

HDIL

Performance Highlights

Y/E March (Rs cr)	1QFY11	1QFY10	% yoy	4QFY10	% qoq
Revenue	451	295	52.7	434	3.9
EBIDTA	267	116	130.3	227	17.7
OPM (%)	59.3	39.3	1,998bp	52.3	697bp
PAT	234	107	118.0	178	31.8

HDIL's 1QFY2011 results were significantly above our expectations as the company sold 1.9mn sq ft of FSI in Vasai and Virar for Rs675/sq ft. In 1QFY2011, HDIL sold TDR at Rs2,950/sq ft, up 9.3% qoq. There is an upside risk to our estimate at current TDR prices as we have assumed TDR prices at Rs2500/sq ft. Management highlighted sustainability of TDR prices and volumes at the current level. Moreover, close to 75% of the ~5.7mn sq ft of residential projects launched since FY2009 have been pre-sold, providing revenue visibility of Rs4,000cr over FY2010-12E. The stock has outperformed over the last two months because of the Bombay High Court's ruling and water problems of phase-I of the MIAL project being sorted out. **We maintain Buy with a Target Price of Rs302.**

High-margin FSI and TDR sale drives profitability: HDIL's revenue grew by 47.0% qoq to Rs451cr (v/s estimated Rs421cr) due to TDR sales of ~1.1mn sq ft from the MIAL project at an average realisation of Rs2,900/sq ft v/s Rs2,700/sq ft in 4QFY2010. EBITDA margin stood at 59.3%, up by 697bp qoq because of lower cost associated with FSI sale. Consequently, operating profit came in at Rs267cr (up 130.3% yoy and 17.7% qoq). Tax rate for 1QFY2011 stood at 15.8% as against 11.6% in 1QFY2010. Consequently, PAT grew 31.8% qoq and 118.0% yoy to Rs234cr.

Outlook and valuation: We have upgraded our EPS by 14.3% and 3.2% in FY2011E and FY2012E, respectively. Smooth execution of the Rs200bn MIAL project, sustainable TDR prices and successful new launches provide strong visibility for HDIL. The stock is currently trading at 35% discount to our one-year forward NAV. We maintain Buy on the stock with a Target Price of Rs302, which is at 25% discount to our one-year forward NAV.

Key financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	1,750	1,502	1,833	3,152
% chg	(26.9)	(14.2)	22.0	72.0
Net profit	786	567	813	1,335
% chg	(44.3)	(27.9)	43.5	64.2
FDEPS (Rs)	21.1	15.2	21.9	35.9
EBITDA margin (%)	45.8	52.5	53.1	53.2
P/E (x)	12.4	17.3	12.0	7.3
RoE (%)	19.5	9.9	10.8	15.4
RoCE (%)	10.4	7.3	8.4	13.4
P/BV (x)	1.6	1.4	1.2	1.1
EV/Sales (x)	7.5	8.2	6.5	3.6
EV/EBITDA (x)	16.4	15.7	12.2	6.8

Source: Company, Angel Research

BUY

CMP	Rs263
Target Price	Rs302

Investment Period	12 Months
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Stock Info

Sector	Real Estate
Market Cap (Rs cr)	9,096
Beta	1.9
52 Week High / Low	411/202
Avg. Daily Volume	2,596,975
Face Value (Rs)	10
BSE Sensex	17,992
Nifty	5,409
Reuters Code	HDIL.BO
Bloomberg Code	HDIL@IN

Shareholding Pattern (%)

Promoters	42.3
MF / Banks / Indian Fls	18.3
FII / NRIs / OCBs	28.4
Indian Public / Others	11.0

Abs. (%)	3m	1yr	3yr
Sensex	2.8	18.6	18.1
HDIL	(1.1)	(1.8)	(41.5)

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Exhibit 1: 1QFY2011 performance (Standalone)

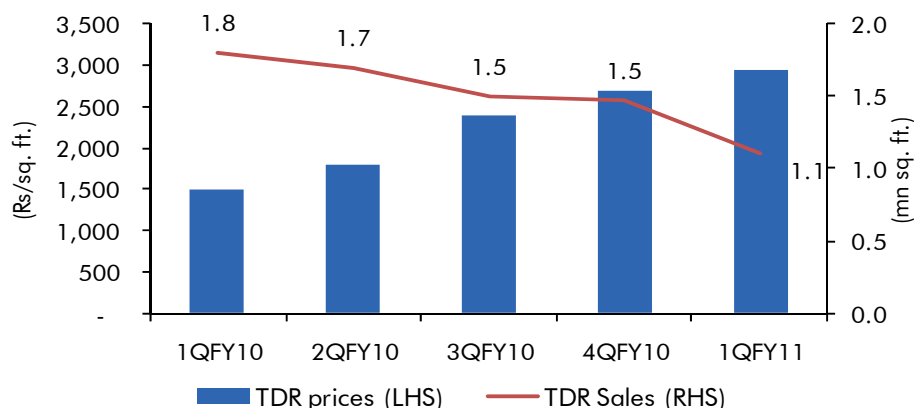
(Rs cr)	1QFY11	1QFY10	% yoy	4QFY10	% qoq
Revenue	451	295	52.7	434	3.9
Total expenditure	184	179	2.4	207	(11.3)
EBIDTA	267	116	130.3	227	17.7
EBIDTA margin (%)	59.3	39.3	1,998bp	52.3	697bp
Depreciation	2	1	125.9	2	(10.7)
Net interest	21	17	27.1	25	(12.4)
Other income	34	23	47.1	30	12.6
PBT	278	122	128.7	231	20.5
Tax	44	14	209.8	47	(7.3)
Tax rate (%)	15.8	11.6		20.5	
Adjusted PAT	234	107	118.0	183	27.7
PAT margin (%)	52.0	36.4	1,558bp	42.3	970bp
EO items/prior items	0	0		(6)	
Reported PAT	234	107	118.0	178	31.8
No. of shares (m)	36.7	36.7		36.7	
EPS (Rs)	6.4	2.9		4.8	

Source: Company, Angel Research

Set to gain from high TDR prices

TDR prices in Mumbai have recovered from Rs900/sq ft in February 2009 to Rs3,200/sq ft currently. HDIL, being a market leader and controlling around 70% of the TDR supply in Mumbai, is a key beneficiary of the revival in the TDR market. We have assumed Rs2,500/sq ft (i.e., 20% discount from current levels) for its MIAL project. Also, we do not expect a steep fall in TDR prices as demand in Mumbai's residential market continues to be resilient.

Exhibit 2: Strong TDR prices

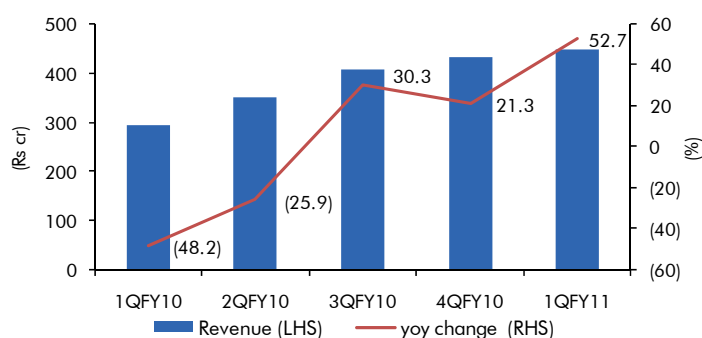


Source: Company, Angel Research

Well-capitalised balance sheet

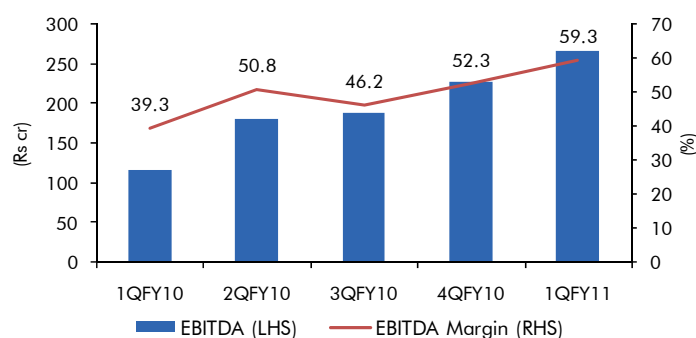
Net debt to equity stands at 0.47x as on date, with unpaid land cost of Rs300cr to be paid over the next two years. Majority of HDIL's repayment obligation largely starts from FY2012. During the quarter, the company acquired five acres of land in Greater Noida for its leisure business for ~Rs80cr. Further, it paid Rs250cr towards land payments for its MAIL project. This has resulted in an increase of Rs250cr in loan and advances in 1QFY2011. During the earnings call, management categorically mentioned that the entire land has been acquired for its MIAL phase II and III project.

Exhibit 3: Quarterly revenue trend



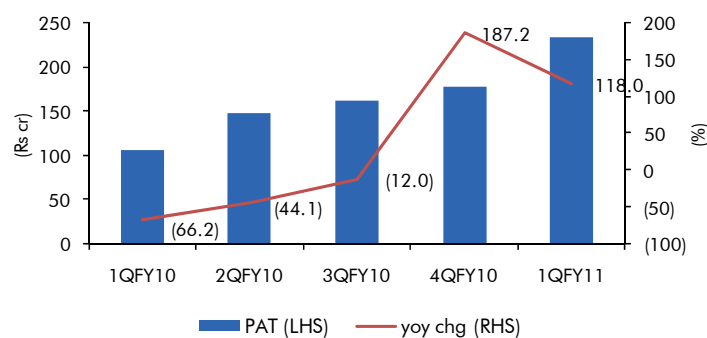
Source: Company, Angel Research

Exhibit 4: Quarterly EBITDA trend



Source: Company, Angel Research

Exhibit 5: Quarterly profitability trend



Source: Company, Angel Research

Exhibit 6: Peer valuation

Company	Reco.	Mcap (Rs cr)	CMP (Rs)	Tgt. price (Rs)	Upside (%)	NAV (Rs)	Prem/Dis. to NAV (%)	P/E (x) FY11E	P/E (x) FY12E	P/B (x) FY11E	P/B (x) FY12E	EV/EBITDA (x) FY11E	EV/EBITDA (x) FY12E	RoE (%) FY11E	RoE (%) FY12E
Anant Raj	Buy	3,470	118	178	51.4	210	(44.0)	13.4	9.0	0.9	0.9	10.2	7.0	7.3	9.9
DLF	Neutral	52,500	309	-	-	298	3.8	26.7	14.7	1.6	1.5	16.9	10.9	6.2	10.5
HDIL	Buy	9,096	263	302	14.8	402	(34.6)	12.0	7.3	1.2	1.1	12.2	6.8	10.8	15.4

Source: Company, Angel Research

Investment Arguments

High-margin slum redevelopment projects

Slum redevelopment (SRA) does not involve upfront investment in land compared to the conventional real estate projects. The cost per sq ft in slum redevelopment projects is around Rs3,000/sq ft v/s Rs5,000–6,000/sq ft (including land cost) on freehold land due to high property prices in Mumbai. Slum redevelopment also has high entry barriers, as it requires expertise and experience to deal with government agencies and slum dwellers regularly until the completion of the project. In Mumbai, more than 54% of the population lives in slum clusters situated in certain pockets of the city. A slum population of 7.5mn could translate into 1.5mn families, with an average household size of five. This could translate into SRA potential of 644mn sq ft and revenue potential of Rs2,000bn for redevelopers.

HDIL, the market leader in slum rehabilitation, is well poised to cash in on the immense opportunity in the SRS segment. The company has executed close to 10mn sq ft of SRS projects in the last 15 years and is more competitive than other developers in the fray. Thus, HDIL stands a good chance to win large SRA projects, such as Dharavi—where rehab families could be of similar size to MIAL.

Execution of the airport project on track

The first phase of HDIL's MIAL project to rehabilitate 28,000 families is on track and likely to get completed by September 2010, generating around 10mn sq ft of TDR. The company will also get 2mn sq ft of FSI for commercial development in the airport vicinity once the 28,000 families get rehabilitated. We expect HDIL to sell 5mn–6mn sq ft of TDR annually over the next five years on strong ongoing execution of the MIAL project, which will generate further 37mn sq ft of TDR over the next 5–6 years. The MIAL project contributes around 30% to our one-year forward NAV.

Rewarding new launches

During 1QFY2011, HDIL launched the first phase of *The Meadows*, Goregaon West. The company sold 0.75mn sq ft in just two days of the launch. Further, the company has launched the second phase of *Premier*, a 0.75mn sq ft residential project in Kurla.

HDIL has strategically deleveraged its business model by launching various projects through the conventional route since March 2009, thereby reducing its overdependence on the TDR market. The company has been able to pre-sell 75% of its residential projects (5.7mn sq ft) launched since FY2009, thereby providing Rs4,000cr of revenue visibility over FY2010–12E. HDIL has even managed to pre-lease 20% of its commercial launches at its Andheri (*Metropolis*) project for Rs140/sq ft. The company's recent launches have been successful on account of being launched at a 10–20% discount rate to prevailing market prices. Management has indicated that it would adopt the same strategy for its forthcoming launches as well. In FY2011, HDIL plans to launch new projects of 5mn–6mn sq ft, largely in Mumbai (including Siddharth Nagar, Goregaon; Ekta Nagar, Kandivali; and Pant Nagar, Ghatkopar).

Exhibit 7: Launching projects through the conventional route

Project	Location	Saleable area (mn sq ft)	Sold/leased (%)	Average sales rate (Rs/sq ft)
Residential				
Galaxy	Kurla (E)	0.48	> 90	4,500
Premier	Kurla (W)	1.00	> 95	5,700
Metropolis	Andheri (W)	0.65	> 95	9,000
Majestic	Bhandup	1.30	> 40	6,500
Residency Park	Virar	1.25	> 75	2,600
Harmony	Goregaon	0.04	> 95	8,451
Meadows -Phase I	Goregaon	1.00	>75	7,740
Commercial				
Premier	Kurla (W)	2.00		
Metropolis	Andheri (W)	1.02	20	Rs140/sq ft
HDIL Industrial Park	Virar	1.50	>90	
Harmony	Goregaon (W)	0.07	>75	
Total		10.30		

Source: Company, Angel Research

Outlook and valuation

HDIL is the largest listed slum rehabilitation developer in the most resilient market of Mumbai, which contributes a substantial 71% of our GNAV. Smooth execution of the Rs200bn MIAL project, sustainable TDR prices and successful new launches via the conventional method provides strong visibility for HDIL.

Exhibit 8: Change in estimates

(Rs cr)	Earlier estimates		Revised estimates		Change (%)	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Revenue	1,775	3,106	1,833	3,152	3.2	1.5
EBITDA	871	1,628	973	1,677	11.8	3.0
PAT	711	1,293	813	1,335	14.3	3.2

Source: Angel Research

We have upgraded our earnings estimate by 14.3% and 3.2% in FY2011E and FY2012E, respectively. We maintain our TDR price assumption of Rs2,500/sq ft for its MIAL project. Further, HDIL seeks to deleverage its balance sheet on the back of the expected high revenue inflow from the MIAL project and the recent low-cost Rs1,375cr fresh NCD issue, which will reduce its net gearing to 0.27x in FY2012E from the current level of 0.47x. The stock is currently trading at 35% discount to our one-year forward NAV. **We maintain Buy on the stock with a Target Price of Rs302, which is at 25% discount to our one-year forward NAV.**

Exhibit 9: Valuation summary

One-year forward NAV	(Rs per share)
MIAL (Airport FSI and TDR)	188
Residential	171
Commercial	123
Other SRS	109
Retail	36
Total	626
Less	
Net debt	(107)
Unpaid land cost and customer advances	(32)
Tax	(85)
NAV/share (Rs)	402
Target price (Rs) 25% discount to NAV	302

Source: Angel Research

Exhibit 10: Key assumptions

	FY10	FY11	FY12
TDR sales (mn sq ft)	6.5	5.7	5.7
TDR price (Rs/sq ft)	2,060	2,500	2,500
Pricing (% change)			
Residential		5.0	5.0
Commercial		(5)	5
Retail		(5)	5
Discount rate	15%		
Cap rate	11%		

Source: Angel Research

Profit & loss statement (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net sales	1,214	2,395	1,750	1,502	1,833	3,152
Other operating income	-	-	-	-	-	-
Total operating income	1,214	2,395	1,750	1,502	1,833	3,152
% chg	179.2	97.2	(26.9)	(14.2)	22.0	72.0
Total expenditure	(593)	(825)	(949)	(713)	(859)	(1,475)
Cost of construction	(513)	(633)	(299)	(141)	(298)	(956)
Other operating exp.	(51)	(136)	(537)	(477)	(445)	(366)
Personnel	(8)	(12)	(22)	(29)	(35)	(46)
Administrative exp.	(22)	(44)	(91)	(66)	(81)	(107)
EBITDA	621	1,570	802	789	973	1,677
% chg	362.8	152.8	(48.9)	(1.6)	23.3	72.3
(% of Net Sales)	51.1	65.5	45.8	52.5	53.1	53.2
Dep. & amortization	(1)	(1)	(4)	(72)	(13)	(21)
EBIT	620	1,568	798	717	961	1,656
% chg	364.4	152.9	(49.1)	(10.1)	34.0	72.4
(% of net sales)	51.1	65.5	45.6	47.7	52.4	52.6
Int. & other charges	(5)	(4)	(58)	(46)	(82)	(78)
Other income	10	38	32	35	113	90
(% of PBT)	2	2	4	5	11	5
Recurring PBT	625	1,602	771	705	992	1,669
% chg		156.3	(51.8)	(8.6)	40.6	68.3
Extraordinary exp/inc.	-	-	-	-	-	-
PBT (reported)	625	1,602	771	705	992	1,669
Tax	(77)	(192)	(94)	(133)	(178)	(334)
(% of PBT)	12.3	12.0	12.2	18.9	18.0	20.0
PAT (reported)	548	1,410	677	572	813	1,335
Add: Asso. earnings share	-	-	-	-	-	-
Less: Minority interest (MI)	0	(0)	(1)	(0)	-	-
Prior period items & other	-	(0)	109	(6)	-	-
PAT after MI (reported)	548	1,410	786	567	813	1,335
Adj. PAT	548	1,410	677	567	813	1,335
% chg	367.2	157.3	(52.0)	(16.3)	43.5	64.2
(% of net sales)	45.1	58.9	38.7	37.7	44.4	42.4
Basic EPS (Rs)	25.6	65.8	28.5	15.8	21.9	35.9
Fully diluted EPS (Rs)	14.7	37.9	21.1	15.2	21.9	35.9
% chg	367.2	157.3	(44.2)	(27.9)	43.5	64.2

Balance sheet (Consolidated)

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Sources of funds						
Equity share capital	180	214	275	359	372	372
Preference capital	-	-	-	-	-	-
Reserves & surplus	554	3,427	4,146	6,708	7,657	8,908
Shareholders' funds	734	3,642	4,422	7,067	8,029	9,279
Minority interest	-	0	0	0	0	0
Total loans	376	3,113	4,143	4,102	3,702	3,702
Deferred tax liab.	1	2	2	2	2	2
Total liabilities	1,111	6,756	8,568	11,171	11,733	12,983
Application of funds						
Gross block	27	58	65	235	483	700
Less: Acc. Dep.	2	3	6	78	91	111
Net block	25	54	60	157	392	588
Capital WIP	0	5	15	45	45	45
Goodwill	2	9	48	259	259	259
Investments	158	191	249	243	243	243
Current assets	1,782	7,241	8,865	11,343	12,512	13,729
Cash	6	351	75	810	915	1,385
Loans & Adv.	141	1,311	1,710	1,573	1,573	1,809
Other	1,636	5,580	7,080	8,960	10,024	10,535
Current liabilities	859	748	669	876	1,718	1,881
Net current assets	923	6,493	8,196	10,467	10,794	11,848
Mis. exp. not w/off	2	2	(0)	-	-	-
Total assets	1,111	6,756	8,568	11,171	11,733	12,983

Cash flow statement (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profit before tax	625	1,602	771	705	992	1,669
Depreciation & others	(2)	(46)	15	113	95	98
Change in wkg. cap.	(754)	(5,345)	(1,823)	(1,550)	(307)	(584)
Less: Other income	10	38	32	35	113	90
Direct taxes paid	(20)	(164)	(63)	(133)	(178)	(334)
Cash flow from operations	(161)	(3,991)	(1,132)	(900)	488	759
Inc./ (Dec.) in Fixed assets	(62)	(45)	(62)	(200)	(248)	(217)
Inc./ (Dec.) in investments	-	(23)	(57)	6	-	-
Other	11	39	32	(163)	113	90
Cash Flow from Investing	(50)	(29)	(88)	(356)	(135)	(126)
Issue of equity	(1)	1,712	-	2,078	234	-
Inc./ (Dec.) in loans	179	2,737	1,031	(42)	(400)	-
Dividend paid (incl. tax)	-	(49)	(75)	-	-	(85)
Others	(4)	(35)	(11)	(46)	(82)	(78)
Cash flow from financing	174	4,365	944	1,991	(248)	(163)
Inc./ (Dec.) in cash	(38)	345	(275)	735	105	470
Opening cash balances	44	6	351	75	810	915
Closing cash balances	6	351	75	810	915	1,385

Key ratios

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Valuation ratio (x)						
P/E (on FDEPS)	17.8	6.9	12.4	17.3	12.0	7.3
P/CEPS	17.8	6.9	14.4	15.3	11.8	7.2
P/BV	7.7	1.5	1.6	1.4	1.2	1.1
Dividend yield (%)	0.2	1.9	-	-	0.8	0.8
EV/Sales	7.8	5.0	7.5	8.2	6.5	3.6
EV/EBITDA	15.2	7.6	16.4	15.7	12.2	6.8
EV/Total assets	4.8	1.6	1.4	1.0	0.9	0.8
Per share data (Rs)						
EPS (Basic)	25.6	65.8	28.5	15.8	21.9	35.9
EPS (fully diluted)	14.7	37.8	21.1	15.2	21.9	35.9
Cash EPS	14.8	38.0	18.3	17.2	22.2	36.5
DPS	0.5	5.0	-	-	2.0	2.0
Book Value	34.3	169.9	160.5	190.0	215.9	249.6
DuPont Analysis						
EBIT margin	51.1	65.5	45.6	47.7	52.4	52.6
Tax retention ratio	0.9	0.9	0.9	0.8	0.8	0.8
Asset turnover (x)	1.9	0.6	0.2	0.2	0.2	0.3
ROIC (post-tax)	85.9	36.8	9.4	6.2	7.4	11.8
Cost of debt (post-tax)	10.5	11.0	12.3	10.5	9.8	9.6
Leverage (x)						
Operating RoE	109.3	57.3	6.8	3.0	6.2	12.8
Returns (%)						
ROCE (Pre-tax)	83.0	39.9	10.4	7.3	8.4	13.4
Angel RoIC (Pre-tax)	98.0	41.8	10.7	7.6	9.1	14.8
RoE	59.5	64.5	16.8	9.9	10.8	15.4
Turnover ratios (x)						
Asset T/o (Gross Block)	74	57	28	10	5	5
Inventory/Sales (days)	271	522	1,297	1,904	1,836	1,144
Receivables (days)	59	28	23	45	55	47
Payables (days)	180	104	128	182	243	195
Wkg. cap. (ex-cash) (days)	178	538	1,487	2,160	1,945	1,178
Solvency ratios (x)						
Net debt to equity	0.5	0.8	0.9	0.5	0.3	0.2
Net debt to EBITDA	0.6	1.9	15.4	10.5	5.3	1.8
Int. coverage (EBIT/Int.)	10.1	10.2	0.4	0.5	1.0	2.9

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Disclosure of Interest Statement

	HDIL
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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