Housing Development & Infrastructure HDIL.NS HDIL IN

PROPERTY

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EQUITY RESEARCH

Asset sale necessary to de-leverage

Quick Note

August 15, 2012

Rating Remains	**Buy**
Target price Remains	INR 235
Closing price August 14, 2012	INR 84

Company earnings for 1QFY13 disappointed on the top and bottom lines, as PAT at INR 1.05 bn was 40% and 30% lower than our and the Street's estimates, respectively. With the Street currently focused on the company's cash flow generation rather than P&L, there was disappointment with operating cash flow generation, due to lower FSI sales and lower sales across ongoing residential projects. The management, though, seemed hopeful for improvement in cash flow visibility, noting significant improvement in the on-ground situation in Mumbai's real estate market. In our view, monetisation of its commercial asset in Andheri (W) along with FSI sales in Virar-Vasai region remains key to the de-leveraging of the balance sheet and the performance of the stock. We are reviewing our target price.

Key takeaways from conference call

- Management sounded positive on the analysts' conference call, seeing improvement in the on-ground situation in Mumbai. They noted that after a gap of more than one year, the situation around project approvals has improved and that consequently new launches are likely to gain momentum. Moreover, there are visible signs of easing liquidity, reflected in the higher activity in land market, as well as FSI demand from the developers.
- After having recognised almost 90% of revenues on FSI sales in Andheri & Goregaon by 4QFY12 and with TDR inventory of only 0.1-0.15mn sq ft left for sale, the company's revenue in upcoming quarters should be largely driven by 1) targeted FSI sales in Virar & Vasai region, and 2) completion of its four under-construction projects – namely, Premiere, Virar Residency, Virar Industrial Park & Galaxy.
- As per the management, with improvement in the on-ground situation in the real estate market in Mumbai, it 1) is targeting FSI sales of 1-1.5mn sq ft per quarter from Virar and Vasai region and 2) has plans for new residential project launches in Pantnagar in (Ghatkopar), Shahad, and 40 mn sq ft township in Virar, on the outskirts of Mumbai. The company has mentioned that FSI pricing in the Virar-Vasai region is in the range of INR 1,200-1,500 psf.
- The response towards newly launched Premier Exotica (0.8mn sq ft) in Kurla has been quite good (having received 500 enquiries till date and sold ~50 apartments in 3 days), while the response from the 100-acre plotted/villa project in Noida was lower than management's expectations. Given the 1) project's location; 2) oversupply in Noida and 3) issues surrounding land acquisitions in the region, we had expected a lukewarm response towards the project.
- Currently, the Mumbai airport slum rehab project remains stuck, apparently due to lack of political will, and we believe the window for this project to see progress is another 12 months, post which the government will go into election mode for the 2014 general and state elections. Incrementally there is a possibility that the size of the project

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

may be curtailed and if this does pan out, then HDIL's proposed TDR generation and sales may turn out to be much lower than earlier envisaged, in our view.

- The management has reiterated its target of bringing down debt by 20%-25% in FY13F through sale of land/floor space index (FSI) and internal accruals from under-construction projects and new launches along with INR6.0bn, which it has yet to receive on FSI sales done in Goregaon and Andheri in FY11.
- With regard to monetisation of its assets, the company is currently negotiating for the sale of Metropolis (commercial segment) in Andheri (W) and expects to close this deal by 2Q or 3QFY13F.

Results key highlights – Weaker top line; no improvement in debt

- Consolidated total revenue at ~INR2.0bn (-61%y-y; -68%q-q) was significantly lower than our and Street expectations, owing to FSI sales in Virar only contributing to the top line. There were no sales recorded from the Transfer of Development Rights (TDR) or FSI sales in Andheri or Goregaon during the quarter. The management noted that FSI sales in Virar & Vasai region and completion of Premiere, Virar Residency, Virar Industrial Park & Galaxy projects would drive the revenue in F13F.
- EBITDA margin at 79% was higher due to higher-margin FSI sales. The company's margin is expected to move down to more normalised levels once revenue from residential/Industrial park starts getting recognised, by 3Q or FY13F. The management has guided margin on these projects to be around 35-50%.
- EBITDA at INR 1.7 bn (-45%y-y & -42%q-q) missed our and the Street's estimates by a wide margin, owing to a weaker top line. However, some of this impact was offset by higher margins.
- Weak performance at the operating level translated into PATMI at ~INR1.05bn (-44%y-y; -67%q-q), about 40% and 30% lower than our and the Street's estimates, respectively.
- After a roughly one-year hiatus, HDIL has launched a new residential project in Mumbai named Premier Exotica (saleable area of ~0.8mn sq ft). According to management, the initial response towards the project has been positive. The average realisation achieved at the project is close to INR 10,000 psf, which we believe is in-line with the current market price.
- On the balance sheet front, consolidated debt has come down slightly, by INR 0.5bn to INR 38.0bn. The company has been guiding over the past 5-6 quarters that it will bring down the debt by 20-25%, although this has more or less remained flat.

Fig. 1: Snapshot of 1QFY13 results

Consolidated profit and loss (INR mn))	1QFY13A	1QFY12A	4QFY12A	YoY growth (%)	QoQ growth (%)	1QFY13E
Sales	2,012	5,144	6,251	-61%	-68%	5,160
Other income	94	60	242	57%	-61%	218
Total revenue	**2,106**	**5,204**	**6,493**	-60%	-68%	**5,378**
Cost of sales	84	1,528	3,017	-95%	-97%	2,510
Employee cost	89	108	90	-18%	-1%	112
Admin expenses	262	533	494	-51%	-47%	140
Prelim expenses w ritten off	0	0	0			0
Total expenditure	**434**	**2,169**	**3,601**	-80%	-88%	**2,763**
EBITDA	**1,671**	**3,035**	**2,893**	-45%	-42%	**2,615**
EBITDA margin (%)	*79%*	*58%*	*45%*			*49%*
Depreciation	210	213	215	-2%	-3%	195
Interest cost	214	189	199	13%	8%	200
PBT	**1,248**	**2,633**	**2,479**	-53%	-50%	**2,220**
PBT margin (%)	*59%*	*51%*	*38%*			*41%*
Exceptional items	-	-	(78)			-
Tax	195	739	(752)	-74%	-126%	399
PAT	**1,054**	**1,894**	**3,152**	-44%	-67%	**1,821**
Minority interest/prior period adjustments/exceptional	0	0	3	-67%	-96%	(50)
PAT after MI	**1,054**	**1,894**	**3,155**	-44%	-67%	**1,771**
PAT margin(%)	*50%*	*36%*	*49%*			*33%*

Source: Company data, Nomura estimates

Fig. 2: Stand-alone balance sheet

Standalone balance sheet	1QFY13A	4QFY12A	2QFY12A	1QFY12A	4QFY11A
Equity capital	4,190	4,190	4,190	4,150	4,150
Reserves and Surplus	97,409	96,176	93,353	91,720	89,629
Share warrant	-	-	1,522	2,622	2,592
Networth	101,599	100,366	99,065	98,492	96,371
Loans					
Secured loans	36,840	37,408	40,474	40,583	41,954
Unsecured loans					
Deferred tax liability	137	131	83	94	66
Total liabilities	**138,575**	**137,905**	**139,621**	**139,168**	**138,391**
Net block	1,799	1,820	2,680	1,824	1,777
CWIP	67			868	911
Investments	12,980	13,020	7,859	7,859	7,860
Inventories	107,370	105,692	104,845	102,297	100,865
Sundry debtors	3,370	2,787	2,720	3,355	3,429
Cash	2,304	2,253	2,126	1,424	2,260
Other current assets	598	38	15		26
Loans and advances	36,398	38,013	45,263	44,366	41,412
Total current assets	**150,039**	**148,782**	**154,970**	**151,442**	**147,991**
Liabilities	24,444	24,018	23,121	20,263	18,768
Provisions	1,798	1,822	2,767	2,563	1,379
Total current liabilities	**26,242**	**25,840**	**25,888**	**22,825**	**20,147**
Net Current assets	**123,797**	**122,943**	**129,082**	**128,616**	**127,843**
Misc. expenditure					
Total assets	**138,643**	**137,782**	**139,621**	**139,168**	**138,391**
Net debt	34,536	35,155	38,348	39,160	39,694
Net debt:equity	**0.34**	**0.35**	**0.39**	**0.40**	**0.41**

Source: Company data, Nomura estimates

Appendix A-1

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We, Aatash Shah and Vineet Verma, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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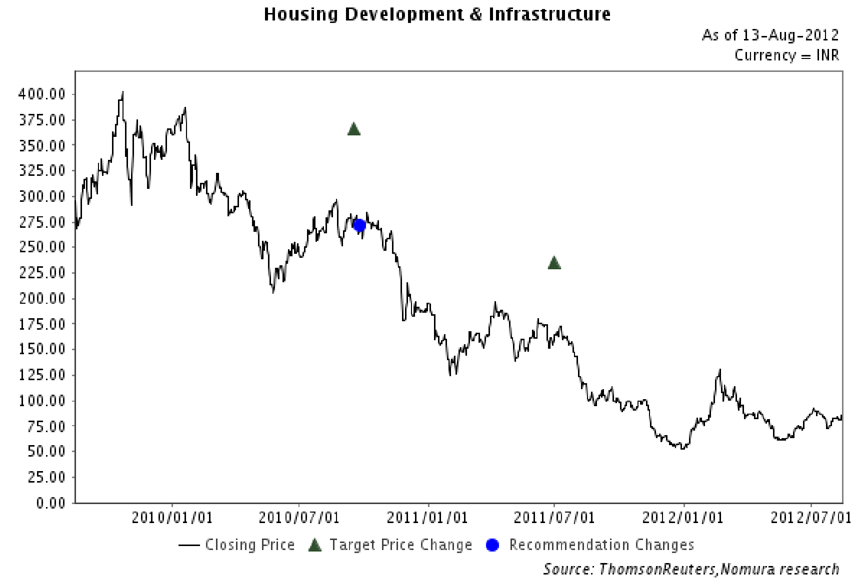
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Housing Development & Infrastructure	HDIL IN	INR 84	14-8-2012	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Housing Development & Infrastructure	Not Rated	17-9-2010

Housing Development & Infrastructure (HDIL IN) **INR 84 (14-8-2012)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
29-Jun-11		235.00	158.50
17-Sep-10	Buy		277.05
17-Sep-10		366.00	277.05

For explanation of ratings refer to the stock rating keys located after chart(s)

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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STOCKS

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STOCKS

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