



# Housing Development and Infrastructure Ltd (HDIL)

## Outperform

Price (INR)	Target (INR)
261	348
Upside (%) ~	Price Yield
	34
	Dividend Yield
	0
	Total Upside
	34
Investment Period	9-12 Months
Sensex	183031
Nifty	5417
	30-08-2010

## Stock Details

Industry	Construction
Market Cap (INR Mn)	97212.6
O/S Shares (Mn)	366.84
Free Float (Mn)	104.74
52 Week H/L	411/202
Avg 1m daily Vol.	1040959
Face Value (INR)	10
Bloomberg	HDIL IN
Reuters	HDIL.BO
BSE Code	532873
NSE Code	HDIL

## Shareholding Pattern (%)

	Jun10	Mar 10	Dec09
Promoters	42.26	50.15	48.31
Institutions	29.19	29.36	30.45
Public	28.55	20.48	21.25

Source: BSE

## Price Performance (%)

	1M	3M	6M	12M
Absolute	-0.78	14	-13.35	-17.39
Relative	-0.82	7.27	-22.90	-30.43

Analyst: Kiran Ambre

## Investment Rationale

Revenue Visibility aided by sale of ongoing projects and TDRs ~ The Company aims to generate sales of `2600Cr, generating cash flows of `1200Cr from the ongoing projects in FY11. The company also plans to sell TDRs to the tune of 5-6MnSqFt with an average price of `2500 per sqft Generating cash revenue of `1500Cr. The company had received an average price of `2700 per sqft. The company aims to develop 6MnSqFt of residential property in FY11. The company also plans to enter in the South Mumbai market in the residential segment which is very lucrative in the residential sector, focusing on short to mid-term projects as opposed to long term to avoid money being locked up in these projects, providing visibility of cash flows in the future.

Pricing Strategy improving sales of new Projects ~ The Company has already managed sales to an extent of 75% of the projects launched this year, others launched in CY10 have been sold to the extent of 90-95% with exception of Metropolis in Andheri W, a Lease Model has been pre leased 20% and Majestic Bhandup, launched in Oct`09 has been sold to extent of 40-45% as of June 2010. Company's strategy of pricing its units at 10-20% lower than the average market rate helped it have successful launches and it would continue to adopt this strategy in future projects also.

Mumbai International Airport Ltd Rehabilitation(MIAL) Project on track ~ Company's MIAL Slums rehabilitation project is on track and Phase 1 is expected to be completed in Sept 2010. The company has generated ~12 MnSqFt of TDR, sales of which contributed > 90% of total revenue to the company. The Company expects to generate around 5-6 MnSqFt of TDRs annually. The Company will be using the 10-acre Bombay Oxygen land parcel and Popular CarBazaar land for the phase 2 of the project and recently it acquired 60-80acres for rehabilitation of slum dwellers. The total cost of land for the airport project is about Rs 4,000crore. This project is expected to generate total TDRs of ~ 45.

## Financial Snapshot

	FY 08	FY 09	FY 10	FY 11E	FY 12E
Net Sales	2379.87	1719.29	1491.99	1790.39	3133.18
EBIDTA	1741.97	1395.83	1255.88	1561.16	1864.13
EBIDTA M(%)	73.20	81.19	84.17	87.20	59.50
PAT	1410.51	721.20	602.30	806.98	1268.65
PAT M (%)	59.27	41.95	40.37	45.07	40.49
ROE %	64.64	17.80	10.40	10.78	14.94
ROCE %	39.45	16.92	11.30	11.91	13.85

**High Focus on SRS and Redevelopment projects** ~ The Company currently has 75% of its total 62.57 MnSqFt of total land are under construction as SRS and redevelopment. The profit generated from these sales is exempt from taxes where the built up area is 1000Sqft or less. Mumbai currently has 60% or 6500 Acres of habitable are under slums. A redevelopment project or a SRS projects are very attractive to the builders as the cost of SRS project including land cost is 2500-3500 Per SqFt as compared to 5000-6000 per SqFt in any other project. The builder is also not required to pay the cost of land upfront. The relaxation of floor space index (FSI) - the ratio of total floor area of the building to the size of the land - norms for redevelopment projects is one such incentive. In Santacruz Redevelopment project, HDIL had also got a percentage of land developed (25%) for its own use and TDR benefits which can be sold.

## Company Profile

Housing Development and Infrastructure Ltd (HDIL) is India's leading real estate company with significant operations in Mumbai Metropolitan Region (MMR). The company has completed more than 100 million sqft of construction in all verticals of real estate and has rehabilitated around 30,000 families in last one decade. The company has operations in every aspect of real estate business viz. residential, commercial and retail projects, to slum rehabilitation to land development. The company has a varied portfolio with residential projects range from apartment complexes to towers to townships. The Company's commercial projects comprise premium office spaces as well as multiplex cinemas. The company builds world-class shopping malls in the retail segment.

The Company is a leading player slum rehabilitation projects which is a niche business with a lot of challenges that require the builder to have specialty in handling the slum dwellers and the Government Agencies under a Government scheme administered by the Slum Rehabilitation Authority (SRA), offering development rights in exchange for clearing and redeveloping slum lands, while providing replacement housing for the displaced slum dwellers. The company was awarded the Mumbai International Airport Slum Rehabilitation project in October 2007, a critical component of the modernisation and expansion plan for Mumbai airport and one of the largest urban rehabilitation projects in India. HDIL has also diversified into energy, hospitality and the development of SEZs.

### HDIL Entertainment

The company entered the Multiplex business under the brand name Broadway through its wholly owned subsidiary, HDIL Entertainment. The company estimates there is a current shortfall ~40000 screens nationwide. HDIL Entertainment also plans to set up around 150 screens in major cities. The Company three screens multiplex at Vasai having 1001 seating capacities and a four screens multiplex at Kandivali having total seating capacity of 636 persons. The Vasai multiplex and the Kandivali multiplex commenced operations in February 2008 and June 2009, respectively.

### HDIL Leisure

HDIL Leisure, a wholly owned subsidiary of HDIL. The Company aims to own, develop and manage luxury, business and budget hotels, residential and mixed-use projects and fine dining restaurants in tier I and tier II cities. Currently we are in the process of setting up our first luxury hotel in Mumbai in Juhu. The company has also

planned two more hotels have been planned at the prime business locations of Bandra, Kurla Complex and Andheri Kurla Road in Mumbai.

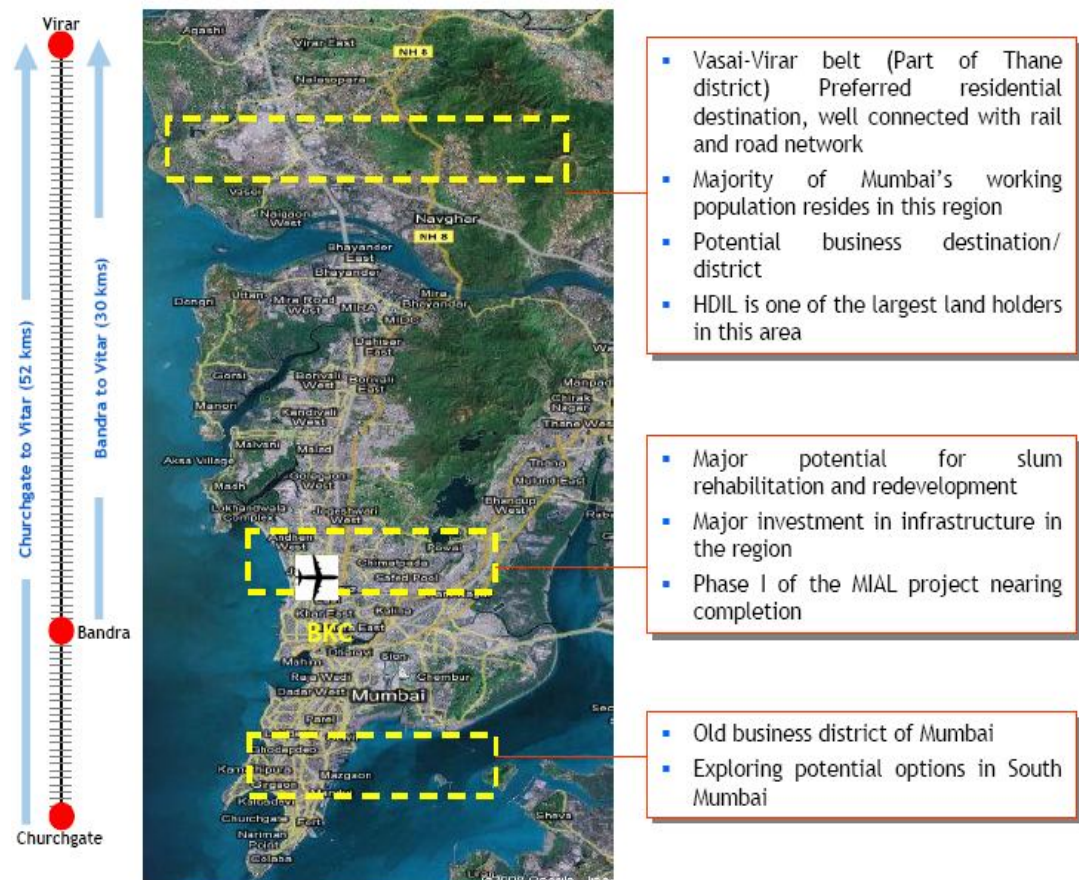
#### HDIL Oil & Gas Pvt. Ltd.

HDIL Oil & Gas is a 100% subsidiary of HDIL. This subsidiary was floated to explore opportunity in E&P & refining. While there were plans to bid for NELP VII blocks, the project is currently on hold with no guidelines.

#### Land Bank

The company currently is the leader with 90% of the land reserves in Mumbai Metropolitan Reserve (MMR). The company has total land bank of 220.86 MnSqFt as on 30<sup>th</sup> June 2010. The company currently has around 63 MnSqFt of salable land are under construction with 19 ongoing projects.

#### Details of company's land bank Reserve:



Source: Company

### The Real Estate Industry

Post the slump in FY2009, Real estate markets showed a sharp rise in demand and price. In most cases, real estate buyers preferred a ready vacant unit rather than a under construction unit. With improving prospects of the economy, the construction activities picked up most cities in India have already witnessed an increase in the volume of lease transactions in 1Q 2010 with NCR-Delhi, Mumbai and Hyderabad having recorded more than a million sq ft of leases each. The residential prices in Mumbai have

increased by ~ 30-50% in Mumbai. In Some cases, the prices are even seen at higher than the peak levels in Mumbai. This has negatively impacted affordability and thus the volumes are seen declining in some cases. There is an increased demand seen for 1BHK houses due to strain on the budgets. The increase in the prices is fueled by increase in the FDI in this sector, especially in the Metros. The FDI in this sector has soared from `171Cr to `13586Cr in FY2009-10. The sector attracted `737Cr FDI in April and May. The RBI has cleared FDI in 1182 projects since 2005 out of the total 1614 requests. Out of these, most of the clearances were given to Mumbai with tota of 422 cases followed by Delhi with 316 clearances followed by Bangalore, Hyderabad and Chennai with 225, 105 and 68 cases respectively. A large number of the firms asking for approval are based in Mauritius.

Average annual demand in the city is seen at 7-9 MnSqFt. Therefore there is potential demand in the city as seen by the registrations made at various registration offices in and around Mumbai, there are over a lakh houses registered, which is a huge number. Positive indications are also given by the companies financing housing loans having sanctioned loans to more than 4-5 lakh cases. The figure indicates that there is a demand. In case of MHADA housing scheme, out of the 8 lakh potential buyers who bought the forms in different segments, only 3 lakh were allotted housing units. The remaining 5lakh are considered potential buyers who are really serious in buying a property. Factors like increased demand for new units in Q1FY10 and subsequent increase in the prices of new and under construction units have brought correction in the rental properties thus subsequently improving their demand due to subsequent un-affordability of some new properties in Mumbai. This has increased the competition for the under construction units.

However, the long term perspectives of the markets remain positive, largely because of the India Growth Story. Increasing disposable income and the traditional belief in the real estate as an investment will be a boost to this sector in the long term. The Real Estate sector is expected to perform in tandem with the growth in the GDP. The Debt positions of the Balance Sheets have improved tremendously largely because of the cash generated by the new project launches. The Realty index has continued to underperform in the past year largely due to high level of inventory, debt and global economic concerns. The Realty index is down nearly 30% in the past 1 Yr compared to the BSE index. Many stocks still continue to underperform due to concern largely associated with increased retail prices and its effect on demand.

### Financial Snapshot

Year	FY 08	FY 09	FY 10	FY 11E	FY 12E
Net Sales	2379.87	1719.29	1491.99	1790.39	3133.18
Total Income	6382.67	3153.42	3191.55	3614.99	5462.51
Total Exp	4640.70	1757.59	1935.67	2053.82	3598.37
EBIDTA	1741.97	1395.83	1255.88	1561.16	1864.13
<i>EBITDA M (%)</i>	73.20	81.19	84.17	87.20	59.50
Depreciation	1.36	2.36	5.10	6.29	7.23
EBIT	1740.61	1393.47	1250.78	1554.88	1856.90
<i>EBIT M (%)</i>	73.14	81.05	83.83	86.85	59.27
NPAT	1410.51	721.20	602.30	806.98	1268.65
<i>PAT M (%)</i>	59.27	41.95	40.37	45.07	40.49
EPS	65.83	26.18	16.78	22.00	34.58
<i>ROE (%)</i>	64.64	17.80	10.40	10.78	14.94
<i>ROCE (%)</i>	39.45	16.92	11.30	11.91	13.85

## Valuation

We have used NAV method for valuation of this company and get the value per share as `349, which is as upside of 34% to CMP of `260. After the court's stay on the increase in FSI 1.33x from 1x, we believe there is a increase in potential demand for the TDR. However due to stabilisation of demand in the city, we expect the TDR prices also to stabilise. Earlier, the company sold the TDRs at average price of `2700 per sq ft. We believe this price is a little on the higher side. Therefore we have assumed average TDR price of `2500 per sq ft. We have also considered the unpaid cost of land at `650Crs and the operating expenses of the company at `2068.6Crs for FY11 and Net Debt of `3227.26Crs, for FY11. We have also taken into consideration of TDR and FSI sales from MIAL project, we have arrived at the valuation of `348 Per share, which is 34% premium to the current market price of `260. Therefore at `260 we initiate buy report for the company.

## Valuation Summary

### *NAV of ongoing projects*

Particulars	Per Share
MIAL	237.16
Retail	11.90
Residential	151.78
Commercial	66.61
Other SRS	43.62
Total	511.07
Less	
Operating Expenses	(56.39)
Net Debt	(87.97)
Cost of land unpaid	(17.72)
<i>Value Per Share</i>	<i>348.98</i>

*Source: Company*

### *Key Assumptions*

- TDR Sales of 6MnSqFt in FY201
- TDR price of 2500 per sqft
- 650 Crs Cost of land unpaid.

## Quarterly Performance

Year	Q1FY11	Q4FY10	MOM M	Q1FY10	YOY M
Net Sales	450.92	434.07	3.88	295.35	52.67
Total Income	485.14	464.46	4.45	318.61	52.27
Total Expenditure	183.54	206.95	-11.31	179.24	2.40
EBIDTA	301.60	257.51	17.12	139.37	116.40
<i>EBIDTA M(%)</i>	66.89	59.32		47.19	
Depreciation	1.92	2.15	-10.70	0.85	125.88
EBIT	299.68	255.36	27.82	138.52	-9.48
<i>EBIT M(%)</i>	66.46	58.83		46.90	
Interest	21.45	24.50	-12.45	16.88	27.07
PBT	278.23	230.86	40.27	121.64	-36.55
Tax	43.90	53.02	-17.20	14.17	209.81
PAT	234.33	177.84	57.47	107.47	-246.36
<i>PAT M(%)</i>	51.97	40.97		36.39	

## Income Statement

Year	FY 08	FY 09	FY 10	FY 11E	FY 12E
Net Sales	2379.87	1719.29	1491.99	1790.39	3133.18
Total Income	6382.67	3153.42	3191.55	3614.99	5462.51
Total Expenditure	4640.70	1757.59	1935.67	2053.82	3598.37
EBIDTA	1741.97	1395.83	1255.88	1561.16	1864.13
<i>EBIDTA M(%)</i>	73.20	81.19	84.17	87.20	59.50
Depreciation	1.36	2.36	5.10	6.29	7.23
EBIT	1740.61	1393.47	1250.78	1554.88	1856.90
<i>EBIT M(%)</i>	73.14	81.05	83.83	86.85	59.27
Interest	138.49	578.18	515.55	578.59	429.81
PBT	1602.12	815.29	735.23	976.29	1427.10
tax	191.61	94.09	132.93	175.60	165.68
NPAT	1410.51	721.20	602.30	806.98	1268.65
<i>PAT M(%)</i>	59.27	41.95	40.37	45.07	40.49
EPS	65.83	26.18	16.78	22.00	34.58
BVPS	169.76	162.17	198.36	214.12	248.70

## Balance Sheet

Year	FY 08	FY 09	FY 10	FY 11E	FY 12E
Share Capital	214.27	275.49	358.84	366.84	366.84
Reserves Total	3422.95	4192.15	6680.9	7487.883	8756.533
Total Shareholder's Funds	3637.38	4467.74	7117.84	7854.723	9123.373
Secured Loans	1946.08	4093.32	4051.72	4132.754	3306.204
Total Debt	3112.75	4143.32	4051.72	4132.754	3306.204
<b>Total Liabilities</b>	<b>6750.13</b>	<b>8611.06</b>	<b>11169.56</b>	<b>11987.48</b>	<b>12429.58</b>
Gross Block	55.31	62.93	190.53	209.583	241.0205
Accu Depre	2.61	4.9	9.83	16.11749	23.3481
Net Block	52.7	58.03	180.7	193.4655	217.6723
Capital Work in Progress	5.22	14.72	2.28	2.622	3.0153
Investments	212.55	302.92	596.48	685.952	788.8448
Inventories	5102.85	6441.7	8033.66	8902.353	9348.709
Sundry Debtors	55.83	165.4	200.72	230.828	207.7452
Cash and Bank	349.4	75.16	787.39	905.4985	1086.598
Loans and Advances	1634.25	2185.01	2208.1	1987.29	1788.561
Total Current Assets	7142.33	8867.27	11229.87	12025.97	12431.61
Current Liabilities	491.56	611.38	802.17	882.387	970.6257
Provisions	171.14	18.1	32.26	33.873	36.24411
Total Current Liabilities	662.7	629.48	834.43	916.26	1006.87
Net Current Assets	6479.63	8237.79	10395.44	11109.71	11424.74
Net Deferred Tax	-1.51	-2.4	-5.34	-4.272	-4.6992
<b>Total Assets</b>	<b>6750.13</b>	<b>8611.06</b>	<b>11169.56</b>	<b>11987.48</b>	<b>12429.58</b>

## Ratio Analysis

### *Profitability & Return Ratio*

Y e (March)	FY08	FY09	FY10	FY11E	FY12E
EBITDA M (%)	73.20	81.19	84.17	87.20	59.50
EBIT M (%)	73.14	81.05	83.83	86.85	59.27
PAT M (%)	59.27	41.95	40.37	45.07	40.49
ROE (%)	64.64	17.80	10.40	10.78	14.94
ROCE (%)	39.45	16.92	11.30	11.91	13.85

### *Working Capital & Liquidity*

Y e (March)	FY08	FY09	FY10	FY11E	FY12E
Receivable (days)	28.07	23.48	44.78	43.99	25.55
Inventory (days)	479.69	1225.44	1770.62	1726.34	1063.08
Current Ratio	10.78	14.09	13.46	13.13	12.35
Quick Ratio	3.08	3.85	3.83	3.41	3.06

### *Turnover Ratio*

Y e (March)	FY08	FY09	FY10	FY11E	FY12E
Gross Assets Turnover	59.37	29.08	11.77	8.95	13.91
Total Assets Turnover	0.61	0.22	0.15	0.15	0.26
Interest Coverage ratio	12.57	2.41	2.43	2.69	4.32
Adjusted D/E	0.86	0.93	0.57	0.53	0.36

### *Valuation Ratio*

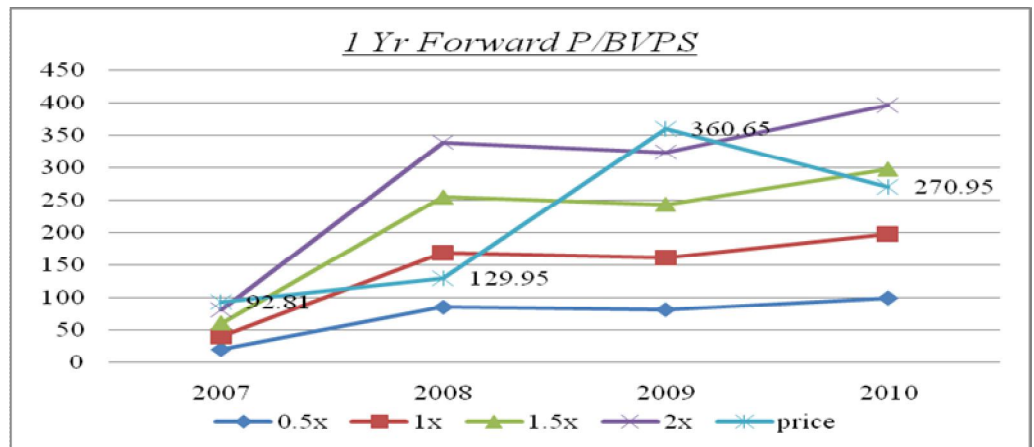
Y e (March)	FY08	FY09	FY10	FY11E	FY12E
EV/Sales	3.50	6.53	8.44	7.13	3.75
EV/EBITDA	4.78	8.05	10.03	8.18	6.31
PE	3.95	9.93	15.49	11.82	7.52
P/BVPS	1.53	1.60	1.31	1.21	1.05

### *DuPont Analysis*

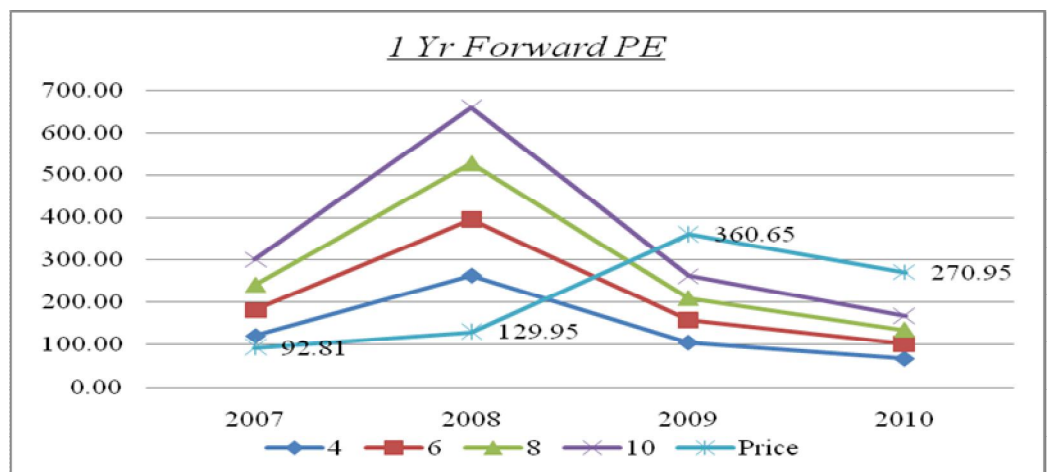
Y e (March)	FY08	FY09	FY10	FY11E	FY12E
Tax Burden	0.88	0.88	0.82	0.83	0.89
Interest Burden	0.92	0.59	0.59	0.63	0.77
EBIT M	73.14	81.05	83.83	86.85	59.27
Assets T/O	0.61	0.22	0.15	0.15	0.26
Financial Leverage	1.80	1.90	1.71	1.55	1.44
ROE (%)	64.64	17.80	10.40	10.78	14.94



## 1 Yr forward P/BVPS



## 1 Yr forward PE



## Valuation Matrix

Y e (March)	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
PE @ CMP	11.41	8.64	3.95	9.93	15.49	11.82	7.52
PE @ Target Price	15.32	11.59	5.30	13.33	20.79	15.86	10.09
EV/EBITDA @ CMP	10.17	7.49	4.78	8.05	10.03	8.18	6.31
P/Sales @ CMP	3.08	3.89	2.34	4.17	6.25	5.33	3.04
Sales/PS	84.43	66.86	111.07	62.41	41.58	48.81	85.41

The Realty index has continued to underperform in the past year largely due to high level of inventory, debt and global economic concerns. The Realty index is down nearly 30% in the past 1 Yr compared to the BSE index. Many stocks still continue to underperform due to concern largely associated with increased retail prices and its effect on demand. We have used NAV method for valuation of this company and get the value per share as ` 349, which is as upside of 32% to CMP of ` 265. After the court's stay on the increase in FSI 1.33x from 1x, we believe there is a increase in potential demand for the TDR. However due to stabilisation of demand in the city, we expect the TDR prices also to stabilise. Earlier, the company sold the TDRs at average price of ` 2700 per sq ft. We believe this price is a little on the higher side. Therefore we have assumed average TDR price of ` 2500 per sq ft. We have also considered the unpaid cost of land at ` 650Cr and the operating expenses of the company at ` 2068.6Cr for FY11 and Net Debt of ` 3227.26Cr, for FY11. We have also taken into consideration of TDR and FSI sales from MIAL project, we have arrived at the valuation of ` 348 Per share, which is 34% premium to the current market price of ` 265. Therefore at ` 265 we initiate buy report for the company.

## Stock Rating Scale

Particulars	Absolute Return
Outperform	>25%
Buy	20-25%
Accumulate	12-20%
Hold	7-12%
Reduce	< 7%

## Research Team

Name	E-mail id	Contact No.
Ritin Shah	ritin.shah@cniresearchltd.com	+91-22-28242220
Praveen lalani	Praveen.lalani@cniresearchltd.com	+91-22-28220323
Kiran Ambre	ambre.kiran@cniresearchltd.com	+91-22-28242220
Dishita Shah	dishita.shah@cniresearchltd.com	+91-22-28383889

### **Disclaimer Statement**

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document is solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. 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 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. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval.

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. 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 the Firm, 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 CNI RESEARCH LTD.

**CNI Research Limited, A/120, Gokul Arcade, Sahar Road, Vile Parle (East). Mumbai- 400 057.**