

29 January 2009

Sujit Jain

sujitj@pinc.co.in

Tel: +91-22-6618 6379

Abhinav Bhandari

abhinavb@pinc.co.in

Tel: +91-22-6618 6371

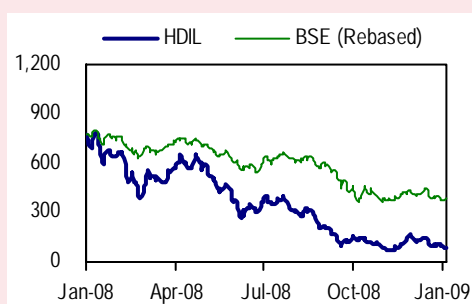
**STOCK DATA**

Market Cap	Rs26.4bn
Book Value per share	Rs170
Eq Shares O/S (F.V. Rs.10)	275.5mn
Median Vol (12 mths)	4.8mn (BSE+NSE)
52 Week High/Low	Rs793/74
Bloomberg Code	HDIL@IN
Reuters Code	HDIL.BO

**STOCK PERFORMANCE (%)**

	1M	3M	12M
Absolute	24.9	(32.4)	(87.7)
Relative	22.7	(34.2)	(75.9)

**STOCK PRICE PERFORMANCE**



The slowdown in property markets took toll on HDIL, which recorded a 37% YoY fall in sales to Rs3.1bn in Q3FY09. OPM was higher by 226 bps on the back of lower construction/land costs in SRS projects. However interest costs tripled to Rs1.4bn leading to a 68% fall in PBT to Rs1bn. HDIL managed to post a 32% decrease in net profit to Rs1.8bn owing to a write back of excess provision to the tune of Rs755mn and MAT credit entitlement of Rs337bn.

- FSI sale of 3 projects, where HDIL's share is 69%, viz. Andheri (W) SRS Scheme 1 & 2 (~0.7mn sqft) and ~40% of Malad (W) SRS project (40% of ~1.4mn sqft) at an avg realisation of Rs2,600/sqft contributed to ~75% of revenues. Sale of ~0.5mn sqft TDRs at ~Rs1,300/sqft accounted for the remainder.

- Sale of SRS FSI where work is still in progress (and hence Sec 80IB tax concessions could not be availed) led to higher effective tax rate of ~24% (vs 12% in Q3FY08 and 6% in H1FY09).

- HDIL restructured loans worth Rs6.5bn (falling due over next 9 months). ~Rs1.7bn in loans has been repaid and fresh loans of Rs2.8bn have been availed during Q3FY09 taking the total o/s loans to Rs40.6bn (net D:E of 0.9). Majority of the loans are availed from PSU banks and are linked to BPLR with avg. interest rate of ~14%. **However ~Rs16bn of loans including Rs12.8bn of NCDs are payable over next 12 months. HDIL is in negotiations with lenders for a possible restructuring.**

- Current TDR holdings stand at ~1mn sqft. Further, Four Bungalow Andheri (W) project of ~1.7 mn sqft saleable area (~60% offices, 15% retail and 25% residential) and Kurla residential project of ~0.8mn sqft will see presales of apartments (exp. rate of ~8,000/sqft for Andheri project and Rs7,000/sqft for Kurla project) in next 2 months. These two projects offer a revenue potential of ~Rs8bn over next two years. HDIL also has ~2mn sqft potential FSI in SRS schemes in Bandra (incl. ~0.7mn sqft already contracted for sale to Adani group). Its advances from customers worth Rs2.5bn include advances in SRS projects viz., Grande, Bandra (30k sqft) and Ghatkopar project (0.5mn sqft). These projects are crucial for revenue/cash generation for next 2 years.

**VALUATIONS AND RECOMMENDATION**

We revise downwards the NAV of HDIL's projects to Rs226/sh (vs Rs310/sh earlier) citing project delays and lower realisations due to accelerated FSI sales as opposed to finished product sales. We assign a 50% disc. to the NAV citing tight liquidity conditions and worsening property markets, especially in B2B segment (where HDIL sells TDRs to other developers). This leads to a target price of Rs113/sh offering an 18% upside from the CMP of Rs96. We maintain our 'HOLD' recommendation with a price target of Rs113.

**KEY FINANCIALS (CONSOLIDATED)**

Rs mn	Yr Ended (March)				
	2006	2007	2008	2009E	2010E
Net Sales	4,349	12,042	23,804	18,050	19,300
YoY Gr. (%)	569.7	176.9	97.7	(24.2)	6.9
Op. Profits	1,342	6,605	16,921	14,017	13,150
Op. Marg. (%)	30.9	54.8	71.1	77.7	68.1
Net Profits	1,173	5,482	14,098	9,120	7,375
Eq. Capital	500	1,800	2,143	2,755	2,755

**KEY RATIOS**

	Yr Ended (March)				
	2006	2007	2008	2009E	2010E
Dil. EPS (Rs)	4.3	19.9	51.2	33.1	26.8
ROCE (%)	55.9	91.1	44.3	19.4	15.7
RONW (%)	91.0	119.1	64.4	22.5	15.4
P/E (x)	22.5	4.8	1.5	2.9	3.6
EV/Sales (x)	1.5	1.7	2.0	3.4	3.1
EV/EBDIT (x)	4.1	3.1	2.8	4.1	4.3

Estimate Changes

Rs mn	FY09			FY10		
	Previous	Revised	% Ch.	Previous	Revised	% Ch.
Net Sales	26,400	18,050	(31.6)	30,675	19,300	(37.1)
Op. Profit	17,960	14,017	(22.0)	18,864	13,150	(30.3)
PAT	12,112	9,120	(24.8)	10,830	7,375	(31.9)
Diluted EPS	44.0	33.1	(24.8)	39.3	26.8	(31.9)

Financial Results for the quarter & nine months ended 31 December 2008 (Standalone)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
<b>Net Sales</b>	<b>3,138</b>	<b>4,966</b>	<b>(36.8)</b>	<b>13,614</b>	<b>14,048</b>	<b>(3.1)</b>	<b>23,799</b>
<b>Total Expenditure</b>	<b>969</b>	<b>1,646</b>	<b>(41.1)</b>	<b>2,634</b>	<b>5,787</b>	<b>(54.5)</b>	<b>6,898</b>
Increase in Inventory	(6,429)	(9,506)		(11,234)	(16,933)		(39,503)
Cost of Invest./ Fixed Assets	-	-		(8)	-		(180)
Cost of construction & devtpt	7,065	11,077	(59.5)	13,023	22,487	(67.8)	46,036
Other expenditure	283	45	526.1	695	156	346.3	430
Staff Cost	50	30	64.5	158	77	105.3	116
<b>Operating profit</b>	<b>2,169</b>	<b>3,320</b>	<b>(34.7)</b>	<b>10,981</b>	<b>8,261</b>	<b>32.9</b>	<b>16,900</b>
Other Income	209	199	5.3	644	381	69.1	525
<b>PBDIT</b>	<b>2,378</b>	<b>3,519</b>	<b>(32.4)</b>	<b>11,624</b>	<b>8,642</b>	<b>34.5</b>	<b>17,425</b>
Project specific interest	1,219	438		4,127	663		1,342
Interest	142	4	3,942.9	283	41	593.9	43
Depreciation	18	4	414.3	30	10	195.1	19
<b>PBT &amp; extra-ordinary items</b>	<b>1,000</b>	<b>3,074</b>	<b>(67.5)</b>	<b>7,185</b>	<b>7,928</b>	<b>(9.4)</b>	<b>16,021</b>
Provision for tax	244	372	(34.5)	592	906	(34.7)	1,916
MAT credit entitlement	1,092	-		1,092	1		-
<b>Net Profit</b>	<b>1,849</b>	<b>2,702</b>	<b>(31.6)</b>	<b>7,685</b>	<b>7,023</b>	<b>9.4</b>	<b>14,105</b>
Equity Capital (F.V. Rs 10)	2,755	2,143		2,755	2,143		2,143
Reserves (excl. rev. res.)	-	-		-	-		34,214
<b>EPS for the period (Rs)</b>	<b>6.7</b>	<b>12.6</b>		<b>27.9</b>	<b>32.8</b>		<b>65.8</b>
<b>Diluted EPS (Rs)</b>	<b>6.7</b>	<b>9.8</b>		<b>27.9</b>	<b>25.5</b>		<b>51.2</b>
Book Value (Rs)	-	-		-	-		169.7
<b>OPM (%)</b>	<b>69.1</b>	<b>66.8</b>		<b>80.7</b>	<b>58.8</b>		<b>71.0</b>
<b>NPM (%)</b>	<b>58.9</b>	<b>54.4</b>		<b>56.4</b>	<b>50.0</b>		<b>59.3</b>
<b>Expenditure (% of Net Sales)</b>							
Cost of construction	20.3	31.6		13.1	39.5		27.4
Other expenditure	9.0	0.9		5.1	1.1		1.8
Staff Cost	1.6	0.6		1.2	0.5		0.5

<b>Income Statement</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>
<b>Revenues</b>	<b>649</b>	<b>4,349</b>	<b>12,042</b>	<b>23,804</b>	<b>18,050</b>	<b>19,300</b>
<i>Growth (%)</i>	<i>1,016.5</i>	<i>569.7</i>	<i>176.9</i>	<i>97.7</i>	<i>(24.2)</i>	<i>6.9</i>
<b>Total Expenditure</b>	<b>408</b>	<b>3,007</b>	<b>5,437</b>	<b>6,882</b>	<b>4,033</b>	<b>6,150</b>
<b>Operating Profit</b>	<b>241</b>	<b>1,342</b>	<b>6,605</b>	<b>16,921</b>	<b>14,017</b>	<b>13,150</b>
Interest & dividend income	100	186	206	529	850	669
<b>EBIDT</b>	<b>341</b>	<b>1,527</b>	<b>6,811</b>	<b>17,451</b>	<b>14,867</b>	<b>13,819</b>
(-) Interest	166	176	546	1,408	5,880	5,097
(-) Depreciation	1	3	8	22	40	45
<b>PBT &amp; extraordinary items</b>	<b>173</b>	<b>1,348</b>	<b>6,257</b>	<b>16,020</b>	<b>8,947</b>	<b>8,677</b>
(-) Tax provision	27	170	771	1,922	1,987	1,302
<b>PAT before extraord. items</b>	<b>146</b>	<b>1,178</b>	<b>5,486</b>	<b>14,098</b>	<b>9,144</b>	<b>7,375</b>
Extr Ord Items	-	(5)	(4)	-	(24)	-
<b>Net Profits</b>	<b>146</b>	<b>1,173</b>	<b>5,482</b>	<b>14,098</b>	<b>9,120</b>	<b>7,375</b>
Fully diluted Eq. sh. O/s (mn no)	10.0	50.0	180.0	214.3	275.5	275.5
Book Value (Rs)	71	37	41	170	162	185
Basic EPS (Rs)	14.6	23.5	30.5	65.8	33.1	26.8
<b>Diluted EPS (Rs)</b>	<b>0.5</b>	<b>4.3</b>	<b>19.9</b>	<b>51.2</b>	<b>33.1</b>	<b>26.8</b>

<b>Balance Sheet</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>
<i>Equity Share Capital</i>	100	500	1,800	2,143	2,755	2,755
<i>Reserves &amp; Surplus</i>	611	1,366	5,542	35,189	41,838	48,272
<b>Net worth</b>	<b>711</b>	<b>1,866</b>	<b>7,342</b>	<b>36,415</b>	<b>44,593</b>	<b>51,026</b>
Total Debt	914	1,965	3,757	31,127	40,711	39,211
Deferred Tax liability	3	5	8	15	15	15
<b>Capital Employed</b>	<b>1,627</b>	<b>3,835</b>	<b>11,106</b>	<b>67,558</b>	<b>85,319</b>	<b>90,253</b>
Fixed Assets	33	94	277	687	653	680
Net current assets	1,018	2,640	9,232	64,932	80,267	85,023
Investments	577	1,088	1,578	1,915	4,400	4,550
Misc exp.	-	14	19	24	-	-
<b>Total Assets</b>	<b>1,627</b>	<b>3,835</b>	<b>11,106</b>	<b>67,558</b>	<b>85,319</b>	<b>90,253</b>

<b>Cash Flow Statement</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>
<b>PBT &amp; extra-ordinary items</b>	<b>173</b>	<b>1,345</b>	<b>6,251</b>	<b>16,020</b>	<b>8,947</b>	<b>8,677</b>
Depreciation	1	3	8	15	40	45
Interest & dividend inc.	-	(4)	(73)	(415)	(850)	(669)
Interest paid	1	101	40	43	5,880	5,097
Tax paid	(1)	(92)	(200)	(1,637)	198	(1,302)
(Inc)/Dec in working capital	(1,394)	(669)	(7,542)	(53,449)	(18,058)	(4,800)
<b>Cash from operations</b>	<b>(1,219)</b>	<b>664</b>	<b>(1,510)</b>	<b>(39,526)</b>	<b>(3,844)</b>	<b>7,049</b>
Net capital expenditure	(3)	(19)	(204)	(387)	(5)	(72)
Net investments	(250)	(497)	(420)	(225)	(2,485)	(150)
Interest recd	-	4	3	415	850	669
Others	-	(29)	-	-	-	-
<b>Cash from investing activities</b>	<b>(253)</b>	<b>(541)</b>	<b>(621)</b>	<b>(197)</b>	<b>(1,641)</b>	<b>447</b>
Issue of eq. shares	-	(18)	(11)	-	-	-
Security premium	500	-	-	16,793	-	-
Change in Loans	907	395	1,792	27,371	9,583	(1,500)
Eq. Dividend paid	-	-	-	(491)	(942)	(942)
Interest paid	(1)	(101)	(40)	(43)	(5,880)	(5,097)
Issue Proceeds	80	-	-	343	-	-
<b>Cash from financing activities</b>	<b>1,486</b>	<b>276</b>	<b>1,742</b>	<b>43,972</b>	<b>2,761</b>	<b>(7,539)</b>
<b>Inc/(Dec) in cash</b>	<b>14</b>	<b>399</b>	<b>(389)</b>	<b>4,249</b>	<b>(2,724)</b>	<b>(44)</b>

<b>Key Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>
OPM (%)	37.1	30.9	54.8	71.1	77.7	68.1
ROACE (%)	41.9	55.9	91.1	44.3	19.4	15.7
ROANW (%)	41.9	91.0	119.1	64.4	22.5	15.4
Sales/Total Assets (x)	0.4	1.1	1.1	0.4	0.2	0.2
Debt:Equity (x)	1.3	1.1	0.5	0.9	0.9	0.8
Current Ratio (x)	1.6	1.6	2.1	9.7	10.3	7.8
Debtors (days)	4	65	93	9	31	28
Inventory (days)	2,109	571	877	2,889	6,114	4,786
Net working capital (days)	564	219	276	982	1,601	1,586
EV/Sales (x)	2.9	1.5	1.7	2.0	3.4	3.1
EV/EBIDT (x)	5.4	4.1	3.1	2.8	4.1	4.3
P/E (x)	181.6	22.5	4.8	1.5	2.9	3.6
P/BV (x)	1.4	2.6	2.4	0.6	0.6	0.5

## T E A M

### EQUITY DESK

Gealgeo V. Alankara	Head - Institutional Sales	<i>alankara@pinc.co.in</i>	<i>91-22-6618 6466</i>
Sailav Kaji	Head Derivatives & Strategist	<i>sailavk@pinc.co.in</i>	<i>91-22-6618 6344</i>

### SALES

Anil Chaurasia	<i>anil.chaurasia@pinc.co.in</i>	<i>91-22-6618 6483</i>
Alok Doshi	<i>adoshi@pinc.co.in</i>	<i>91-22-6618 6484</i>
Sundeep Bhat	<i>sundeepb@pinc.co.in</i>	<i>91-22-6618 6486</i>
Gagan Borana	<i>gagan.borana@pinc.co.in</i>	<i>91-22-6618 6485</i>

### DEALING

Chandrakant Ware	<i>chandrakantw@pinc.co.in</i>	<i>91-22-6618 6327</i>
Ashok Savla	<i>ashok.savla@pinc.co.in</i>	<i>91-22-6618 6400</i>
Raju Bhavsar	<i>rajub@pinc.co.in</i>	<i>91-22-6618 6301</i>
Manoj Parmar	<i>manojp@pinc.co.in</i>	<i>91-22-6618 6326</i>
Hasmukh D. Prajapati	<i>hasmukhp@pinc.co.in</i>	<i>91-22-6618 6325</i>
Pratiksha Shah	<i>pratikshas@pinc.co.in</i>	<i>91-22-6618 6329</i>

### DIRECTORS

Gaurang Gandhi	<i>gaurangg@pinc.co.in</i>	<i>91-22-6618 6400</i>
Hemang Gandhi	<i>hemangg@pinc.co.in</i>	<i>91-22-6618 6400</i>
Ketan Gandhi	<i>ketang@pinc.co.in</i>	<i>91-22-6618 6400</i>

### COMPLIANCE

Rakesh Bhatia	Head Compliance	<i>rakeshb@pinc.co.in</i>	<i>91-22-6618 6400</i>
---------------	-----------------	---------------------------	------------------------



Infinity.com

Financial Securities Ltd

SMALL WORLD, INFINITE OPPORTUNITIES

Member : Bombay Stock Exchange & National Stock Exchange of India Ltd. : Sebi Reg No: INB 010989331. Clearing No : 211  
1216, Maker Chambers V, Nariman Point, Mumbai - 400 021; Tel.: 91-22-66186633/6400 Fax : 91-22-22049195

Disclaimer: This document has been prepared by the Research Desk of M/s Infinity.com Financial Securities Ltd. (PINC) and is meant for use of the recipient only and is not for public circulation. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

The information contained herein is obtained and collated from sources believed reliable and PINC has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The opinion expressed or estimates made are as per the best judgement as applicable at that point of time and PINC reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

PINC, its affiliates, their directors, employees and their dependant family members may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of PINC. The views expressed are those of analyst and the PINC may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither PINC, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with PINC and this document is not to be reported or circulated or copied or made available to others.

**Our reports are also available on Reuters, Thomson Publishers and Bloomberg PINV <GO>**