

## Real Estate

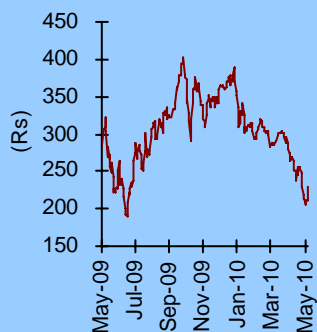
Target price Rs414

## Shareholding pattern

	Sep '09	Dec '09	Mar '10
Promoters	48.4	48.3	50.2
Institutional investors	28.8	30.5	29.4
MFs and UTI	2.6	2.1	1.4
Insurance Cos.	0.1	0.1	0.0
FII	26.0	28.4	27.9
Others	22.9	21.2	20.5

Source: NSE

## Price chart



## INDIA

Housing Development & Infrastructure **BUY**

Maintained

## Strong TDRs; Execution on focus

**Rs229**

Reason for report: Q4FY10 results review

Housing Development & Infrastructure's (HDIL) Q4FY10 results were impressive – revenues rose 6.2% QoQ to Rs4.3bn (I-Sec: Rs4.3bn) and PAT increased 9.3% QoQ to Rs1.8bn (I-Sec: Rs1.8mn). Earnings were driven by strong TDR sales (1.5mn sqft at >Rs2,700/sqft) led by 10% QoQ uptick in prices. Through FY10, HDIL sold ~4.7mn sqft of residential projects (Rs26bn sales yet to be recognised) and plans to launch 6mn sqft in FY11E. The company's 4.6mn sqft commercial space in Virar (90% sold), *Harmony* (75% sold), *Premier* (Kurla) and Andheri (20% retail space pre-leased) have received good response. Phase I of its airport project, expected to be completed by April '10, has been delayed due to non-availability of water in buildings for rehabilitation. HDIL is awaiting BMC permission to start the initial relocating process of 20,000 families. We are positive on HDIL's continued momentum in TDR sales and project launches (residential and SRS). We believe that at current valuations of FY11E P/BV of 1.1x and FY11E P/E of 10.7x as well as deep discount to NAV valuations, the stock offers significant upside potential. **Maintain BUY with target price of Rs414/share.**

- ▶ **Strong revenue growth.** Revenues rose 21.3% YoY to Rs4.3bn; EBITDA margin surged to 52% (46% in Q3FY10) due to better realisations from TDR sales. TDR price rose ~10% at Rs2,700/sqft. The company booked 1.5mn sqft of TDR sales in Q4FY10. We expect TDR sales realisations to sustain at current levels.
- ▶ **Strong demand in new projects.** Owing to strong residential demand, HDIL sold >90% of its 4.7mn sqft residential launches in FY10, with project pipeline of ~6mn sqft to be launched in FY11E. We expect significant cashflows from its Goregaon project (4.6mn sqft; phase I of 2mn sqft residential to be launched within a month) in the next 2-3 years. HDIL's 4.6mn sqft commercial space in Virar (90% sold; current rate: Rs2,375/sqft), *Harmony* (75% sold at Rs12,500/sqft), *Premier* (Kurla) and Andheri (20% retail space pre-leased at Rs140/sqft) have seen good response.
- ▶ **Focus on execution and SRS projects.** HDIL has increased focused on faster execution of its residential & commercial projects. Phase I (relocating 20,000 families) of the airport project has been delayed due to non-availability of water in the rehab buildings (12,000 houses ready and 8,000 to be completed within two months); five sites have been identified for phase II (~28,000 tenements) of the project. HDIL has 17 ongoing projects with total area of 60.2mn sqft (77% SRS; 12% residential; remaining: commercial & retail).

Market Cap	Rs85.2bn/US\$1.8bn
Reuters/Bloomberg	HDIL.BO/HDIL IN
Shares Outstanding (mn)	372
52-week Range (Rs)	411/179
Free Float (%)	49.8
FII (%)	27.9
Daily Volume (US\$'000)	60,200
Absolute Return 3m (%)	(25.9)
Absolute Return 12m (%)	(19.5)
Sensex Return 3m (%)	(0.8)
Sensex Return 12m (%)	15.3

Year to March	FY09	FY10P	FY11E	FY12E
Revenue (Rs mn)	17,284	15,021	21,213	39,586
Net Income (Rs mn)	7,865	5,722	7,994	15,753
EPS (Rs)	21.2	15.4	21.5	42.4
% Chg YoY	(44.2)	(27.2)	39.7	97.1
P/E (x)	10.8	14.9	10.7	5.4
CEPS (Rs)	21.3	17.3	21.9	42.8
EV/E (x)	16.1	15.0	11.1	5.2
Dividend Yield	0.0	0.0	0.9	1.3
RoCE (%)	11.0	6.2	7.7	13.9
RoE (%)	19.4	9.9	10.6	17.9

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**Table 1: Q4FY10 results review***(Rs mn, year ending March 31)*

	Q4FY10	Q4FY09	% chg (YoY)	Q3FY10	% chg (QoQ)
<b>Gross sales</b>	<b>4,341</b>	<b>3,579</b>	<b>21.3</b>	<b>4,089</b>	<b>6.2</b>
Excise duty					
<b>Net Sales</b>	<b>4,341</b>	<b>3,579</b>	<b>21.3</b>	<b>4,089</b>	<b>6.2</b>
Other operating income					
<b>Total Operating income</b>	<b>4,341</b>	<b>3,579</b>	<b>21.3</b>	<b>4,089</b>	<b>6.2</b>
Raw Materials	620	1,360	(54.4)	1,280	(51.6)
Personnel Cost	78	41	90.3	73	7.3
Research & Development	1,176	1,076	9.3		
Other Expenses	195	137	42.9	848	
<b>Total Expenses</b>	<b>2,070</b>	<b>2,614</b>	<b>(20.8)</b>	<b>2,201</b>	<b>(6.0)</b>
<b>EBITDA</b>	<b>2,271</b>	<b>965</b>	<b>135.3</b>	<b>1,888</b>	<b>20.3</b>
Interest (Net)	245	297	(17.4)	190	28.8
Depreciation	22	9	141.6	12	83.8
Other Income	304	309	(1.7)	266	14.3
<b>Recurring pre-tax income</b>	<b>2,309</b>	<b>969</b>	<b>138.3</b>	<b>1,952</b>	<b>18.3</b>
Taxation	474	350	35.6	324	46.1
<b>Recurring Net Income</b>	<b>1,835</b>	<b>619</b>	<b>196.3</b>	<b>1,628</b>	<b>12.7</b>
Extraordinary item	(56)				
<b>Reported Net income</b>	<b>1,778</b>	<b>619</b>	<b>187.2</b>	<b>1,628</b>	<b>9.3</b>

Source: Company data, I-Sec Research

**Valuations**

Our FY11E NAV for HDIL is Rs487/share (Rs177bn). Our target price stands at Rs414/share based on 15% discount to NAV. We factor-in TDR prices of Rs2,200/sqft for FY11E versus current price of >Rs2,700/sqft, providing significant comfort to our valuations. We believe TDR prices will remain stable in the short term; however, any further uptick may lead to NAV upgrade. HDIL trades at FY11E & FY12E P/E of 10.7x & 5.4x (lowest among real-estate peers) respectively and FY11E P/BV of 1.1x.

**Table 2: NPV/share***(NPV Rs/share)*

Projects	Latest
Land bank	178
Mumbai airport SRS project	284
SEZ Vasai Virar	17
SEZ Bhayander	3
DS Construction	5
<b>Total NAV</b>	<b>487</b>
<b>Target Price</b>	<b>414</b>

Source: I-Sec Research

HDIL's balance sheet is healthy at D/E of 0.45x. Also, there are no significant outstanding land payments (besides those for phases II & III of ~Rs6bn). The company's consolidated debt and cash position, as of Q4FY10, is Rs41bn (cost-of-debt at 12.5%) and Rs7.9bn respectively.

## Financial Summary

Table 3: Profit and Loss statement

(Rs mn, year ending March 31)

	FY09	FY10	FY11E	FY12E
<b>Operating Income (Sales)</b>	<b>17,284</b>	<b>15,021</b>	<b>21,213</b>	<b>39,586</b>
of which Domestic	17,284	15,021	21,213	39,586
<b>Operating Expenses</b>	<b>9,487</b>	<b>7,129</b>	<b>10,847</b>	<b>18,775</b>
<b>EBITDA</b>	<b>7,797</b>	<b>7,893</b>	<b>10,366</b>	<b>20,811</b>
% margins	45.1	52.5	48.9	52.6
Depreciation & Amortisation	41	724	137	162
Gross Interest	582	462	739	765
Other Income	540	345	259	312
<b>Recurring PBT</b>	<b>7,715</b>	<b>7,052</b>	<b>9,749</b>	<b>20,197</b>
Add: Extraordinaries	0	(56)	0	0
Less: Taxes	(151)	1,330	1,755	4,443
- Current tax	(151)	0	0	0
<b>Net Income (Reported)</b>	<b>7,865</b>	<b>5,666</b>	<b>7,994</b>	<b>15,753</b>
<b>Recurring Net Income</b>	<b>7,865</b>	<b>5,722</b>	<b>7,994</b>	<b>15,753</b>

Source: Company data, I-Sec Research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY09	FY10P	FY11E	FY12E
<b>Assets</b>				
Total Current Assets	88,673	113,191	139,455	148,384
of which cash & cash eqv.	752	7,918	1,734	4,513
Total Current Liabilities & Provisions	6,296	8,761	33,029	33,103
<b>Net Current Assets</b>	<b>82,377</b>	<b>104,430</b>	<b>106,426</b>	<b>115,281</b>
<b>Investments</b>				
of which	<b>3,029</b>	<b>2,429</b>	<b>3,665</b>	<b>4,032</b>
Strategic/Group	3,029	2,429	3,665	4,032
<b>Net Fixed Assets</b>	<b>728</b>	<b>2,047</b>	<b>2,425</b>	<b>2,663</b>
Capital Work-in-Progress	147	414	606	521
<b>Goodwill</b>	<b>0</b>	<b>2,591</b>	<b>0</b>	<b>0</b>
<b>Total Assets</b>	<b>86,134</b>	<b>111,497</b>	<b>112,517</b>	<b>121,976</b>
<b>Liabilities</b>				
Borrowings	41,433	41,017	31,933	26,933
Deferred Tax Liability	24	51	24	24
Equity Share Capital	2,755	3,718	3,718	3,718
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	41,922	66,710	76,841	91,300
<b>Net Worth</b>	<b>44,676</b>	<b>70,429</b>	<b>80,559</b>	<b>95,019</b>
<b>Total Liabilities</b>	<b>86,134</b>	<b>111,497</b>	<b>112,517</b>	<b>121,976</b>

\*Excluding revaluation reserves; # = not written off

Source: Company data, I-Sec Research

Table 7: Quarterly trend

(Rs mn, year ending March 31)

	Jun-09	Sep-09	Dec-09	Mar-10
Net sales	2,954	3,537	4,089	4,341
% growth (YoY)	(48.2)	20.8	16.6	20.5
EBITDA	1,161	1,797	1,888	2,271
Margin (%)	39.3	50.8	46.2	52.3
Other income	233	274	266	304
Add: Extraordinaries	0	0	0	56
Net profit	1,075	1,486	1,628	1,778

Source: Company data, I-Sec Research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY09	FY10P	FY11E	FY12E
<b>Operating Cash flow</b>	<b>5,818</b>	<b>5,610</b>	<b>7,784</b>	<b>15,655</b>
Working Capital Changes	(18,794)	(15,032)	(8,114)	(6,129)
Capital Commitments	(1,075)	(3,399)	863	(767)
<b>Free Cash Flow</b>	<b>(14,051)</b>	<b>(12,820)</b>	<b>532</b>	<b>8,760</b>
<b>Cash flow from Investing Activities</b>	<b>540</b>	<b>345</b>	<b>259</b>	<b>312</b>
Issue of Share Capital	612	964	0	0
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	10,306	(416)	(9,084)	(5,000)
Dividend paid	0	0	(863)	(1,294)
<b>Extraordinary Items</b>	<b>0</b>	<b>(56)</b>	<b>0</b>	<b>0</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(2,742)</b>	<b>7,166</b>	<b>(6,183)</b>	<b>2,778</b>

Source: Company data, I-Sec Research

Table 6: Key ratios

(Year ending March 31)

	FY09	FY10P	FY11E	FY12E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	21.2	15.4	21.5	42.4
Diluted Recurring EPS	21.2	15.2	21.5	42.4
Recurring Cash EPS	21.3	17.3	21.9	42.8
Dividend per share (DPS)	0.0	0.0	2.0	3.0
Book Value per share (BV)	120.1	189.4	216.6	255.5
<b>Growth Ratios (%)</b>				
Operating Income	(27.4)	(13.1)	41.2	86.6
EBITDA	(53.8)	1.2	31.3	100.8
Recurring Net Income	(44.2)	(27.2)	39.7	97.1
Diluted Recurring EPS	(44.2)	(27.2)	39.7	97.1
Diluted Recurring CEPS	(44.0)	(18.5)	26.1	95.7
<b>Valuation Ratios (x)</b>				
P/E	10.8	14.9	10.7	5.4
P/CEPS	10.8	13.2	10.5	5.4
P/BV	1.9	1.2	1.1	0.9
EV / EBITDA	16.1	15.0	11.1	5.2
EV / Operating Income	7.3	7.9	5.4	2.7
EV / Operating FCF	(9.0)	(9.2)	216.7	12.3
<b>Operating Ratio</b>				
Raw Material/Sales (%)	50.5	41.2	36.5	38.8
SG&A/Sales (%)	3.1	4.4	13.3	7.8
Other Income / PBT (%)	7.0	4.9	2.7	1.5
Effective Tax Rate (%)	(2.0)	18.9	18.0	22.0
NWC / Total Assets (%)	94.8	86.6	93.0	90.8
Inventory Turnover (days)	2,400	4,014	4,274	2,300
Receivables (days)	23.4	44.8	59.1	52.0
Payables (days)	212.2	372.5	693.2	637.3
D/E Ratio (x)	0.9	0.6	0.4	0.3
<b>Return/Profitability Ratio (%)</b>				
Recurring Net Income Margins	44.1	37.2	37.2	39.5
RoCE	11.0	6.2	7.7	13.9
RoNW	19.4	9.9	10.6	17.9
Dividend Payout Ratio	0.0	0.0	9.3	7.1
Dividend Yield	0.0	0.0	0.9	1.3
EBITDA Margins	45.1	52.5	48.9	52.6

Source: Company data, I-Sec Research

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)

**BUY:** +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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