



Geojit Sell Recommendation - HDIL

Recommendation	Sell
CMP	150.60
Target Price	123.00
Report Date	24-10-2008

We recommend to pare exposure in Housing Development and Infrastructure Ltd. (HDIL) as the company is under severe pressure due to the slowdown in real estate values and high cost of funds. The scrip currently ruling in the range of Rs.150 is expected slip back to Rs.123.

TDR Prices under pressure

Revenue from Transferable Development Rights (TDR) of HDIL's Mumbai Airport slum project is a major contributor to the profitability of the company. However, TDR prices are under severe pressure due to excess supply and it has already come down to Rs.1800 or lower /sq.ft as against the expected price range of Rs.2100 for FY 09.

The company's Mumbai Airport project has injected an additional supply of 2 million sqft TDR in the current year while the demand is slowing down due to many reasons. HDIL plans to develop 50million sqft of TDR over the next five years and the price pressure of TDR would be a drag on its profitability.

We estimate that the TDR revenue would account for 13% and 15% of the revenue stream of the company in FY 09 and FY10 respectively against the street expectation of 33% and 42%.

Short-term debt is another concern

HDIL has debt obligation of Rs.3820 crore and a major part of it is short term. The company has to repay Rs.1400 crore in the current year and another 1000 crore in FY10. Debt repayment capacity of the company would be under major strain because of the shrinkage in revenue. Even refinancing would be a difficult option as the cost of fund is high and this may exert more pressure on margins.

Property value may come down further

Property values are expected to come down by another 10% in the next two year as against the earlier expectation of a 5% dip. For the current year, the EPS is projected at 38.33, which is expected to edge up a little to Rs.39.14 in FY10 and to Rs. 63.23 in FY11. Earnings projections for FY11 include revenue from Andheri - Versova project, on which the litigation has been resolved.

The stock is expected trade lower than its net asset value (new NAV estimate is INR162 and the Mumbai Airport Phase 2 option value is Rs.89/share) because of the low earning expectations in the current difficult scenario. A better option in the real estate space is Indiabulls Real Estate, its current market price is lower than the gross cash per share of Rs.141.

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