

Buy

Target Price: Rs404

CMP: Rs314*

Upside: 28%

*as on 17 February 2010

New slum rehab project positive

HDIL has received government approval for a new slum rehab project at Santacruz (W), Mumbai with saleable area of 1.2msf and rehab area of 0.7msf. We estimate this project to add Rs15/share to HDIL's NAV, which has led us to raise our FY11 NAV to Rs404 (earlier Rs389). Reiterate Buy, as we view the stock as the best long-term play on a resilient Mumbai market.

- **New project win an added positive:** The new slum rehab project is situated less than 5kms from Mumbai airport on Santacruz (W) Link Road and involves rehabilitation of about 2,000 families with total area of 0.7msf (350sft built-up area for each family) and saleable area of 1.2msf. The freesale component will be constructed on the same parcel of land and will not generate TDRs.
- **Assumptions:** We assume a launch price of Rs13,000psf (FY10) (considering the prevailing rates in the area) with 7% YoY increase in residential prices. Rehab cost assumption is Rs1,600psf while saleable area cost assumption is Rs2,000psf with 5% YoY cost increase for both components. HDIL expects to start rehab construction in 2 months and we accordingly assume an execution period of 3 years for both rehab (FY11-13) and freesale (FY12-14).
- **Incremental value of Rs15/share:** After adjusting for marketing expenses and full tax rate of 34%, we estimate incremental value of Rs5.7bn or Rs15/share (fully diluted). The new project win is in line with management's guidance of possible addition of new slum rehab projects in Mumbai city and suburbs in CY10-11.
- **Estimates unchanged:** We do not expect cash flows from this new project to flow to the income statement in FY10-11, as HDIL follows project completion method of accounting (revenues and costs from a project are recognized when construction is complete).
- **Maintain Buy:** We reiterate Buy on the stock and increase our FY11E NAV to Rs404/share (Rs389/share earlier) on the back of incremental value of Rs15/share from the new slum rehab project. We view the stock as the best long-term play on a resilient Mumbai market. Any significant delay in execution of slum rehab projects is the key downside risk to our NAV.

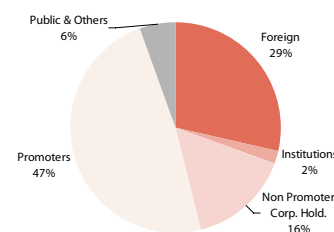
Adhidev Chattopadhyay
adhidev@centrum.co.in
91 22 4215 9632

Key Data

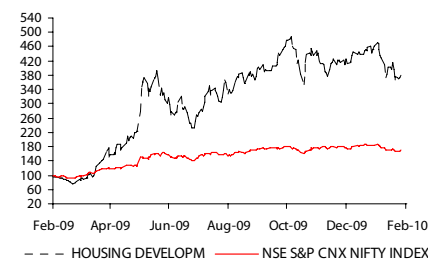
Bloomberg Code	HDIL IN
Reuters Code	HDIL.BO
Current Shares O/S (mn)	345.8
Diluted Shares O/S(mn)	371.9
Mkt Cap (Rsbn/USDbn)	108.8/2.4
52 Wk H / L (Rs)	411/63
Daily Vol. (3M NSE Avg.)	8,529,238
Face Value (Rs)	10

USD = Rs46.1

Shareholding Pattern (%)

As on 31st December 2009

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
HDIL	(17.1)	17.2	305.2
NIFTY	(7.5)	10.7	75.3

Source: Bloomberg, Centrum Research
*as on 17 February 2010

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY07	12,042	-	6,614	54.9	5,480	-	23.7	74.6	54.4	13.3	20.6
FY08	23,804	97.7	16,914	71.1	14,099	157.3	53.8	64.4	39.4	5.8	8.1
FY09	17,284	(27.4)	7,782	45.0	7,866	(44.2)	28.6	16.8	9.6	11.0	17.5
FY10E	14,633	(15.3)	7,364	50.3	5,730	(27.2)	16.6	10.1	6.8	19.0	18.5
FY11E	23,085	57.8	11,425	49.5	8,956	56.3	24.1	11.9	8.9	13.1	11.9

Source: Company, Centrum Research Estimates

Financials

Exhibit 1: Income Statement

Y/E March (Rsmn)	FY07	FY08	FY09	FY10E	FY11E
Revenues	12,042	23,804	17,284	14,633	23,085
Growth in revenues (%)		97.7	(27.4)	(15.3)	57.8
Operating expenses	5,428	6,890	9,502	7,269	11,660
% of net sales	45.1	28.9	55.0	49.7	50.5
EBITDA	6,614	16,914	7,782	7,364	11,425
y-o-y growth		155.7	(54.0)	(5.4)	55.1
EBITDA Margin	54.9	71.1	45.0	50.3	49.5
Depreciation & Amortisation	8	15	25	100	167
Other Income	206	529	540	567	595
EBIT	6,812	17,428	8,296	7,831	11,854
Interest expenses	561	1,408	582	669	659
EBT before ext items	6,251	16,021	7,715	7,162	11,195
Ext. Income/(Exp)	0	0	0	0	0
EBT	6,251	16,021	7,715	7,162	11,195
Provision for tax	771	1,922	943	1,432	2,239
Effective tax rate	12.3	12.0	12.2	20.0	20.0
Net Profit bef min int.	5,480	14,099	6,772	5,730	8,956
Minority interest	0	0	0	0	0
Net Profit after min int.	5,480	14,099	6,772	5,730	8,956
Ext. income/ (expenses)	0	0	1,094	0	0
Adjusted Net Profit	5,480	14,099	7,866	5,730	8,956
y-o-y growth		157.3	(44.2)	(27.2)	56.3
Adjusted Net Profit Margin	44.7	57.9	44.1	37.7	37.8

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY07	FY08	FY09	FY10E	FY11E
Share Capital	1,800	2,143	2,755	3,458	3,718
Reserves	5,542	34,272	41,463	65,577	77,369
Shareholders' fund	7,342	36,415	44,218	69,035	81,087
Minority Interest	0	0	0	0	0
Debt	3,757	31,127	41,433	33,433	32,933
Deferred Tax Liability	8	15	30	30	30
Total Capital Employed	11,107	67,558	85,682	102,499	114,051
Total Fixed Assets	254	596	749	1,674	2,058
Goodwill	23	91	478	478	478
Investments	1,578	1,915	2,491	2,491	2,491
Inventories	13,245	55,229	69,128	80,180	82,222
Debtors	3,113	566	1,669	2,405	3,162
Cash and bank balances	57	3,505	755	1,031	5,294
Loans and Advances	1,239	13,108	17,097	22,049	25,299
Total current assets	17,653	72,408	88,649	105,666	116,607
Current liabili. & provisions	8,588	7,476	6,693	7,819	7,590
Net current assets	9,065	64,932	81,957	97,848	109,017
Deferred Tax Asset	1	0	6	6	6
Misc. Expenditure	187	24	0	0	0
Total Assets	11,107	67,558	85,682	102,499	114,051

Source: Company, Centrum Research Estimates

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY07	FY08	FY09	FY10E	FY11E
Cash flow from operations					
Profit before tax	6,251	16,021	7,715	7,162	11,195
Depreciation	8	15	25	100	167
Interest expenses	(18)	(372)	112	102	63
Other Non oper.(inc)/exp.	6	(104)	14	0	0
Oper profit bef wor cap chg.	6,246	15,559	7,866	7,364	11,425
Working capital adjustment	(7,374)	(53,449)	(18,234)	(15,616)	(6,276)
Gross cash from operations	(1,128)	(37,890)	(10,369)	(8,252)	5,149
Direct taxes paid	(200)	(1,637)	(629)	(1,432)	(2,239)
Others	0	0	0	0	0
Cash from operations	(1,328)	(39,526)	(10,997)	(9,684)	2,910
Cash flow from investment					
Capex	(98)	(455)	(625)	(1,025)	(550)
Investment	(519)	(225)	(573)	0	0
Other Income	3	415	471	567	595
Cash gen from investing	(614)	(265)	(726)	(458)	45
Cash flow from fin act.					
Proc. from share capital	0	17,136	0	19,454	3,670
Borrowings/ (Repayments)	1,792	27,371	10,306	(8,000)	(500)
Interest expenses	(55)	(43)	(582)	(669)	(659)
Dividend paid	0	(491)	(751)	(367)	(574)
Others	(178)	(739)	0	0	0
Cash gen from financing	1,559	43,233	8,973	10,418	1,933
Net cash inc/ (decrease)	(383)	3,443	(2,750)	276	4,893
Opening cash balance	440	62	3,505	755	1,031
Closing cash balance	57	3,505	755	1,031	5,924

Source: Company, Centrum Research Estimates

Exhibit 4: Key Ratios

Y/E March	FY07	FY08	FY09	FY10E	FY11E
Margin Ratios (%)					
EBITDA Margin	54.9	71.1	45.0	50.3	49.5
PBIT Margin	55.6	71.6	46.5	51.5	50.5
PBT Margin	51.0	65.8	43.3	47.1	47.3
PAT Margin	44.7	57.9	44.1	37.7	37.8
Growth Ratio (%)					
Revenue	-	97.7	(27.4)	(15.3)	57.8
EBITDA	-	155.7	(54.0)	(5.4)	55.1
Net Profit	-	157.3	(44.2)	(27.2)	56.3
Return Ratios (%)					
ROCE	54.4	39.4	9.6	6.8	8.9
ROIC	63.8	43.3	10.2	7.1	9.4
ROE	74.6	64.4	16.8	10.1	11.9
Per share Ratios (Rs)					
Basic EPS	23.7	53.8	28.6	16.6	24.1
Fully diluted EPS	23.7	53.8	28.6	16.6	24.1
Book value	31.7	139.0	160.5	199.6	218.1
Cash per share	0.2	13.4	2.7	3.0	15.9
Dividend per share	0.0	2.5	0.0	0.8	1.2
Solvency Ratio (x)					
Debt-equity	0.5	0.9	0.9	0.5	0.4
Interest coverage ratio	12.1	12.4	14.3	11.7	18.0
Valuation (x)					
P/E	13.3	5.8	11.0	19.0	13.1
P/BV	9.9	2.3	2.0	1.6	1.4
EV/EBITDA	20.6	8.1	17.5	18.5	11.9
EV/Sales	11.3	5.7	7.9	9.3	5.9
M-cap/Sales	9.0	4.6	6.3	7.4	4.7

Source: Company, Centrum Research Estimates

Appendix A

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T. S. Baskaran	Managing Director & CEO	ts.baskaran@centrum.co.in	91-22-4215 9620/87
Research			
Girish Pai	Head–Equity Research	Strategy & IT Services	girish.pai@centrum.co.in
Dhananjay Sinha	Economist	Economy & Strategy	dhananjay.sinha@centrum.co.in
Niraj Shah	Sr Analyst	Metals & Mining, Pipes	niraj.shah@centrum.co.in
Mahantesh Sabarad	Sr Analyst	Automobiles/Auto Ancillaries	mahantesh.sabarad@centrum.co.in
Madanagopal R	Sr Analyst	Infra, Power, Capital Goods	r.madanagopal@centrum.co.in
Abhishek Anand	Analyst	Telecom, Education, Hotels	a.anand@centrum.co.in
Adhidev Chattopadhyay	Analyst	Real Estate	adhidev@centrum.co.in
Ankit Kedia	Analyst	Media, FMCG	ankit.kedia@centrum.co.in
Manish Kayal	Analyst	Infrastructure	manish.kayal@centrum.co.in
Nitin Padmanabhan	Analyst	IT Services	nitin.padmanabhan@centrum.co.in
Pranshu Mittal	Analyst	Food & Bev, Sugar & Retail	p.mittal@centrum.co.in
Rajan Kumar	Analyst	Cement	rajan.kumar@centrum.co.in
Rajagopal Ramanathan	Analyst	Banking & Financial Services	rajagopal.ramanathan@centrum.co.in
Rohit Ahuja	Analyst	Oil & Gas	rohit.ahuja@centrum.co.in
Saikiran Pulavarthi	Analyst	Banking & Financial Services	saikiran.pulavarthi@centrum.co.in
Siddhartha Khemka	Analyst	Logistics	siddhartha.khemka@centrum.co.in
Sriram Rathi	Analyst	Pharmaceuticals	s.rathi@centrum.co.in
Janhavi Prabhu	Associate	Food & Bev, Sugar, Retail	janhavi.prabhu@centrum.co.in
Jatin Damania	Associate	Metals & Mining, Pipes	jatin.damania@centrum.co.in
Komal Taparia	Associate	Economy & Strategy	komal.taparia@centrum.co.in
Rahul Gaggar	Associate	Hotels, Healthcare	rahul.gaggar@centrum.co.in
Rishabh Saraogi	Associate	Oil & Gas	rishabh.saraogi@centrum.co.in
Sarika Dumbre	Associate	Telecom	sarika.dumbre@centrum.co.in
Shweta Mane	Associate	Banking & Financial Services	shweta.mane@centrum.co.in
Vijay Nara	Associate	Automobiles/Auto Ancillaries	vijay.nara@centrum.co.in
Vishal Desai	Associate	IT Services	vishal.desai@centrum.co.in
Sales			
V. Krishnan		+91-22-4215 9658	v.krishnan@centrum.co.in
Ashvin Patil		+91-22-4215 9866	ashvin.patil@centrum.co.in
Siddharth Batra		+91-22-4215 9863	s.batra@centrum.co.in
Centrum Securities (Europe) Ltd., UK			
Dan Harwood	CEO	+44-7830-134859	dan.harwood@centrum.co.in
Michael Orme	Global Strategist	+44 (0) 775 145 2198	michael.orme@centrum.co.in
Centrum Securities LLC, USA			
Melrick D'Souza		+1-646-701-4465	melrick.dsouza@centrumsecurities.com

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Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

REGD. OFFICE Address

Bombay Mutual Bldg., 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001

Correspondence Address

Centrum House, 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098.
Tel: (022) 4215 9000