

# HDIL

5 December 2011

Reuters: HDIL.BO; Bloomberg: HDIL IN

## Lacks near-term triggers

Weak 2QFY12 results, exclusion of the stock from the MSCI index and sustained delay in the execution of ongoing residential projects have led to ~30% correction HDIL's share price post 2QFY12 results. Further, new project launch activity remained muted so far in FY12, with only 0.8mn sq ft being launched. Uncertainty on regulatory front and delay in MIAL (Mumbai International Airport) project hurt TDR (transfer of development rights) volumes and thereby the reliance on FSI sales has increased wherein cash conversion takes much longer under the current tight liquidity environment. We believe that unless clarity emerges on the execution of its ongoing residential and MIAL projects, HDIL will have to depend on asset sales to meet debt obligations. Hence, we expect HDIL to trade at its current stressed case valuation with a 50% discount to NAV and 0.2x P/BV until clarity emerges. We downgrade the stock to Hold from Buy.

**Regulatory delays taking toll on new launches & MIAL:** The Mumbai property market has been hit by lack of government approvals, thereby delaying the launch of new projects since the past two-three quarters. This has resulted in ~30% YoY decline in property registrations in FY12, with prices remaining firm because of lower supply. Consequently, HDIL has managed to launch only 0.8mn sq ft in 1HFY12, as against its FY12 guidance of 6mn sq ft. Though the management is looking to launch projects (at Ghatkopar, Kandivali and Goregaon in Mumbai) in 2HFY12 as against no project launched in 2QFY12, we believe it will be challenging under the current environment.

**Weakening cash collection cycle:** The company's cash collection of Rs2.7bn from existing projects in 1HFY12 was dismal on account of slower project execution, lower pre-sales and rising mortgage rates. HDIL's pre-sales increased by a meager Rs2.9bn in 1HFY12 to Rs47bn. Further, it sold Rs14bn of FSI in January 2011, out of which only ~45% has been collected so far as against upfront payment in TDR sales. We expect TDR volumes to remain weak, given the uncertainty in MIAL project. Further, delay in the execution of ongoing projects as well as new launches remaining muted will keep pre-sales weak in the near term. Hence, HDIL will have to depend on asset sales to meet debt obligations. As per recent media reports, HDIL sold its Turbhe (Navi Mumbai) land for Rs900mn as against its acquisition cost of Rs 1,150mn.

**Outlook:** We have downgraded HDIL's FY12E and FY13E EPS by 9.4% and 19.5%, respectively, to factor in further delay in the execution of ongoing projects and muted new launches. Though HDIL has managed to reduce its debt by Rs1.4bn in 1HFY12, its annual guidance of 15-20% debt reduction remains challenging given the muted pre-sales and longer gestation period for collection of cash from FSI sales. We expect regulatory hurdles to persist in the near term, which will delay the launch of new projects and execution of phase II and III of MIAL project. **Therefore, we downgrade HDIL to Hold from Buy with a revised TP of Rs73 (from Rs113 earlier).**

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Net sales	17,504	15,021	18,500	22,385	25,743
EBITDA	8,017	7,901	11,036	11,728	12,951
Net profit	7,860	5,678	8,218	7,806	8,523
EPS (Rs)	16.1	13.7	19.6	18.6	20.3
EPS growth (%)	(52.0)	(15.4)	43.6	(5.0)	9.2
EBITDA margin (%)	45.8	52.6	59.7	52.4	50.3
PER (x)	4.0	4.8	3.3	3.5	3.2
P/BV (x)	0.4	0.3	0.3	0.3	0.2
EV/EBITDA (x)	8.5	7.6	6.2	5.7	5.2
RoCE (%)	10.4	7.3	8.2	7.7	8.1
RoE (%)	19.5	9.9	9.9	7.9	8.0

Source: Company, Nirmal Bang Institutional Equities Research

## Hold

Sector: Real Estate

CMP: Rs65

Target Price: Rs73

Upside: 12%

Param Desai

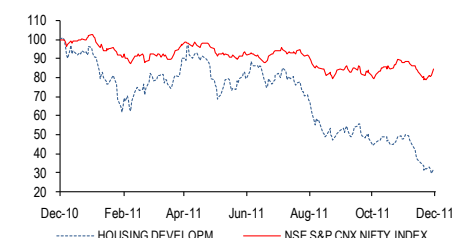
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### Key Data

Current Shares O/S (mn)	419.0
Mkt Cap (Rsbn/US\$m)	27.2/530.9
52 Wk H / L (Rs)	211/60
Daily Vol. (3M NSE Avg.)	10,238,510

Share holding (%)	4QFY11	1QFY12	2QFY12
Promoter	38.6	38.6	39.2
FII	39.8	42.3	40.4
DII	0.5	0.4	0.3
Corporate	10.1	9.8	9.7
General Public	11.0	8.9	10.4

### One Year Indexed Stock Performance



### Price Performance (%)

	1 M	6 M	1 Yr
HDIL	(35.8)	(59.8)	(68.0)
Nifty Index	(4.7)	(8.7)	(16.0)

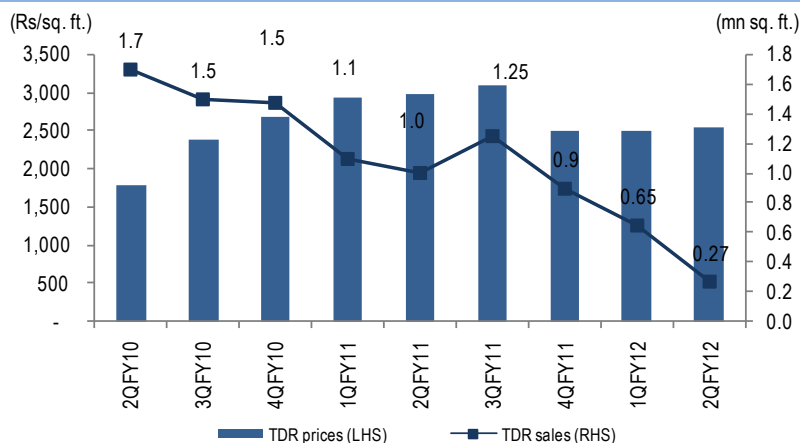
Source: Bloomberg

### Exhibit 1: Change in earnings estimates

(Rsmn)	Earlier assumption		New assumption		Deviation (%)	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Sales	23,680	29,600	22,385	25,743	(5.5)	(13.0)
EBIDTA	12,582	15,683	11,728	12,951	(6.8)	(17.4)
PAT	8,619	10,583	7,806	8,523	(9.4)	(19.5)

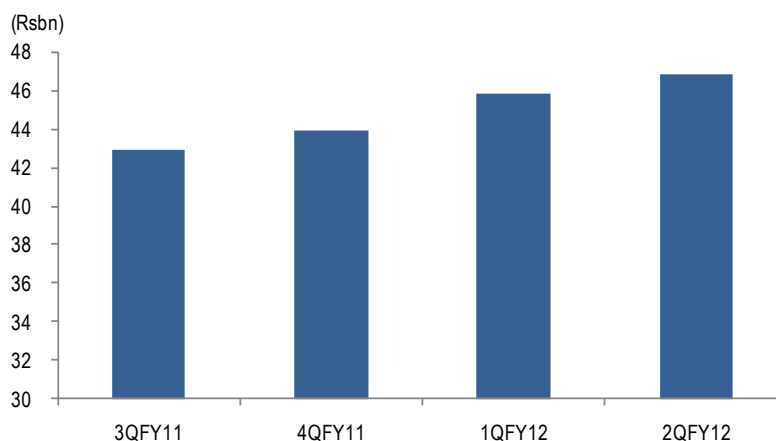
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 2: Lowest TDR sales reported since FY10



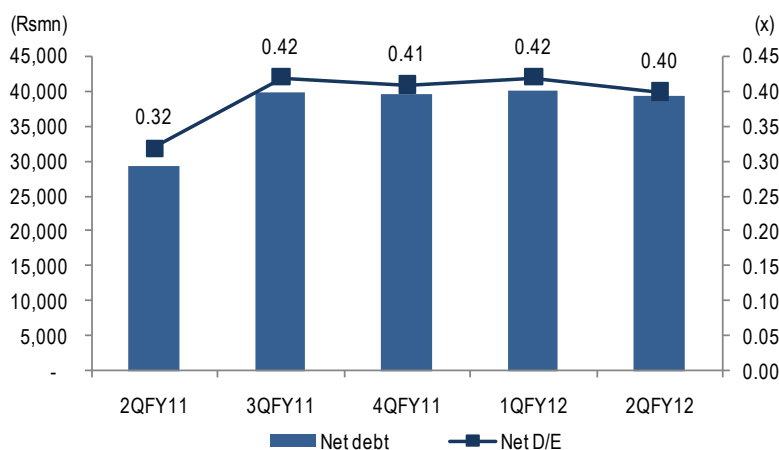
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: Delay in project execution impacting pre-sales



Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Reduction in net debt hinges on improvement in cash collection



Source: Company, Nirmal Bang Institutional Equities Research

## Ratings track

Date	Rating	CMP (Rs)	Target price (Rs)
4 October 2011	BUY	92	142
14 November	Buy	91	113

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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