Rating Change NEUTRAL

Equity | India | Real Estate/Property
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Redevelopment woes; cut to Neutral

Bank of America Merrill Lynch

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Downgrade to Neutral on lack of triggers, cut PO to Rs175

We downgrade HDIL to Neutral and sharply lower our PO to Rs175 from Rs340, implying 8% potential upside. We have not assigned any value to the airport rehab project (Rs174/sh earlier) in our current estimate. We believe most of the downside from the delay in airport rehabilitation and the expected slowdown in Mumbai residential is already priced in. But upside likely capped as airport project approvals are unlikely in the next 12 months and cash flows would be unexciting given substantial investments in redevelopment / commercial projects in FY12.

Airport rehab to face significant delays

The indefinite delay in the airport project will severely impact cash flows and earnings near term. The project's future is dependent primarily on government's change in eligibility norm in the slum rehab policy which we think could well take over 9-12 months. Moreover, HDIL has already invested the surplus funds in other projects, and therefore would need to raise more equity/debt whenever approvals come through, a scenario which looks difficult for the next 12 months.

Unexciting cash flows in FY12 to cap upside

We expect HDIL's cash flow to be unexciting in FY12 due to drop in TDR sales, and investment in construction of commercial assets and in recently acquired redevelopment projects. However, the company is unlikely to face challenges on debt servicing since debt repayments start from FY13 while FSI sale for Rs13bn in 4QFY11 will take care of funding requirement for FY12.

Affordable housing and FSI sale protect downside

HDIL's increased focus on affordable housing and residential development will help reduce its dependence on volatile TDR/FSI and sustain earnings and cashflow over the next two years even in the absence of TDR sales. The sale of FSI for Rs13bn in 4Q will provide further comfort on liquidity in near term.

Stock Data

Price	Rs164.15
Price Objective	Rs175.00
Date Established	8-Mar-2011
Investment Opinion	C-2-8
Volatility Risk	HIGH
52-Week Range	Rs122.20-Rs329.40
Mrkt Val / Shares Out (mn)	US$1,512 / 415.0
Average Daily Volume	9,751,036
BofAML Ticker / Exchange	XGHSF / BSE
Bloomberg / Reuters	HDIL IN / HDIL.BO
ROE (2011E)	11.7%
Net Dbt to Eqty (Mar-2010A)	47.0%
Est. 5-Yr EPS / DPS Growth	-2.1% / NA
Free Float	61.0%

Key Changes

(Rs)	Previous	Current
Inv. Opinion	C-1-8	C-2-8
Inv. Rating	BUY	NEUTRAL
Price Obj.	342.00	175.00
2011E EPS	25.98	23.00
2012E EPS	38.60	23.96
2013E EPS	44.50	26.03
2011E EBITDA (m)	14,693.1	12,307.3
2012E EBITDA (m)	21,853.9	13,156.9
2013E EBITDA (m)	26,988.1	15,166.0

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	7,874	5,709	9,544	9,944	10,804
EPS	28.37	15.75	23.00	23.96	26.03
EPS Change (YoY)	-56.7%	-44.5%	46.0%	4.2%	8.6%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(47.34)	(31.24)	(29.94)	0.363	10.93

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	5.79x	10.42x	7.14x	6.85x	6.31x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	11.93x	12.07x	8.08x	7.56x	6.56x
Free Cash Flow Yield*	-19.15%	-16.46%	-18.24%	0.221%	6.66%

* For full definitions of *iQmethod* SM measures, see page 13.

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Refer to important disclosures on page 14 to 16. Analyst Certification on Page 11. Price Objective Basis/Risk on page 11. Link to Definitions on page 11.11027727

iQprofile SM Housing Development and Infrastructure

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	17,284	15,021	21,500	25,886	30,319
Gross Profit	8,706	8,550	11,931	13,286	15,318
Sell General & Admin Expense	(604)	(658)	(806)	(906)	(1,061)
Operating Profit	8,296	7,514	12,239	13,091	15,016
Net Interest & Other Income	(582)	(462)	(740)	(660)	(610)
Associates	0	(13)	0	0	0
Pretax Income	7,715	7,039	11,499	12,430	14,405
Tax (expense) / Benefit	159	(1,330)	(1,955)	(2,486)	(3,601)
Net Income (Adjusted)	7,874	5,709	9,544	9,944	10,804
Average Fully Diluted Shares Outstanding	275	359	415	415	415
Key Cash Flow Statement Data					
Net Income	7,874	5,709	9,544	9,944	10,804
Depreciation & Amortization	41	724	68	66	150
Change in Working Capital	(19,775)	(15,311)	(17,863)	(7,597)	662
Deferred Taxation Charge	9	28	41	52	76
Other Adjustments, Net	(616)	(1,075)	(1,183)	(777)	(910)
Cash Flow from Operations	(12,467)	(9,925)	(9,392)	1,689	10,782
Capital Expenditure	(576)	(1,286)	(3,033)	(1,538)	(6,244)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	362	345	1,183	777	910
Cash Flow from Investing	(214)	(941)	(1,851)	(762)	(5,335)
Shares Issue / (Repurchase)	612	1,614	(218)	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	9,924	18,029	5,135	0	(5,000)
Free Cash Flow	(13,043)	(11,212)	(12,425)	151	4,538
Net Debt	40,678	33,099	31,207	30,280	24,833
Change in Net Debt	13,062	(7,579)	(1,892)	(927)	(5,448)
Key Balance Sheet Data					
Property, Plant & Equipment	598	1,830	1,762	3,127	8,258
Other Non-Current Assets	3,128	5,248	8,282	8,389	9,352
Trade Receivables	1,669	2,030	4,712	3,546	4,153
Cash & Equivalents	755	7,918	1,810	2,737	3,184
Other Current Assets	86,225	103,244	133,225	142,540	143,739
Total Assets	92,375	120,270	149,791	160,339	168,687
Long-Term Debt	41,433	41,017	33,017	33,017	28,017
Other Non-Current Liabilities	30	63	104	157	233
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	6,693	8,761	23,562	24,113	26,581
Total Liabilities	48,156	49,841	56,683	57,287	54,831
Total Equity	44,218	70,429	93,108	103,052	113,856
Total Equity & Liabilities	92,375	120,270	149,791	160,339	168,687
iQmethod* SM - Bus Performance					
Return On Capital Employed	9.7%	6.2%	8.5%	8.0%	8.1%
Return On Equity	19.5%	10.0%	11.7%	10.1%	10.0%
Operating Margin	48.0%	50.0%	56.9%	50.6%	49.5%
EBITDA Margin	48.2%	54.8%	57.2%	50.8%	50.0%
iQmethod* SM - Quality of Earnings					
Cash Realization Ratio	-1.6x	-1.7x	-1.0x	0.2x	1.0x
Asset Replacement Ratio	14.1x	1.8x	44.7x	23.2x	41.6x
Tax Rate (Reported)	NM	18.9%	17.0%	20.0%	25.0%
Net Debt-to-Equity Ratio	92.0%	47.0%	33.5%	29.4%	21.8%
Interest Cover	14.3x	16.3x	16.5x	19.8x	24.6x
Key Metrics					

* For full definitions of *iQmethod* SM measures, see page 13.

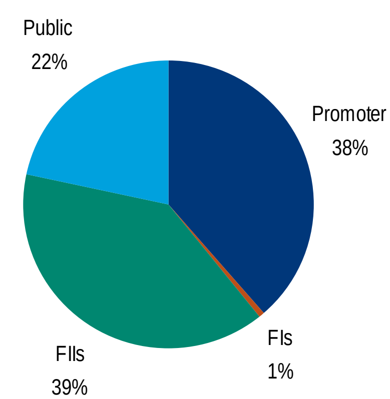
Company Description

HDIL is part of Wadhawan group which has been involved in real estate development in Mumbai Metropolitan region since last three decades. It is among the leaders in slum rehabilitation projects in Mumbai. It also has presence across all verticals including residential, office and retail

Investment Thesis

We believe most of the downside from delay in airport rehab and expected slowdown in Mumbai residential market is already in the stock. But the upside is likely capped as airport project approvals are unlikely in next 9-12 months and the cash flows would be unexciting given substantial investments required in redevelopment and commercial projects in FY12. Hence our Neutral

Chart 1: Shareholding as on Dec 2010



Source: BSE

Stock Data

Price to Book Value	0.7x

Downgrade to Neutral; PO of Rs175

We downgrade HDIL to Neutral rating and cut our PO to Rs175 from Rs340, offering 12% potential upside. Our PO is based on 15% discount to our NAV of Rs.206. The sharply lower NAV primarily factors in no value for the airport rehab project (earlier accounted for Rs174/sh or 38% of NAV) due to uncertainty on the subsequent phases and higher discount to longer dated land bank in outskirts of Mumbai. We believe most of the downside from the delay in this project and the expected slowdown in Mumbai residential market is already in the stock post a sharp 40% correction in the last six months. But the upside is likely capped as airport project approvals are unlikely in the next 9-12 months and cash flows would be unexciting given substantial capital investments in FY12.

Table 1: Expected positives and negatives triggers over next 12 months

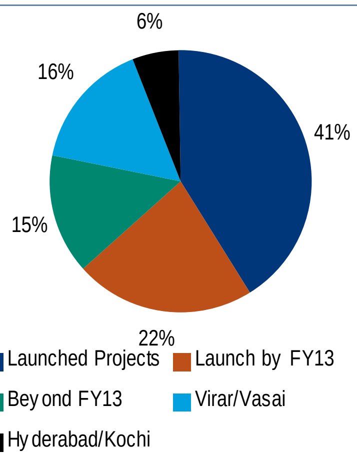
Key positives	Key negatives
Sale of FSI for Rs13bn in 4QFY11	Delay in approvals for Airport rehab project for next 12 months
Strong sales volume in affordable housing projects in FY12	Unexciting cash flows in FY12 to disappoint the street
No debt repayments over FY12, thus comfortable on liquidity	Sales volume in Mumbai projects to remain muted
Diversified cash flow stream as compared to 2008-09	

Source: BofA Merrill Lynch Global Research

NAV valuation - conservative approach

We have now valued only the projects where the regulatory risks are minimal and have provided higher discount to land banks expected to be monetized beyond 5-6 years, like the Vasai / Virar land bank or Kochi/Hyderabad. We have not assigned any value to the airport rehab project due to lack of clarity on the timing of the approval for the subsequent phases. Our PO of Rs175 is based on 15% discount to NAV of Rs206. We expect the stock to trade at 15% discount given its strong position in redevelopment/ rehab projects in Mumbai, high margin and comfortable liquidity. While the redevelopment projects are prone to delays, we believe our NAV factors in most of the risk.

Chart 2: Conservative NAV



Source: BofA Merrill Lynch Global Research

Launched projects account for Rs119/sh or 41% of the NAV for HDIL while the long dated land bank in Vasai/Virar and Hyderabad/Kochi account for Rs63/sh or 22% of the NAV. The remaining 35% is from projects which HDIL has acquired in the last six months or is expected to be launched over the next 2-3 years.

The NAV is highly sensitive to drop in residential prices as every 1% drop in residential price assumption leads to a 2% drop in NAV. But we have already factored in a 15-20% drop in prices for HDIL's projects in Mumbai.

Key changes from earlier NAV estimate

We highlight the key changes to our NAV estimate below-

- Airport rehab project not included in the valuation while earlier it accounted for Rs174/sh or 38% of our NAV
- Lower valuation for Virar/Vasai and Hyderabad/Kochi projects– We have lowered our valuation for longer dated projects/ land bank like Virar/ Vasai projects and Hyderabad/Kochi projects since we expect the monetization to remain very slow in these region and cash flows expected only post FY15-16. We have reduced the value by 35% by increasing the discount by 20-30% for these assets.

- We have increased the valuation of the residential assets by 10% given the acquisition of the new projects in 3Q and launch of the affordable housing project.
- Higher debt estimate given the recent investment in the new projects.

Table 2: NAV Summary

	Value (Rs m)	Value per share (Rs)	% of NAV (pre debt)
Projects in Mumbai			
-Residential projects	58,911	142	50.5%
-Retail projects	2,257	5	1.9%
-Commercial projects	29,255	70	25.1%
Projects in Vasai and Virar	19,163	46	16.4%
Projects in Hyderabad, Pune and Kochi	7,070	17	6.1%
Gross NAV	116,656	281	
Less			
- Debt/ (cash)	31,207	75	
- Outstanding land payments	0	0	
Net NAV	85,449	206	
Assuming 15% discount to NAV		175	
Price Objective		175	

Source: BofA Merrill Lynch Global Research

Table 3: India Real Estate Coverage

Company	Ticker	QRQ	Price Rs	Mkt cap (US$ m)	Rating	NAV Rs	Target disc to NAV	Current disc to NAV	P/E FY11E	P/E FY12E	P/B FY11E	P/B FY12E	ROE FY11E	ROE FY12E
Mumbai														
Oberoi	XRXOF	C-1-8	240	1,747	Buy	290	0%	17%	14	13	2.4	2.1	22%	17%
HDIL	XGHSF	C-1-7	160	1,468	Neutral	206	15%	22%	7	7	0.7	0.6	12%	10%
Indiabulls Real Estate	IBELF	C-2-8	107	975	Buy	167	15%	36%	24	21	0.5	0.5	2%	2%
NCR														
DLF	XVDUF	B-1-8	219	8,232	Buy	324	0%	33%	20	14	1.4	1.3	7%	10%
Unitech	UTKIF	B-2-8	35	1,981	Neutral	106	10%	66%	9	7	0.7	0.7	9%	10%
Jaypee Infra	XJAYF	C-1-8	59	1,808	Buy	123	15%	52%	5	6	1.6	1.3	43%	22%
Anant Raj	XNRJF	C-1-7	79	520	Buy	189	15%	58%	12	7	0.6	0.6	6%	9%
Omaxe	XOMXF	C-3-9	133	512	U/p	122	30%	-9%	21	17	1.4	1.3	7%	8%
APIL	ANSFF	C-3-8	36	125	U/p	89	30%	60%	5	4	0.3	0.3	7%	8%
Bangalore														
Sobha	SBDRF	C-1-7	265	596	Buy	529	15%	50%	13	10	1.5	1.3	11%	14%
Puravankara	XPJVF	C-1-7	105	491	Buy	159	15%	34%	16	12	1.4	1.3	9%	11%
Brigade	XBDGF	C-1-7	97	274	Buy	195	20%	50%	12	9	1.1	1.0	10%	12%

Source: BofA Merrill Lynch Global Research

Why not a Underperform

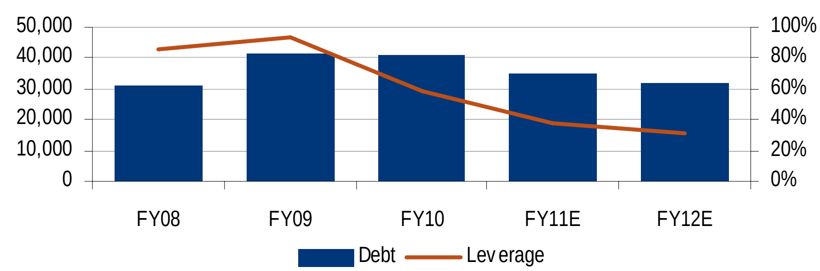
Delay in the airport project priced in

The sharp correction in the stock since November 2010 already discounts the delay and uncertainty over the airport rehab project. We have removed the project from our NAV valuation and therefore we do not expect any negative news flow on the project to impact HDIL's valuation.

Liquidity is comfortable

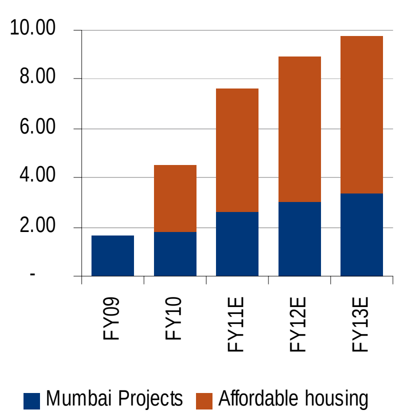
HDIL remains comfortable on liquidity as its debt repayments start beyond FY12. Unlike in FY09, majority of the firm's debt is longer term as HDIL, over the last 12-18 months, has refinanced most of its shorter-term debt to longer-term debentures/ debt with maturity of 3-5 years. The company will have sufficient funds from the recent FSI sale (around Rs11bn expected in the next 2-3 months) to prepay debt which is maturing in FY12. The balance sheet is in much better shape compared to FY09 as HDIL has raised substantial capital over the last two years, though debt at absolute levels remains high. HDIL is also targeting 20% reduction in debt over the next few quarters but it will be dependent on whether it invests in new redevelopment projects (Sion, Andheri).

Chart 3: High absolute debt levels but better maturity profile



Source: BofA Merrill Lynch Global Research

Chart 4: Increasing launches in development business (mn sq ft)

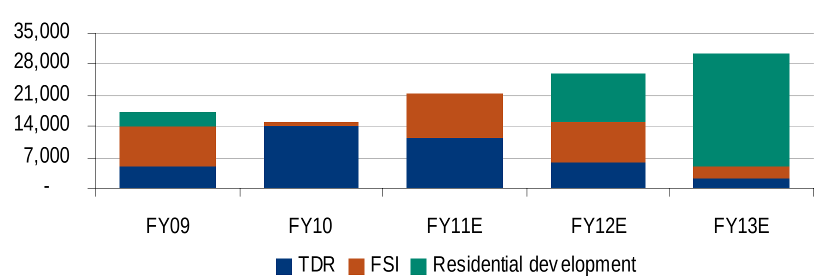


Source: BofA Merrill Lynch Global Research

Diversified cash flow stream - Moving away from TDR model

Over the last two years, HDIL has changed its model from being entirely dependent on highly volatile TDR/FSI sale to a more stable development and sale model. The sale of TDR and FSI are highly dependent on the liquidity with developers and thus tends to dry up as interest rates increase sharply and residential sales volume drop. But HDIL has slowly diversified its cash flow by launching 12mn sq ft (9mn sq ft pre sold) of residential projects with sale value of Rs55bn in the last two years. It is looking to further launch 18mn sq ft over the next 12-18 months to boost its development business.

Chart 5: Expect higher contribution from the stable residential developments (Rs mn)



Source: BofA Merrill Lynch Global Research

Therefore, cash flows from these projects and upcoming launches will help the firm fund the construction of projects, service its debt obligations and sustain earnings unlike in 2009 when it was entirely dependent on TDR/FSI sales for cash flows and earnings.

Trading at cheap P/E and P/B

HDIL is currently trading at 6x FY12E earnings and 0.6x FY12E book value, which compares well with other real estate developers which are trading at 13x FY12E earnings and 1.1x FY12E book value. During the last cycle, HDIL went as low as 0.35x forward book value but we believe it is much better placed this time around, given it has

- No liquidity issues
- Better earnings profile

Chart 6: Stock cheap on P/B multiple of 0.6x FY12

Source: BofA Merrill Lynch Global Research

Chart 7: Near to the bottom multiple

Source: BofA Merrill Lynch Global Research

Why not a Buy
Unexciting cash flows in FY12

We expect HDIL to continue to disappoint on cash flows in FY12 given large investments in commercial and redevelopment projects and lower TDR sales. We have cut our free cash flow estimate for FY12 and FY13 to Rs1.5bn and Rs5bn from Rs8bn and Rs18bn, respectively. In the absence of TDR sales, residential sales will be the key driver. But the construction expenses on the redevelopment and commercial projects are likely to eat up most of the surplus from the residential sales. There is a downside risk to our estimate for FY12 given that HDIL is looking to add more redevelopment projects in suburban Mumbai, such as with the projects in Sion and Andheri. Table 2 lists all the estimated cash inflow and outflows for HDIL for FY12 and FY13.

Table 4: Detailed Analysis of cash flows

	Area	Total	4QFY11E	FY12E	FY13E
Cash Inflows	mn sq ft	Rs mn	Rs mn	Rs mn	Rs mn
TDRs	3.3	9,240	1,400	5,600	2,240
Pre sold projects	9.0	30,000	2,500	12,500	12,500
Pre Sales - FY12	7.0	28,898		7,225	10,114
Pre Sales- FY13	10.0	33,274			8,319
FSI sale		11,000	8,000	3,000	
Total			11,900	28,325	33,173
Cash Outflow					
Rehab - airport			1,000	3,000	1,000
Construction Cost -Launched projects	12.2	18,000	1,350	5,400	5,400
Construction cost - New projects	17.2	21,536		3,230	6,461
Redevlopment cost	5.8	8,814	661	2,644	2,644
Commercial assets	5.7	11,440	858	3,432	3,432
Andheri/Malad redevelopment				2,000	2,000
Taxes			2,380	2,484	3,606
Interest Cost			1,400	4,610	3,860
Total			7,649	26,801	28,404
Cash Surplus			4,251	1,524	4,769

Source: BofA Merrill Lynch Global Research

Lack of TDR sales to impact cash inflow

TDRs have been a major source of cash inflow for HDIL in the last two years. We expect the sale of TDR to fall from 3.8mn sq ft in FY11 to 2mn sq ft in FY12 due to delay in approval for the airport project. This in turn would lead to sharply lower cash flows at Rs6bn in FY12 as against Rs11.5bn in FY11 from TDR sales.

Table 5: TDR sales

	FY10	FY11E	FY12E	FY13E
Sales Value - Rs mn	14,138	11,400	6,000	2,400
Sale Area mn sq ft	6.5	3.8	2.0	0.8

Source: BofA Merrill Lynch Global Research

Table 6: Large investment in Commercial Assets over next 3 years

Commercial Projects	Area - m sq ft	Investment Rs mn
Metropolis - Andheri	1.22	2440
Premier Kurla	2	4000
IT SEZ, Kochi	2.5	5000
Hotel	Keys	
Conrad Mumbai	240	1400
Crown Plaza Andheri	200	1500
Total		14340

Source: BofA Merrill Lynch Global Research

Investment in commercial assets a drag

HDIL continues to invest in creating office/hotel/commercial assets which require substantial investment during the construction phase. This, we believe, will be a drag on its cash flows. Also some of the investments– like hotel projects in Mumbai, IT SEZ in Kochi – are not very lucrative. Kochi is still struggling to establish itself as an IT destination and we don't expect rentals to be higher than Rs30-34/sq ft/month, while hotels are not a very high return / cash flow business. We expect HDIL to invest Rs3.5bn annually on the announced projects over the next three years.

HDIL is regarded as a redevelopment play and we believe there are better ways to play the commercial story – DLF/ Oberoi. Thus, investment by HDIL in commercial assets is not a positive for the stock in the medium term.

Redevelopment projects - capital intensive

HDIL is developing two redevelopment projects and recently added two more large projects. Earlier HDIL was predominantly into slum rehabilitation. We believe initial investment and expenses for the slum rehab project is lower than that for the redevelopment project. First, the developer has to pay to the current owners upfront fees, secondly the redeveloped units are much larger in size as compared to the slum rehab units and thirdly the competition is higher in redevelopment projects as compared to slum rehab projects.

The recent projects acquired by HDIL are expected to be capital intensive over the next 12-18 months, particularly the SVP Nagar – Andheri and Malad project. HDIL has already invested Rs6bn for acquiring the rights for redevelopment of these projects. We expect it to further invest Rs3-4bn over the next two years to create the redevelopment units before it could commercially sell its share of FSI/ or launch project for free sale.

Airport project key to turnaround

The airport project is the key for the fortune of HDIL and the indefinite delay will impact cash flows and earnings severely in the near term. The project had accounted for Rs175/sh of NAV and we believe the uncertainty is likely to be a drag on the stock performance. The future of the project is now dependent primarily on the government's change in slum rehab policy, which we think could well take over 9-12 months. We are removing the project from our valuation since there is no visibility on the approval of the subsequent phases and relocation of slum dwellers.

Approval dependent on change in eligibility norms

The subsequent phases and the relocation are now primarily dependent on the eligibility norm of the slum dwellers for the rehab unit. Currently only those slum dwellers who are residing in the slum since year 2000 are eligible for rehab units. But as per media reports only 60-65% of the families in the airport rehab may have been residing since 2000. Therefore, in order make the project a success, the government would need to relax the eligibility norm. This, we believe, is a major issue and the government in unlikely to decide in a hurry since it could also impact other slum rehab projects – like Dharavi rehab and the ones which are being undertaken by other developers.

Good news unlikely for next 9-12 months

The project has faced significant delays in the last 12-18 months. Even if the government decides on the policy, it will take a further 3-6 months for completing the survey to determine the eligible slum dwellers. Looking at the current political environment, it is unlikely that the government will take any decision which may appear to hugely benefit any particular developer.

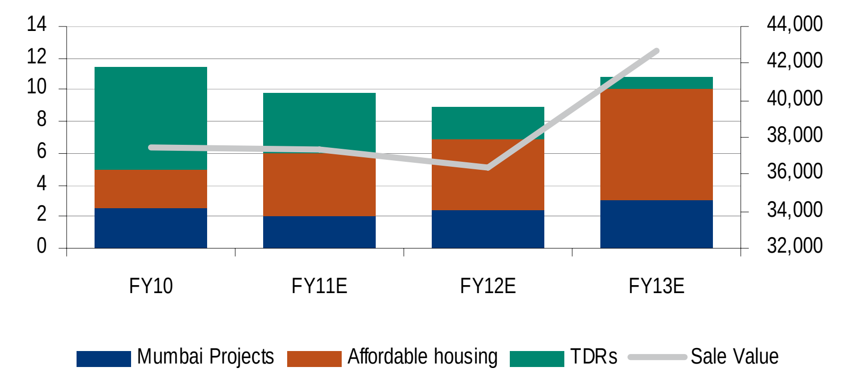
Ascribing no value to the project

In light of the above, we are now not ascribing any value to the project and would wait for the government's decision on the matter. HDIL will receive another 3mn sq ft of TDRs from the current phase over the next 12-15months, while we estimate it has to spend over Rs5bn for the construction of the 33,000 units. The sale of TDR from the project accounted for Rs14bn and Rs10bn of revenue in FY10 and 9MFY11, respectively. We now estimate this to fall to Rs6bn in FY12 and Rs2.4bn in FY13.

Affordable boost to sales volume in FY12

We have built in sales volume of 8.9mn and 10.8mn for FY12 and FY13, respectively, for HDIL, lower by 25% from our earlier estimate, primarily to factor in lower TDR sales for the next two years in the absence of approval for subsequent phases of the airport project. Further, we have increased the proportion of affordable housing in overall residential sales. Therefore we, expect the pre-sale value to remain flat in FY12 and grow by 15% in FY13. We think the strong volume from affordable housing will not be sufficient to drive the stock higher from current levels.

Chart 8: Sales volume breakup and flattish sales value in FY12



Source: BofA Merrill Lynch Global Research

But volume in Mumbai projects more important

HDIL plans to launch 12mn sq ft of affordable housing project and 6mn sq ft of Mumbai residential projects in the next 12-18 months. We believe the performance of the stock is dependent on the higher-margin Mumbai projects. In the last two years, the company has sold around 2-2.5mn sq ft annually in Mumbai, and we expect FY12 to be no different even though it plans to launch 6mn sq ft of projects over the next 12-18 months. Most of the Mumbai projects are redevelopment projects and hence prone to delays (Kandivili project was expected to be launched in 1HFY11, but still not launched). Secondly, the currently launched phases already have inventory, and so the subsequent launches will be delayed.

Table 7: Sale price for key projects

Project Location	Rs/sq ft
Kandivili	6,500
Goregaon	8,000
Andheri West	9,000
Kurla	7,000
Mulund	6,850
Santa Cruz	10,000

Source: BofA Merrill Lynch Global Research

The company's recent affordable housing project in the outskirts of Mumbai received very good response, having sold over 3.75mn sq ft in 3Q. Riding on this success, it is looking to launch similar projects over the next 12 months. We expect the demand to remain strong in these projects as HDIL had priced these attractively at around Rs2,000/sq ft.

Pricing correction factored in

We don't see any downside risk to our pricing assumptions since our estimates are already 15-20% lower than the current prevailing prices and only 15-20% higher than the bottom prices we saw in 2009.

Financials - Cut estimates to factor delays

We have cut our earnings estimate for FY12 and FY13 by 40-45% on the back of 30-35% reduction in our revenue estimate to factor in

- Sharply lower TDR sales - We are now factoring TDR sales of Rs6bn in FY12, against our earlier estimate of Rs15.6bn, and Rs2.5bn in FY13, against our earlier estimate of Rs15.6bn.
- Lower sales estimate for Mumbai projects – We have cut our pre-sales estimate for Mumbai projects from FY11-12 and built in higher sales from affordable housing projects.
- Lower EBIDTA margin – We have lowered our EBIDTA margin estimate for FY12/13 from 55% to 48% due to lack of TDR sales and higher contribution from affordable housing projects.

Table 8: Earnings Snapshot

	FY07A	FY08A	FY09A	FY10E	FY11E	FY12E	FY13E
Total operating income	12,042	23,804	17,284	15,021	21,500	25,886	30,319
-growth	0%	0%	0%	-13%	43%	20%	17%
EBITDA	6,620	16,921	7,797	7,893	11,125	12,380	14,256
-growth	0%	0%	0%	1%	41%	11%	15%
Net Income	5474	14037	7815	5653	9544	9944	10804
-growth		157%	-44%	-27%	67%	4%	9%
Margins							
Gross margin	57%	73%	52%	59%	57%	53%	52%
EBIDTA margin	55%	71%	45%	53%	52%	48%	47%
Net Income margin	45%	59%	45%	38%	44%	38%	36%

Source: BofA Merrill Lynch Global Research

Proposing change in accounting

HDIL currently follows project completion accounting unlike other developers who follow percentage completion. It is currently evaluating options to move to percentage completion from FY12. This, we believe, would also imply restatement of financials for earlier years and could lead to sharp increase in FY11 earnings. The change in accounting will also lead to change in our earnings estimates but is not likely to impact cash flows or valuation.

FSI sale to cushion some impact

HDIL had signed MOUs with a couple of developers to sell FSI in two of its projects in the last six months for around Rs13bn. It expects to complete the transaction as well as recognize the revenues in 4Q. But we expect one of the transactions to spill over to FY12. The FSI sale should help HDIL report 4% growth in FY12. But we don't expect more such deals as with falling volume and tighter liquidity, developers would be cautious on committing funds to new land purchases.

Price objective basis & risk

Housing Development and Infrastructure (XGHSF)

Our preferred valuation methodology is NAV, calculated by discounting the cash flow from each of the real estate projects.The price objective of Rs175 reflects a discount of 15% to our net NAV estimate of Rs206. We expect HDIL to trade at a discount of 15% to large developers like DLF on a discount to NAV basis, owing to its smaller size and exposure to only one market. Key assumptions underlying our NAV are WACC of 14.7%, capitalization rate of 11-12% and inflation of 5% from FY13 on both selling price and construction costs. On a P/E basis, at our PO of Rs175, the stock would trade at 6x FY12E earnings. Downside risks are lower-than-expected sales in residential projects and cancellation of FSI sale while the upside risks are sooner-than-expected approval for the airport project.

Link to Definitions

Financials

Click here for definitions of commonly used terms.

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India - General Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Anant Raj Industries Ltd	XNRJF	ARCP IN	Gagan Agarwal
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Coromandel International Ltd	CMDFF	CRIN IN	Prasad Deshmukh
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	DLF Limited	XVDUF	DLFU IN	Gagan Agarwal
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Fortis Healthcare Limited	XFFTF	FORH IN	Prasad Deshmukh
	Havells	HVLIF	HAVL IN	Sanjaya Satapathy
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Gagan Agarwal
	Jaypee Infratech	XJAYF	JPIN IN	Gagan Agarwal
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Oberoi Realty Ltd	XRXOF	OBER IN	Gagan Agarwal
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	SINTEX INDUSTRIES LTD	SIXDF	SINT IN	Prasad Deshmukh
	Sobha Developers	SBDRF	SOBHA IN	Gagan Agarwal
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
NEUTRAL				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	Housing Development and Infrastructure	XGHSF	HDIL IN	Gagan Agarwal
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Gagan Agarwal
UNDERPERFORM				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	APIL	ANSFF	APIL IN	Gagan Agarwal
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMUY	ICEM LX	Reena Verma Bhasin, CFA
	Jindal Saw	SWPFF	JSAW IN	Sanjaya Satapathy
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	Triveni Engg	TVIEF	TRE IN	Sanjaya Satapathy
	UltraTech Cemen	XDJNF	UTCEM IN	Reena Verma Bhasin, CFA
	Welspun Corp Ltd	XUQRF	WLCO IN	Sanjaya Satapathy

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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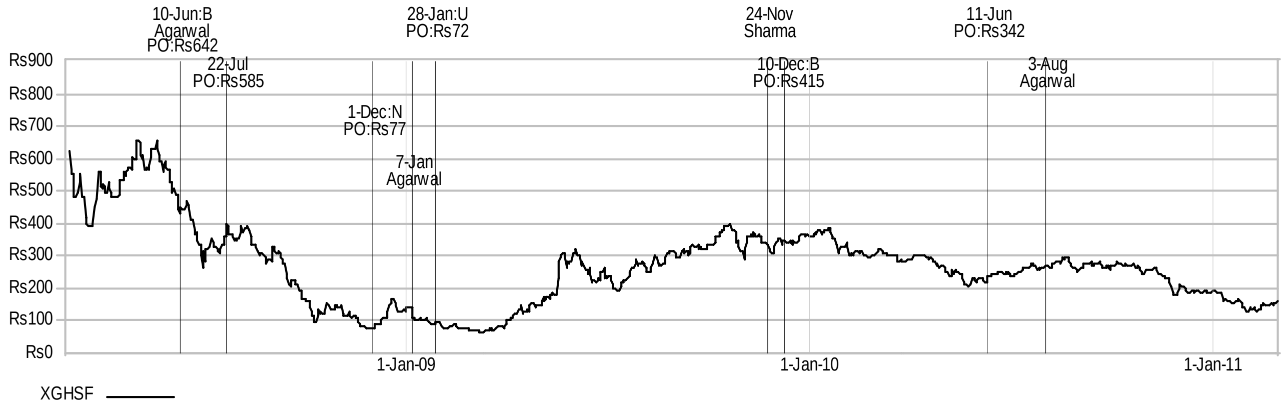
XGHSF Price Chart



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Investment Rating Distribution: Real Estate/Property Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	65	52.85%	Buy	17	27.87%
Neutral	28	22.76%	Neutral	4	14.29%
Sell	30	24.39%	Sell	6	20.69%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

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