4 97,3 32,6 Chg in Working Capital m 16,785 9,573 13,397 9,011 EBITD Margins % 75,1 78,2 81,4 81,6 Net Interest Paid m 5,327 4,922 4,922 4,922 4,922 EBIT Margins % 74,7 77,3 79,8 78,7 78,7 78,7 78,7 78,7 78,7 78,7	Profit & Loss Ratios		2010A	2011E	2012E	2013E	Cashflow Analysis		2010A	2011E	2012E	2013E
EBITD Growth % 144,6 934,3 98,7 94,8 97,3 34,8 Tax Paid m 11,141 2,124 5,141 7,143 EBIT Growth % 14,9 33.4 97,3 32,6 Chg in Working Capital m 16,785 9,573 13,397 9,011 EBITD Margins % 75,1 78,2 81,4 81,6 Net Interest Paid m 5,327 4,922 4,922 4,922 4,922 EBIT Margins % 74,7 77,3 79,8 78,7 78,7 78,7 78,7 78,7 78,7 78,7	D 0 11		40.4							45.000		
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EBIT Margins												
Net Profit Margins												
Payout Ratio												
EV/EBITOA												0
EVEBIT X 9.8 7.4 3.7 2.8 Asset Sales m 0 0 0 0 0 0 0 0 0												-12.528
Cher	EV/EBIT											0
ROE									494	637	1,216	1,635
ROA % 10.4 11.8 20.7 23.2 Page Page Page Page Page Page Page Page	Balance Sheet Ratios						Investing Cashflow	m	-461	-1,113	-5,299	-10,894
ROIC % 10.8 11.6 20.7 35.2 Debt Movements m 4.16 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	ROE	%	8.9	11.1			Dividend (Ordinary)	m	0		0	0
Net Debt/Equity	ROA							m				
Interest Cover x 2.1 3.0 6.0 7.9 Price/Book x 1.1 1.0 0.8 0.6 Book Value per Share 209.0 233.6 293.0 375.6 Net Chg in Cash/Debt m 9,913 -2,759 45,736 8,053 Free Cashflow m -13,029 -3,395 44,520 6,418 Balance Sheet								m				
Price/Book Book Value per Share x 1.1 1.0 0.8 0.6 293.0 Net Chg in Cash/Debt m 9,913 -2,759 45,736 8,053 Free Cashflow m -13,029 -3,395 44,520 6,418 Balance Sheet 2010A 2011E 2012E 2013E Cash m 10,668 7,909 53,645 61,698 Receivables m 3,689 4,757 90,87 12,214 Investments m 86,773 95,135 60,579 67,857 Investments m 8,679 95,135 60,579 67,857 Investments m 2,491 2,491 2,491 2,491 Long Intra gibles m 478 478 478 478 Other Assets m 18,801 20,2484 26,709 38,219 Total Assets m 122,200 131,254 152,990 182,957 Payables m 8,689		%										
Book Value per Share 209.0 233.6 293.0 375.6 Net Chg in Cash/Debt m 9,913 -2,759 45,736 8,053							Financing Cashflow	m	22,448	-0	0	-0
Balance Sheet 2010A 2011E 2012E 2013E Cash m 10,668 7,909 53,645 61,698 Receivables m 3,689 4,757 9,087 12,214 Inventories m 86,073 95,135 60,579 67,857 Investments m 2,491 2,491 2,491 2,491 2,491 Fixed Assets m 0 0 0 0 0 0 Intangibles m 478 278 478 478 478 478 478 478 478 478 478 478 478<	Book Value per Share	Х					Net Chg in Cash/Debt	m	9,913	-2,759	45,736	8,053
Cash m 10,668 7,909 53,645 61,698 Receivables m 3,689 4,757 9,087 12,214 Inventories m 86,073 95,135 60,579 67,857 Investments m 2,491 2,491 2,491 2,491 Fixed Assets m 0 0 0 0 Intangibles m 478 478 478 478 Other Assets m 18,801 20,484 26,709 38,219 Total Assets m 122,200 131,254 152,990 38,219 Payables m 8,689 9,246 10,417 11,810 Short Term Debt m 0 0 0 0 Long Term Debt m 41,047 41,047 41,047 41,047 Provisions m 184 184 184 184 Other Liabilities m 0 0 0 0 Total Liabilities m 49,920 50,477 51,648 53,042							Free Cashflow	m	-13,029	-3,395	44,520	6,418
Cash m 10,668 7,909 53,645 61,698 Receivables m 3,689 4,757 9,087 12,214 Inventories m 86,073 95,135 60,579 67,857 Investments m 2,491 2,491 2,491 2,491 Fixed Assets m 0 0 0 0 Intangibles m 478 478 478 478 Other Assets m 18,801 20,484 26,709 38,219 Total Assets m 122,200 131,254 152,990 38,219 Payables m 8,689 9,246 10,417 11,810 Short Term Debt m 0 0 0 0 Long Term Debt m 41,047 41,047 41,047 41,047 Provisions m 184 184 184 184 Other Liabilities m 0 0 0 0 Total Liabilities m 49,920 50,477 51,648 53,042							Balance Sheet		2010A	2011E	2012E	2013E
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Shareholders' Funds m 72,280 80,777 101,342 129,915 Minority Interests m 0									-	-	-	0
Minority Interests m 0 0 0 0 Total S/H Equity m 72,280 80,777 101,342 129,915 Total Liab & S/H Funds m 122,200 131,254 152,990 182,957												,
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All figures in INR unless noted.							I Utai Liau & 3/11 FUNGS	1111	122,200	131,234	152,990	102,937
	All figures in INR unless note	ed.										

All figures in INR unless noted. Source: Company data, Macquarie Research, May 2010

28 May 2010 4

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return

Macquarie - Asia/Europe

Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return

Neutral (Hold) – return within 5% of Russell 3000 index return

Underperform (Sell)- return >5% below Russell 3000 index return

Recommendations - 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or

down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average

ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions - For quarter ending 31 March 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	62.20%	42.25%	42.39%	62.16%	46.74%	(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)
Neutral	36.63%	19.02%	47.89%	50.35%	31.89%	34.78%	(for US coverage by MCUSA, 9.62% of stocks covered are investment banking clients)
Underperform	12.82%	18.78%	9.86%	7.27%	5.95%	18.48%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

Company Specific Disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Analyst Certification:

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