



JV CAPITAL SERVICES PVT. LTD

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HDIL

CMP 242

BUY

INDUSTRY : REAL ESTATE

RISK PROFILE— HIGH

TARGET 360

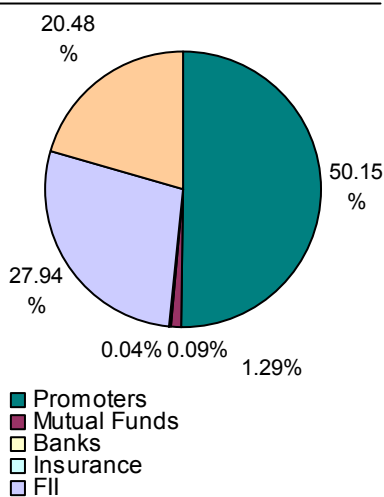
NSE Symbol : HDIL

Key Data :

52 week H/L : 411/1150
Market Cap (Rs Cr.) : 9439
Face Value : Rs. 10
Beta : 1.67
P/E : 8.70
Div % : -
BV : 180.25
PBV : 1.46

(Source : Company)

Share Holding Pattern (%) :



Relative Performance Analysis:

SENSEX
 HDIL



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HDIL is engaged in real estate development and construction of residential and commercial properties, infrastructure facilities and all other related activities. The Company developed three projects: Premier Residency at Kurla (West), Metropolis at Versova, Andheri (West) and Project Galaxy at Kurla (East). The Company's subsidiaries include Privilege Power and Infrastructure Private Limited, HDIL Entertainment Private Limited, HDIL Oil & Gas Private Limited, Mazda Estate Private Limited and HDIL Leisure Private Limited.

INVESTMENT RATIONALE

The company follows a build and sell model for all residential, commercial and retail properties. About 81% of the reserves of company are in the Mumbai Metropolitan region, giving it a competitive advantage because this is prime real estate for which demand is unlikely to decline. On account of presence in the slum rehabilitation scheme, HDIL is partly hedged against fluctuation in land prices as the contraction cost does not vary significantly. Also the company not required to pay one-off land purchase costs at the beginning of each project.

The focus of the management would be timely execution of ongoing projects in Mumbai. Phase I of MIAL project is on track and likely to get completed by September 2010 and generate around 11-13mn sq ft of TDR. HDIL intends to start Phase II by April 2010 for which land has already been acquired in Eastern suburbs. This provides strong revenue visibility with steady cash flows from sale of TDR. HDIL has built a sizeable land bank. It is foraying into SEZs and has received an approval of multi services SEZ. The company is also eyeing a 2500 acre multi product SEZ in Vasai-Virar region.

VALUATION:

We expect HDIL to remain strong player in real estate sector. At current price of Rs 252, it is trading at 14x its FY10 earnings and 10x its estimated FY11 earnings. Investors can take a bet on this stock with an upside expectation of over 49% with a holding period of one year.

Financial Summary	Net Sales	Total Expenses	PAT	EPS
Year				
FY2006	673	518	117	22.79
FY2007	2083	1390	548	30.10
FY2008	6486	4742	1411	50.50
FY2009	3172	1803	789	30.14

(Source : JVCS RESEARCH)

INDUSTRY PROFILE

Indian real estate sector plays a vital role in the country's economy. Almost five percent of the country's GDP is contributed by the housing sector. In the next five years, this contribution to the GDP is expected to rise to 6%. The demand forecast for Pan India commercial office space is 196sq ft, while Retail space demand stands at 43mn sq ft for 2009-2013.

Real estate sector witnessed a complete turnaround in early March 2009 on the back of Government stimulus in form of easing liquidity and allowing real estate companies to restructure the debt. Real estate industry consists of players engaged in diversified projects such as commercial building, residential townships, IT parks, hospitality, retail ventures, etc. HDIL is engaged in all spheres of the industry inducing commercial constructions, hospitality projects, cyber city and infrastructure development.

GOVERNMENT INITIATIVES

The government has introduced many progressive reform measures to unlock the potential of the sector and also to meet increasing demand levels. RBI has decided to extend exceptional concessional treatment to the commercial real estate exposure.

- 100% FDI allowed in realty projects through the automatic route.
- In case of integrated townships, the minimum area to be developed has been brought down to 25 acres from 100 acres.
- Urban Land (Ceiling and Regulation) Act, 1976 (ULCRA) repealed by increasingly larger number of states.
- Minimum capital investment for wholly-owned subsidiaries and joint ventures stands at US\$ 10 million and US\$ 5 million, respectively.
- Full repatriation of original investment after three years.
- 51% FDI allowed in single-brand retail outlets and 100% in cash-and-carry through the automatic route.

The 2009-2010 Budget has also given sops to the realty sector. At the same time, the finance minister allocated US\$207mn to grant a 1% interest subsidy on home loans up to US\$20,691, provided the cost of the home is not more than US\$41,382. This subsidy is expected to give further boost to the housing sector.

BUSINESS UPDATES:

- HDIL is a major player in Mumbai Realty with 90% land reserves. The company has a total land reserves of 194.36 mn sq. ft.
- Currently the company is executing the largest SRA project for rehabilitation of approximately 85,000 slum dwellers under expansion and modernization of Chhatrapati Shivaji international Airport
- The company has launched four projects aggregating to about 3.3 mn sq ft during March-December 2009.
- The company has successfully launched 3 residential projects of Premiere, Galaxy and Metropolis with 1.95mn sq ft during March-April 2009. The company is planning to launch 4 more projects of 4.06mn sq ft in FY11. These residential projects will bring in revenue of Rs 1000cr in next three years.

QIP ISSUE TO REDUCE THE DEBT LEVELS

HDIL has issued Qualitative Institutional Placement (QIP) to reduce the debt. Current debt equity ratio for the company stands at 0.9x. The company is looking to raise Rs 1200cr through the placement. However, the company has raised Rs 1150cr through non-convertible debentures of 5 year tenure. Assuming the company raises Rs 1200cr from QIP and 90% of the funds are utilized for debt repayment, debt equity ratio shall reduce to 0.26x.

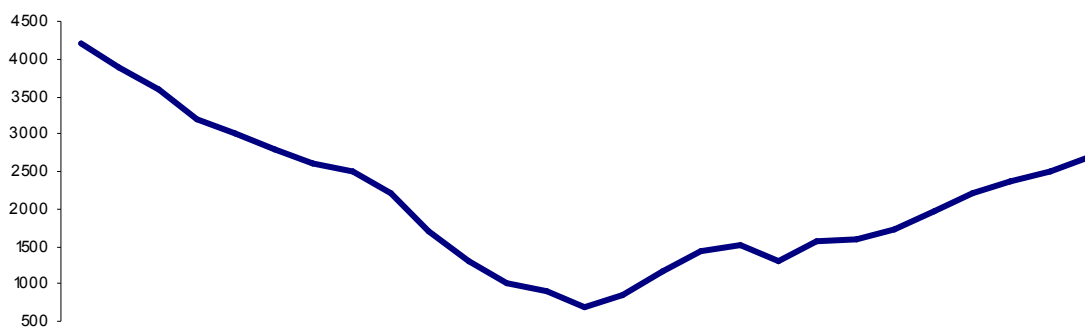
RISING TDR PRICES

As real estate prices increases rapidly, the price of Transfer of Development rights too has started reaching the sky. The increase has been particularly noticeable in western region. TDR prices have increased to Rs 2700per sq ft in Bandra to santacruz and to Rs 2500-2600 per sqft between Santacruz to Borivalli.

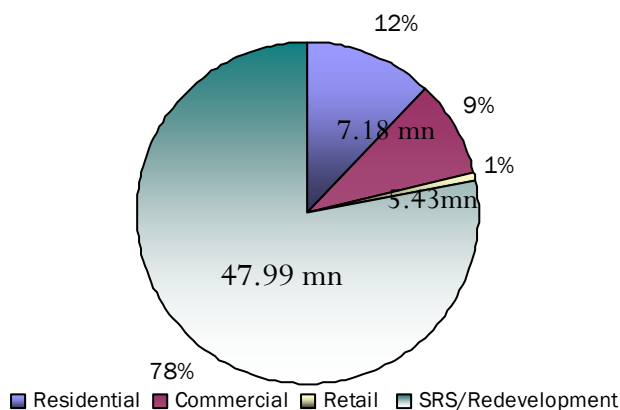
Prices of TDR had crashed last year from a high of Rs 4000 a sqft to Rs 850 sqft. But on the recovery cycle, TDR prices are charting the sharpest growth. HDIL forecast that it will sell 7 mn sqft of TDRs by FY11, this value is far higher than the total area company plans to launch for its residential projects.

TDR prices have a direct correlation with realty prices. Within the realty sector, it is treated as a raw material purchase and therefore TDR prices too rise when property prices surge. However, in the past six months the property prices have not shot up in the same magnitude as TDR prices. There was no captive consumption of TDR during last quarter. TDR prices have recovered from the bottom of Rs 850/sq ft to Rs 2700/sqft currently. However it is still lower by 40% from the peak of Rs 4000/s ft. We expect demand for the Residential segment in Mumbai to remain stable owing to increasing disposable income levels. Hence in our view the new launches will continue to gain momentum going ahead and positively affect the TDR prices.

SHARP RECOVERY IN TDR PRICES



SEGMENTWISE PROJECT BREAKUP



PEER COMPARISON

COMPANY NAME	MARKET CAP (Rs cr.)	SALES TURNOVER	TOTAL ASSETS	PE (x)
HDIL	9137	1719	8610	8.70
DLF	52262	2827	21989	18.68
INDIABULLS REAL	7047	45	5296	4990
ACKRUTI CITY	3852	440	2036	17.84
SOBHA DEVELOPERS	3056	1114	3001	5.34

HDIL is a better bet among realty sector stocks. Moreover, it is a Rs 10 face value stock, whereas DLF is having a face value of Rs 2 only. HDIL is the cheapest among all with a PE of 8.7 only.

HDIL has tactically adopted a new business model to reduce its overdependence on TDR market (by launching various projects since March 2009).

In FY2011, the company plans to launch few other projects of 6-7mn sq ft.

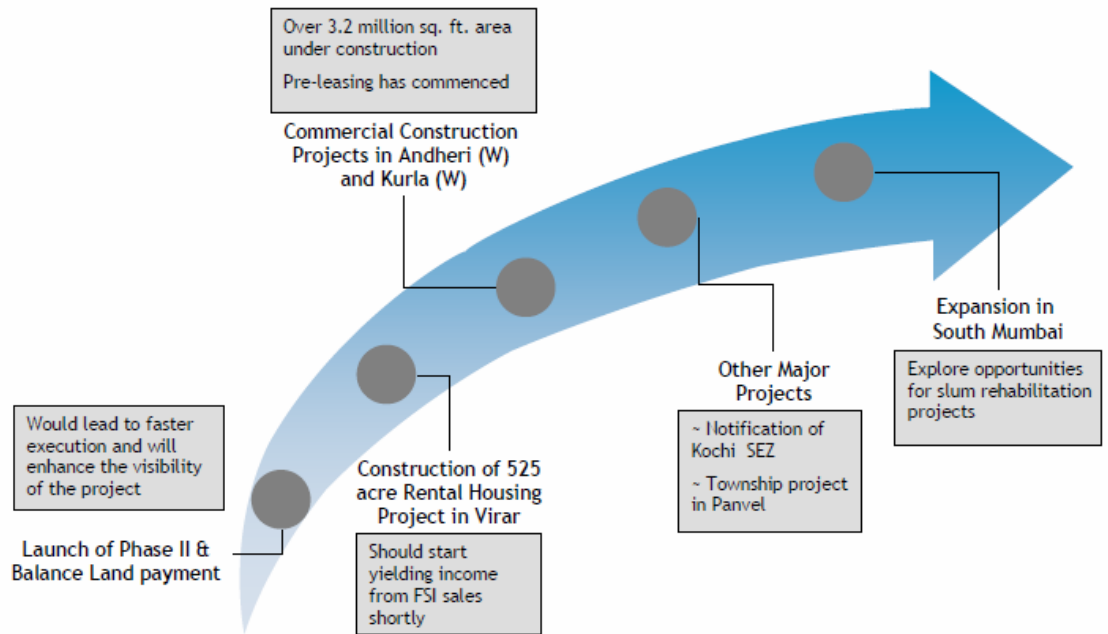
SUCCESSFUL RECENT LAUNCHES

Project	Location	Saleable Area (sq ft)	Sold	Launching Rate (Rs/sq ft)
RESIDENTIAL				
Premier	Kurla, West	10,00,000 sq. ft	>95%	5251
Galaxy	Kurla, East	4,75,000 sq. ft	>90%	4251
Metropolis	Andheri, West	6,50,000 sq. ft	>95%	7651
Kilburn	Bhandup	13,00,000 sq. ft	>20%	5751
COMMERCIAL				
Metropolis	Andheri, West	1,020,000	15% (leased)	Rs 80/sq ft
Premier	Kurla	2,000,000	10%	Rs 12/sq ft

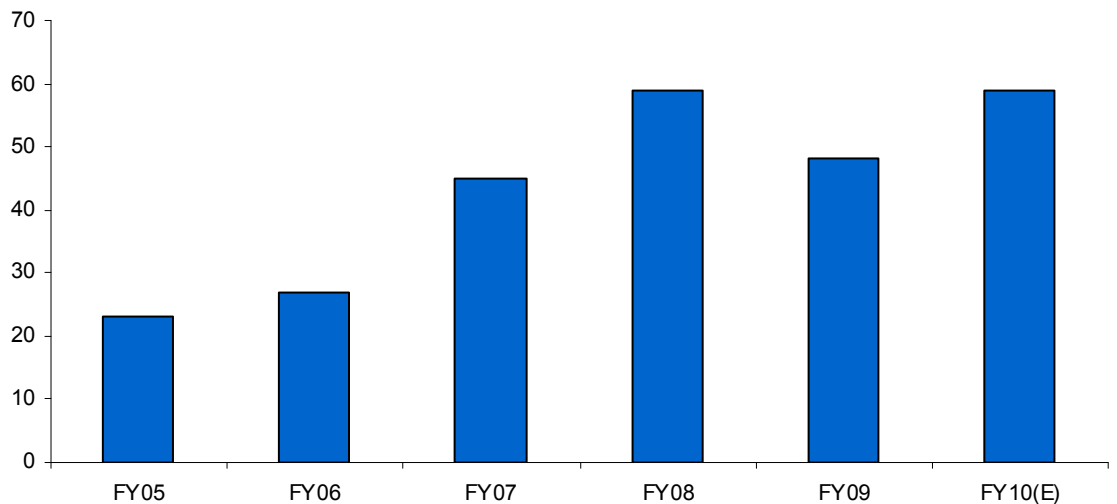
The Mumbai property prices have increased by 20-30%. Revival of the economy and increasing demand has resulted in appreciation of capital values for the mid range as well as high range properties.

RACING AHEAD ON GROWTH PATH

In comparison to other real estate companies of India, HDIL has seen massive swing in its balance sheets. This is the period of stagnation, soon to be followed by a huge rise in profit margins and cash flow as the company is exploring new investment opportunities by developing new residential as well as commercial space. The company has developed a whole array of diversifications. It is getting in to entertainment under the Broadway Brand name.



IMPROVING GROWTH MARGINS



OUTLOOK

HDIL share has been quoting much below its intrinsic value. We see the current pricing as a highly attractive opportunity for investors. Strong operational performance would be helpful in uplifting the profit growth. We maintain a 'BUY' on this stock with a price target of Rs 360.

FINANCIAL VALUATION

Earnings Statement				Rs cr.
Particulars	FY2008	FY2009	FY2010E	FY2011E
Net Sales	6486	3172	2601	3121
Total Expenditure	4742	1803	1460	1650
EBIDTA	1744	1369	1150	1460
Interest	141	595	464	352
PBDT	1603	774	686	1108
Depreciation	1	3	4	11
PBT	1602	772	710	908
Tax	191	-17	22	48
PAT	1411	789	679	842
Margins (%)	FY2008	FY2009	FY2010E	FY2011E
EBIDTA	26.9%	43.2%	44.2%	46.8%
PBDT	24.7%	24.4%	26.4%	35.5%
PBT	24.7%	24.3%	27.3%	29.1%
PAT	21.8%	24.9%	26.1%	27.0%

BALANCE SHEET

Balance Sheet				Rs cr.
	FY2008	FY2009	FY2010E	FY2011E
Sources of Funds				
Share Capital	214	275	346	372
Reserves & Surplus	3427	4146	5614	5670
Shareholders Equity	3641	4421	5960	6042
Minority interest	0	0	0	0
Loan Funds	3112	4143	3142	2743
Total Liabilities	6753	8564	9102	8785
Application of Funds				
Gross Block	69	119	208	467
Depreciation	3	6	10	21
Net Block	66	113	195	446
Capital Work in Progress	5	15	15	15
Investments	191	249	249	249
Current Assets	7241	8864	9573	10339
Current Liabilities	576	651	1094	1837
Net Current Assets	6665	8213	8479	8502
Total Assets	6927	8591	9102	8785

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RISK PROFILE:

Low Risk : Fundamentally Sound companies, with low beta. Expected market out-performance is 0-10%

Medium Risk : Expected market out-performance is 10-20%. Preferably for the Investors with a maximum time frame of 6 months.

High Risk : High Beta Stocks, expected market out-performance is more than 20%, Preferably for the investors willing to take advantage of market momentum & are aggressive in nature.

Disclaimer Appendix

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