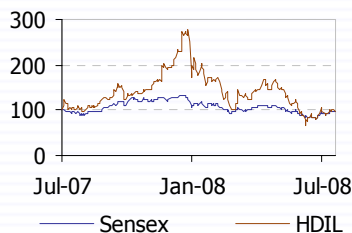


**Stock Data**

No. of shares	: 214mn
Market cap	: Rs 89.6bn
52 week high/low	: Rs 1,432/ Rs 327
Avg. daily vol. (6mth)	: 3.8 mn shares
Bloomberg code	: HDIL IB
Reuters code	: HDIL.BO

**Shareholding (%) Jun-08 QoQ chg**

Promoters	:	61.5	0.0
FIIs	:	9.3	(1.9)
MFs / UTI	:	0.9	(0.3)
Banks / FIs	:	0.1	(0.1)
Others	:	28.2	2.2

**Relative Performance**

Source: ENAM Research, Bloomberg

**Financial summary**

Y/E March	Sales (Rs mn)	PAT (Rs mn)	EPS (Rs.)	Change (YoY %)	RoE (%)	Valuation	(Rs)
2007	12,042	5,477	25.6	366	123	SOTP	712
2008	23,804	14,098 <sup>^</sup>	65.9	157	65	Price/ SOTP (x)	0.59
2009E	27,967	14,237	66.5	1	33		
2010E	39,268	20,536	96.0	44	35		

Source: ENAM Research; ; \* Bear case scenario; ^Note: FY08 sales includes outright sale of a commercial project contributing ~Rs 7bn to PAT

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# Housing Development & Infrastructure Ltd

**Rs 418**

Target Price: Rs 712

Potential Upside: 70%

Sector avg. upside: -10% to 0%  
(mkt cap wtd)Relative to Sector: **Outperformer**

## Mumbai realty at attractive valuations

- Our bear case valuation stands at Rs 712 while the current EV= Rs 577.

This bear case valuation consists of:

- ▶ Land bank @ property tax rates (Rs 446/ share) as per the Govt's ready reckoner
- ▶ Value of the Mumbai airport slum redevelopment project (Rs 236)

August 18, 2008

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# Investment summary

## ➤ Mumbai's largest listed realty player

- Incorporated in 1996, HDIL is Mumbai's largest listed realty player with land reserves of ~131mn. sq. ft, of which ~94mn lie in the Mumbai Metropolitan Region (MMR)
  - ▶ Airport project to add another ~59mn sq. ft. of FSI/ TDR
- Part of the Wadhawan group → 3 decades of real estate experience in Mumbai
  - ▶ Total area developed since inception of ~100mn sq. ft.

## ➤ Investment argument

- **Our bear case valuation stands at Rs 712 while the current EV= Rs 577. This bear case valuation consists of:**
  - ▶ Land bank @ property tax rates (Rs 446/ share) from the Govt's ready reckoner (RR) +
  - ▶ Airport project (Rs 236).
- Further upside to our bear case valuations
  - ▶ **Difference between the market value and the ready reckoner rates of land** estimated @ Rs 38bn (~Rs 177/ share)
  - ▶ **Base case value of airport** project provides a further upside of Rs 31bn or ~Rs 144/ share from our bear case scenario
  - ▶ **Construction + development margin value** from execution of projects → further upside of Rs 30/ share to our valuation

## ➤ Key risks

- Increased debt levels for further land acquisition may put strain on HDIL's balance sheet (Current D:E at ~1x)
  - ▶ ~Rs 27bn raised in FY08 to acquire land for airport project
- Changes in govt. / FSI/ SRS norms resulting in a fall in TDR price
- High dependence on long gestation SRS, fraught with imminent delays of approvals/ clearances

## ➤ Valuation

- At CMP Rs 418, the stock trades at a 41% discount to our bear case NAV of Rs 712. We maintain a sector **Outperformer** rating on the stock with a target price of **Rs 712**

## HDIL: Development plans

Saleable Area mn. sq. ft.	SRS		Non SRS	
	Ongoing	Planned	Ongoing	Planned
Residential	1.8	-	6.5	78.7
Commercial/Airport FSI	15.2	-	8.5	0.8
Retail	0.5	-	3.7	14.9
Airport rehab	35	-	-	-
Plots/ others	-	-	3.0	10.3
<b>Total</b>	<b>53</b>	<b>-</b>	<b>22</b>	<b>105</b>

Source: ENAM Research; Does not incl. ~10mn sq. ft. of land TDR to be generated

## Bear case land value (@ ready reckoner rates)

Land Reserves	Area (mn sq. ft.)	Area (%)	Land value (Rs bn)	Value (%)
North/ Eastern MMR	85	65	26.9	27
Suburban Mumbai	8.5	7	47.5	48
Island city Of Mumbai	0.2	0	1.5	1
Outside MMR	36.4	28	23.6	24
<b>Total</b>	<b>130</b>	<b>100</b>	<b>95.5*</b>	<b>100</b>
<b>Value (Rs/ share)</b>				<b>446</b>

Source: ENAM Research, \* Net of unpaid land cost of Rs 4bn

## Airport project value (Bear case)

Airport project	Bear case
No. of slum dwellers	75,000
Rehab area (mn sq. ft.)	26
Saleable area (mn sq. ft.)	13
TDR generation (mn sq. ft.)	45
<b>NAV (Rs bn.)</b>	<b>51</b>
<b>Value (Rs/ share)</b>	<b>236</b>

Source: ENAM Research



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# **HDIL: Mumbai land at a discount**

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# Key player in Mumbai's development

## Combination of high value short term projects and longer gestation land reserves

- High value short term reserves:
  - ▶ ~15mn sq. ft. of city centric land to be developed over 1-3 years
  - ▶ Contributes ~60% to our bear case land value (Rs 276 / share)
- Longer gestation land reserves
  - ▶ ~72mn sq. ft. in Virar-Vasai to be developed over ~5-7 years
  - ▶ Contributes ~14% to our bear case land value (Rs 99/ share)
- Balance ~26% value emanates from HDIL's land parcels in Palghar, Panvel and Kochi projects (Rs 71/ share)

## Redeveloping the city through the SRS

- Largest slum rehab player with ~66mn sq. ft. under construction
- Ability to clear encroachments allows HDIL to acquire premium land parcels in prime locations of the city inaccessible to others
- With ~55% of Mumbai's population living in slums, SRS provides a large addressable opportunity thus assuring high margins

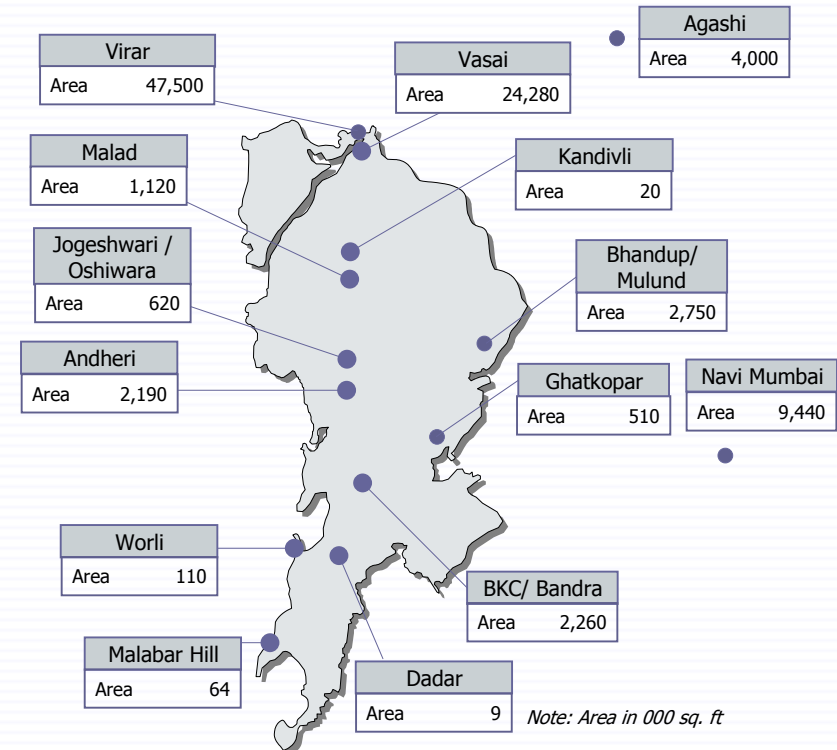
## Transforming north Mumbai

- Largest land owner in the Virar-Vasai region in north Mumbai with over ~72mn sq. ft. of developable area
  - ▶ Land acquired historically over the last 2 decades
- Better connectivity, affordable realty prices and a growing economy is expected to result in the region's upliftment
  - ▶ GoM expected to promote Virar-Vasai as a SBD
- While Virar-Vasai forms a small part of current value, the same is likely to significantly contribute to valuations over the long term

## SEZ: Planning for the future (not included in valuations)

- ~2,500 acre multi-product SEZ in in Virar/ Vasai
  - ▶ Already acquired ~2,300 acres of land; balance by Dec'08
- ~450 acre multi-services SEZ in Bhayander
  - ▶ Land acquisition still in initial stages

## Land reserves in MMR



## HDIL: Development Plans in MMR

Saleable Area mn. sq. ft.	SRS		Non SRS	
	Ongoing	Planned	Ongoing	Planned
Residential	1.8	-	0.6	70.5
Commercial/ Airport FSI	15.2	-	3.5	-
Retail	0.5	-	2.3	13.2
Airport rehab	35	-	-	-
<b>Total</b>	<b>53</b>	<b>-</b>	<b>6</b>	<b>84</b>

Source: Company, ENAM Research; Does not include 10mn of Land TDR to be generated

# Core project portfolio



- Vasai-Virar belt (part of Thane district) – Preferred residential destination, well connected with rail & road network
- Majority of Mumbai's working population resides in this region
- Potential business district
- ~40% of HDIL's land reserves in this area

- Major potential for slum rehabilitation redevelopment
- New commercial hub of Mumbai
- Major investment in infrastructure in the region
- Awarded largest slum rehab project at Mumbai airport

- Old business district of Mumbai
- No major supply of land expected

## MMR

- Carmicheal Road Property
- Worli Commercial Property
- Dadar Property
- Bandra
- Affaire
- Bandra (E) SRS Scheme
- Grande
- Andheri (W) SRS Scheme
- Versova Property
- Mumbai Airport Project
- Bombay Oxygen
- Kilburn Engineering
- Eveready
- Ghatkopar (W) Property
- Dreams (Bhandup)
- Malad (W) Property
- Harmony
- Malad (W) SRS Scheme
- Multiplex
- Dewanmann
- Sasunavghar Property
- Dongre Phase
- Agashi
- Mega Township Virar
- Virar (E) Property

## Outside MMR

- Hyderabad
- Kochi
- Palghar
- Pune

## ➤ In addition to the above land bank, HDIL is also actively acquiring further land parcels in suburban Mumbai directly and through its newly acquired subsidiary – Ravijyot Leasing (60%)

- Capitalizing on attractive valuations as land being acquired at distress valuations (~up to 50% of market rates)
- Shall also enable optimum utilization of the huge amount of TDR being generated in the airport project
  - ▶ Loading TDR on own projects to help realize much higher value rather than off loading in open market at current low prices

# Airport project: Off to a good start

## ➔ Key Specs: Airport slum rehab project

- Executed in JV with Mumbai International Airport Ltd (MIAL), consortium of GVK and AAI
  - ▶ Land freed to be shared in ratio of 55:45 (HDIL: MIAL)
- Rehabilitation of ~80,000 (estimated) slum tenements from 276 acres of encroached airport land
  - ▶ 158 acres to be used for modernization of airport
  - ▶ Balance 118 acres to be shared by the 2 partners
- Project deemed to be highly dense → FSI of 4.0x awarded
- To result in construction of ~28mn sq. ft. of rehab area and ~13mn sq. ft. (ENAM Estimates) of saleable area

## ➔ Revenue streams

- **TDR generation:** ~45mn sq. ft. of TDR to be generated from transfer of land (10mn) and rehab of slum dwellers (35mn)
- **FSI/ Free saleable area:** 13mn sq. ft. of land to be freed up
  - ▶ **Airport site:** 8mn sq. ft. post clearance of slums (2012)
  - ▶ **Kurla sites:** Increase in FSI for SRS (3.0x to 4.0x) to result in portion of land now available for commercial use (5.4mn sq. ft.)

## ➔ Phase I initiated

- Rehab of ~20,000 families in Kurla (1km from airport boundary)
  - ▶ 43 acres of land transferred to SRA → ~1.7mn sq. ft. of TDR already allotted
- Construction started on ~6-8mn sq. ft. (43 acres) of rehab area and adjoining 10 acres (5mn sq. ft.) of saleable component
  - ▶ Phase I completion time frame: 15-18 months
  - ▶ >3,000 workers, 10 contractors & ~100 engineers deployed
- Rehab of ~2,000 families in July 2008 planned on a 8 acre land (erstwhile Bhandari Metallurgical) in Kurla

## ➔ Using our bear case assumptions we estimate the airport project to contribute ~ Rs 236/ share

## Key assumptions (bear case)

Variable	Assumption
Total Saleable area (mn sq. ft.) (TDR – 78%; FSI – 22%)	58
<b>HDIL's share (%)</b>	
– FSI	55
– TDR	100
<b>Phasing</b>	
– FSI /saleable area (Years)	FY12 – FY14
– Sale of TDR	FY09 – FY13
Discount Rate (%)	16

## Sensitivity matrix

Variable	Bear case	Base case
No of slum dwellers	75,000	80,000
Saleable area (HDIL's share- mn sq. ft.)	13	13
TDR (HDIL's share)	45	48
<b>Selling prices assumed</b>		
– Saleable area (Rs./ psf)	10,000	12,500
– TDR (Rs./ psf)	2,000	2,500
<b>Key project costs</b>		
– Rehab land cost (Rs mn/ acre)	220	200
– Construction (Rs./ psf)	2,200	2,000
– Rehabilitation (Rs./ psf)	1,100	1,000
<b>Valuations</b>		
Net Asset Value (Rs bn)	51	81
<b>Upside to share price</b>	<b>236</b>	<b>380</b>

Source: ENAM Research



# FSI sale derisking from TDR prices

**No further long term debt/ dilution required for airport project !**

(Rs bn)	2008	2009	2010	2011	2012	2013	2014
<b>Cash Outflow</b>	<b>40</b>	<b>9</b>	<b>19</b>	<b>16</b>	<b>54</b>	<b>16</b>	<b>7</b>
Land acquisition cost (funded through debt)	40						
Cost of construction							
- Rehab component (35mn)		3	10	10	10		
- Saleable component (8mn)					4	9	4
Other costs (@ 10% of construction costs)		0.3	1.0	1.0	1.4	0.9	0.4
Interest costs (@ 13.5% on Rs 38bn)		5	7	3	0	0	0
Tax outgo (@ MAT of 12.5%)		0	2	2	4	6	2
Debt repayment	0	0	0	0	35	0	0
<b>Cash Inflow</b>	<b>38</b>	<b>11</b>	<b>31</b>	<b>31</b>	<b>47</b>	<b>56</b>	<b>20</b>
<b>Debt raised</b>	<b>38</b>						
Sale of FSI (5 mn in Phase I @ Rs. 5000/ psf)		0	12	12	0	0	0
Sale of FSI (~0.4mn on Bhandari land @ Rs 5,000/ psf)		0	1	1	0	0	0
Sale of land & construction TDR (45mn @ Rs 2,000/ psf)		11	18	18	27	16	
Sale of FSI (8mn of saleable area @ Rs 10,000/ psf)					20	40	20
<b>Cash flow surplus/ (deficit)</b>	<b>(2)</b>	<b>2</b>	<b>12</b>	<b>15</b>	<b>(7)</b>	<b>40</b>	<b>13</b>
<b>Cumulative cash balance</b>		<b>0</b>	<b>14</b>	<b>27</b>	<b>7</b>	<b>33</b>	<b>54</b>

**Sale of unlocked FSI at rehab sites to help reduce dependence on TDR sales to fund project**

Source: ENAM Research; 1<sup>st</sup> year's cash deficit already funded through debt (Current debt @ Rs 38bn)

🔄 **↑ FSI → ↓ area required for rehab → ↑ saleable area → development/ sale of same to help fund project**

- So far ~5.4mn sq. ft. area generated in Phase I → revenues of ~Rs 26bn (@ FSI rate of Rs 5,000/ psf) over the project life
  - ▶ Premier Auto Ltd land (53 acres) → 10 acres land now available for commercial use → ~5mn sq. ft. of saleable area
  - ▶ Bhandari Metallurgical land (8 acres) → ~0.4mn sq. ft. of saleable area to be freed up

**Reduced dependence on TDR sales to fund working capital needs !**



# HDIL: Trading below intrinsic value

## Land value at ready reckoner rates\* (excl. airport project)

Location	Area (mn sq. ft.)	Value (Rs bn)
Vasai – Virar	72	21.6
Bandra	2.2	26.9
Andheri(W), Bhandup, Mulund, Oshiwara, Ghatkopar, Worli, Dadar, Malad	6.4	22
Outskirts (Palghar, Navi Mumbai, Panvel)	26.2	8.5
Other cities (Hyderabad, Kochi & Pune)	23.6	20.3
<b>Total</b>	<b>130</b>	<b>99</b>
Unpaid land cost as on Jun08	-	4
<b>Net land value (Rs bn)</b>	-	<b>95</b>
<b>Net land value (Rs/ share)</b>	-	<b>446</b>

Source: ENAM Research; \* Ready reckoner rates are determined by the govt. for purpose of stamp duty/ property tax

- ➔ Assuming a price correction in the otherwise resilient Mumbai market, it is unlikely that the total value of land would fall below ready reckoner rates. Thus giving significant downside protection.
- ➔ In addition to the land value above, we add our **bear case value emanating from the airport project** (Rs 51bn\*\*) and a development margin of ~Rs 6bn to arrive at a **intrinsic SOTP value of Rs 152bn for the company**.
- ➔ At CMP of Rs 418, the stock trades at a **41% discount to our intrinsic/ bear case value** of the company.

\*\* See slide no. 7

**Bear case value of land and airport project is greater than the current EV!**

# Upsides to our bear case valuation

**Mkt value of land + base value of airport project & developer margin → 47% upside from our bear case!**

## Valuing HDIL's land @ current market rates

(Rs bn)	Bear case	Base Case
Vasai – Virar	22	31
Bandra	27	46
Andheri, Bhandup, Mulund, Oshiwara, Ghatkopar, Worli, Dadar, Malad	22	25
Outskirts (Palghar, Navi Mumbai, Panvel)	9	11
Other cities (Hyderabad, Kochi & Pune)	20	25
<b>Total</b>	<b>99</b>	<b>137</b>
Unpaid land cost as on June 2008	4	4
<b>Net land value (Rs bn)</b>	<b>95</b>	<b>133</b>
<b>Net land value (Rs/ share)</b>	<b>446</b>	<b>623</b>

Source: ENAM Research; Market rates for land based on comparables/ auctions/ recent deals in the vicinity

## Value from the airport project

(Rs bn)	Bear case	Base Case
No of slum dwellers	75,000	80,000
<b>Selling price assumptions</b>		
- Saleable area (Rs/ psf)	10,000	12,500
-TDR (Rs/ psf)	2,000	2,500
<b>Cost assumptions</b>		
- Rehab land acquisition cost (Rs mn/ acre)	220	200
-Rehabilitation area (Rs/ psf)	1,100	1,000
- Saleable area (Rs/ psf)	2,200	2,000
<b>Net Asset Value (Rs bn)</b>	<b>51</b>	<b>81</b>
<b>Net Asset Value (Rs/ share)</b>	<b>236</b>	<b>380</b>

40% upside from our bear case

61% upside from our bear case

## ➤ Other upsides to our bear case valuations

- **Developer margin value** (development profits) estimated at Rs 9bn (compared with Rs 6bn in our bear case) providing an incremental upside of Rs 12/ share

## ➤ Base case valuations provide 47% upside (Rs 333/ share) from our bear case.

- While there remain incremental risks in considering the base case scenario (continued liquidity crunch, ↓ demand for TDR, ↓ land prices, delay in airport project), we believe the quantum of upside puts the risk-reward ratio in the investors favor.

# Key risks

- ➔ **Further leveraging to fund continued land acquisition may strain balance sheet**
  - HDIL to continue acquiring distressed assets by raising further debt @ interest rates of up to ~14%. While this may be accretive to its land bank value, the increased debt levels remain a cause of concern given the current liquidity crunch being faced by the sector
- ➔ **Long gestation period of SRS**
  - Building consensus among slum dwellers, getting govt. approvals, clearance of encroachments and rehabilitation, require significant time. Any delay or stalling of a project can lock working capital / create a cash crunch; affecting the company's ability to complete existing projects or start new projects
- ➔ **SRA rules and regulations**
  - Any change in critical regulations regarding SRS will directly affect HDIL's profitability. Also, a change in regulations affecting the sale of TDRs received from projects under SRS will have a significant impact
- ➔ **Execution risk**
  - Airport project – Large no. of stakeholders (80,000 slum dwellers) → high probability of delays
  - Multifold jump in planned projects implies huge execution risk
- ➔ **Geographical concentration**
  - A regional slowdown in construction/ infrastructure industry in Mumbai and the surrounding area, or external developments which make projects in the Mumbai area less economically beneficial will have an adverse affect
- ➔ **Asset cycle risk**
  - Prevalent high prices expose HDIL to an asset cycle risk. Also a wait-and-watch approach by customers before booking new properties can impact cash flows and the completion of existing/ new projects
- ➔ **Increasing cost of resources**
  - Increasing cost of raw materials such as steel, cement and labor can impact the cost of construction and adversely impact margins. The ability to identify and source land parcels at reasonable prices is also an area of concern, as it would directly impact HDIL's future growth prospects

# Management evaluation

## ➤ Proficient management with sound execution capabilities

- Professionally run with a scalable management structure allows HDIL to manage its aggressive growth
- An impressive portfolio of projects clearly demonstrates leadership as a pioneer and trendsetter in the slum rehab space
- As of March 31, 2008, HDIL had ~850 employees and ~11,000 to 13,000 contract workers

## ➤ Promoter Background

- Rakesh Wadhawan (Chairman) - Promoter of the Wadhawan Group with over 30 years experience in the realty & infrastructure industry
- Sarang Wadhawan (MD) - An MBA from Clarks University, Worcester, USA & in charge of day to day affairs of the company
- Kapil Wadhawan (Director) - An MBA in finance from Edith Cowan University, Perth, Australia with substantial exposure to housing finance & the Indian realty sector
- Dheeraj Wadhawan (Director) - A graduate in construction management from the University of London with experience in project management

## Strong management team

Name	Designation
K. Devassy	<i>CFO</i>
Hariprakash Pandey	<i>D.G.M. Finance</i>
Pramod Purandare	<i>G.M. Projects</i>
Shashikant Shinde	<i>G.M. Architect</i>
Balraj Dubey	<i>G.M. Engineering</i>
Devdutta Gangawanwale	<i>G.M. Legal</i>
John Sequeria	<i>G.M. Purchase</i>
V. Sanjeevan Pillai	<i>G.M. Engg. Hyderabad</i>

Name	Designation
Romel Bhog	<i>CEO Hospitality</i>
Venkat Iyengar	<i>G.M. Systems &amp; Audit</i>
Dilipkumar Sinha	<i>Sr. V.P. HR &amp; Admin</i>
Makarand Todankar	<i>G.M. Finance</i>
Ashok Advani	<i>G.M. Engineering Projects</i>
Sachin Mahamunkar	<i>Head, SRA Projects</i>
Mukesh Gupta	<i>CEO, HDIL Entertainment</i>
Shirish Gupte	<i>G.M. Architect Projects</i>

Source: Company



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# **Financials & valuations**

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# Financial Evaluation

## ➤ Revenues to grow ~40% CAGR by 2010E

- Revenues to reach ~Rs 39bn in FY10 (Rs 24bn in FY08)
  - ▶ Bulk of revenues (>85%) to come from SRS projects
  - ▶ Airport project account for ~45% of next 2 years' revenues
- On account of sale of HDIL's Santa Cruz project in Q1FY09 at FSI stage itself and factoring a delay in the airport project (bear case) we have revised our revenue and PAT estimates
  - ▶ FY09 revenue: Rs 28bn (Rs 24bn earlier) with a PAT of Rs 14bn (Rs 12 earlier)
  - ▶ FY10 revenue: Rs 39bn (Rs 69bn earlier) with a PAT of Rs 21bn (Rs 28 earlier)

## ➤ TDR prices critical for airport project viability

- TDR revenues → key source of construction funding (working capital)
- Increase in FSI → fall in TDR prices → cash crunch → project unviable
- HDIL to be left with ~180 acres of land (acquired @ ~Rs 220mn/ acre), 53 acres abutting airport (receivable after 5 years) & ~Rs 40bn in debt

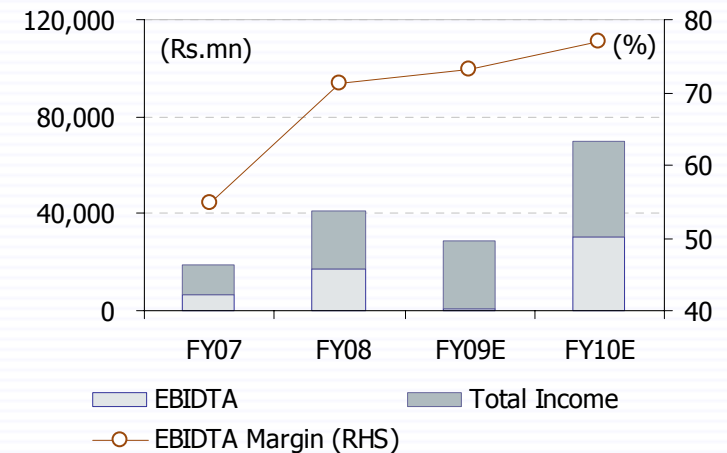
## ➤ Higher leverage to fund further land purchases

- HDIL has announced its intention to acquire further land in suburban Mumbai to optimize use of TDR generated
  - ▶ Acquired stake in local land aggregators – Ravijyot Leasing (60% stake for Rs 0.85bn) – details of land reserves awaited
  - ▶ Loans advanced to above 2 subsidiaries: ~Rs 2.6bn (31st Mar'08)
- Has already raised ~Rs 7bn in Q1FY09 for land acquisition
  - ▶ Average cost of debt is < 14% currently
- Loans & advances stand at Rs 23.7bn (June 30th 2008) – includes ~Rs 12bn towards balance land acquired for airport project
- Increasing debt remains a concern with HDIL targeted to reduce the same
  - ▶ Key source of funding to remain PE deals @ SPV level & sale of TDR generated from SRS projects

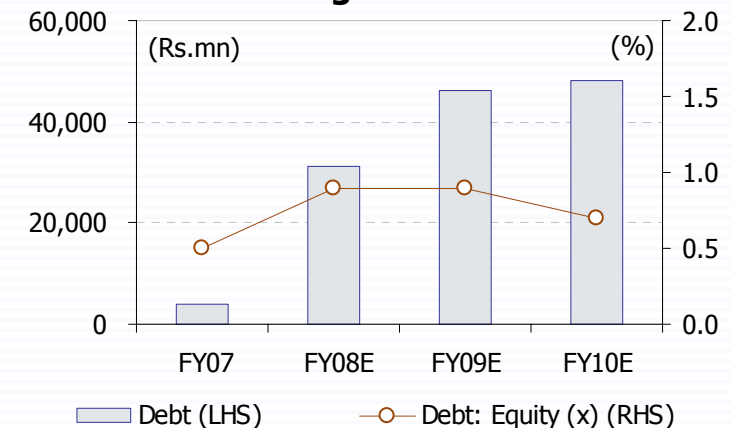
## ➤ Margins to contract from current levels

- EBITDA margins to remain stable between ~70-75% over next 2 years mainly driven by a change in revenue mix
  - ▶ High margin FSI/ TDR contributing a significant portion of revenues
- PAT margins to come down on account of higher interest outgo
  - ▶ Debt to increase to Rs 48bn by FY10E @ avg interest cost of ~13.5%
  - ▶ ~ Rs 9bn of debt is floating & hence susceptible to rate hikes
  - ▶ Tax to remain at MAT levels for ~3-4 years on account of the airport project

### Operating margins



### Rising debt levels



Source: ENAM Research

# Company financials

## Income statement

(Rs mn)

Y / E March	2007	2008	2009E	2010E
<b>Net sales</b>	<b>12,042</b>	<b>23,804</b>	<b>27,967</b>	<b>39,268</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>12,042</b>	<b>23,804</b>	<b>27,967</b>	<b>39,268</b>
Cost of goods sold	5,211	6,451	6,959	8,375
Contribution (%)	0	0	0	0
Advt/Sales/Distrn O/H	232	431	539	673
<b>Operating Profit</b>	<b>6,599</b>	<b>16,921</b>	<b>20,469</b>	<b>30,220</b>
Other income	319	529	582	582
<b>PBIDT</b>	<b>6,918</b>	<b>17,451</b>	<b>21,051</b>	<b>30,802</b>
Depreciation	8	23	48	48
Interest	660	1,408	4,828	6,598
Other pretax	0	0	0	0
<b>Pre-tax profit</b>	<b>6,251</b>	<b>16,020</b>	<b>16,175</b>	<b>24,156</b>
Tax provision	774	1,922	1,938	3,621
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
<b>Adjusted PAT</b>	<b>5,477</b>	<b>14,098</b>	<b>14,237</b>	<b>20,536</b>
E/o income / (Expense)	2	0	0	0
<b>Reported PAT</b>	<b>5,480</b>	<b>14,098</b>	<b>14,237</b>	<b>20,536</b>

## Key ratios

(%)

Y / E March	2007	2008	2009E	2010E
<b>Sales growth</b>	<b>176.9</b>	<b>97.7</b>	<b>17.5</b>	<b>40.4</b>
<b>OPM</b>	<b>54.8</b>	<b>71.1</b>	<b>73.2</b>	<b>77.0</b>
Oper. profit growth	393.2	156.4	21.0	47.6
COGS / Net sales	43.3	27.1	24.9	21.3
Overheads/Net sales	1.9	1.8	1.9	1.7
Depreciation / G. block	3.0	3.9	8.4	8.4
Net wkg.cap / Net sales	0.5	1.5	2.7	2.6
Net sales / Gr block (x)	77.3	57.8	48.6	68.2
<b>RoCE</b>	<b>94.3</b>	<b>44.5</b>	<b>25.6</b>	<b>29.0</b>
Debt / equity (x)	0.5	0.9	0.9	0.7
Effective tax rate	12.4	12.0	12.0	15.0
<b>RoE</b>	<b>122.5</b>	<b>64.9</b>	<b>32.7</b>	<b>34.7</b>
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
<b>EPS (Rs.)</b>	<b>25.6</b>	<b>65.9</b>	<b>66.5</b>	<b>96.0</b>
EPS Growth	366.3	157.4	1.0	44.2
CEPS (Rs.)	25.6	66.0	66.8	96.2
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: Company, ENAM Research



# Company financials

## Balance sheet

(Rs mn)

Y/E March	2007	2008	2009E	2010E
<b>Total assets</b>	<b>10,853</b>	<b>67,534</b>	<b>96,761</b>	<b>115,695</b>
Gross block	249	576	576	576
Net fixed assets	236	544	496	448
CWIP	3	52	52	52
Investments	1,650	1,915	1,915	1,915
Wkg. cap. (excl cash)	8,915	61,427	91,199	109,557
Cash / Bank balance	48	3,505	3,008	3,633
Others/Def tax assets	0	91	91	91
<b>Capital employed</b>	<b>10,853</b>	<b>67,534</b>	<b>96,761</b>	<b>115,695</b>
Equity capital	1,800	2,143	2,143	2,143
Reserves	5,288	34,248	48,485	65,429
Borrowings	3,757	31,127	46,127	48,127
Others	8	15	6	(4)

## Cash flow

(Rs mn)

Y/E March	2007	2008	2009E	2010E
<b>Sources</b>	<b>8,775</b>	<b>41,594</b>	<b>29,276</b>	<b>22,574</b>
Cash profit	5,488	14,128	14,276	20,574
(-) Dividends	0	0	0	0
Retained earnings	5,488	14,128	14,276	20,574
Issue of equity	1,466	186	0	0
Borrowings	1,792	27,371	15,000	2,000
Others	29	(91)	0	0
<b>Applications</b>	<b>8,775</b>	<b>41,594</b>	<b>29,276</b>	<b>22,574</b>
Capital expenditure	182	380	(0)	0
Investments	563	264	0	0
Net current assets	6,715	52,511	29,772	18,357
Change in cash	1,316	(11,561)	(497)	4,216

Source: Company, ENAM Research

# Valuations: Our adopted approach

## ➤ Our recommended valuations approach: Key components

1. **Land bank value:** Market value of land based on: Historical cost + appreciation from readying the land for development
  - ▶ Stages: Land acquisition and aggregation -- > title clearances -- > zoning -- > plan approvals and other clearances
2. **Conversion margin on sold properties:** Multiple on conversion margin – This is based on actual execution schedule of projects without factoring in any land gain
3. **Leased properties:** Valued as income yielding assets on a rent capitalization basis
4. **Other real estate related businesses:** Asset management, contractual construction, facilities management, etc valued on a multiple of FY09 operating income

### Key Assumptions

Components of Valuation	Assumptions		
	Bear Case	Base Case	Best Case
Conversion margin multiple (x)	6	8	10
Land Value	←----- As per market rates ----->		
Finished Projects – Cap Rate (x)	12	10	8
Related Businesses – FY09E OPM multiple (x)	6	8	10

Source: ENAM Research

## ➤ Key advantage: Safety of capital rather than return on capital

- Land value/ considering only projects in advanced stage of execution helps in establishing a minimum floor to Indian realty stock prices
  - ▶ Higher weightage given to actual underlying asset (land) with low/ zero dependence on execution
  - ▶ High visibility projects considered giving greater comfort on cash flows
- However, demand and execution to remain the key determinants of valuations in the longer run

**However, at this time, we continue to prefer companies where intrinsic land value provides significant contribution with lesser weightage given to execution**

# Company valuation

## Land value

(Rs bn)

Location	Base Case
Vasai – Virar	31
Bandra	46
Andheri, Bhandup, Mulund, Ghatkopar, Worli, Dadar, Malad	25
Outskirts (Palghar, Navi Mumbai, Panvel)	11
Other cities (Hyderabad, Kochi & Pune)	24
<b>Net Land value (net of unpaid amount) (Rs bn)</b>	<b>133</b>

Location	Bear Case
Vasai – Virar	22
Bandra	27
Andheri, Bhandup, Mulund, Ghatkopar, Worli, Dadar, Malad	22
Outskirts (Palghar, Navi Mumbai, Panvel)	9
Other cities (Hyderabad, Kochi & Pune)	20
<b>Net Land value (net of unpaid amount) (Rs bn)</b>	<b>95</b>

Source: ENAM Research

## Final Valuations

(Rs bn)

Conversion Margin	9
Land Value	133
Airport project	83
<b>Total (Rs bn)</b>	<b>225</b>
<b>Base Case target price</b>	<b>1050</b>

Conversion Margin	6
Land Value	95
Airport project	51
<b>Total (Rs bn)</b>	<b>152</b>
<b>Bear Case target price</b>	<b>712</b>

## Conversion margin: Sensitivity matrix

(Rs bn)		Conversion margin (Rs/ psf)			
		750	1,000	1,200	1,500
Annual execution (mn sq. ft.)	1.0	5	6	7	9
	2.0	9	12	14	18
	3.0	14	18	22	27
	4.0	18	24	29	36
	5.0	23	30	36	45



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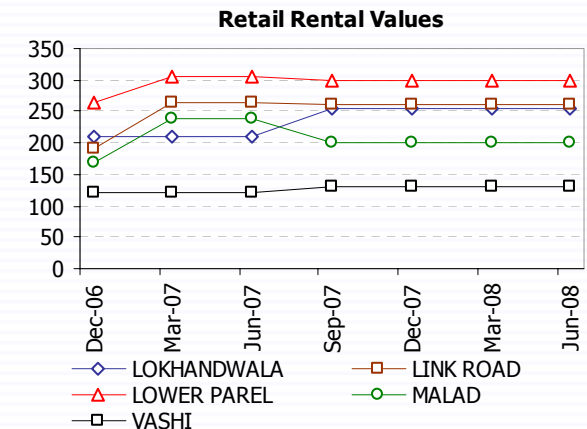
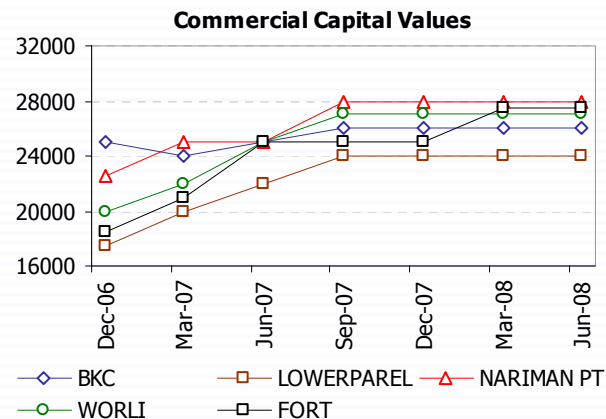
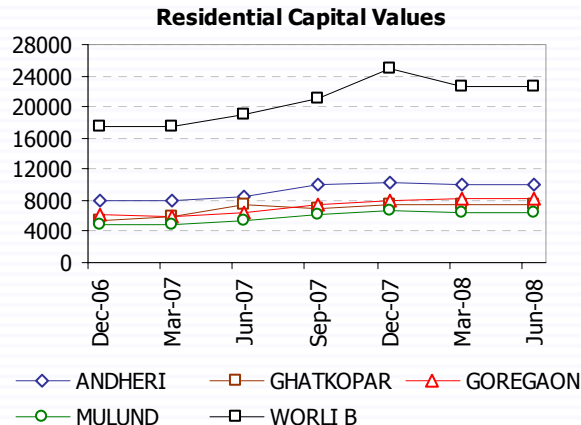
# **Annexures**

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# Mumbai realty: Feeling the heat

- **While there is a visible slowdown in volumes (especially in residential sales), developers have been hitherto reluctant to openly reduce their rack rates**
  - Discounts such as free car parks, waiver of stamp duty & registration charges, free EMIs for initial periods, etc already being offered since last few quarters
- **Developers now realize that only way to clear high cost inventory is to lure customers with price cuts**
  - While there are no advertisements of rate cuts, site offices have started to negotiate lower rates
  - We expect there to be an open admittance of **lower prices under the guise of festival discounts** during Diwali (Oct-Nov)
  - Suburban Mumbai is expected to see greater correction in prices than the land strapped island city (south Mumbai)

## Mumbai realty has stagnated due to unaffordable prices and low demand off take



Source: Knight Frank, Cushman & Wakefield, Bloomberg

**With sales falling & inventories building up, price cuts are now inevitable!**

# Recent amendments

## ➔ Higher FSI norms issued

- Floor Space Index (FSI) for SRS projects has been increased to 3.0x from 2.5x earlier
  - ▶ Augurs well for all SRS players– to result in better utilization of scarce land & higher margins for developers
- FSI on high density projects increased to 4.0x from 3.0x earlier
  - ▶ High density SRS projects classified as those with >650 tenements per hectare
  - ▶ Economically viable for developers to now undertake rehabilitation of highly dense slum pockets where were hitherto not possible

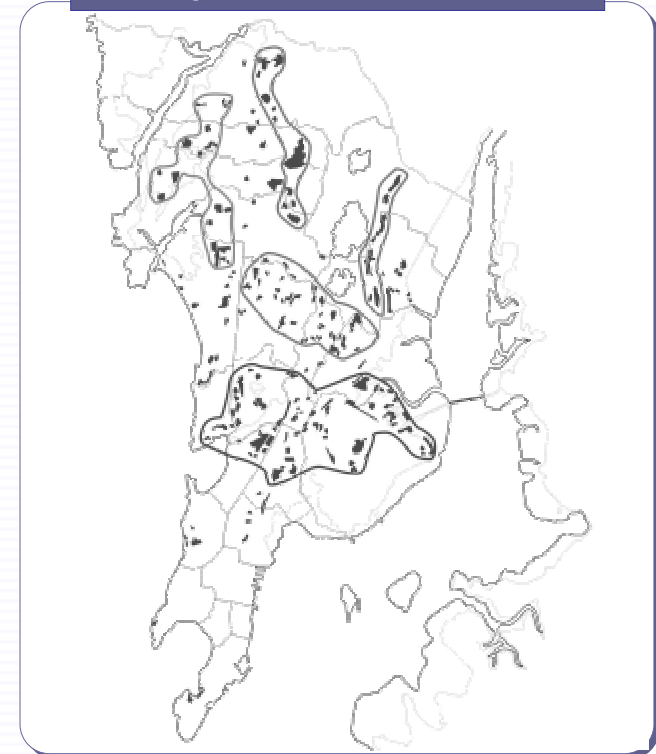
## ➔ Increase in rehabilitation area

- Each tenement to be awarded a min. rehab area of 269 sq. ft. as against 225 sq. ft. earlier
  - ▶ Above revision is in keeping with the National Policy on Housing 2008
- While the higher rehab area shall increase the rehab cost of a SRS project, the same is more than offset by the higher TDR generation and increased FSI norms

## ➔ Increase in suburban FSI from 1.0x to 1.33x

- Permissible developable area in suburban Mumbai increased to 1.33x, putting it at par with the island city (south Mumbai)
  - ▶ Additional FSI to be purchased @ discount to ready reckoner rates
  - ▶ However, cap on developable area (including TDR) remains unchanged at 2.0x capping supply at current levels
- The above ruling has already impacted demand for TDR which has seen a ~35% price correction from Rs 4,000/ psf to Rs 2,600/ psf

Snapshot of slums in Mumbai



### Potential of SRS: Large & Real

Est. slum popln. (mn)	11
Est. no of slums in Mumbai (mn)	2.2
Rehab area per slum structure (sq ft)	269
Rehab quantum (mn sq ft)	600
Avg. land value in Mumbai (Rs/ sq. ft.)	3,000

**Development opportunity canvas (Land value Rs bn) 1,800**

Source: ENAM Research

# Infra: Still the key concern

## ➔ Demand – supply mismatch of urban utilities leading to Mumbai's degeneration

- Inadequate Housing
  - ▶ High population density + incoming migrates → housing shortage (~55% of people in Mumbai live in slums)
  - ▶ Limited land supply + increasing demand → surge in property prices over last few year, thus making housing within the city unaffordable
- Lack of adequate infrastructure
  - ▶ Sub-standard level of social services (public health, civic amenities and educational standards)
  - ▶ Inadequate public transport system – While the city has embarked on several projects (metro rail, ferries, raised roads, etc – same is still several years from completion)
  - ▶ Widespread poverty, unemployment, and environmental degradation

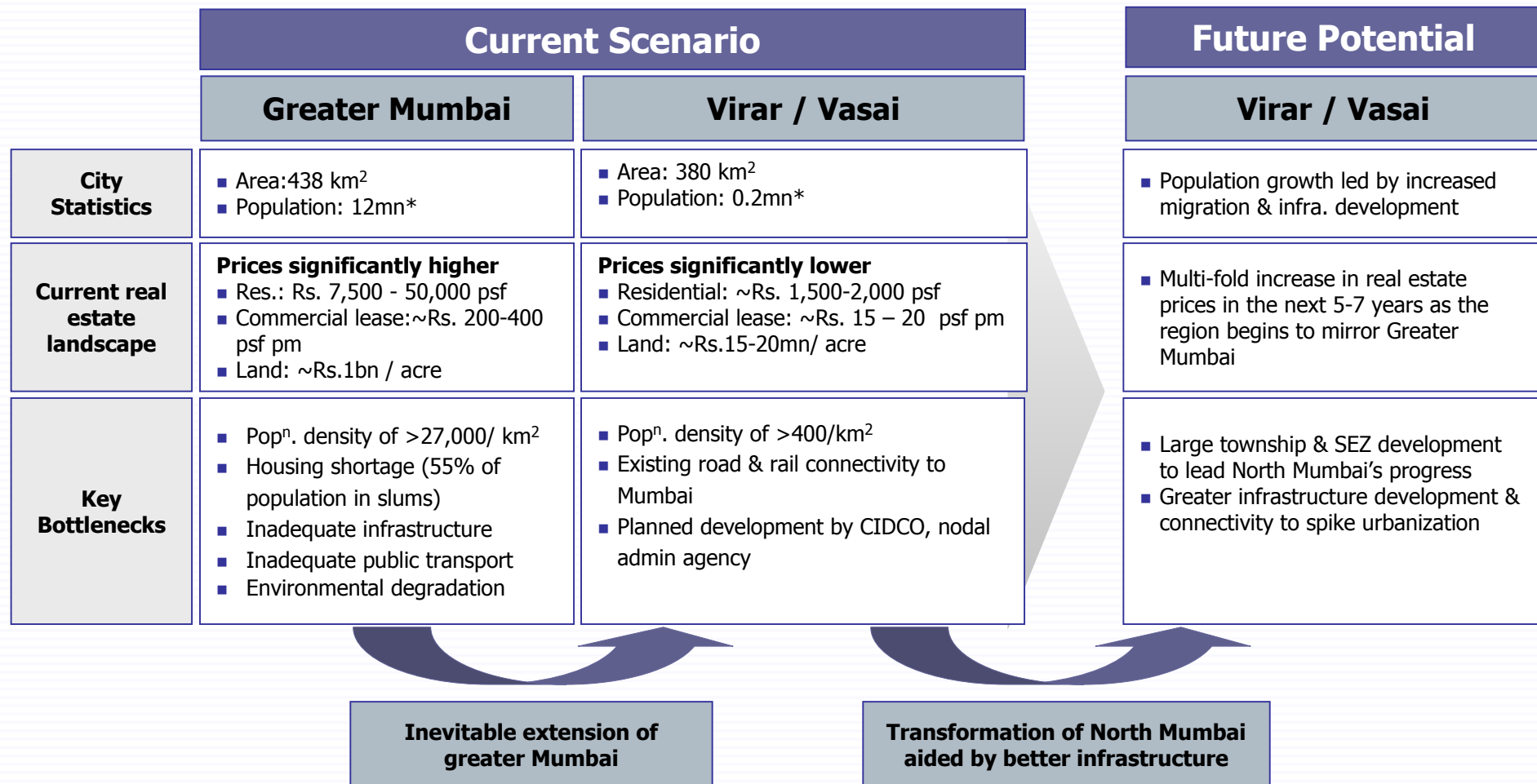
## ➔ Immediate solution needed

- Expansion of the city is now inevitable with Virar-Vasai (in the north) and Navi Mumbai (in the east) being the most logical alternatives
- Both locations offer the advantage of lower capital values making these areas financially viable to emerge as future urban centers for lower/ middle income groups
  - ▶ North Mumbai with its connectivity in place & higher economic activity → better alternative for Mumbai's immediate need for revitalization





# North Mumbai: A logical extension



Source: ENAM Research; \* Note: Census 2001

**Land at attractive prices + Proximity & Connectivity to Mumbai makes North Mumbai the best solution to the city's burgeoning population**

# Ongoing & planned residential projects

Y/E Project	Location	Estimated Completion	Saleable Area (mn sq. ft.)
<b>Ongoing Projects</b>			<b>6.6</b>
Affaire	Bandra (W)	2009	0.04
Dreams	Bhandup	2009	0.2
Kukatpally I	Hyderabad	2012	0.8
Kukatpally II	Hyderabad	2012	5.2
Bombay Oxygen	Mulund	2011	0.3
<b>Planned Projects</b>			<b>78.7</b>
Agashi	Agashi	2014	3.4
Carmichael Road Property	Malabar Hill	2011	0.06
Virar (East) Property	Virar	2014	3.7
Dewan Mann	Vasai	2014	3.7
Dongre (Phase I)	Virar	2014	2.6
Dongre (Phase II)	Virar	2014	4.9
Panvel Property	Kalamboli	2014	6.7
Mega Township Virar I	Virar	2014	12.9
Mega Township Virar II	Virar	2014	15.9
Palghar	Palghar	2014	1.5
Kharadi	Pune	2011	0.4
Sasunavghar Property	Vasai	2013	16.7
Kochi	Kochi	2011	6.3
<b>Total projects</b>			<b>85.3</b>

Source: Company, ENAM Research

# Ongoing & planned commercial projects

Project	Location	Estimated Completion	Saleable Area (mn sq. ft.)
<b>Ongoing Projects</b>			<b>8.5</b>
Kandivli Multiplex	Kandivli	2009	0.02
Worli Commercial Property	Worli	2011	0.1
Kilburn	Bhandup	2011	1.0
Eveready	Navi Mumbai	2011	1.6
Kalamssary	Kochi	2011	5.0
Bombay Oxygen	Mulund	2011	0.7
<b>Planned Projects</b>			<b>0.8</b>
Kharadi	Pune	2011	0.8
<b>Total Projects</b>			<b>9.3</b>

Source: Company, ENAM Research

# Ongoing & planned retail projects

Project	Location	Estimated Completion	Saleable Area (mn sq. ft.)
<b>Ongoing Ongoing Projects</b>			<b>3.7</b>
Dreams	Bhandup	2009	0.3
Harmony	Oshiwara	2009	0.3
Versova Property	Andheri	2012	1.5
Kukatpally I	Hyderabad	2012	0.08
Kukatpally II	Hyderabad	2012	1.3
Bombay Oxygen	Mulund	2011	0.1
<b>Planned Projects</b>			<b>14.9</b>
Sasunavghar Property	Vasai	2013	2.9
Kochi	Kochi	2011	0.7
Dadar Property	Dadar	2011	0.01
Agashi	Agashi	2014	0.6
Virar (East) Property	Virar	2014	0.9
Dewan Mann	Vasai	2014	0.9
Dongre (Phase I)	Virar	2014	0.6
Dongre (Phase II)	Virar	2014	0.9
Panvel Property	Kalamboli	2014	1.2
Mega Township Virar I	Virar	2014	2.3
Mega Township Virar II	Virar	2014	2.8
Palghar	Palghar	2014	1.0
<b>Total projects</b>			<b>18.6</b>

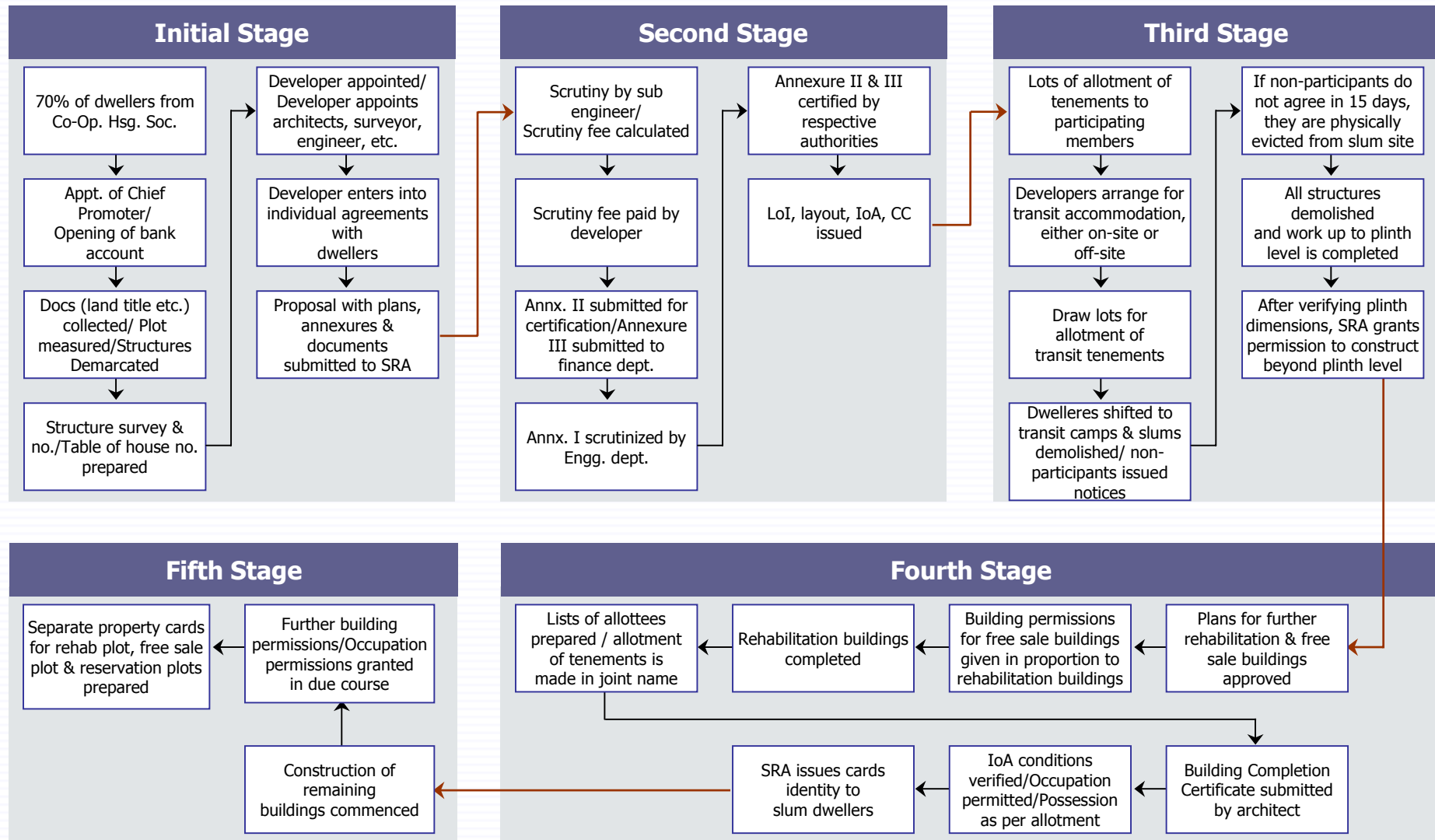
Source: Company, ENAM Research

# Ongoing & planned SRS

Project	Location	Estimated Completion	Saleable Area (mn sq. ft.)
<b>Commercial</b>			<b>2.0</b>
Bandra (E) SRS Scheme No - I	BKC	2011	1.9
Bandra (E) SRS Scheme No- II	BKC	2010	0.2
<b>Residential</b>			<b>1.7</b>
Andheri (W) SRS Scheme No- I	Andheri (W)	2011	0.2
Grande	Bandra	2009	0.03
Ghatkopar (W) Property	Ghatkopar	2010	0.5
Andheri (W) SRS Scheme- No II	Jogeshwari	2012	0.3
Bandra (W) SRS Scheme	Bandra	2009	0.1
Malad (W) SRS Scheme	Malad (W)	2012	0.6
<b>Retail</b>			<b>0.5</b>
Malad (W) Property	Malad	2011	0.1
Malad (W) SRS Scheme	Malad (W)	2012	0.4
<b>Total projects</b>			<b>4.3</b>

Source: Company, ENAM Research

# Slum Rehabilitation Scheme



Source: Company, Slum Rehabilitation Authority

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3. Directors ownership of the stock	Yes
4. Investment Banking mandate	No
5. Broking relationship	No

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