

HDIL

₹ 85

The Slum King !!!**Buy**

March 30, 2012

Company Background

Housing Development & Infrastructure Limited (HDIL) is part of the Wadhawan Group formerly known as the Dheeraj Group. The Company was incorporated on 25th July of the year 1996. HDIL is a market leader in the Mumbai region. It has targeted the small to mid housing sector which has the demand in the region. Its business focuses on real estate development, including construction and development of residential projects, commercial, retail and slum rehabilitation projects. Its residential projects range from apartment complexes to towers to townships. It's a key redeveloper in Mumbai especially and slum rehabilitation projects under a Government scheme administered by the Slum Rehabilitation Authority (SRA), offering development rights in exchange for clearing and redeveloping slum lands, while providing replacement housing for the displaced slum dwellers. It has been catering the diverse needs of scores of home seekers in Mumbai Metropolitan region and also and has expanded its operations to Hyderabad, Kochi and Pune. Also the company diversified into Energy, Hospitality and SEZs sector. HDIL entered the Entertainment Sector with the launch of its first 3 screens multiplex in Vasai under brand name BROADWAY in February of the year 2008. HDIL has completed ~100 mn sq.ft of construction in all verticals of real estate and has rehabilitated around 30,000 families in last one decade.

Financial Performance

For the quarter ended on December 2011, HDIL reported sales of ₹ 4.23 bn, a fall of 9% from ₹ 4.64 during corresponding previous quarter. About 79% of its sales came from FSI sales. Balance 21% came from TDR sales. The downside in revenue was on account of lower TDR sales YoY as well as absence of any revenue recognition from residential projects. Other income was higher by 51% to ₹ 177.5 mn.

Operating margin crashed to 37.2% from 59.9% in Q3FY11. The decline in margin was mainly attributed to the increase in construction expenses and lower TDR sales. Higher FSI transactions, which have low margin, also contributed to the margin fall. Its depreciation increased by 7% which negated the positives of higher other income. Consequently, HDIL's net profit stood at ₹ 1.56 bn from ₹ 2.28 bn which has declined by 31.7% on Y-o-Y basis. However on QoQ basis it has improved by 4.9%. Fall in profit was on account of lower sales together with drop in margins. For 9MFY12, HDIL's consolidated revenue stood at ₹ 13.75 bn, registering a growth of 5.7% on Y-o-Y basis. Net profit fell by 26% to ₹ 4.94 bn.

Investment Rationale**➔ Focussed on Mumbai**

HDIL is a major player in Mumbai Realty with 90% land Reserves in the Mumbai Metropolitan Region (MMR). It is the market Leader in Residential and SRA projects in the MMR. It has total Land Reserves (including TDR) of ~234.04 million sqft (Saleable area) as on 31st December, 2011. Currently approx 89 million sq. ft. sale areas of projects are under construction. It has presence across Mumbai. Right from key suburban areas such as Andheri,

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Info Codes

Reuters	HDIL.BO
Bloomberg	HDIL@IN
NSE	HDIL
BSE	532873

Market Data

52 Wk Range (₹)	: 199 / 52
Shares in Issue (mn)	: 419
Mkt. Cap (₹ bn)	: 35.8
BSE 2 Wk Avg Vol	: 6323000

Share Holding Pattern (%)

Promoters	: 39.17
DII's	: 0.49
FII's	: 35.19
Others	: 25.15

Investment Theme

HDIL is a leading Mumbai based real estate developer. It has dominant presence across the MMR. It is developing key real estate projects in Virar and Mulund two key suburban areas of Mumbai which offer strong demand potential from the working population of Mumbai. The company is the largest slum rehabilitation projects developer in the country. It is currently executing its most ambitious project- Mumbai Airport Rehabilitation Project (MIAL), aimed at eventually freeing 275 acres of encroached airport land for development. HDIL is now diversifying into hospitality and entertainment business. Recent reports of many-fold hike along with weak performance have dragged the share price considerably down. We expect it to do well in mid to long term.

The Runway around the airport !!!

HDIL

Bandra to Virar, Kurla, Mulund which are becoming new residential hub for the middle class working population of Mumbai. HDIL is a major land owner in the Vasai- Virar region. This area is well connected with the ain city of Mumbai through Rail & Road.

➔ Mumbai Airport Rehabilitation Project

Approximately 6500 acres of area in Mumbai is under slums. HDIL is the largest slum area developer in Mumbai. Since its incorporation in 1996, the company has developed 4.31 million square feet of rehabilitation housing area, under slum rehabilitation schemes. It is currently executing its most ambitious project- Mumbai Airport Rehabilitation Project (MIAL), aimed at eventually freeing 275 acres of encroached airport land for development. It is the largest Urban Rehabilitation Scheme in India. With No. of Hutments 85,000 approx and huge land in the heart of the city; its scale is similar to Town planning & Urban Renewal Scheme. Phase 1 of the project has already begun, with 85% of the work completed on a development in Kurla, intended to rehabilitate about 20,000 slum dwellers from Vile Parle, Santacruz and Sahar. The Government of Maharashtra has approved FSI of 4 which is a strong plus for HDIL.

➔ Diversifying to help in future

With land reserves spread across three states of India admeasuring 112.1 mn sq. ft., the company is to diversify into special economic zones (SEZs). It has further diversified into Entertainment and hospitality business through two of its subsidiaries- HDIL Leisure & HDIL Entertainment.

HDIL Leisure

In Mumbai, HDIL Leisures is at present executing its first ever luxury five-star hotel project at Juhu which would be managed by the Hilton group. HDIL has entered into agreement with the group for 20 years. It has similar project at Andheri Versova, where the Continental Group will be managing partner. HDIL has recently identified a potential plot for development in Greater Noida. A long- term lease has already been executed with GNIDA - Greater Noida Industrial Development Authority

HDIL Entertainment

HDIL Entertainment, a fully owned subsidiary of HDIL, has launched a chain of multiplexes under the brand name Broadway with 13 screens have been launched so far. HDIL Entertainment also plans to set up around 150 screens in major cities.

Key Financials

Year Ended 31 st	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	18901.4	15995.7	19237.1
Rev. growth (%)	(23.14)	(15.37)	20.26
EBITDA (₹ mn)	14729.8	12504.7	16391.4
Net profit (₹ mn)	8304.3	5966.6	8973.7
Shares outstanding (mn)	275.5	358.8	415.0
EPS (₹)	30.1	16.6	21.6
EPS growth (%)	(54.21)	(44.84)	30.05
P/E (x)	12.0	11.7	2.5
EV/ EBITDA	70.2	58.4	16.1
ROCE (%)	11.46	6.06	7.28

Budget and the Realty Sector

The 2012 Union Budget was satisfactory to neutral for the Real Estate market considering the tight financial conditions. Allowing External Commercial Borrowing (ECB) for affordable housing translates into availability of capital for developers focusing on low-cost housing. Better capital availability will help in timely project execution, which will result in higher volumes. The government has also reduced withholding tax on ECBs for affordable housing from 20% to 5% for 3 years. Besides, 1% interest rate subsidy provided last year for loans towards affordable housing continues this year.

The exemption of proceeds from the sale of a residential property from capital gains tax if it is invested in equity or equipment of an SME - earlier the only route for exemption was purchase of another property or tax saving bonds. With more reinvestment options, investment in real estate is expected to become more liquid which could boost the investment in the real estate. Further, measures such as credit guarantee and direct transfer of subsidy are likely to change the growth environment.

However, there has been bad news also for the sector, mainly-increase in service tax. The increase in the service tax rate from 10% to 12% is likely to increase the cost of production for developers which would put further pressure on the margins. Further, the reports are doing rounds in the market that Maharashtra government has increased the stamp duty steeply. This could keep the houses costlier.

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	17197.6	14936.5	(13.15)	18055.9	20.88
Other Income	1703.8	1059.2	(37.83)	1181.2	11.52
Change in Stocks	13388.5	15919.6	18.91	24151.8	51.71
Raw Material Con.	7677.5	14633.6	90.60	14422.2	(1.44)
Employee Exp.	378.9	440.3	16.20	597.2	35.63
Indirect Taxes	0.7	0.8	14.29	0.6	(25.00)
Other Exp.	9503.0	4335.9	(54.37)	11977.5	176.24
Operating Exp.	4171.6	3491.0	(16.32)	2845.7	(18.48)
Operating Profit	13026.0	11445.5	(12.13)	15210.2	32.89
Total Interest	5781.9	5157.2	(10.80)	5769.0	11.86
Gross Profit	8947.9	7347.5	(17.89)	10622.4	44.57
Net Dep.	39.0	51.0	30.77	72.5	42.16
Total Taxation	604.6	1329.9	119.96	1576.2	18.52
Net Profit/Loss	8304.3	5966.6	(28.15)	8973.7	50.40

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 08	Mar 09	Mar 10	Mar 11
SOURCES OF FUNDS	67501.3	86110.6	111695.6	138325.8
Equity Share capital	2142.7	2754.9	3588.4	4150.0
Share Application Money	1.6	1.0	1.0	1.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	34229.5	41921.5	66809.0	89628.8
Loan Funds	19460.8	40933.2	41297.2	44546.0
Unsecured Loans	11666.7	500.0	0.0	0.0
USES OF FUNDS	67501.3	86110.6	111695.6	138325.8
Gross Block	553.1	629.2	1905.3	1883.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	26.2	48.9	98.3	106.8
Net Block	526.9	580.3	1807.0	1777.1
Capital Work in Progress	52.2	147.2	22.8	910.7
Investments	2125.6	3029.3	5964.9	7859.8
Current Assets	73309.2	91371.3	116200.9	151270.6
Less : Current Liabilities	8528.0	9017.5	12300.0	23492.4
Total Net Current Assets	64781.2	82353.8	103900.9	127778.2
Misc. Expenses not written	15.4	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	2125.6	3027.5	5964.5	7859.4
Mkt Val. Quoted Investments	0.0	1.8	0.4	0.4
Contingent Liabilities	413.9	1081.0	2164.5	2098.3
Dividend (%)	50	0	0	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 11	Jun 11	Sep 11	Dec 11
Net Sales	5237.1	5021.8	1476.7	898.4
Cost Of Sales	2681.3	2363.5	849.9	815.0
Operating Profit	2555.8	2658.3	626.8	83.4
Recurring Income	239.2	372.6	385.0	424.2
Adjusted PBDIT	2795.0	3030.9	1011.8	507.6
Financial Expenses	180.9	180.7	188.7	194.6
Depreciation	22.3	20.9	20.9	21.5
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	2591.8	2829.3	802.2	291.5
Tax Charges	618.6	738.6	229.2	52.5
Adjusted PAT	1973.2	2090.7	573.0	239.0
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	1973.2	2090.7	573.0	239.0

52 Week Index Relative Percentage Appreciation

HDIL vs SENSEX
Risks Associated
➔ Weak Market

The Rising costs of raw materials have put huge pressure on the real estate companies. The margin has dropped considerably. This coupled with drop in the sales and high debt has led to tight financial situation in many companies. Sustained weak environment could harm the companies' performance severely.

➔ High Interest Rates

The inflation has been rising in the Indian economy. This has led to a steep rise in the interest rates. Though the property prices have remained subdued, the rising interest cost has in effect increased the net property cost. This has greatly affected the net sales in the real estate sector especially residential segment.

➔ Issue with Regulators

Recently the Competition Commission of India (CCI) took strict actions against DLF for not following business norms. Many real estate companies are accused of abusing their customer rights. The BMC had slapped a notice to a housing project of HDIL for not paying the Tax. such things could further dampen the demand market.

In a Nutshell

Housing Development & Infrastructure Limited (HDIL) is part of the Wadhawan Group formerly known as the Dheeraj Group. It is a leading Mumbai based real estate developer. It has dominant presence across the MMR. 90% of its land bank is in Mumbai. It is developing key real estate projects in Virar and Mulund two key suburban areas of Mumbai which offer strong demand potential from the working population of Mumbai. The company is the largest slum rehabilitation projects developer in the country. It is currently executing its most ambitious project- Mumbai Airport Rehabilitation Project (MIAL), aimed at eventually freeing 275 acres of encroached airport land for development. HDIL is now diversifying into hospitality and entertainment business. Recent reports of many-fold hike along with weak performance have dragged the share price considerably down. Budget has certain provision which can ease the pressure on the market whilst boosting fresh investment. For the past two years, demand has been subdued due to higher price ad financing cost. We expect fresh rate cuts in the next quarter. It can increase the fund availability and also reduce the interest burden from companies & these would do well in mid to long term. We are bullish on HDIL and thus we recommend to buy this share.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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