2QFY12 Result Update

HDIL

14 November 2011

Reuters: HDIL.BO; Bloomberg: HDIL IN

Subdued TDR Sales; Free Cash Flow Remains Positive

HDIL's 2QFY12 profits were below our and consensus expectations by 29.7% and 19.2% respectively on account of lower TDR (transfer of development rights) volume, as it reported 0.27mn sq ft of TDR sales against our estimate of 0.50mn sq ft. Delay in government approvals and a challenging macro environment hurt new project launch/contracted sales and thereby TDR sales. We lower our FY12E and FY13E profit estimates by 16.2% and 15.5%, respectively, to factor in lower TDR sales and the delay in revenue booking from existing projects. However, we believe the concerns are well factored in and the 46% correction in stock price over the past four months versus 8% in the Sensex provides a good buying opportunity, with the stock trading at 0.3x P/BV. We maintain our Buy rating on the stock with a revised TP of Rs113 (Rs142 earlier).

Lower TDR sales dent profitability: HDIL reported revenue growth of 15.4% YoY (down 13.9% QoQ), largely driven by FSI sales (Rs2.9bn) from its Guru Ashish (Goregaon) project. The TDR market remained weak following the slowdown in new project launch in Mumbai due to delay in approvals, resulting in a 57% QoQ decline in TDR revenue (Rs700mn). HDIL sold 0.27mn sq ft of TDRs at Rs2,545/sq ft in 2QFY12 as against 0.65mn sq ft at Rs2,500/sq ft in 1QFY12. EBITDA margin was largely in line with our expectation. The 1,543bps YoY drop in OPM is on account of the product mix skewed towards FSI sales. Tax rate was 26.1% in 2QFY12 versus 15.3% in 2QFY11 because of higher tax paid on FSI sales, which attracted full tax rate as against MAT rate for TDR sales. Hence, PAT declined 24.4% YoY to Rs1,486mn against our estimate of Rs2,114mn and consensus estimate of Rs1,839mn.

Balance Sheet remains strong: HDIL's net D/E ratio fell from 0.43x in FY11 to 0.40x in 2QFY12, thanks to FSI sales. We expect net D/E ratio to go down further to 0.31x in FY13E as HDIL mops up remaining Rs9bn of cash via FSI sales at Goregaon and Andheri projects by March 2012, ongoing FSI sales at Vasai/Virar and sales generated from new launches. Over the past three quarters, HDIL turned operating cash flow positive and generated Rs4,198mn free operating cash flow in 1HFY12 as against Rs 22bn of negative free cash flow generated over FY09-11.

Outlook: We expect regulatory issues to get resolved in Mumbai when the Maharashtra government comes out with its definitive FSI policy that will expedite the approval process and thereby improve new launches. We expect HDIL's competitive pricing strategy to attract demand and thereby improve contracted sales. At the CMP, HDIL trades at 3.5x P/E, 0.3x P/BV and at 43% discount to our one-year forward NAV.

Buy

Sector: Real Estate

CMP: Rs91

Target Price: Rs113

Upside: 24%

Param Desai
param.desai@nirmalbang.com
+91-22-3926 8128

Key Data

Current Shares O/S (mn)	419.1
Mkt Cap (Rsbn/US$mn)	38.1/762.4
52 Wk H / L (Rs)	246/89
Daily Vol. (3M NSE Avg.)	9,081,191

Price Performance (%)

	1 M	6 M	1 Yr
HDIL	(8.5)	(43.1)	(62.8)
Nifty Index	1.9	(5.7)	(13.9)

Source: Bloomberg

Y/E March (Rsmn)	2QFY11	1QFY12	2QFY12	*YoY (%)*	*QoQ (%)*	1HFY11	1HFY12	*YoY (%)*
Sales	3,818	5,118	4,407	*(13.9)*	*15.4*	8,372	9,525	*13.8*
Expenditure	1,218	2,182	2,087	*(4.4)*	*71.3*	3,036	4,269	*40.6*
EBIDTA	2,600	2,936	2,321	*(21.0)*	*(10.7)*	5,336	5,257	*(1.5)*
OPM (%)	*68.1*	*57.4*	*52.7*	*(471bp)*	*(1,543bp)*	*63.7*	*55.2*	*(814bp)*
Interest expenses	215	192	191	*(0.7)*	*(11.1)*	433	384	*(11.5)*
Depreciation	208	213	214	*0.4*	*3.1*	414	428	*3.3*
Other income	134	103	94	*(8.6)*	*(29.8)*	261	196	*(24.7)*
PBT	2,311	2,633	2,009	*(23.7)*	*(13.0)*	4,749	4642	*(2.3)*
Tax	355	739	524	*(29.1)*	*47.6*	794	1262	*59.0*
% PBT	*15.3*	*28.1*	*26.1*	*(7.1)*	*69.8*	*16.7*	*27.2*	
Adjusted PAT	1,956	1,894	1,486	*(21.6)*	*(24.0)*	3,955	3,380	*(14.6)*
PAT margin (%)	*51.2*	*37.0*	*33.7*	*(8.9)*	*(34.2)*	*47.2*	*35.5*	
Reported PAT	1,956	1,894	1,486	*(21.6)*	*(24.0)*	3,955	3,380	*(14.6)*
EPS (Rs)	0.5	0.5	0.4	(21.6)	*(24.0)*	0.9	0.8	*(14.6)*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E Mar (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Net sales	17,504	15,021	18,500	23,680	29,600
EBITDA	8,017	7,901	11,036	12,582	15,683
Net profit	7,860	5,678	8,218	8,619	10,583
EPS (Rs)	16.1	13.7	19.6	20.6	25.3
EPS growth (%)	*(52.0)*	*(15.4)*	*43.6*	*4.9*	*22.8*
EBITDA margin (%)	*45.8*	*52.6*	*59.7*	*53.1*	*53.0*
PER (x)	5.6	6.7	4.6	4.4	3.6
P/BV (x)	0.6	0.5	0.4	0.4	0.3
EV/EBITDA (x)	9.8	9.0	7.2	6.1	4.8
RoCE (%)	*10.4*	*7.3*	*8.2*	*8.3*	*9.9*
RoE (%)	*19.5*	*9.9*	*9.9*	*8.7*	*9.7*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Our estimates vs actuals

(Rsmn)	Actual 2QFY12	Nirmal Bang estimate 2QFY12	*Deviation (%)*	Bloomberg consensus 2QFY12	*Deviation (%)*
Revenue	4,407	5,230	*(15.7)*	5,148	*(14.4)*
EBITDA	2,321	2,720	*(14.7)*	2,726	*(14.9)*
OPM (%)	52.7	52.0		53.0	
PAT	1,486	2,114	*(29.7)*	1,839	*(19.2)*

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Change in earnings estimates

We are lowering our revenue estimates for FY12E and FY13E by 14.7% and 13.3%, respectively, to factor in lower TDR sales and the delay in revenue booking from existing projects post 2QFY12 results. We are now factoring 1.5mn sq ft of TDR sales in FY12 as against 2.4mn sq ft earlier. Further, as the company follows the project completion method of revenue booking, we are delaying revenue booking from a couple of projects i.e. Metropolis and Galaxy in FY13 as against the management's guidance for FY12, as incremental contracted sales remains challenging under the current environment. We are also increasing our tax rate estimate marginally by 1% and 2% for FY12 and FY13, respectively, as the contribution from TDR sales reduces, which attracts MAT rate. Consequently, we cut our profit estimates by 16.2% and 15.5% for FY12E and FY13E, respectively.

Exhibit 3: Our estimates vs actuals

(Rsmn)	Earlier assumption		New assumption		*Deviation (%)*	
Sales	27,750	34,132	23,680	29,600	*(14.7)*	*(13.3)*
EBITDA	14,447	17,705	12,582	15,683	*(12.9)*	*(11.4)*
PAT	10,284	12,524	8,619	10,583	*(16.2)*	*(15.5)*

Source: Nirmal Bang Institutional Equities Research

Other Con-call Highlights

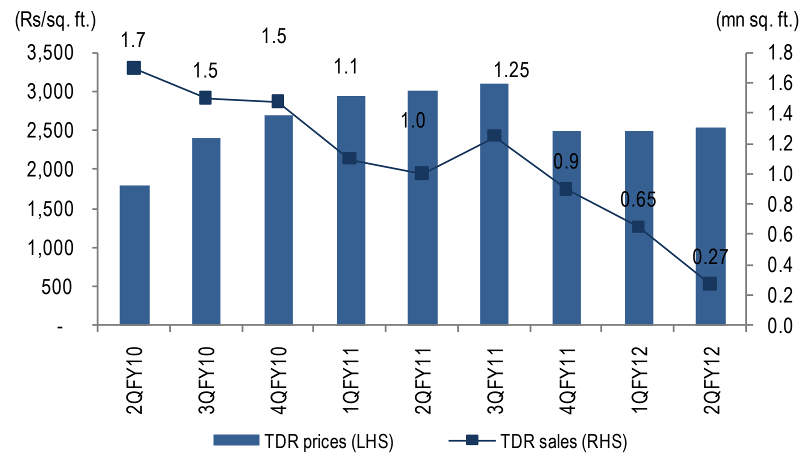
- HDIL is looking to launch projects at Ghatkopar, Kandivali,Meadows and Shahad (all in Maharashtra) and at Kochi in 2HFY12 as against no launches in 2QFY12, as it has got all necessary approvals for some of its above projects. This should improve pre-sales, going forward. We have factored in Ghatkopar, Kandivali and Meadows launch in 2HFY12 and Kochi and Shahad launch in FY13.
- The management intends to increase prices by 10-15% for ongoing projects and new launches, however we have assumed zero increase in prices for ongoing projects, 10% reduction in base pricing in new launches.
- Around 150-175 families affected by the MIAL (Mumbai International Airport Ltd) project have been shifted in 2QFY12, but the shifting process continues to remain slow.
- HDIL has booked Rs770mn of revenue from its industrial park project (at Virar) in 2QFY12 as it handed over possession of 0.4mn sq ft and we expect to book the remaining revenue of Rs2.3bn in 2HFY12.

Exhibit 4: Remaining FCFF positive

(Rsmn)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
PBT	2,782	2,484	2,728	2,592	2,829	2,009
Add Interest costs	1,407	1,511	1,393	1,465	1,364	1,533
Add Dep.	19	16	15	22	21	214
Change in working capital	(7,121)	(6,082)	(14,877)	(1,424)	(1,592)	(1,319)
Less: Tax paid	439	355	164	619	739	53
Less: Capex	(103)	72	11	951	26	43
FCFF	**(3,249)**	**(2,498)**	**(10,916)**	**1,085**	**1,857**	**2,341**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Lowest TDR sales reported since FY10



Source: Company, Nirmal Bang Institutional Equities Research

Ratings track

Date	Rating	CMP (Rs)	Target price (Rs)
4 October 2011	BUY	92	142

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	+91 22 3926 8098 / 99
Hemindra Hazari	Head of Research	hemindra.hazari@nirmalbang.com	+91 22 3926 8017 / 18
Sales and Dealing:			
Neha Grover	AVP Sales	neha.grover@nirmalbang.com	+91 22 3926 8093
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8832
Sudhindar Rao	Dealing Desk	sudhindar.rao@nirmalbang.com	+91 22 3926 8229
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address
B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park
Lower Parel (W), Mumbai-400013.
Board No. : 91 22 3926 8000/1
Fax. : 022 3926 8010