Indiabulls

Housing Development & Infrastructure Ltd.
IPO NOTE

EQUITY RESEARCH June 28. 2007

IPO Note

IPO Details	
Face Value	Rs. 10
Price Band (Rs)	430-500
Issue Opens	June 28, 2007
Issue Closes	July 3, 2007
Bloomberg	HDIL IN
BRLM	ENAM /Kotak Mahindra
Registrar to issue	Karvy Computershare Limited
Shares on offer for sale	29.7 mn

Pre issue shareholding pattern

Shareholders	% Stake
Promoters	73.1
Non-Promoter group	26.9

Post issue shareholding pattern

Shareholders	% Stake
Promoters	62.8
Non-Promoter group	23.1
QIBs	5.8
Other Public Category	8.3

Segmented Allocation	
QIBs	17,460,000
Non-Institutional	2,910,000
Retail	8,730,000
Employee Reserve Portion	600,000

IPO Details	Lower End	Upper End
Price Band	430	500
Equity Shares prior to issue (mn)	180.3	180.3
Fresh Issue of shares (mn)	29.7	29.7
Total Equity Shares (mn)	210.0	210.0
Share Capital (mn)	Rs. 2,100.0	Rs. 2,100.0
Implied market cap (mn)	Rs. 90,300.0	Rs. 105,000.0
Debt (mn) (as on 31/03/2007)	Rs. 3,756.9	Rs. 3,756.9
Cash (mn) (as on 31/03/2007)	Rs. 57.1	Rs. 57.1
Implied EV (mn)	Rs. 93,999.8	Rs. 108,699.8

HDIL Subscribe

Housing Development and Infrastructure Ltd. (HDIL) is a real estate developer operating primarily in the Mumbai Metropolitan Region. The company specializes in construction and development of residential, commercial and retail projects. It also concentrates on slum rehabilitation and land development, including development of infrastructure on land that is sold to other property developers. It has 32 ongoing and planned projects, with a total land reserve of 112.1 mn sq. ft valued at Rs. 220,390 mn. The company owns and has title to approximately 78.3 mn sq. ft., representing 69.9% of its land reserves. With the commencement of projects in Hyderabad and Kochi, the company is expanding its geographical presence.

The company is expected to raise Rs. 12.7 bn to Rs. 15 bn by offering 29.7 mn shares with a price band of Rs. 430-500 for Rs. 10 face value share. The company will utilise the proceeds for construction and acquisition of land and land development rights for its 32 ongoing and planned projects. The proceeds will also be used for the marketing and build up of HDIL's brand name.

Valuation and Recommendations

At the lower price band, HDIL is at 50.6% and 3.3% discount to industry leaders DLF's and Unitech's EV/sq. ft. respectively. However it is at a significant premium to its peers, Sobha Developers and Mahindra Gesco. At the higher price band, HDIL is at 11.8% premium to Unitech's EV/sq. ft.

On this basis, the issue looks expensive at the higher price band; however at the lower price band the premium over its closest peers is justified given HDIL's quality land bank reserves in Mumbai.

Based on our analysis, using DCF and relative valuation techniques we are of the view that the issue has a potential upside at the lower price band. We recommend our investors to subscribe to the issue.

Peer group comparison

Valuation Analysis

	Total land reserve (mn sq. ft.)	EV / Area sq. Ft.	EV / Revenue	EV / EBITDA	P/BV
DLF	574.0	1,696.9	4.2	7.3	7.8
Unitech	482.0	867.5	18.9	34.8	158.7
Sobha developers	316.0	212.9	8.5	27.5	7.4
Mahindra Gesco	50.8	466.2	6.1	15.7	2.9
HDIL					
Lower price band	112.1	838.5	7.8	14.4	4.5
Higher price band	112.1	969.7	9.0	16.7	4.7
Premium / (Discount) to DLF					
Lower Price Band		(50.6%)	87.7%	98.1%	(42.1%)
Higher Price Band		(42.9%)	117.1%	129.0%	(38.8%)
Premium / (Discount) to Unitech					
Lower Price Band		(3.3%)	(58.8%)	(58.6%)	(97.2%)
Higher Price Band		11.8%	(52.3%)	(52.1%)	(97.0%)
Premium / (Discount) to Sobha Developers					
Lower Price Band		293.9%	(7.9%)	(47.6%)	(39.0%)
Higher Price Band		355.5%	6.5%	(39.5%)	(35.6%)
Premium / (Discount) to Mahindra Gesco					
Lower Price Band		79.9%	28.0%	(8.3%)	53.8%
Higher Price Band		108.0%	48.0%	6.1%	62.3%

NAV

The issue price band of Rs. 430 - 500 is at 51% - 58% discount to our NAV estimate of Rs. 1,030 per share. We believe that the issue is priced at a discount considering the fact that a majority of the company's operations are concentrated in Mumbai and the company's inexperience in undertaking projects under Retail, Hospitality and SEZ segments of real estate sector. Other risk factors include excessive government regulations and intervention in the slum reconstruction and rehabilitation scheme which may jeopardize its land acquisition and development plans.

IPO

Issue details

HDIL plans an initial public offering of 29.7 mn equity shares. As of June 18, 2007, the promoter and promoter group held 73.1% of the issued and paid-up share capital of the company. After the issue, the promoters will own 62.8% of the post-issue paid-up equity share capital. There is a green shoe option of up to 4.45 mn equity shares. 0.6 mn shares have been reserved for eligible employees, 5.8% of the net issue has been reserved for allotment to QIBs, 23.1% for non-promoter group and 8.3% for the other public category.

Issue objective

The IPO is being carried out to raise funds for financing the company's projects in the Mumbai Metropolitan Region (MMR) as well as other regions in Hyderabad and Kochi. The proceeds shall be used in the following ways:

- Rs. 1,288 mn of the net proceeds of the issue will be used to finance the acquisition of land or land development rights for the company's 32 ongoing and planned projects
- Rs. 11,984 mn of the net proceeds of the issue will be used to finance the construction of its 32 ongoing and planned projects. These funds will be deployed from FY08 to FY10
- General corporate purposes which include the marketing and build up of HDIL's brand name.

Promoters

The promoters of the company include Mr. Rakesh Kumar Wadhawan**,** Mr. Sarang Wadhawan, Mr. Kapil Wadhawan and Mr. Dheeraj Wadhawan. Mr. Rakesh Kumar Wadhawan is the founder of the Wadhawan Group. He has over 30 years of experience in the real estate and infrastructure industry. The Wadhawan Group has many private companies operating under its banner such as Privilege Power and Infrastructure Pvt. Ltd., Dinshaw Trapinex Builders Pvt. Ltd. and Wadhawan Holdings Pvt. Ltd.

Industry Overview

Great opportunities in the realty industry

The real estate sector has been experiencing a boom and has reached the $12 bn mark. This sector is expected to grow at over 30% yoy. With the GDP growing at an average rate of 8.2% over the last three years, the middle income segment of the population has been expanding rapidly, along with rising purchasing power and urbanization. As per the 10th Five Year Plan, there will be a housing shortage of 22.7 mn units by 2007. All these factors should ensure that an estimated 14 bn sq. ft. of real estate is developed in the next five years, with an investment of over $200 bn.

Demand for office space in India has doubled over the past three years to 100 mn sq. ft., exhibiting a compounded annual growth rate of 26%. Going forward, demand is estimated to grow at an annual rate of 20-25% over the next 10 years reaching 500 mn to 650 mn sq. ft. This growth has been powered by growth in the IT and ITES sector. Recent trends depict shift from the central business districts (CBDs) towards the suburbs and peripheral locations and Tier-II and Tier-III cities.

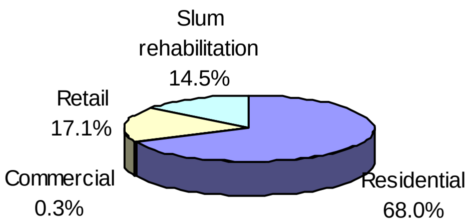
With changing demographics and better standard of living, the retail sector also holds high potential for future growth. 'The Economist' estimates that this sector would be worth $8-9 bn by 2010.

Another segment that is expected to gain momentum is the hospitality sector. The Ministry of Tourism of India, has forecasted that there will be 2.9 mn hotel rooms required in India by 2010. From the real estate perspective, the biggest deterrent in the growth in this segment could be the delay in further relaxation of FDI norms in the sector.

SEZs have also emerged as the new investment destination. It is expected that growing office space demand will be satisfied though SEZs. The number of approved SEZs has reached to 267 on May 31, 2007.

Investment Rationale

Ongoing Saleable Area (in mn .Sq. ft.)

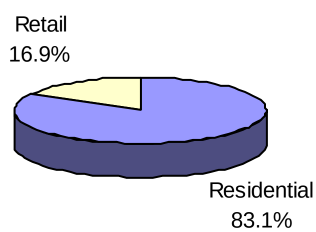


Stronger earnings growth due to quality land bank

On May 31, 2007, HDIL had about 112.1 mn sq. ft. of land reserves, which included about 45.5 mn sq. ft. of saleable area for its 21 ongoing projects and about 66.6 mn sq. ft. of saleable area for its 11 planned projects. Much of this developable area has come from the company's slum rehabilitation activities, under which a builder is allowed to build additional space in return for free housing given to slum dwellers. HDIL has undertaken nearly 40% of the slum rehabilitation projects in Mumbai and has developed 5.5 mn sq. ft to date. It also has a 6.4 mn sq. ft slum rehabilitation project under development.

Large land reserves in Mumbai and its outskirts account for 82.8% of HDIL's property of 112.1 mn sq. ft. It currently has nearly 1 mn sq. ft. of land in Mumbai's popular business area, the Bandra Kurla complex (BKC), whose capital value is Rs. 24,000 per sq. ft. It had sold part of this space to Gujarat's Adani Group in May, 2006 for Rs. 22,500 mn, making this India's biggest land deal.

Planned Saleable Area (in mn Sq. ft.)



Benefits from the slum reconstruction and rehabilitation scheme (SRS)

The government of Mumbai subsidizes the clearance and construction under the slum reconstruction and rehabilitation scheme. Under this scheme, HDIL benefits by being allowed to develop a portion of former slum land for its own purposes. It may also obtain transferable development rights (TDRs) from the government. These TDRs may be used to develop government or private land elsewhere in Mumbai north of the slum land concerned otherwise it may be sold by HDIL to other developers. Under the SRS, the Floor Space Index (FSI) is generally around 2.5, as against a normal FSI of 1.33, thereby making SRS development more attractive for the company.18.8% of the land owned by HDIL is under SRS. Moreover the company has an established reputation with slum dwellers for fair and efficient execution of such projects which has enhanced its ability to obtain their consent for the successful execution of the SRS projects.

Lucrative market in Mumbai

In Mumbai, financial institutions and IT/ITeS companies have generated demand for office space across the city and particularly in CBD (Nariman point, Fort, Ballard estate), Navi Mumbai, Powai, and Malad. Yields on commercial properties have been between 9-11% and are expected to remain at this level. With 1 mn sq. ft. of land in the Bandra-Kurla complex (east) and land in central and western Mumbai, HDIL is expected to be well positioned for the future.

The residential market in Mumbai is also experiencing high demand, especially in the suburban areas, due to factors like low rental rates, cheaper land, and better connectivity through a good road network. HDIL has acquired substantial quantity of land in these areas.

Changing demographics

Changing demographics in the country have fuelled growth in the realty sector. Growth of IT and ITeS has brought about new trends and has propelled the growth rate of urbanisation in the country. With higher disposable incomes and smaller families, residential real estate is growing rapidly, accounting for approximately 80% of the development in the real estate sector. Moreover, easy accessibility to loans by individuals has further increased the demand for residential units. Due to the expected potential for growth, HDIL has planned to develop 55.3 mn sq. ft. of land in Mumbai in the next 1-5 years.

Risks and concerns

High concentration of revenues from MMR

HDIL has its core business advantage and a majority of its land holdings in Mumbai. Given the limited availability of land, increased competition within Mumbai from domestic and international players may adversely affect the company's business, financial condition, and pricing power. The company has also entered into the retail segment recently, wherein it plans to construct hotels and mega-structure complexes. However, the company is new in this field and does not intend to own and operate malls. Its ability to develop and sell retail space in malls is of critical importance for this new venture.

Limited experience in new markets and geographical areas

The company has operated in Mumbai since its inception and has only recently started venturing into other cities. The presence of national developers with greater financial strength and economies of scale may make HDIL's foray into other territories difficult.

Regulation by the RBI and the State governments

Banks now charge developers about 9.25 to 10% for loans based on floating rates and close to 11% for loans disbursed on a fixed rate arrangement. High interest rates will make new homes more expensive. With both property prices and interest rates rising, it is likely that some potential buyers may defer their purchase decision. Also, it will increase the cost of procurement of land for development by the company.

There are various laws and regulations that govern the activities of housing developers like the Urban Land (Ceiling and Regulation) Act, development control regulations, Maharashtra Slum Area Act, which may hinder HDIL's smooth course of operations. Adherence to these laws may also cause delays in getting approvals and licenses.

Uncertainty in success of SEZ

Success of the SEZ will depend upon the company's ability to assemble contiguous plots of land to create areas large enough to be used for manufacturing or other commercial purposes. Failure in of acquisition developable land will affect the future growth of the company.

Outlook

The company, with its high value land bank, is prepared to cash-in on the boom in the realty sector. Most of this profit is expected to be from the sale of housing units and TDRs/FSIs. The company now plans to expand its portfolio by entering into the retail sector which is still in its nascent stage. The company also plans to undertake SRS and residential projects in other parts of the country. Based on our analysis of the business and valuation along with the industry's growth prospectus, we believe that the issue has a potential upside at the lower price band. We recommend our investors to subscribe to the issue.

Company Background

HDIL is part of the Wadhawan Group (formerly known as the Dheeraj Group) which has been in the real estate development business in MMR for around three decades. The Company was incorporated as Housing Development and Improvement India Private Limited on July 25, 1996 and was later converted into a public limited company. On August 29, 2006, the name was changed to Housing Development and Infrastructure Limited.

HDIL's basic strategy of operation is continued expansion of land reserves, portfolio diversification, geographic expansion, and slum rehabilitation. Since incorporation in 1996, HDIL has developed 23 projects covering approximately 11 mn sq. ft of saleable area. It has also constructed an additional 1.9 mn sq. ft. of rehabilitation housing area under SRS. This is of significant importance to the company as it receives most of its TDRs through SRS that it can sell to other developers. The company earns 49% of its revenue from the sale of its TDRs. The company is into commercial, residential, and retail projects and has 32 ongoing or planned projects in hand. It also intends to develop projects like hotels, special economic zone developments, and mega structure complexes. HDIL usually follows a "build and sell" model for the properties it develops. The company has planned projects in other parts of the country like Hyderabad and Kochi as a part of its diversification strategy.

Currently, 50.7% of HDIL's business comes from infrastructure development, while the residential complexes segment contributes 18.4% and commercial business 5.9%, with 4% coming from the retail segment. Slum redevelopment activities account for the rest.

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