

30 July 2010

HDIL*Steady growth continues; maintain Buy*Rating: **Buy**

Target Price: Rs388

Share Price: Rs263

- **Healthy 1QFY11 sales.** HDIL's 1QFY11 PAT was up 118% to Rs2.4bn on high TDR realizations and healthy FSI sales. HDIL sold ~1m sqft of residential space and received Rs3bn from existing sales in 1Q. We raise our PAT estimates to account for FSI sales in FY11. We maintain Buy, with target price of Rs388.
- **1QFY11 results review.** PAT stood at Rs2.4bn, up 118% yoy. TDR sales of 1.1m sqft at an average Rs2,950/sqft were in line with our estimates of 1.2m sqft. FSI sales in Vasai-Virar were a healthy ~Rs1.3bn, at 1.9m sqft. Margin improvement was mainly due to higher realizations on TDR & FSI sales and lower tax rate in 1Q.
- **MIAL project.** Shifting of families in phase 1 would be the key event in the next few months, as HDIL has proven execution, given its speedy construction. During 1Q, ~3,500 families were added in Kurla (W) rehab project and HDIL made part payment (~50%) of the remaining Rs6bn for a subsequent land parcel.
- **B2C change leads to higher cashflow.** A well-planned re-entry to the mass residential segment has paid-off well, with Rs40bn of stock sold in the past five quarters. The company would realize Rs12bn from existing sales in FY11, Subsequent phases of current launches and a few recent acquisitions bode well for the launch pipeline in the next few years.
- **Valuation.** The Mar '11 NAV stands at Rs388/share. At current market price, the stock trades at 1.3x P/BV.

Key data	HDIL IN / HDIL.BO
52-week high/low	Rs411/202
Sensex/Nifty	17992/5409
3-m average volume	US\$35.9m
Market cap	Rs96bn/US\$2063m
Shares outstanding	366.8m
Free float	57.7%
Promoters	42.3%
Foreign Institutions	28.2%
Domestic Institutions	1.0%
Public	28.6%

Quarterly results

Year end 31 March	1Q10	1Q11	% yoy	FY09	FY10	% yoy
Sales (Rsm)	2,954	4,509	52.7	17,284	15,021	(13.1)
EBITDA (Rsm)	1,161	2,674	130.3	7,797	7,893	1.2
EBITDA margin (%)	39	59		45	53	
Interest (Rsm)	169	215	27.1	582	462	(20.6)
Depreciation (Rsm)	9	19	125.9	25	724	2,747.0
Other income(Rsm)	233	342	47.1	540	345	(36.1)
PBT (Rsm)	1,217	2,782	128.7	7,715	7,052	(8.6)
Tax (Rsm)	142	439	210.0	943	1,330	41.1
Tax rate (%)	12	16		12	19	
PAT (Rsm)	1,075	2,343	118.0	6,772	5,722	(15.5)

Source: Company, Anand Rathi Research

Financials

Year end 31 March	FY11e	FY12e
Sales (Rsm)	18,132	25,470
Net profit (Rsm)	6,403	8,833
EPS (Rs)	17.2	23.8
Growth (%)	11.9	38.0
PE (x)	15.3	11.1
PBV (x)	1.3	1.1
RoE (%)	8.7	10.9
RoCE (%)	7.7	10.9
Dividend yield (%)	-	-
Net gearing (%)	42.1	30.9

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rsm)

Year end 31 Mar	FY08	FY09	FY10e	FY11e	FY12e
Net sales	23,804	17,284	15,021	18,132	25,470
Sales growth (%)	97.7	(27.4)	(13.1)	20.7	40.5
- Op. expenses	7,693	8,358	6,186	8,115	11,109
EBIDTA	15,557	7,797	7,893	8,748	12,833
EBITDA margins (%)	65.4	45.1	52.5	48.2	50.4
- Interest	43	582	462	736	1,397
- Depreciation	15	25	724	59	93
+ Other income	529	540	345	362	435
- Tax	1,922	943	1,330	1,912	2,944
PAT	14,098	6,772	5,722	6,403	8,833
PAT growth (%)	183.5	(52.0)	(15.5)	11.9	38.0
Consolidated PAT	14,098	7,866	5,666	6,403	8,833
FDEPS (Rs/share)	37.9	18.2	15.4	17.2	23.8
CEPS (Rs/share)	38.0	21.2	17.2	17.4	24.0
DPS (Rs/share)	2.9	-	-	-	-

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rsm)

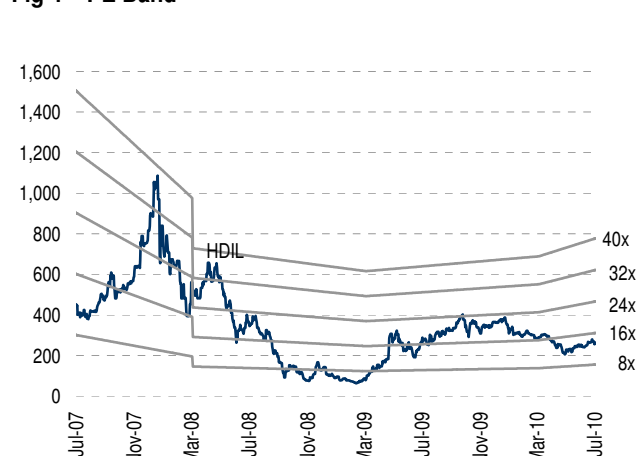
Year end 31 Mar	FY08	FY09	FY10e	FY11e	FY12e
Share capital	2,143	2,755	3,588	3,718	3,718
Reserves & surplus	34,272	41,463	66,840	73,243	82,076
Shareholders' fund	36,415	44,218	70,429	76,961	85,795
Debt	31,127	41,433	41,017	37,517	34,143
Def Tax Liab (net)	15	30	63	63	63
Minority interests	0	0	0	0	0
Capital employed	67,558	85,682	111,509	114,542	120,001
Fixed assets	687	1,228	4,638	4,889	5,685
Investments	1,915	2,491	2,429	2,429	2,429
Working capital	61,427	81,202	96,513	102,111	104,250
Cash	3,505	755	7,918	5,113	7,637
Capital deployed	67,558	85,682	111,509	114,542	120,001
No. of shares (m)	214.3	275.5	358.8	371.8	371.8
Net Debt/Equity (%)	75.9	92.0	47.0	42.1	30.9

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (Rsm)

Year end 31 Mar	FY08	FY09	FY10e	FY11e	FY12e
Consolidated PAT	14,098	7,866	5,666	6,403	8,833
+ Non Cash Items	522	635	690	71	93
Cash profit	14,620	8,501	6,355	6,473	8,926
- Incr/(Decr) in WC	52,419	19,775	15,311	5,598	2,139
Operating cash flow	(37,798)	(11,274)	(8,956)	875	6,787
- Capex	425	566	4,134	310	889
Free cash flow	(38,223)	(11,840)	(13,090)	565	5,898
- Dividend	1,243	-	-	-	-
+ Equity raised	16,218	(63)	20,545	130	0
+ Debt raised	27,371	10,306	(416)	(3,500)	(3,374)
- Investments	337	576	(62)	-	-
- Misc. items	(162)	(24)	-	-	-
Net cash flow	3,448	(2,750)	7,163	(2,805)	2,524
+ Opening cash	57	3,505	755	7,918	5,113
Closing cash	3,505	755	7,918	5,113	7,637

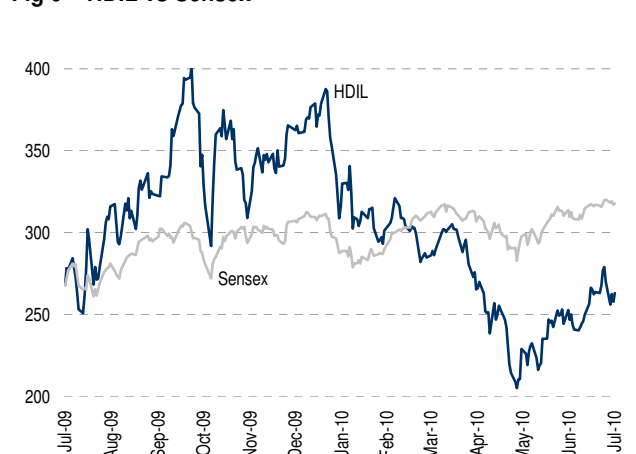
Source: Company, Anand Rathi Research

Fig 4 – PE Band


Source: Anand Rathi Research

Fig 5 – Price-to-Book Band


Source: Anand Rathi Research

Fig 6 – HDIL vs Sensex


Source: Bloomberg

Results Review

HDIL's PAT was Rs2.4bn in 1QFY11, up 118% yoy. TDR sales were broadly in line with our estimates of 1.2m sqft (1.1m sqft at an average Rs2,950/sqft); FSI sales in Vasai-Virar were healthy at 1.9m sqft, at ~Rs1.3bn. Margin improvement was primarily due to higher realizations on TDR and FSI sales and lower tax rate for the quarter.

1QFY10 results review

Better realisations from TDR and FSI sales prop margins

TDR sales (volumes) were in line with our estimates, with HDIL selling 1.1m sqft of TDR (vs 1QFY11 estimated 1.2m sqft) at Rs2,950/sqft (vs 1QFY11e of Rs2,800/sqft). The company also achieved 1.9m sqft of FSI sales (vs none estimated) at Rs650-700/sqft.

Debt reduced slightly during the quarter and net D/E stood at 0.46

Fig 7 – Results vs AR estimates

Rs m	3QFY10	4QFY10	Growth	AR Estimates	variance	Remark
Revenue	2,954	4,509	52.7	3,755	20.1	
EBIDTA	1,161	2,674	130.3	2,044	30.8	FSI sales conducted in
Margins	39.3	59.3		54.4		MMR at
PAT	1,075	2,343	118.0	1,568	49.4	Rs650-700/sqft
Margins	36.4	52.0		41.8		

Source: Company, Anand Rathi Research

Inventory went up qoq mainly due to new project acquisition in Greater Noida (five acres of land bought for Rs750m), additional payment of tenancy cost in the Santacruz SRS acquired in 4QFY10 and construction progress at MIAL and other projects. Inventory increase also includes ~0.6m sqft of TDR, of which HDIL intends to utilize 0.4m sqft for in-house projects.

We estimate minimum upside in TDR rates from present levels

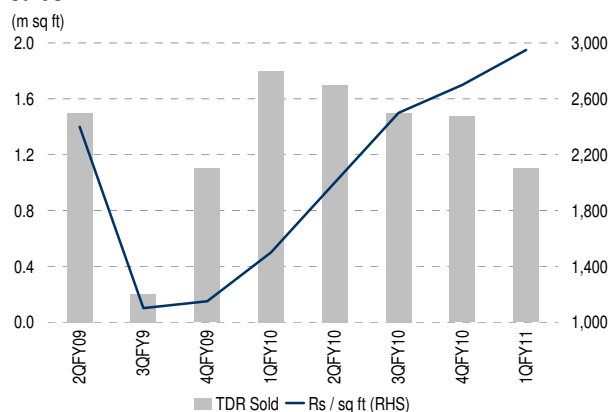
HDIL also paid ~Rs3bn of the remaining land payments for certain land parcels related to the MIAL project, resulting in increasing loans and advances.

TDR realisation could fall, given new phases of the MLAL project to be developed further north

TDR sales – Value kept intact

Although TDRs sold reduced in the quarter, value realized increased to Rs2,950/sqft on an average. Volumes were broadly in line with our estimates although value realization was higher. Given a good monsoon and subsequently less construction during the period, we expect the company to have flat/lower volumes in 2QFY11; however, we expect realization to be flat or slightly reduce.

Fig 8 – TDR sales



Source: Company

Warrants – Previous converted, new proposed

In 1QFY11, the promoters converted 8m warrants to shares and another 5m post 1Q. With this, they have infused Rs6.2bn within the past 12 months. The Board, with shareholder approval, would be allotting 26m fresh warrants to the promoters at Rs272 each. On approval and subsequent conversion, this would infuse ~Rs7bn into the company from the promoters.

MIAL project

Shifting of families in phase 1 would be the key event in the next few months as HDIL has proven execution, given its speedy construction. During 1Q, ~3,500 families were added in Kurla (W) rehab project and HDIL has made part payment (~50%) of the remaining Rs6bn for a subsequent land parcel.

All eyes on shifting of families in phase 1

As per management, the shifting was delayed primarily on account of water connection approval delay from government agencies; hence, the shifting has been delayed by six months. Given a normal monsoon till date, the company expects approvals in the next two months, and consequently to complete the shifting this year.

The company has announced 3,000-3,500 unit additions at the Kurla (W) site in rehab units, which would generate a further 1m sqft of TDR from next quarter. Additional rehab space comes at the cost of 1.5m sqft of commercial space planned at the same site.

Fig 9 – Phase 1: area/plan changes

Category	Area (sq ft)	Remark	Remark
TDR	11,851,725	From 38 acres of land and 20000 families	From 38 acres of land and 20000 families
Free Sale			
Premier - Resi	1,000,000	Launched in March'09	Launched in March'09
Exotica - Resi	750,000	Launched in June'10	Launched in June'10
Phase 3 - Resi	750,000	Planned launch in FY11/12	Planned launch in FY11/12
Commercial	2,000,000	Const commenced in FY10	Const commenced in FY10
New TDR*	1,000,000	Change of plans from Free sale commercial to more rehab	Change of plans from Free sale commercial to more rehab

Source: Company, Anand Rathi Research

HDIL has maintained its guidance of commencing construction of phase 2 in 2HFY11. Current plans estimate ~25,000 families being rehabilitated after phase 2. Of Rs6bn of the pending land payment, HDIL paid Rs3.2bn in 1QFY11 for property in the Central suburbs.

Fig 10 – MIAL: phase 2 – estimates

Project Site	Location	Est Units	Est Rehab Area (m sq ft)
BOC Factory	Mulund	3,500.0	1.4
Popular Car Bazaar	Andheri E	3,500.0	1.4
Mahul Land	Mahul	7,000.0	2.8
Mumbai suburbs	NA	10,000.0	4.0

Source: Company, Anand Rathi Research

Business-mix change boosts cashflow

A well-planned re-entry into the mass residential segment has paid off well for HDIL, with Rs40bn of stock sold in the past five quarters. The company would realize Rs12bn from existing sales in FY11. Subsequent phases of current launches and a few recent acquisitions bode well for the launch pipeline in the next few years.

Changes after foray the business-to-customer domain

HDIL has sales order book of Rs40bn (vs none prior to 4QFY09). This provides a cushion and helps in de-risking the TDR/FSI sales-driven nature of the business. The cashflows (Rs12bn) from sold residential projects would match the TDR revenue estimates for FY11.

Past residential sales assure approx. Rs3bn cash inflow per quarter

Fig 11 – Residential projects: update

Project Name	Location	Area (m sq ft)	Launch Date	(%) sold	Est Completion
Premier	Kurla (W)	0.90	Mar'09	100%	45%
Galaxy	Kurla (E)	0.48	Apr'09	90%	40%
Metropolis	Andheri (W)	0.65	Mar'09	95%	40%
Majestic	Bhandup	1.30	Oct'09	45%	10%
Residency Park	Virar (W)	1.25	Jan'10	90%	10%
Harmony	Oshiwara	0.11	May'10	100%	60%
Meadows	Goregaon	1.50	June'10	40%	0%
Exotica	Kurla (W)	0.75	June'10	60%	5%

Source: Company, Anand Rathi Research

The company has also increased its land bank by ~28m sqft to 221m sqft. This is on account of obtaining most of the approvals for the rental housing project in Virar. It plans commencement of the project in FY11. Revenue from the project would be in the form of FSI sales and residential development.

Further, the company is securing a healthy pipeline for project launches in FY12, with continuing acquisitions in the past few quarters. It has acquired slum rehab projects in Santacruz (W) and near the Bandra-Kurla Complex.

Fig 12 – Forthcoming residential launch plans

Project	Location	Area (m sq ft)	Est Launch rate (Rs / sq ft)	Est Launch	Type of projects
PantNagar	Ghatkopar	0.5	7,500	FY11	Redevelopment
Ekta Nagar	Kandivili	2.5	5,500	FY11/12	Redevelopment
Meadows Phase 2	Goregaon	1.5	7,500	FY11	Redevelopment
Bombay Oxygen	Mulund	1.5	7,500	FY11/12	MIAL SRS
Premier P3	Kurla (W)	0.8	6,500	FY11/12	MIAL SRS
Daulat Nagar	Santacruz (W)	1.2	12,000	FY12	SRS

Source: Company, Anand Rathi Research

Changes in estimates

We raise our PAT estimates 30% to account for FSI sales of 3-4m sq ft in FY11 (vs none initially). We maintain our TDR sales and average realization estimates for FY11.

Fig 13 – Raise PAT estimates

Rs m	FY11e
Previous PAT estimates	4,922.1
New PAT estimates	6,402.7

Source: Anand Rathi Research

Risk

Execution delay in MIAL project. Lower than estimated TDR / FSI sales.

Financials

Fig 14 – Income statement (Rsm)

Year end 31 Mar	FY08	FY09	FY10e	FY11e	FY12e
Revenue	23,804	17,284	15,021	18,132	25,470
- Op. expenses	7,693	8,358	6,186	8,115	11,109
- Employee Costs	122	221	285	272	509
- Other Administrative	431	908	658	997	1,019
EBIDTA	15,557	7,797	7,893	8,748	12,833
- Interest	43	582	462	736	1,397
- Depreciation	15	25	724	59	93
+ Other income	529	540	345	362	435
- Tax	1,922	943	1,330	1,912	2,944
PAT	14,106	6,787	5,722	6,403	8,833
+ Minority Interests	(0)	0	0	-	-
+ Share of profit from Associates	-	-	-	-	-
Consolidated PAT	14,098	7,866	5,666	6,403	8,833
Dividend	1,243	-	-	-	-
FDEPS (Rs / share)	37.9	18.2	15.4	17.2	23.8
CEPS (Rs / share)	38.0	21.2	17.2	17.4	24.0
DPS (Rs / share)	2.9	-	-	-	-
BV (Rs / share)	97.9	118.9	189.4	207.0	230.7
Shares outstanding	214.3	275.5	358.8	371.8	371.8
Growth Rates					
Revenue (%)	97.7	(27.4)	(13.1)	20.7	40.5
EBIDTA (%)	154.5	(49.9)	1.2	10.8	46.7
Net PAT (%)	183.6	(51.9)	(15.5)	11.9	38.0
Diluted EPS (%)	183.5	(52.0)	(15.5)	11.9	38.0
FY09-12e Revenue CAGR(%)					13.8
FY09-12e EBITDA CAGR (%)					9.9
FY09-12e EPS CAGR (%)					32.1
Margins					
EBIDTA (%)	65.4	45.1	52.5	48.2	50.4
EBIT (%)	65.3	45.0	47.7	47.9	50.0
Net Profit (%)	59.2	45.5	37.7	35.3	34.7

Source: Company, Anand Rathi Research

Fig 15 – Balance sheet (Rsm)

Year end 31 Mar	FY08	FY09	FY10e	FY11e	FY12e
Sources of Funds					
Share capital	2,143	2,755	3,588	3,718	3,718
Reserves & surplus	34,272	41,463	66,840	73,243	82,076
Shareholders' fund	36,415	44,218	70,429	76,961	85,795
Debt	31,127	41,433	41,017	37,517	34,143
Deferred Tax Liab (net)	15	24	51	63	63
Minority interests	0	0	0	0	0
Capital employed	67,558	85,682	111,509	114,542	120,001
Application of Funds					
Gross Fixed Assets	576	760	959	1,174	1,293
Less: Depreciation	32	110	159	217	283
Net Fixed Assets	544	650	800	957	1,010
Capital Work in Progress	52	331	216	237	261
Investments	2,278	3,025	7,475	7,475	7,475
Goodwill	91	478	2,591	2,591	2,591
Current Assets					
Inventories	55,229	69,128	87,567	102,004	106,245
Debtors	566	1,669	2,030	2,720	3,821
Loans and Advances	13,108	17,077	15,649	17,214	18,936
Current Liab and Provisions	7,476	6,693	8,761	19,883	24,863
Net Current Assets	64,932	81,957	104,431	107,224	111,887
Working Capital	61,427	81,202	96,513	102,111	104,250
Cash	3,505	755	7,918	5,113	7,637
Capital deployed	67,558	85,682	111,509	114,542	120,001
No. of shares (m)	214.3	275.5	358.8	371.8	371.8
Net Debt/Equity (%)	75.9	92.0	47.0	42.1	30.9

Source: Company, Anand Rathi Research

Fig 16 – Cash flow statement (Rsm)

Year end 31 Mar	FY08	FY09	FY10e	FY11e	FY12e
Consolidated PAT	14,098	7,866	5,666	6,403	8,833
+Depreciation	22	41	724	59	93
+Deferred Tax	7	9	27	12	-
+Other non cash	492	585	(62)	-	-
Cash profit	14,620	8,501	6,355	6,473	8,926
- Incr/(Decr) in WC	52,419	19,775	15,311	5,598	2,139
Operating cash flow	(37,798)	(11,274)	(8,956)	875	6,787
-Capex	425	566	4,134	310	889
Free cash flow	(38,223)	(11,840)	(13,090)	565	5,898
-Dividend	1,243	-	-	-	-
+ Equity raised	16,218	(63)	20,545	130	0
+ Debt raised	27,371	10,306	(416)	(3,500)	(3,374)
-Investments	337	576	(62)	-	-
-Misc. items	(162)	(24)	-	-	-
Net cash flow	3,448	(2,750)	7,163	(2,805)	2,524
+Opening cash	57	3,505	755	7,918	5,113
Closing cash	3,505	755	7,918	5,113	7,637

Source: Company, Anand Rathi Research

Fig 17 – Ratio analysis @ Rs263

Year end 31 Mar	FY08	FY09	FY10e	FY11e	FY12e
Valuations					
P / E	6.9	14.4	17.1	15.3	11.1
P / BV	2.7	2.2	1.4	1.3	1.1
M Cap / Sales	4.1	4.2	6.3	5.4	3.8
EV / Sales	5.2	6.4	8.3	7.0	4.8
EV / EBIDTA	7.9	14.2	15.8	14.6	9.5
Dividend					
Dividend yield (%)	1.1	-	-	-	-
Dividend payout (%)	7.5	-	-	-	-
Leverage					
Net Debt / Equity	76	92	47	42	31
Int Coverage	358	13	16	12	9
Return Ratios					
ROE (%)	64.4	16.8	10.0	8.7	10.9
ROCE (%)	39.5	10.1	7.3	7.7	10.9

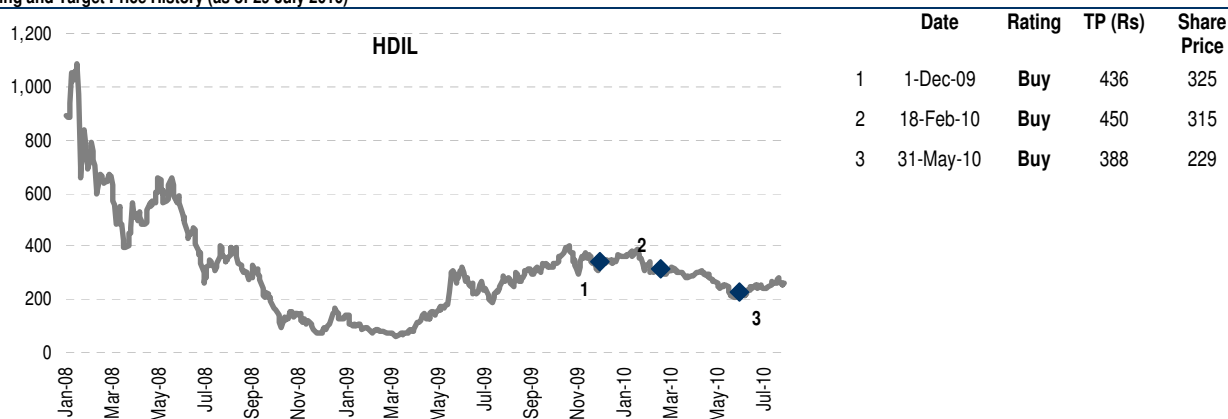
Source: Company, Anand Rathi Research

Appendix 1

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Source: Bloomberg

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

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	Buy	Hold	Sell
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% who are investment banking clients	8%	0%	0%

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