

Housing Development & Infrastructure Ltd

Relative to sector: **Outperformer**

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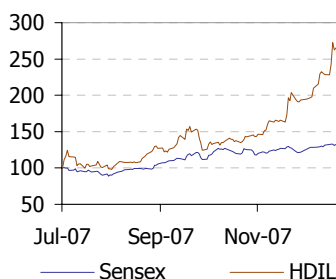
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

| | |
|------------------------|--------------------|
| No. of shares | : 214mn |
| Market cap | : Rs 283.2bn |
| 52 week high/low | : Rs 1,432/ Rs 474 |
| Avg. daily vol. (1mth) | : 1.6 mn shares |
| Bloomberg code | : HDIL IN |
| Reuters code | : HDIL.BO |

Shareholding (%)

| | Sep-07 |
|-------------|--------|
| Promoters | : 61.5 |
| FII's | : 9.3 |
| MFs / UTI | : 1.4 |
| Banks / FIs | : 1.0 |
| Others | : 26.7 |

Financial summary

| Y/E Mar | Sales (Rs mn) | PAT (Rs mn) | EPS (Rs) | Change YoY (%) | RoE (%) | Valuation* | (Rs) |
|---------|------------------|----------------|-------------|-------------------|------------|-----------------|-------|
| 2006 | 4,349 | 1,175 | 5.5 | 706 | 91.7 | SOTP Value (Rs) | 1,773 |
| 2007 | 12,042 | 5,477 | 25.6 | 366 | 119.4 | Price/ SOTP (x) | 0.75 |
| 2008E | 23,898 | 11,993 | 56.0 | 119 | 58.0 | | |
| 2009E | 47,443 | 25,339 | 118.4 | 111 | 54.2 | | |

Source: Company, ENAM estimates; * Base case scenario. SOTP Range: Rs 776 – Rs 1,246

FULL STEAM AHEAD

Our recent meeting with Housing Development & Infrastructure Limited (HDIL) has reaffirmed our belief in the company. As of date, HDIL's land bank stands at ~ 120mn sq. ft. across 37 projects to be developed over 5-7 years (excluding airport deal and SEZ projects) with ~80% within the Mumbai Metropolitan Region (MMR).

Key Takeaways

- **Increase in land rates in Bandra-Kurla Complex (BKC):** Given the recent auction of land by MMRDA at significantly higher rates (highest bid @ Rs 47,000/psf), we believe there is significant upside to HDIL's land reserves in BKC.
- HDIL has also renegotiated its MoU with the Adani group (for sale of 1.77mn sq. ft.) at a **~47% higher price of Rs 15,000/ psf.**
- Revision of the airport project valuation against the backdrop of the recent **increase in TDR rates in Mumbai.** (Slum TDR sold at record rates of Rs 3,275/- by MHADA in Jan'08)
- **Phase I of the airport project to be launched in Jan'08 to house 22,000 tenements** - TDR generation from current fiscal.
- **Launch of its ~8mn sq. ft. Kochi project by end Jan'08**
- HDIL is 1 of 19 players/ consortiums to be **short-listed for the highly lucrative Dharavi redevelopment project.**
- **Increase in land prices in Virar- Vasai** aided by GoM's intention to promote the region & the huge population explosion.
- Planned development of a **~4,500 acre multi-product SEZ in Virar-Vasai** and **~600 acre multi-service SEZ in Bhayander.**

Outlook

Our valuations do not factor upside from HDIL's SEZs or assign any option value to the Dharavi project even though we remain confident on HDIL qualifying for 1 of the 5 sectors. Given the recent land additions, increase in Mumbai realty prices, and faster execution of the airport project, we believe HDIL is currently undervalued and we maintain our sector **Outperformer** rating on the stock with a revised price target of **Rs 1,773.**

Valuations

Sum of parts approach: We believe a sum-of-parts approach is most appropriate to valuing HDIL currently. This approach gives due weightage to the execution ability of a company as well as the value of its premium land bank.

The key components of our methodology are: 1) **Land bank value:** Current market value, after conversion to commercial use 2) **Conversion margin:** Margin enjoyed from undertaking the core activity of construction, development and selling (does not include land gains) 3) **Airport project:** Discounted Cash Flow (DCF) approach.

Sum of parts approach

Best Case

| (Rs bn) | | Conversion Margin (Rs./psf) | | | |
|---------------------------|----|-----------------------------|-------|-------|-------|
| | | 1,200 | 1,400 | 1,600 | 1,800 |
| Conv. Margin Multiple (x) | 9 | 54 | 63 | 72 | 81 |
| | 10 | 60 | 70 | 80 | 90 |
| | 11 | 66 | 77 | 88 | 99 |
| | 12 | 72 | 84 | 96 | 108 |

Base Case

| (Rs bn) | | Conversion Margin (Rs./psf) | | | |
|---------------------------|----|-----------------------------|-------|-------|-------|
| | | 1,200 | 1,400 | 1,600 | 1,800 |
| Conv. Margin Multiple (x) | 9 | 43 | 50 | 58 | 65 |
| | 10 | 48 | 56 | 64 | 72 |
| | 11 | 53 | 62 | 70 | 79 |
| | 12 | 58 | 67 | 77 | 86 |

Final Valuations

| (Rs bn) | |
|-------------------------------|-------------|
| Conversion Margin | 70 |
| Land Value | 219 |
| Airport project | 136 |
| Total | 424 |
| Add: Net Cash | 6 |
| Best Case target price | 2010 |

| | |
|-------------------------------|-------------|
| Conversion Margin | 56 |
| Land Value | 219 |
| Airport project | 99 |
| Total | 373 |
| Add: Net Cash | 6 |
| Base Case target price | 1773 |

Source: ENAM Research

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