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HDIL - Buy Investment overview

- Housing Development & Infrastructure Limited (HDIL) incorporated in 1996 is a real estate development company, with significant operations in the Mumbai Metropolitan Region.
- HDIL is largest slum Rehabilitation Company in India and has been awarded Mumbai International Airport Slum Rehabilitation project in October 2007 as part of Mumbai Airport Expansion & Modernisation plan, wherein it is rehabilitating approximately 80,000 to 85,000 slum dwellers within next 4-6 years.
- The company has total land reserves (including TDR) of 194.36 million sq. ft. as on 30th December 2009 and currently approx 62 million sq. ft. saleable area under construction.
- HDIL has, till date, completed 33 projects comprising ~30msf of saleable area.
- Segment wise the company has currently SRS development projects comprising 78% of its total order. Residential accounts for 12% while commercial 9% and retail projects constitute 1% of the total ongoing projects.

Business Overview

The company's business focuses on Real Estate Development, including construction and development of residential projects, commercial and retail projects, Slum Rehabilitation and Development, Land Development, including development of infrastructure on land which it then sells to other property developers.

Its residential projects generally comprise of groups of apartments, towers or larger multi-purpose 'township' projects in which individual housing units are sold to customers. While the commercial projects of the company are a mix of office space and multiplex cinemas. Its retail projects focus on shopping malls.

The company usually follows 'build and sell' model for the properties it develops.

The company has an integrated in-house development team which covers all aspects of property development from project identification and inception through construction to completion and sale.

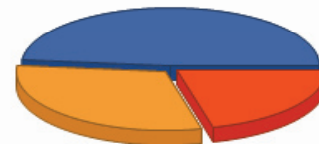
Financial health

For the quarter ended December 31,2009 the company reported net turnover of Rs 408.88 crore up by 30.30% from Rs 313.79 crore in corresponding previous quarter.

The total income of the company increased by 30.09% to Rs 435.47 crore compared to Rs 334.73 crore in same

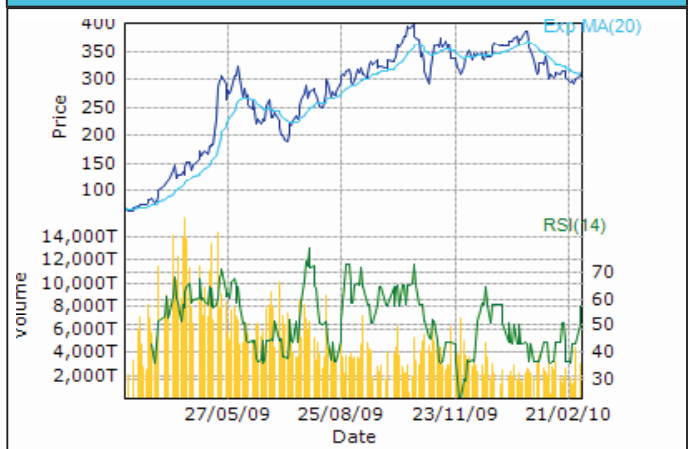
Stock Data		05/03/2010
Current Mkt Price (Rs)		321.05
52 Week High		410.80
52 Week Low		62.50
Mkt Cap (Rs. in Million)		111032.79
Return in last one Month (%)		-1.44

Share Holding



48.31 Indian Promotor	30.45 Total Institutions
21.25 Total Non-Institutions	

Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	17192.90	23798.69	-27.76
Other Income	952.84	793.51	20.08
Total Expenditure	4187.07	6903.49	-39.35
Operating Profit	13958.68	17688.71	-21.09
Interest	5781.85	1653.81	249.61
Profits After Tax	7212.08	14105.15	-48.87
Reserve & Surplus	0.42	0.34	22.47
Reported EPS(Rs)	26.18	65.83	-60.23
Core EBITDA Margin (%)	75.65	70.99	6.56



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quarter last year.

PAT of the company surged by 115.11% to Rs 162.76 crore from Rs 75.66 crore.

Debt of the company decreased to Rs 3351.25 crore compared to Rs 4055.05 crore of December 2008 quarter.

Year to date (Dec-09 to Dec-08) the sales of the company has declined by 22.29% to Rs 1057.93 crore. PAT has declined by 36.47% to Rs 418.82 crore. Though the other income has increased by 20% to Rs 77.21 crore.

Latest developments:

- Housing Development & Infrastructure (HDIL) has received the government's approval for a slum rehabilitation programme in Mumbai. The estimated cost of the project is Rs 12,000 to Rs 15,000 per square feet and the value is around Rs 2,000 crore. The company has received the nod for the Santacruz West Rehabilitation Project. The project has 1.2 million of saleable area and 0.7 million of rehabilitation area.

- In January this year the company has approved the proposal for redemption of 2500, 13.25% secured redeemable and non-convertible debentures (NCDs) of Rs 10 lakh each issued by the company on May 21, 2008. The total sum of these NCDs is Rs 250 crore, which were due for redemption on March 1, 2013 as per the modified terms of the issue.

Industry Scenario

The Indian realty sector is the second largest employing sector of the country, a macro industry linked with more than 250 ancillary industries like cement, bricks, steel etc. The sector has witnessed a revolution in last few years, motivated by the booming economy, favourable demographics and liberalised foreign direct investment (FDI) regime.

India's real estate industry has witnessed a difficult year in 2009. The global financial meltdown, which stemmed from the US real estate market in September 2008, soon turned into the global economic downturn and impacted the real estate sector worldwide. While the real estate cycles are not a new phenomenon, the unexpected severity of the latest slump was accentuated due to recession and uncertain economic outlook.

Second half of the FY09 was a nightmare for realtors with demand going down in all the verticals and many projects getting stalled. However, things started to move a bit in the H1-FY10 as the real estate companies consolidated their business and improved their balance sheets through selling assets, restructuring loans and bringing in strategic investors. Affordable housing became new

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Dec 2009	Dec 2008	Change(%)
Net Sales	4088.80	3137.90	30.30
Expenditure	2201.00	2187.70	0.61
Other Income	265.90	209.40	26.98
EBITDA	2153.70	1159.60	85.73
Interest	190.20	141.50	34.42
Net Profit	1627.60	756.60	115.12
EBITDA Margin (%)	0.53	0.37	42.53
NPM (%)	0.40	0.59	-32.44
EPS	4.71	6.71	-29.81

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	17192.90	23798.69	-27.76
Total Income	18145.74	24592.20	-26.21
Total Expenditure	4187.07	6903.49	-39.35
Operating Profit	13958.68	17688.71	-21.09
Profits After Tax	7212.08	14105.15	-48.87

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	2754.93	2142.72	28.57
Reserve & Surplus	41921.53	34229.50	22.47
Total Liabilities	86109.65	67499.65	27.57
Investments	3029.19	2125.55	42.51
Current Liabilities	6114.81	4917.21	24.36
Net Current Assets	82376.97	64794.69	27.14
Total Assests	86109.65	67499.65	27.57

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	26.18	65.83
Core EBITDA Margin (%)	75.65	70.99
EBIT Margin (%)	81.05	74.27
ROA (%)	9.39	35.93
ROE (%)	17.80	64.93
ROCE (%)	18.15	45.13
Price/Book (x)	0.51	3.02
Net Sales Growth (%)	-27.76	97.75
EBIT Growth (%)	-21.16	162.23
PAT Growth (%)	-48.87	160.33
Total Debt/Mcap (%)	1.84	0.28



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mantra and companies started focusing on what could be sold easily.

The economic slowdown has brought a number of positive changes in the Indian real estate sector. Most of the players have cleaned their balance sheets and addressed the issue of excessive leverage. Rationality in product mix and pricing has also been witnessed. Overall product portfolio is now more consistent with the income structure of middle class buyers rather than just focusing on aspirational houses alone.

The faster-than-expected recovery in broader economy and improving outlook has helped the residential space get back strongly. The mantra of affordable housing has generated a lot of latent demand and going forward, we see the residential vertical improving further in the near term. Favourable demographics and increasing urbanisation will support the vertical in the medium term.

In the commercial space, recovery will be somewhat slower. While rentals have stopped declining and vacancies are no longer increasing, the overall demand-supply scenario is still not very attractive, simply because the industry had run far too much ahead of the reality in the pre-crisis period. In this sense, the slowdown has brought more rationality to this vertical as well. As the supply demand gap declines and economy recovers, commercial realty should start stabilising in second half of FY11.

Investment Rationale

The company has substantially reduced its leverage along with increase in the equity base that has led to a decline in the debt-to-equity ratio from 0.9x at the beginning of the fiscal to 0.5x at the third quarter. At the end of Q3FY10 HDIL's debt stood at Rs 3,351.2 crore as compared to Rs 4,055.1 crore at the end of Q3FY09. The company had raised Rs 1,688 crore via QIP route in July 2009, which helped the company reduce its debt from Rs 4,143.3 crore at the beginning of this fiscal to Rs 3,351.2 crore at the end of Q3FY10.

MIAL project, India's largest slum rehabilitation venture (53% of HDIL's Gross NAV; ~53msf of TDR & FSI), is largely on schedule. But any kind of delay in acquiring vacant land and transferring it to MIAL on company's part may make it liable to pay damages.

FSI/ TDR generated through SRS offers tremendous opportunities to a developer as the company can utilize development rights in prime locations while developing housing units for people staying in slums in areas far less costly than in Mumbai. TDR prices have firmed up led by resurgence in residential demand and will boost operating cash flows. The company's own guidance on adding large slum rehab projects in South Mumbai provides incremental upside. The concern with the SRS project is that they carry long gestation and now with the entry of new players will lessen the profitability scope.

The company is the undisputed leader in the slum redeveloper in Mumbai Metropolitan Region and is likely to ride on strong TDR prices, while the prices in most Mumbai area has increased by 15-25% the rise in TDR prices have been enormous of about 100-120% and this factor puts the company in a better position.

The company has received a tremendous response to its affordable housing launches in Mumbai, this is a step towards diversification from its core business of slum rehabilitation and will help the company toward becoming an integrated real estate developer. HDIL has set a target of launching ~6msf of residential and commercial projects every year from FY11 (~7.8msf launched in FY10).

At CMP of Rs 321, the stock is trading at an EV/EBITDA of 12.70x and a P/E multiple of 23.10. We would recommend a BUY in the stock with a price target of Rs 385. We don't see the TDR prices going down in coming future and it may get stabilized around Rs 2000-2500 psf. Also the residential markets in Mumbai are fast reviving and with companies focus on the segment it can reap good benefit.

Peer group comparison:							(Rs. crore)	
Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS*	P/E*	
HDIL	200903	1719.29	1300.58	721.21	41.95	13.9	23.1	
DLF	200812	2822.59	1712.12	1549.86	54.91	2.32	136.59	
Unitech	200903	1831.85	1065.75	739.66	40.38	1.69	46.06	
Indiabulls Real Estate	200903	45.03	11.06	16.56	36.78	0.32	543.32	

*latest based on last traded price

The estimated NAV of HDIL for FY10E stood at Rs 390 per share after deducting net debt and adding the warrant conversion while of DLF is around Rs 426, Unitech 92 and Indiabulls Real Estate of Rs 312. The most important factor for any real estate sector, the debt to equity ratio has been improving for the company and for the FY09 stood at 0.90, while of the DLF stood at 0.77, Unitech 2.80 and Indiabulls Real Estate has the minimum of 0.22.



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