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Housing Development & Infrastructure HDIL IN

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RESULTS FIRST LOOK

HDIL's 2QFY12 earnings missed our estimates owing to a 5% miss on revenues and higher-than-expected interest and depreciation costs. The company alluded to a tight liquidity situation affecting cash flows on its FSI sales done last year to other developers. This has resulted in net debt being reduced only 3% q-q and could result in HDIL missing its target of reducing debt by 15%-20% y-y in FY12. The positive aspect is the diversification of revenues away from TDRs with recognition of its first completed project and FSI sales, momentum on which will be picked up in FY13F.

Price target: 235.0 INR **Price (11 Nov 2011): 90.9 INR**

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2QFY12- Diversification of revenues a positive, cash flows still not enough to meet debt reduction target

- **Earnings vs. our Forecast:** **BELOW**

Likely Impact:

- **Earnings Estimates:** **NO CHANGE**
- **Dividend Estimates:** **NO CHANGE**
- **Price Target:** **NO CHANGE**
- **Long-term View:** **CONFIRMED**

Profit & Loss:

1. Revenues of INR4.5 bn missed our estimate of INR4.7 bn, up 11% y-y and down 17% q-q. The company now gives out its consolidated results as the revenue recognition shifts to some subsidiaries.

2. INR2.43 bn of the revenues were recognized from the sale of floor space index (FSI) or development rights done in Goregaon, Mumbai in 3QFY11. INR770 mn was recognized after 0.4mn sqft of the HDIL Industrial Park was completed and handed over to the owners. INR700 mn was recognized on transfer of development rights (TDR) sales down 59% q-q, as only 0.28mn sqft was sold at INR2,500/sqft. We were expecting INR3 bn of FSI sales to be recognized and INR1.7 bn of TDR sales and were not expecting recognition of revenues on ongoing projects till 4QFY12. HDIL follows the project completion method of accounting.

3. The part recognition of revenues from the Virar Industrial Park was a pleasant surprise and strengthens our view that diversification away from dependence on TDRs for revenues will reduce significantly from FY12F onwards.

4. EBITDA margins turned out 200bps higher than estimated though 400bps lower q-q on lower TDR sales. EBITDA margins on the FSI sales are in the range of 40%-45% vs. ~60%-65% for TDR sales, as per management.

5. Depreciation on the consolidated balance sheet is much higher than the standalone owing to amortization of goodwill created on account of acquisition of subsidiaries. The company expects to amortize this goodwill in five years as a conservative accounting practice.

6. Total interest cost was also higher at INR1.5 bn vs. an estimate of INR1.2 bn while the tax rate was 26% higher than the estimate of 23% owing to lower TDR sales.

7. This contributed to PAT missing our estimate by 15% and the consensus estimate by 23%.

8. The company expects to recognize the INR2.2 bn of sales from the Virar Industrial Park by 4QFY12 as it hands over

the project to buyers post receipt of occupancy certificate.

9. It also has to recognize INR7.5 bn of FSI sales though the time-line remains uncertain on it.

10. The target is to complete three more projects Metropolis Residences, Premier Residences and Galaxy Apartments in 4QFY12-1QFY13. We believe that completion of all three projects could spill over to 2QFY13 and beyond postponing revenue recognition on the same.

11. The company has only 1.25mn sqft of TDRs remaining to be sold from phase 1 of the airport rehab project.

Balance sheet and cash flows:

1. The company had sold INR9 bn of FSI in Goregaon in FY11 to four developers; it has signed the final agreement with one and recognized revenues on the same. They have received only ~INR2.8 bn on the FSI sales to date as the buyers are still looking to raise funds. On the Popular Car Bazaar, Andheri FSI sale also done in FY11 for INR6.5 bn the company has received only INR3 bn to date. The amount of cash received in 2QFY12 was insignificant given the tight liquidity situation for property developers in India which is affecting the ability of the FSI buyers to raise funds.

2. In our view, the receipt of cash on these FSI sales was crucial to debt reduction for the company and with the increasing likelihood of not being able to collect all the remaining INR9.7 bn on the two FSI deals in FY12F could result in the company missing its debt reduction target of INR8 bn in the year and could also result in a need for refinancing of its upcoming debt repayments.

3. Its net debt has gone down INR1 bn q-q or 3% of outstanding debt. It has to repay INR12.2 bn in the next 12 months and unless the company manages to collect cash from the existing FSI sales or sell a significant amount of new FSI or land going forward, it would have to refinance its upcoming debt repayments. It free cash flow post interest payment was INR870 mn in 2QFY12 and INR1.35 bn in 1HFY12, which is not enough to make a dent in the gross debt of INR41.6 bn.

4. Its cash inflow from residential sales in 2QFY12 was just INR1.5 bn, which is just 3% of sales value achieved of INR47 bn when it should ideally be at least 7%. Improvement here would definitely help its cash flows and debt situation.

5. It has a total of INR16 bn of customer advances on its consolidated balance sheet.

Operational performance:

1. The company sold 0.5mn sqft of residential space in 2QFY12 worth INR950 mn, which is half of the INR1.9 bn of sales done in 1QFY12 driven by the slowdown in the Mumbai property market and also owing to lack of new launches as result of abrupt policy reversals.

2. Construction is on track as per management and the company has spent INR1.8 bn on construction residential projects and another INR400 mn on the rehab project for the airport. We believe that construction progress on two projects, Exotica – Kurla and Majestic Towers – Nahur, Mumbai, has been visibly slow over last several quarters. This has been led by the slowdown in construction on the rehab project for the airport, to which these for sale residential projects are linked, due to lack of clarity in the shifting of the slum-dwellers from around the airport to the rehab site.

3. HDIL expects to launch three residential projects in Ghatkopar, Premier Residences – Phase 2, Kurla and Meadows – Phase 2, Goregaon, all in Mumbai, in the next few months as it has received almost all approvals on them

4. The sale of FSI in Vasai-Virar is in the last stage of negotiation and an announcement could happen soon, again in the next few months. These two announcements could be positive for the stock.

5. On the airport slum redevelopment project the company is still waiting for the government to firm up the eligibility norms and currently no further shifting of families has happened post the shifting of 150 families in June 2011.

We recognise the lack of imminent catalysts for the stock, but believe that a resolution on the airport slum redevelopment project could be forthcoming post the civic body elections in Mumbai in Feb'12. The stock is currently trading at 0.4x FY12 P/B and a 60% discount to NAV, which we think is attractive and we maintain our Buy rating.

Profit and loss	**2QFY12A**	**1QFY12A**	***QoQ growth (%)***	**2QFY11A**	***YoY growth (%)***	**2QFY12E**
Sales		5,118	*-14%*		*15%*	

	4,407			3,818		4,372
Other income	94	103	*-9%*	134	*-30%*	330
Total revenue	**4,501**	**5,221**	*-14%*	**3,952**	*14%*	**4,702**
Cost of sales	1,827	1,952	*-6%*	948	*93%*	2,050
Employee cost	112	108	*4%*	107	*5%*	97
Admin expenses	147	122	*20%*	164	*-10%*	97
Total expenditure	**2,087**	**2,182**	*-4%*	**1,218**	*71%*	**2,244**
EBITDA	**2,414**	**3,039**	*-21%*	**2,734**	*-12%*	**2,458**
EBITDA margin (%)	*54%*	*58%*		*69%*		*52%*
Depreciation	214	213	*0%*	208	*3%*	25
Interest cost	191	192	*-1%*	215	*-11%*	173
PBT	**2,009**	**2,633**	*-24%*	**2,311**	*-13%*	**2,260**
PBT margin (%)	*45%*	*50%*		*58%*		*48%*
Tax	524	739	*-29%*	355	*48%*	509
PAT	**1,486**	**1,894**	*-22%*	**1,956**	*-24%*	**1,751**
PAT after MI	**1,486**	**1,894**	*-22%*	**1,965**	*-24%*	**1,751**
PAT margin(%)	*33%*	*36%*		*50%*		*37%*
Tax rate	*26%*	*28%*		*15%*		*23%*

Consolidated balance sheet	**2QFY12A**	**4QFY11A**	**2QFY11A**
Equity capital	4,190	4,150	4,150
Reserves and Surplus	92,576	88,128	84,025
Share warrant	1,522	2,592	1,833
Networth	98,288	94,870	90,008
Loans	41,626	43,198	41,833
Minority Interest	46	46	-
Deferred tax liability	100	69	60
Total liabilities	**140,060**	**138,183**	**131,901**
Fixed assets	3,226	3,192	2,323
Goodwill	1,833	2,203	2,597
Investments	518	520	2,039
Current assets			
Inventories	117,967	114,152	100,249
Sundry debtors	4,469	3,611	4,588
Cash	2,163	2,297	12,063
Other current assets	16	26	23
Loans and advances	38,872	35,497	24,423
Total current assets	163,487	155,583	141,345
Liabilities	25,951	21,933	15,614
Provisions		1,382	789

	3,052		
Total current liabilities	29,003	23,315	16,403
Net Current assets	134,484	132,268	124,943
Total assets	**140,060**	**138,183**	**131,901**
Net debt	39,464	40,901	29,770
Net debt:equity	0.40	0.43	0.33

Source: Company data, Nomura estimates

Valuation Methodology and Investment Risks: We value HDIL using our net asset value estimate of its current saleable area at INR235 per share, without any discount/premium to NAV, and with cost of equity at 15%. Downside risks include 1) scrapping of the airport slum rehabilitation project; 2) a sharp fall in property prices in Mumbai, which would affect demand and pricing of TDR and 3) an increase in interest rates, which would affect demand for property and sentiment for property stocks.

Note: Ratings and Price Targets are as of the date of the most recently published report (http://go.nomuranow.com/research/globalresearchportal) rather than the date of this email.

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Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Housing Development & Infrastructure	HDIL IN	90.9 INR	11 Nov 2011	Buy	

Previous Rating

Issuer name	Previous Rating	Date of change
Housing Development & Infrastructure	Not Rated	17 Sep 2010

Housing Development & Infrastructure (HDIL IN) **90.9 INR (11 Nov 2011)** Buy

Rating and target price chart (three year history)

Date	Rating	Target price	Closing price
29-Jun-2011		235.00	158.25
17-Sep-2010		366.00	277.00
17-Sep-2010	Buy		277.00

Valuation Methodology We value HDIL using our net asset value estimate of its current saleable area at INR235 per share, without any discount/premium to NAV, and with cost of equity at 15%.

Risks that may impede the achievement of the target price Downside risks include 1) scrapping of the airport slum rehabilitation project; 2) a sharp fall in property prices in Mumbai, which would affect demand and pricing of TDR and 3) an increase in interest rates, which would affect demand for property and sentiment for property stocks.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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