Your success is our success

# HSIL

# Tapping growth, flushing debt; Initiate with BUY

| CMP | Target Price |
|---|---|
| Rs439 | Rs530 (▲) |
| **Rating** | **Upside** |
| BUY (▲) | 20.9 % |

- Drivers like low sanitation, housing demand, shift to organized & rising replacement market, along with HSIL's rising distribution, brand strength, premiumisation & growth from faucets to ensure 17% revenue CAGR and EBIT margin of 20% over FY14-17E
- Improving operational metrics has led to positive EBIT for packaging products segment in an unfavorable industry scenario. Revival in user industry demand will drive next leg of growth. We expect 11% revenue growth, assuming marginal volume growth
- Expect balance sheet de-leveraging to play out over the next 2-3 years, led by debt repayment from building products cash flows and capital raised through QIP
- Demand revival in glassware users & debt de-leveraging to drive next leg of valuation uptick. We initiate coverage on HSIL with BUY rating assigning 20x to building products and 0.5x to packaging products on FY17E with SOTP price target of Rs 530/share

### HSIL's cash cow, building products to drive 17% revenue CAGR

Building products segment has ample growth drivers like low sanitation levels (40%), urbanization, rising income class, housing demand and shift from un-organized to organized. HSIL has grabbed this opportunity by strengthening its brand equity, increasing its distribution, launching new products and driving premiumisation in the segment. This segment has healthy cash generation with strong return ratio profile of +25%. In addition, faucets with similar growth drivers and 2x size of sanitaryware market, offer huge growth potential. We expect building products segment to sustain healthy revenue run rate; we have estimated 17% revenue CAGR to Rs 14.2bn and margin sustenance at 20% over FY14-17E.

### Packaging Products is now EBIT positive; Demand revival is the next driver

Despite adverse dynamics of the glass industry, HSIL's packaging products segment has turned EBIT positive through corrective measures like shutting 18% capacity, change of fuel mix from furnace oil to pet coke, rationalization of overheads & judicious price hikes. While, the user industry demand remains sluggish, we believe revival in demand would be the next trigger. We have factored marginal volume growth and revenue CAGR of 11% for FY14-17.

### Expect balance sheet de-leveraging to eventually play out

Improving profitability in packaging products segment has enabled HSIL to repay its interest liabilities. Thus, cash flows generated from building products segment will be channelized for debt repayment. In addition, company has raised Rs 2.5bn via private placement, which would be utilized to repay debt. Both these activities would result in significant debt de-leveraging.

### Demand revival in glass & debt repayment are next triggers; Initiate with BUY

Improving operating metrics in packaging products business led 1st leg of stock price performance. We believe next leg of valuation upside would be led by revival in glass user industry demand & debt de-leveraging. We expect 3-year revenue CAGR of 14% and PAT CAGR of 86% over FY14-17E. Valuing HSIL on SOTP, we have assigned 20x to building products and 0.5x to packaging products on FY17, arriving at price target of Rs 530/share.

**Financial Snapshot (Consolidated)**

| (Rs mn) | FY13 | FY14 | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| Net Sales | 17,367 | 18,279 | 20,174 | 23,688 | 27,564 |
| EBITDA | 2,607 | 2,581 | 3,484 | 4,424 | 5,251 |
| EBITDA Margin (%) | 14.8 | 13.9 | 17.3 | 18.7 | 19.1 |
| APAT | 348 | 340 | 884 | 1,564 | 2,170 |
| EPS (Rs) | 5.3 | 5.1 | 13.4 | 21.6 | 30.0 |
| EPS (% chg) | (64.1) | (2.4) | 160.1 | 61.7 | 38.8 |
| ROE (%) | 7.4 | 7.0 | 16.6 | 19.3 | 18.8 |
| P/E (x) | 83.2 | 85.2 | 32.8 | 20.3 | 14.6 |
| EV/EBITDA (x) | 14.4 | 14.7 | 10.6 | 8.0 | 6.2 |
| P/BV (x) | 5.9 | 6.1 | 4.9 | 3.1 | 2.5 |

*Source: Company, Emkay Research*

| Change in Estimates | |
|---|---|
| EPS Chg FY16E/FY17E (%) | NA |
| Target Price change (%) | NA |
| Previous Reco | NA |

| Emkay vs Consensus | | |
|---|---|---|
| EPS Estimates | | |
| | FY16E | FY17E |
| Emkay | 21.6 | 30.0 |
| Consensus | 20.2 | 27.3 |
| Mean Consensus TP | | Rs 490 |

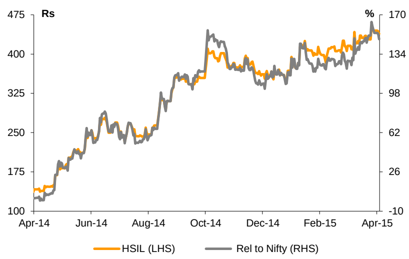
| Stock Details | |
|---|---|
| Bloomberg Code | HSI IN |
| Face Value (Rs) | 2 |
| Shares outstanding (mn) | 72 |
| 52 Week H/L | 468 / 134 |
| M Cap (Rs bn/USD bn) | 32 / 0.51 |
| Daily Avg Volume (nos.) | 185,495 |
| Daily Avg Turnover (US$ mn) | 1.3 |

| Shareholding Pattern Dec '14 | |
|---|---|
| Promoters | 51.6% |
| FIIs | 10.7% |
| DIIs | 20.5% |
| Public and Others | 17.2% |

**Price Performance**

| (%) | 1M | 3M | 6M | 12M |
|---|---|---|---|---|
| Absolute | 5 | 15 | 18 | 220 |
| Rel. to Nifty | (1) | 9 | 9 | 151 |

**Relative price chart**




*Source: Bloomberg*

**Prashant Kutty**
prashant.kutty@emkayglobal.com
+91 22 66121341

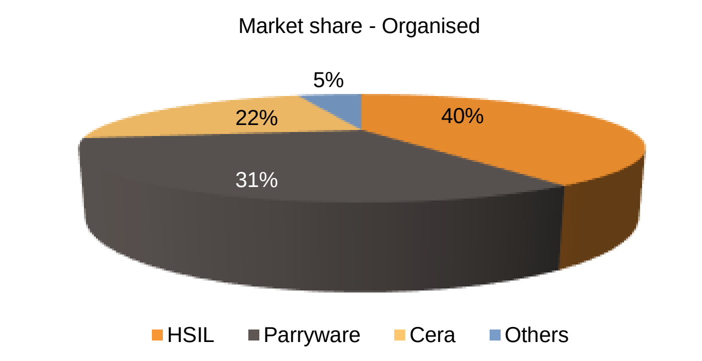
**Dhaval Mehta**
dhaval.mehta@emkayglobal.com
+91 22 66121284

# Investment Rationale

## Building Products segment remains the key growth driver for HSIL

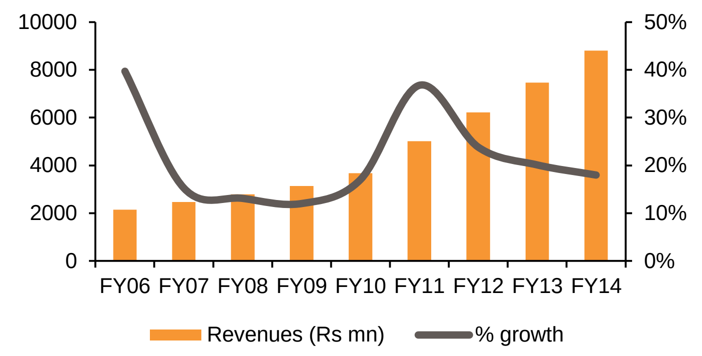
HSIL is the market leader in the Indian sanitary ware business with a dominant 40% market share. Strong brand creation, varied product portfolio, wide distribution network and rising acceptance of premium products have been the key drivers for HSIL's sustained leadership. Given the strong revenue and earning drivers like government's focus on sanitation (low sanitation penetration of 40%), increased housing & replacement demand, rising income level of the middle class coupled with company's sustained efforts via new product launches, increasing share of premium products and expanding distribution network, we expect the building product segment to sustain market leadership and growth momentum. We expect this segment to report 17% CAGR over FY14-17E to Rs 14.2bn. Consequently, we expect the building product segment's revenue share to rise from 47% of revenues in FY14 to 52% by FY17E.

**Exhibit 1: HSIL is a dominant leader in the sanitary ware market**



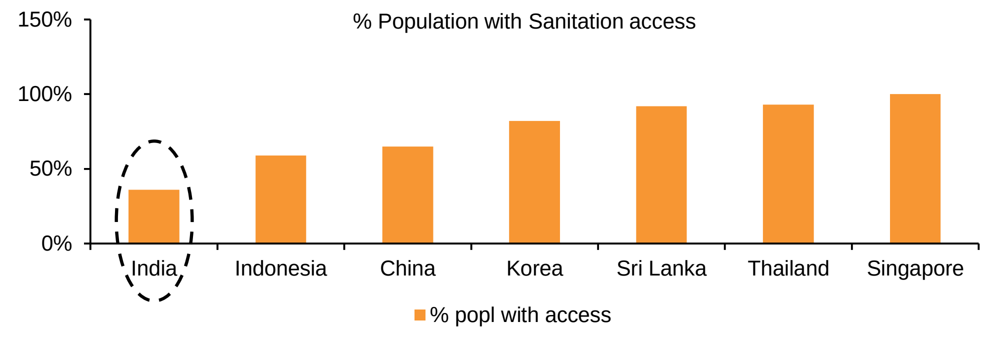

*Source: Company, Emkay Research*

**Exhibit 2: Building Products recorded 19% CAGR over FY06-14**




*Source: Company, Emkay Research*

**Exhibit 3: India has lowest sanitation penetration among large Asian countries**




*Source: Company, Emkay Research*

### Premiumisation, new product launches and network penetration– pivotal to market share sustenance in sanitary ware business

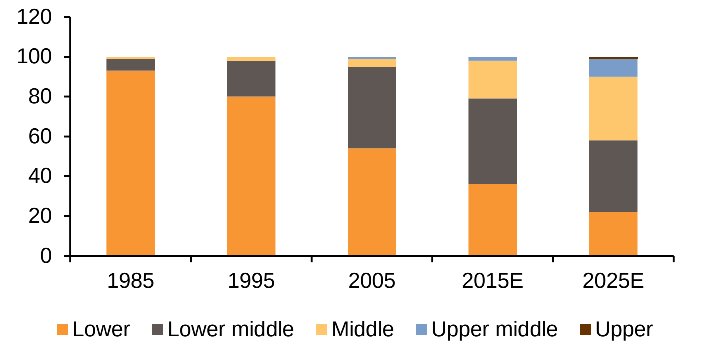
HSIL is the market leader in sanitaryware with 40% market share. In order to sustain this leadership and capitalize on the growth drivers of the sanitaryware market, it has taken the following steps:

- Expanding the premium product range, given increasing urbanization & changing preferences of upper middle income class
- Enhancing the product basket, especially premium sanitary ware, to take on existing as well as MNC players
- Expanding distribution network via penetration to Tier II/III & rural markets

***Rising income levels & urbanization to drive growth in premium segment***

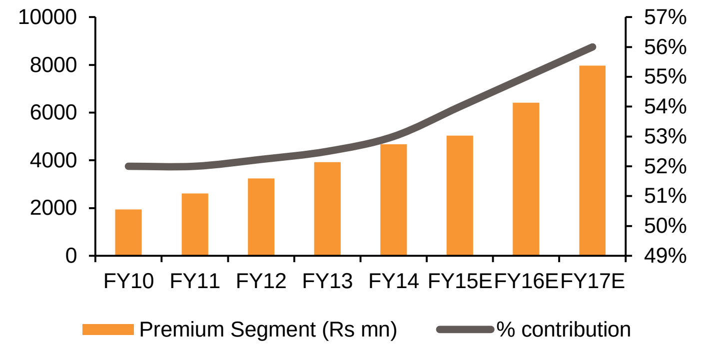
Rising urbanization, high disposable income levels and increasing demand for urban housing have been the key factors for sustained growth in the BP segment. HSIL's premium & super premium category, which includes products like Hindware Italian Collection, Hindware Art, Queo & Amore contribute ~53% of segment revenues and has grown at 25% CAGR over FY10-14. We expect the premium segment to grow at a rapid pace and contribute 56% to revenues by FY17E, which translates into a 20% CAGR for premium segment over the next 3 years.

**Exhibit 4: Rise of upper middle class to drive premium segment**




*Source: Company, Emkay Research*

**Exhibit 5: Share of premium segment to rise to 56% by FY17E**




*Source: Company, Emkay Research*

### *Product range expansion targeted at premium segment*

In BP division, HSIL caters to a large set of customers across price points, right from its low end "Raasi" brand to its super elite "Amore" and "Queo" brand. In addition, HSIL is present across the entire sanitary ware chain, which includes sanitary ware, faucets, PVC cisterns, kitchen sinks, bath accessories, bathtubs, etc. HSIL launched over 100 new products in FY14 in the building products segment. HSIL is targeting the premium & luxury sanitaryware market (10-15% of total market) and plans to garner 25% market in high-end sanitaryware segment through Queo & Amore within 3 years. We believe these efforts towards product expansion, especially in premium and super-premium segment will aid growth in building products segment.

**Exhibit 6: HSIL has wide range of sanitaryware & faucet products**

*Source: Company, Emkay Research*

**Exhibit 7: …and across price points as well**

| Category | Price range (Rs) | Brands | % of Revenues | Competition |
|---|---|---|---|---|
| Super Premium | 15000-100000 | Queo | 53% | Kohler, Roca, Duravit |
| Premium | 5000-15000 | Hindware Italian/Art | | American Standard, Toto, Parryware Roca, Kohler, Cera |
| Standard | 600-5300 | Hindware | 45% | Parryware, Cera |
| Basic | 400-2000 | Hindware | | Parryware, Cera, Neycer |
| Raasi | 200-1500 | Raasi | 2% | Classica, Neycer |

*Source: Company, Emkay Research*

### *Strengthening network to penetrate deeper into Tier II/III cities*

HSIL has grown its distribution network from 1,136 dealers in FY09 to over 2,900 dealers in FY14, an increase of 21% CAGR. Apart from dealer network, its retail outlets have also been rising at 8% CAGR from 12,000 retailers in FY09 to 18,000+ retailers in FY14. HSIL has presence in more than 600+ urban towns and pan India dealer network across Tier I, Tier II and Tier III cities. Given the under-penetration of building products category along with rising income class, we believe that distribution expansion would remain a key catalyst to maintain leadership and drive revenue growth.

**Exhibit 8: Network expansion is one of the key growth drivers**

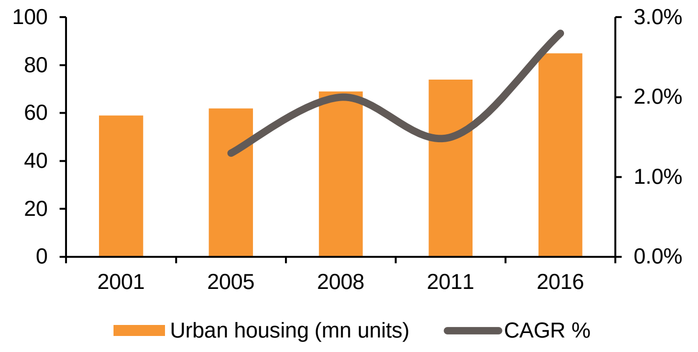
| Distribution Network | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | CAGR |
|---|---|---|---|---|---|---|---|
| Dealers | 1136 | 1400 | 1550 | 2000 | 2500 | 2900 | 20.6% |
| Retail Outlets | 12000 | 12000 | 14000 | 15000 | 16000 | 18000 | 8.4% |

*Source: Company, Emkay Research*

### Gradual recovery in housing demand to drive revenue growth

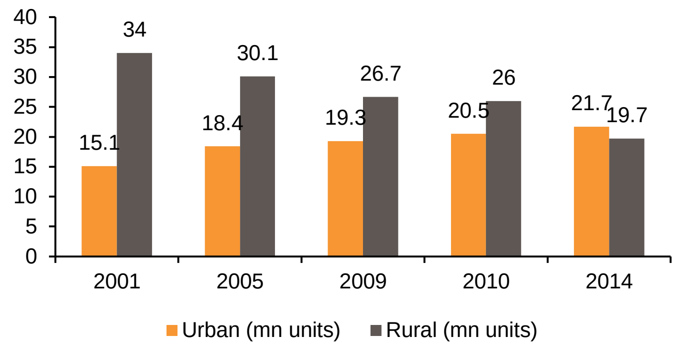
Sanitary ware business has a strong co-relation with the real estate sector. On an average, a new house built means at least one set of sanitary ware and allied products. Urban housing has been growing at a CAGR of 3% over the past decade. Real estate demand, which was benign in last 4-5 years is expected to revive, led by improving demand sentiments and likely easing of interest rates, resulting in increasing affordability of middle class. Pick up in real estate demand would entail uptick in building product segment.

**Exhibit 9: Urban housing has grown at 3% CAGR over the decade**




*Source: Company, Emkay Research*

**Exhibit 10: Ample scope for growth given huge housing shortage**

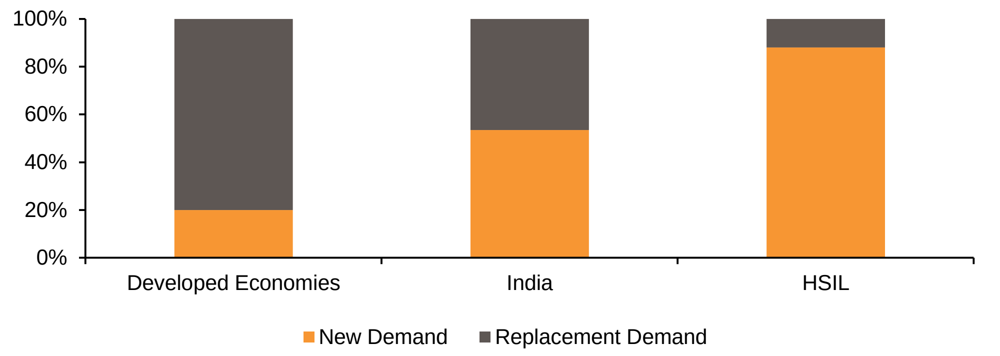



*Source: Company, Emkay Research*

### New demand is still key driver…but replacement market is also catching up

Given the under-penetration of sanitation levels, housing shortage in the country and rising income class, new housing demand is still one of the key drivers for growth in the Building products segment. However, increased urbanization and premiumisation in sanitaryware is resulting in faster home renovations, which is driving replacement market. Replacement market demand in India is contrast to developed markets, where replacement demand is high. With rising sanitation levels and shorter home renovation cycle, we expect growth in replacement market to also pick up.

**Exhibit 11: New demand is the key driver…but replacement is gradually catching up**

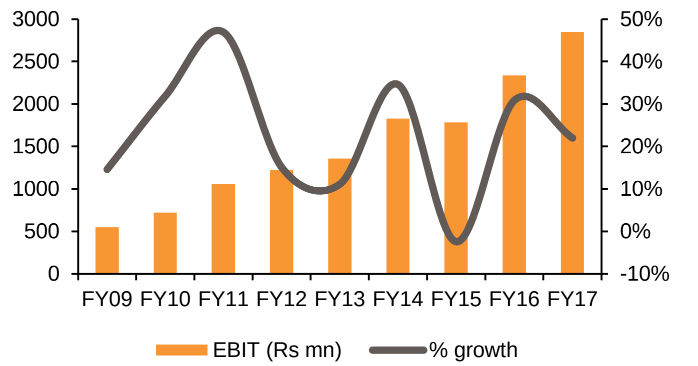



*Source: Company, Emkay Research*

### Expanding capacities in value added products…margin accretive

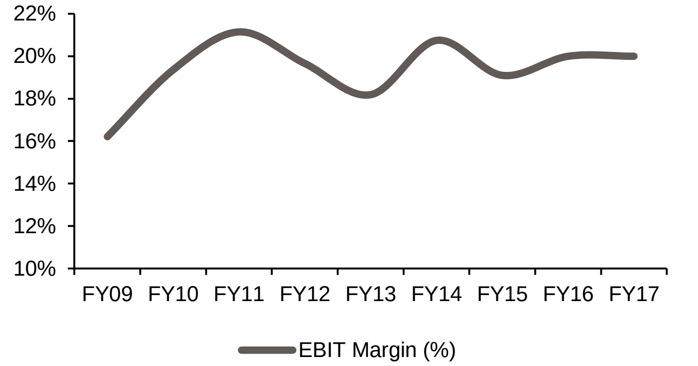
HSIL has been aggressively expanding capacities in the sanitary ware segment, with its current capacity now at 3.8mn pieces. Given the sustained demand for sanitaryware products, company is planning to set up a greenfield capacity in Gujarat, which is slated to be commissioned by FY16. In addition, it is also adding capacities in high value added products at a capex of Rs 600mn and will be commissioned by FY15 end. We believe that, as these capacities gain scale, it would aid in margin expansion, given focus towards premium end products.

**Exhibit 12: Building Products EBIT to grow 16% CAGR in FY14-17E**




*Source: Company, Emkay Research*

**Exhibit 13: Expect HSIL to sustain margins in Building products**




*Source: Company, Emkay Research*

## Faucets…the next big growth engine in building products

Given the huge opportunity in faucets market, which is an Rs 60bn market (about 2x the size of sanitaryware market) with similar growth drivers as sanitaryware, the company entered faucets market in 2009 via acquisition from Havells and re-branded it as “Benelave”. Currently, it is sold under 4 brands viz., “Queo” “Benelave”, “Hindware” & “Hindware Italian Collection”. Entry into faucets was a logical extension to its building product portfolio with similar growth drivers, similar distribution channel and double the market opportunity. In the past 3 years, the company has aggressively expanded its faucets capacity from 0.5mn pieces to 3mn pieces by 9MFY15. This capacity is expected to significantly reduce its dependence on outsourced products. While the margin profile of this business is lower than sanitary ware segment (15-16% vs 19-20%), asset turnover ratio in faucets is better than sanitaryware, thereby improving the overall ROCE profile of the company. HSIL believes that faucets will be a major thrust area in building products segment and has targeted topline of Rs 3-3.5bn by FY16E.

### Faucets - A high potential market with similar growth drivers as sanitary ware

The faucets industry has been growing at a similar pace as sanitary ware (15-20% growth). It is an Rs 60bn market, with 45% held by organized players, while balance is with unorganized players. Jaguar is the undisputed market leader, followed by few distant players like Grohe, Roca, HSIL & Cera. The underlying growth drivers for this segment - growing middle class population, rising urbanization, high disposable income levels, co-relation with housing demand, high potential replacement market, etc are similar to sanitary ware. More importantly, faucets would be marketed through a similar distribution channel/network as sanitary ware, thereby giving it significant competitive advantage.

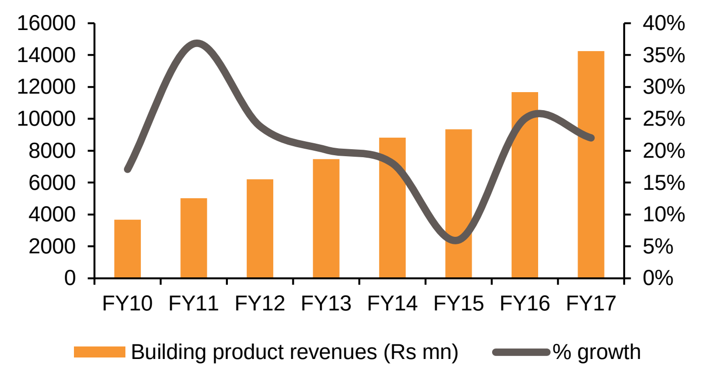
### Venturing into new businesses as well – Tie up with Atlantic International for water heaters

Recently, HSIL has signed distribution agreement with Atlantic International of Franco for the distribution of domestic water heaters manufactured by Atlantic International Water Heaters, which will be distributed under the joint brand name 'Hindware Atlantic'. Atlantic International is an affiliate of the French Group, Groupe Atlantic, which is one of the leading players in Europe, specializing in the manufacturing and marketing of electric storage water heaters, heating products, ventilation and with a revenue size of $1.1bn. These products would be sold through the existing dealer network of HSIL.

### Expect Building products to grow at 17% CAGR over FY14-17E

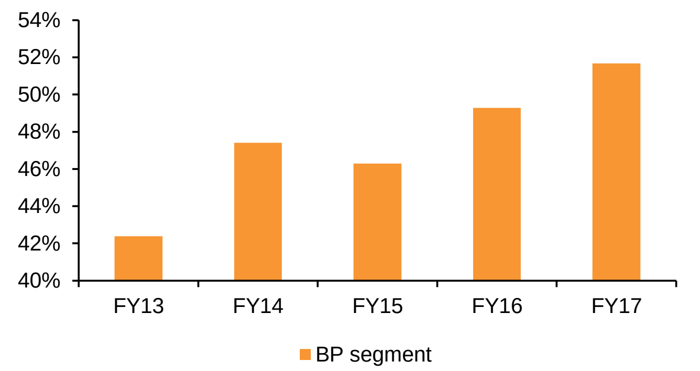
We expect low sanitation levels in the country (40%), rising distribution, shift from un-organized to organized, new products and huge opportunity in the faucets market to drive growth in the building products segment. Sanitary ware business is expected to grow at 15-18% CAGR, while faucets could grow at 25-30% CAGR. The company has guided for 17-20% revenue CAGR in Building products segment over the next 3 years. The company has exited from the tile business in FY15, which would result in lower revenue growth in FY15. We have forecasted a 17% revenue CAGR in the building products business to Rs 14.2bn and expect revenue share of building products segment to rise to 52% in FY17E from 47% in FY14.

**Exhibit 14: Expect 17% CAGR in BP segment over FY14-17E**




*Source: Company, Emkay Research*

**Exhibit 15: Share of Building Products to rise to 52% by FY17E**




*Source: Company, Emkay Research*

### Packaging Products – Achieves positive EBIT; Demand uptick is next trigger

Container glass industry had been reeling under pressure for last 2 years due to: i) Aggressive capacity addition by HNG & HSIL, resulting in oversupply in the industry ii) subsequent demand shrinkage among user industry, iii) rising inflation impacting power & fuel costs and iv) capacity addition resulting in higher fixed overheads. HSIL, the 2nd largest player in container glass industry, was severely hit with sharp decline in revenues and profits.

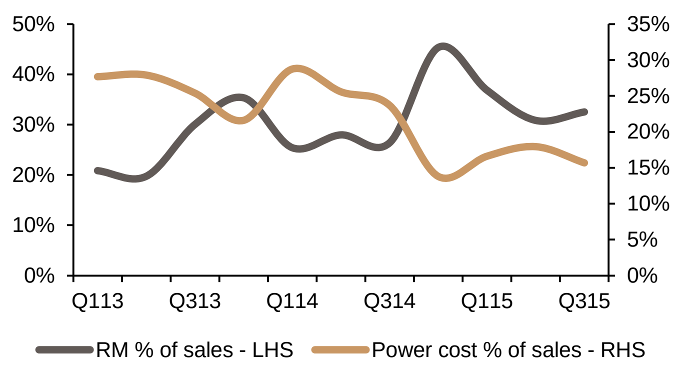
However, in the last 2-3 quarters, HSIL took several corrective measures, which have helped improve the segment profitability. Actions like (1) Closing 18% (280 TPD) capacity at Hyderabad (2) changing fuel mix from Furnace Oil to Pet Coke and (3) implementing selective price hikes have resulted in packaging products segment showing an improvement in EBIT in 9MFY15.

#### Corrective actions in packaging products have resulted in positive EBIT for the segment

To counter the fragile industry structure, HSIL resorted to various corrective measures, which helped the company achieve healthy EBIT in 9MFY15 to Rs 503mn against loss of Rs 86.5mn in 9MFY14 in the packaging products segment.

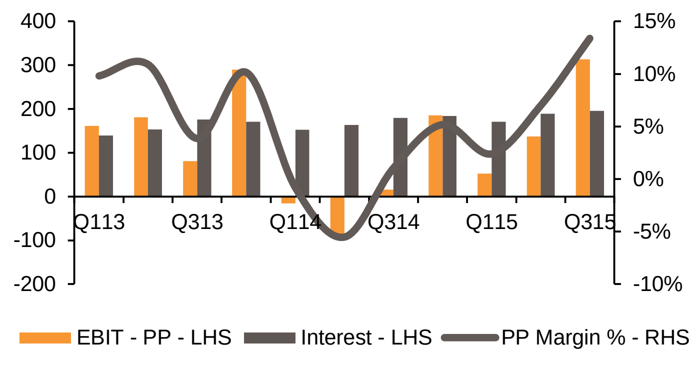
- Out of the total capacity of 1600 TPD, **HSIL has shut off one capacity of 280TPD, which means 18% of the capacity has been closed.** Moreover, it draws about 1050 TPD out of balance capacity, which is 80% capacity utilization. This has resulted in better asset utilization.
- Power & Fuel cost had risen significantly from Rs 2.8bn in FY12 to Rs 4.1bn in FY13 and increased as % of sales to 23% in FY13. **HSIL developed an in-house mechanism i.e. fluidizing pet coke to be used as an alternative to furnace oil.** Savings in power cost is already visible with power cost as % of sales at 16.7% for 9MFY15. We expect another 1-2% cut in power & fuel cost over the next couple of quarters.
- Raw material costs as % of sales rose from 37% in FY12 to 40% in FY14, impacted by rising soda ash and glass prices. Despite this increase, HSIL did not implement any price hikes, citing weak demand outlook. **However, in the past 3-4 quarters, the company has effected 4-5% price increase across its customer base.**
- In addition, **an unprecedented increase in demand offtake for beverages along with merger of Garden Polymers to segment revenues in Q3FY15** further aided 9MFY15 revenues to Rs 6.5bn, up 28% yoy.

**Exhibit 16: Raw material & power cost as % of sales have tapered**




*Source: Company, Emkay Research*

**Exhibit 17: Correction actions aided margin uptick for PP segment**

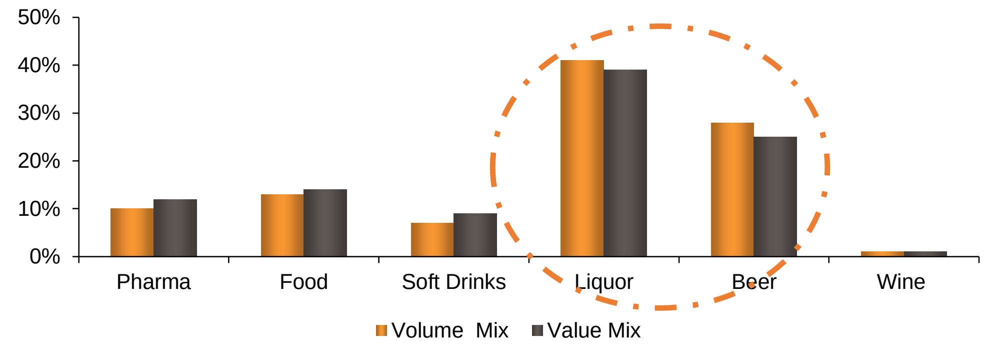



*Source: Company, Emkay Research*

#### Demand revival in packaging products segment is yet to play out

Sustained demand from the user industry group has been the key growth driver for the Packaging products segment. Among the user groups, liquor and beer are the largest users of container glass, accounting for about 69% of volumes and 64% of revenues in FY14. Corrective actions have helped HSIL report positive EBIT in the last 2-3 quarters. But, user industry demand, especially in beer and liquor continues to remain sluggish. For a country with a large consumer base of FMCG and liquor category, it is unreasonable to assume that demand trajectory would remain sluggish for a long period. Early signs of uptick were visible in Q3FY15 with demand for beverages seeing a sharp rise. While, we are forecasting marginal volume growth of 5-6% in the packaging product segment for FY16 & FY17, we believe revival among the user industry demand and consequent improvement in industry dynamics will improve profitability & return ratios in the segment.

**Exhibit 18: Liquor & Beer account are highest users…demand uptick to drive growth & profits**

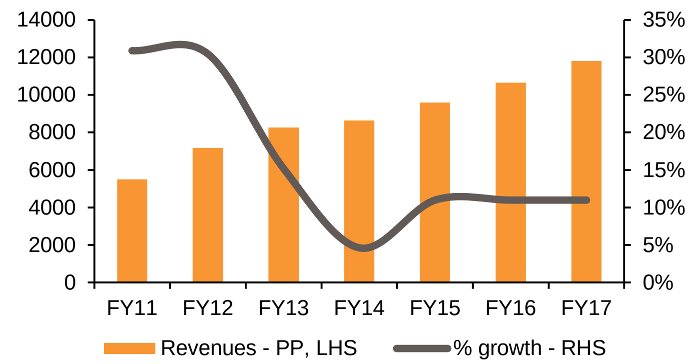



*Source: Company, Emkay Research*

**Expect Packaging Products to grow at 11% CAGR & improve profitability**

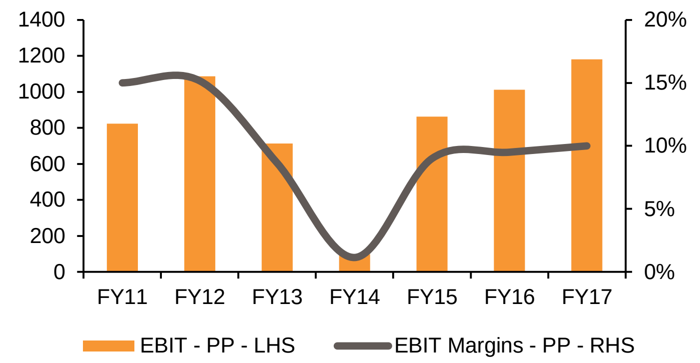
Judicious price hikes across its customer base coupled with focus on cost reduction and new fuel mix should improve the revenue and earnings trajectory of the packaging products segment. We have not factored any notable improvement in demand from the user industry and any revival from the user industry side would further aid revenue and earnings growth momentum. The company has guided for 10-12% revenue CAGR in this segment over the next 3 years. We have factored in 11% revenue CAGR over FY14-17E to Rs 11.8bn and expect EBIT margins in the segment to improve from 1.2% in FY14 to 10.1% in FY17E. We expect any revenue uptick to further drive operating leverage in the segment.

**Exhibit 19: PP segment to grow at 11% CAGR over FY14-17E**




*Source: Company, Emkay Research*

**Exhibit 20: PP EBIT margins to improve substantially**




*Source: Company, Emkay Research*

## Concerns on packaging products had camouflaged positives of building products…valuation arbitrage bridged

Building products is an asset light business model with strong drivers to business like brand equity, new product launches, network penetration, premiumization and rising replacement demand. We expect these drivers to result in healthy revenue growth of 17-20%, earnings growth of +20% and superior return on capital employed (+25%).

In comparison, packaging products segment is an asset heavy and a typical B2B business with derived demand from user industry group. Moreover, margins in the packaging products segment (8-10%) are much lower as compared to building products segment (17-20%) by virtue of its B2B nature of business. Capital intensive business coupled with lower contribution margin has strained return on capital employed (7-10%) of packaging products segment.

**Exhibit 21: Comparison of 2 businesses - Building Products scores high on all Parameters**

| Parameter | Building Products | Packaging Products |
|---|---|---|
| Revenue drivers | Strong brand equity<br>Low sanitation & favourable demographics<br>Housing demand revival & replacement<br>New products<br>Network penetration | Pure B2B business model; Depends on user derived demand |
| Revenue CAGR (FY14-17E) | 17% | 11% |
| Earnings driver | Premiumisation & Value added products<br>Strong turnover growth in Faucets | Uptick in user industry demand & price hikes<br>Input cost staying benign & gains from fuel mix |
| EBIT CAGR (FY14-17E) | 16% | 128% |
| EBIT Margin profile (FY17E) | 20% | 10% |
| ROCE profile (FY17E) | 27% | 9% |
| Risks | Competitive intensity<br>No revival in housing demand | Delay in user demand pick up<br>Input costs rise again |

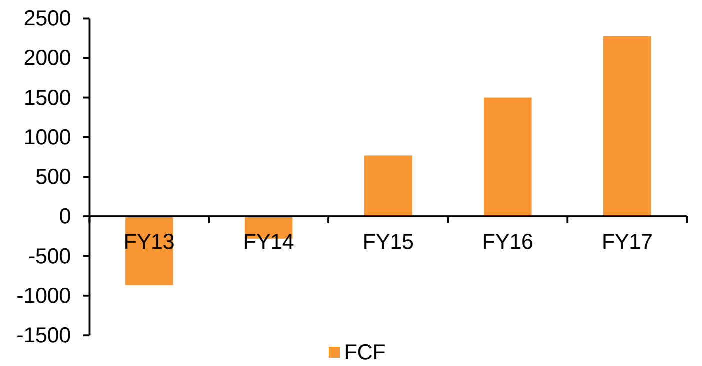
*Source: Company, Emkay Research*

With unfavorable industry dynamics in packaging products business alongside ROCE in lower band, negatives of packaging products segment had rubbed-off on company valuations. Sustained growth trajectory in building products segment and improvement in operating matrices in packaging products segment over the past one year has driven 4X increase in market capitalization. Relative valuation arbitrage to peers is bridged with significant uptick in market cap and resultant valuations of 14-16x FY17E earnings.

## Balance Sheet de-leveraging to eventually play out

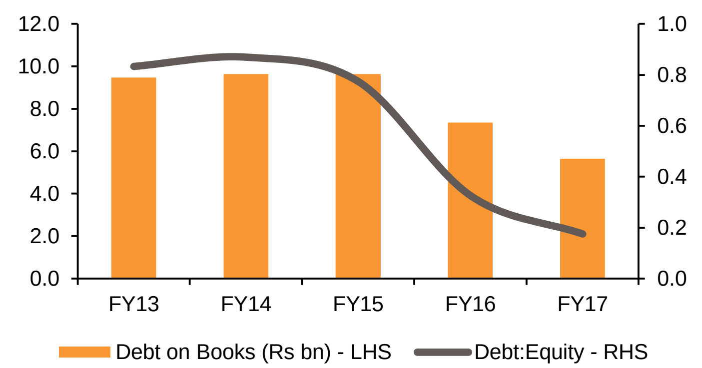
Aggressive capacity expansion in glassware segment had burgeoned debt to Rs 9.6bn in FY14. However, improvement in the operating metrics of the packaging products segment (lower power cost, price increases and falling input costs) in the last 3 quarters has enabled the segment to report positive EBIT. Going forward, we see HSIL paring its debt as cash flows from building products, which will be utilized to repay the debt. In addition, the company has raised Rs 2.5bn through private placement, which would be utilized for repaying debt. All this should aid in further debt-deleveraging. We expect debt:equity to reduce from 0.9x in FY14 to 0.2x by FY17E. **We believe the next leg of valuation uptick would be drive by balance sheet de-leveraging and demand uptick in packaging products segment.**

**Exhibit 22: Building products growth to drive FCF generation**




*Source: Company, Emkay Research*

**Exhibit 23: Strong earnings & FCF to drive debt de-leveraging**




*Source: Company, Emkay Research*

# Key Risks

## Building Products (BP) segment

***Extended rough patch for new homes construction can impact growth***

Growth in BP segment is directly proportional to growth in new homes construction. Lower absorption of housing stock and corresponding inventory increase could adversely impact growth.

***Rising interest rates could dampen new housing demand***

Although interest rates have been on a gradual decline for past one year, a rise in interest rates could delay purchase of new homes by consumers, thereby impacting demand for building products.

***Increasing competition from global players***

The concept of premium sanitaryware is picking up and has seen emergence of global players like Toto, American Standard, Grohe, etc., thereby increasing competitive intensity. However, national players are better placed owing to a well-entrenched distribution network.

## Packaging Products (PP) segment

***Over capacity in the industry***

The container glass industry is marred by an oversupply situation. Market players are gradually exhausting this supply. However, if absorption is lower than expected, it could severely impact profitability of the PP segment.

***Lower growth (demand) for user industry group***

User industry demand was at its trough for the last 1-2 years. While, there are early signs of pick up visible, if demand offtake doesn't improve from hereon, it would impact revenues and margin profile.

## Other risks

***Currency fluctuation could increase operating cost, thereby impacting profitability***

HSIL outsources few of its products in the BP segment. While rupee has been stable for a while now, rupee depreciation would increase cost of imports, which in turn, could affect profitability.

***Retail venture 'Hindware Home Retail' still continues to bleed***

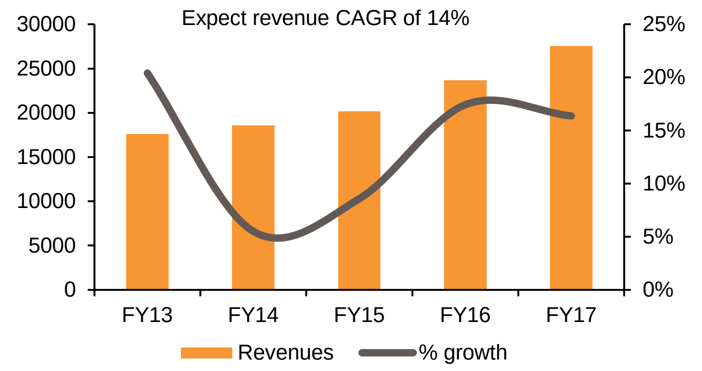
On a revenue base of Rs 936mn, the retail arm "Hindware Home Retail" has incurred a net loss of Rs 202mn in FY14. The off-take in EVOK stores has been slow, while fixed store costs continue to be elevated, thereby resulting in operational losses. HSIL is not adding stores and is focused on curtailing losses. It may even plan to hive off this operation.

# Financials

### Consolidated revenues to grow at 14% CAGR over FY14-17E

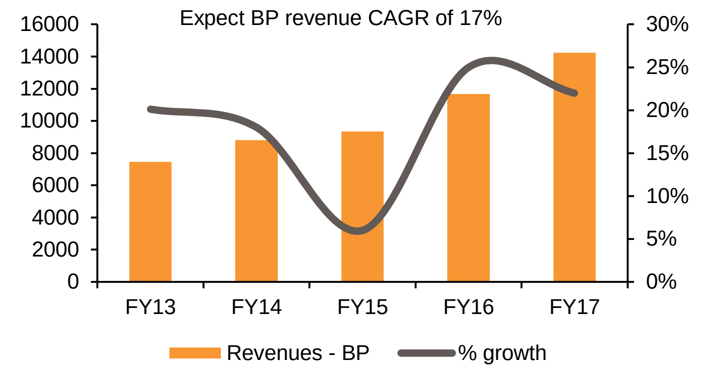
We expect sustained growth in the building products segment led by sanitation penetration, new products, increase in housing demand and premiumisation to drive 17% revenue CAGR in the segment. Judicious price hikes across customers, marginal volumes & some growth in the plastic containers business will drive an 11% revenue CAGR in the packaging products segment. In addition, we expect the retail venture to clock 10% revenue CAGR. We expect the share of building products to increase to 52% by FY17E, while that of packaging products would reduce to 43%. We expect consolidated revenue to grow at 14% CAGR over FY14-17E to Rs 27.6bn.

**Exhibit 24: Expect Consolidated revenues to grow at 14% CAGR**




*Source: Company, Emkay Research*

**Exhibit 25: BP segment key revenue driver to grow at 17% CAGR**

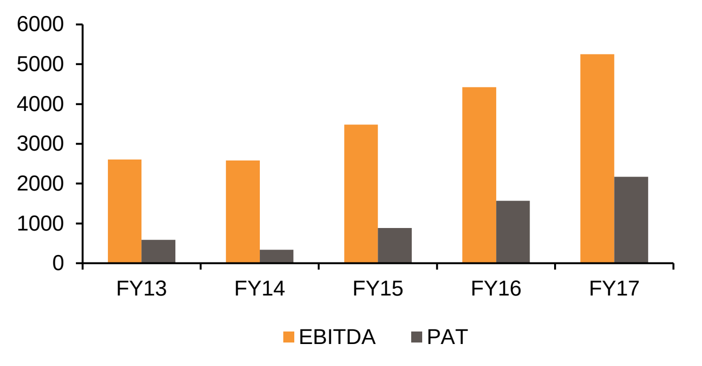



*Source: Company, Emkay Research*

### Margin uptick to be driven by cost savings in packaging products segment & premiumisation in building products

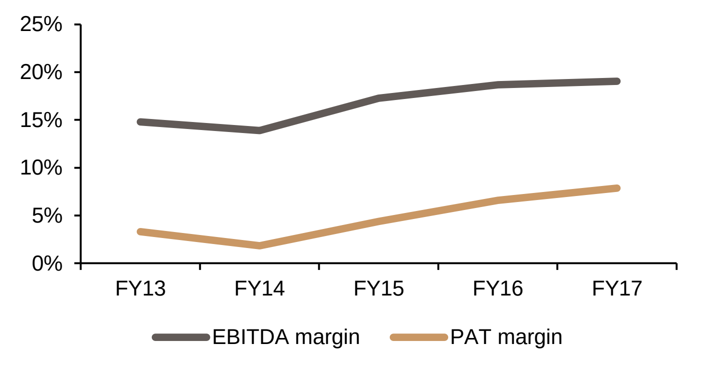
We expect HSIL to improve EBITDA margins by +500bps over 3 years to 19.1% led by i) better product mix in Building products led by premiumisation and ii) cost savings in packaging products, especially on fuel mix. We have factored marginal volume growth in packaging products due to sluggish user industry demand. Demand revival in user industry of the packaging product segment would be an added lever to EBITDA margins. We expect consolidated EBITDA to grow at 27% CAGR to Rs 5.3bn and margins to improve to 19.1%.

**Exhibit 26: Expect EBITDA & PAT to grow at 27% & 86% CAGR**




*Source: Company, Emkay Research*

**Exhibit 27: Margin trajectory to move upwards led by both segments**

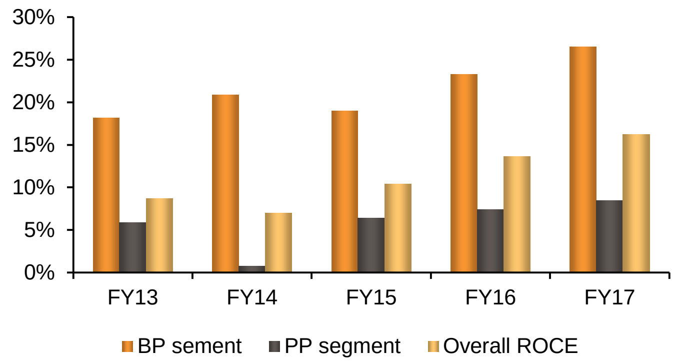



*Source: Company, Emkay Research*

### Healthy earnings growth to drive free cash flow generation and uptick in return ratios

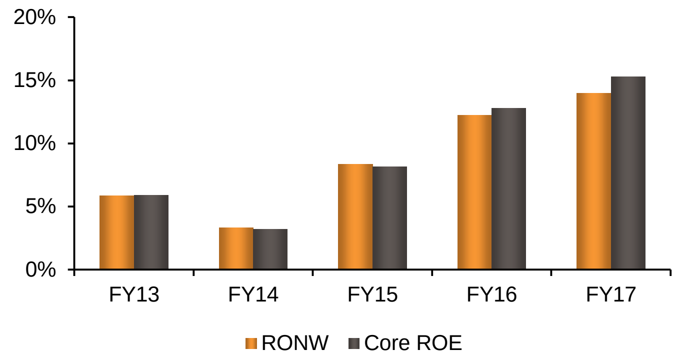
Significant turnaround in the packaging products segment coupled with sustained growth in the Building products segment and higher revenue trajectory of faucets business should drive healthy earnings CAGR of 86% over FY14-17E period. This in turn, should improve the free cash flows of the company. We expect company to generate free cash flows of Rs 2.3bn in FY17 from negative cash flows of Rs 281mn in FY14. Higher free cash flows would enable the company to reduce its debt on the balance sheet. As highlighted earlier, lower return ratio profile of packaging products segment pulls down overall return ratio profile. Evaluating separately, ROCE of building products segment should improve from 21% in FY14 to 26.5% in FY17E and packaging products ROCE is likely to increase from 0.8% in FY14 to 8.4% in FY17E. HSIL's ROCE should improve from 7.0% in FY14 to 16.2% in FY17 and ROE to improve from 3.3% in FY14 to 14% in FY17.

**Exhibit 28: Expect Building product segment to drive overall ROCE**




*Source: Company, Emkay Research*

**Exhibit 29: Expect ROE to improve to 14% by FY17**




*Source: Company, Emkay Research*

# Valuations and Recommendation

### Visible changes in operational metrics led to 4x jump in stock price

Stock price performance of HSIL till last year was below par primarily because unfavorable industry dynamics in packaging products business along with ROCE at the lower band had rubbed-off on company valuations. This gap has been bridged by notable improvement in the operating metrics of the packaging products segment coupled with sustained growth trajectory in the building products segment. These efforts led to the stock price of HSIL nearly quadrupling in the past 18 months.

### Next leg of valuation uptick to be driven by demand revival in packaging products segment and debt de-leveraging

HSIL has improved profitability in the packaging products segment, led by cost savings and price increases. However, user industry demand remains sluggish. We have factored marginal volume growth in packaging products, but any uptick in demand and subsequently, better industry dynamics would improve profitability & return ratios in the segment. With segment in a position to repay its interest liabilities led by lower fuel cost & price increases, building products profits would be utilized towards debt repayment. Company has also raised Rs 2.5bn through private placement, which would aid in further debt de-leveraging.

### Current valuations offer upsides; Initiate with BUY and target price of Rs 530

Led by steady state performance in building products and packaging products turning PBT positive, we expect blended 3-year topline CAGR of 14% and PAT CAGR of 86%. We have valued HSIL on SOTP basis, assigning 20X multiple to building products (Rs 1.8bn PAT in FY17), valuing packaging products at 0.5x capital employed (Rs 7.6bn Market cap to capital employed in FY17) and assuming debt of Rs 5.4bn, arriving at market cap of Rs 38.4bn. We initiate coverage on HSIL with a BUY rating and a target price of Rs 530, implying 21% upside from the current levels.

### Scenario Analysis: With or Without De-merger of packaging products in FY17E

The company has been receiving constant feedback from the investor community to contemplate de-merging of both businesses, so that both businesses get its due valuations. Given the current scenario, the company has denied any corporate action with regard to the same. However, we have valued the company on SOTP basis and put out 2 scenarios: 1) Status Quo in packaging products business and 2) De-merger of packaging products business. We have valued the building products business on P/E and packaging products on capital employed basis. In scenario 1, we expect there is 21% upside from current levels, while on scenario 2, the upside potential is much higher at 45%, given that packaging products would command a higher capital employed multiple.

**Exhibit 30: Status Quo Packaging products business**

| SOTP Valuation (Rs mn) | | Valuation | FY17 |
|---|---|---|---|
| **Building Products (P/E)** | **(A)** | **20.0** | **36073** |
| PBIT | | | 2848 |
| Interest | | | 0 |
| Other Un-allocable Expenditure | | | 65 |
| PBT | | | 2784 |
| Tax | | | 980 |
| APAT | | | 1804 |
| **Packaging products & Others (Mcap/CE) (B)** | | **0.5** | **7614** |
| Capital Employed | | | 15229 |
| Debt | (C) | | 5351 |
| HSIL Value | (A+B-C) | | 38336 |
| No of Shares | | | 72.3 |
| **HSIL Per Share Value** | | | **530** |

*Source: Company, Emkay Research*

**Exhibit 31: De-merger in Packaging products business**

| SOTP Valuation (Rs mn) | | Valuation | FY17 |
|---|---|---|---|
| **Building Products (P/E)** | **(A)** | **20.0** | **36073** |
| PBIT | | | 2848 |
| Interest | | | 0 |
| Other Un-allocable Expenditure | | | 65 |
| PBT | | | 2784 |
| Tax | | | 980 |
| APAT | | | 1804 |
| **Packaging products & Others (Mcap/CE) (B)** | | **1** | **15229** |
| Capital Employed | | | 15229 |
| Debt | (C) | | 5351 |
| HSIL Value | (A+B-C) | | 45951 |
| No of Shares | | | 72.3 |
| **HSIL Per Share Value** | | | **636** |

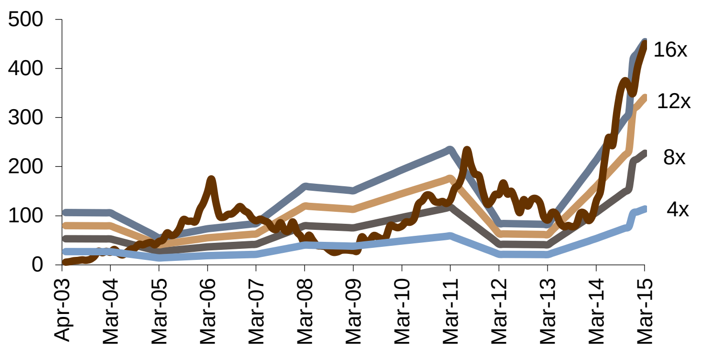
*Source: Company, Emkay Research*

**Exhibit 32: Peer Analysis - Building Products**

| Company (Rs bn) - FY17 | Revenue | FY14-17 CAGR | EBITDA | % Margin | EPS | ROCE% | P/E | CMP | Mcap |
|---|---|---|---|---|---|---|---|---|---|
| Kajaria Ceramics | 32.7 | 21.1% | 5.2 | 15.9 | 27.3 | 28.0 | 28.6 | 780 | 61.9 |
| Somany Ceramics | 21.9 | 20.2% | 1.6 | 7.3 | 21.8 | 18.0 | 20.0 | 437 | 16.9 |
| Cera Sanitaryware | 13.5 | 26.9% | 2.0 | 14.8 | 93.7 | 31.5 | 26.6 | 2492 | 32.4 |
| Berger Paints | 60.3 | 16.1% | 8.6 | 14.3 | 7.4 | 30.0 | 28.9 | 214 | 148.4 |
| Havells India | 106.8 | 9.4% | 12.1 | 11.3 | 12.1 | 33.0 | 25.2 | 305 | 190.0 |
| V-Guard | 21.5 | 12.5% | 1.9 | 8.8 | 36.4 | 26.0 | 26.5 | 964 | 28.9 |
| Greenply Industries | 33.5 | 14.7% | 4.6 | 13.7 | 65.3 | 19.7 | 14.1 | 921 | 22.2 |
| **HSIL (Building Products)*** | **14.2** | **17.4%** | **3.6** | **25.4** | **30.0** | **26.5** | **14.6** | **439** | **31.9** |

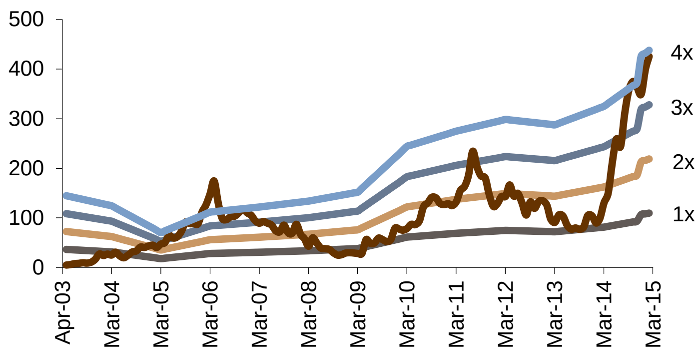
*Source: Emkay Research, Bloomberg*
** Financials of Building products segment only*

**Exhibit 33: One year forward P/E band**



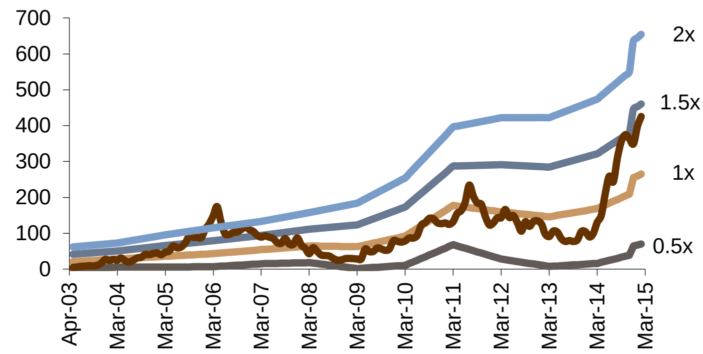

*Source: Company, Emkay Research*

**Exhibit 34: One year forward P/BV band**



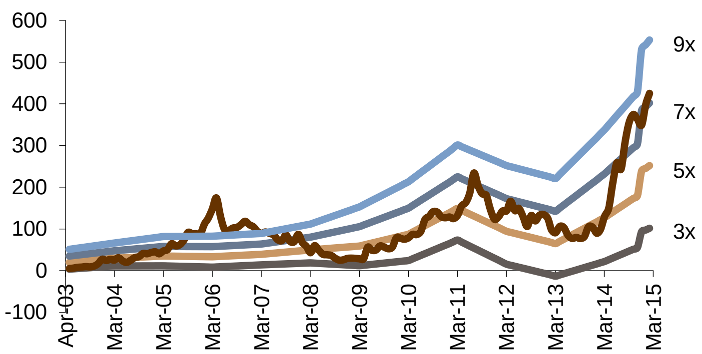

*Source: Company, Emkay Research*

**Exhibit 35: One year forward EV/Sales band**




*Source: Company, Emkay Research*

**Exhibit 36: One year forward EV/EBITDA band**




*Source: Company, Emkay Research*

# Company Background

Established in 1960, HSIL is a leading player in sanitary ware (41% market share) & glass packaging (22% market share). Its revenue mix is well distributed with building products constituting 47% of revenues & packaging products constituting 47% of revenues. The balance 6% of revenues comes from Garden Polymers & Hindware home retail. Headquartered in Gurgaon, HSIL has 8 manufacturing units, with 2 plants of Sanitaryware (Haryana & Telangana), 2 plants of Container Glass (Telangana), 2 Faucet plants in Rajasthan and 2 plants of Plastic Containers (Uttarakhand & Karnataka). It has a strong network of over 2,900 dealers and 18,000+ retailers spread across the country with a healthy presence in Tier II/III cities. Company has diversified into Faucets, Kitchen & Wellness segments to leverage upon the extensive distribution network and the brand.

## Building Products (BP)

- Comprises of sanitary ware and faucets. Has a current capacity of 3.8mn pieces in sanitary ware and 3.0mn pieces in faucets.
- Market leader in sanitary ware with a market share of 40%.
- Major brands include Hindware Italian collection, Hindware Art and Hindware, which are its premium brands and account for more than 50% of BP revenues.
- Faucets are sold under the brands “Queo” “Benelave” and “Hindware”. With added capacity, company is targeting revenues of Rs 3-3.5bn by FY16.
- Building products segment has grown at 25% CAGR and 26% EBIT CAGR in last 5 years.

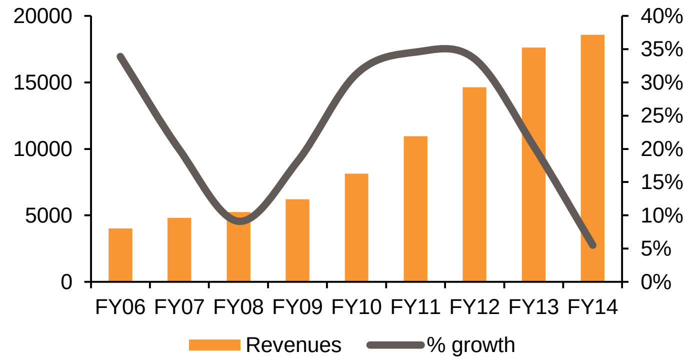
## Packaging Products (PP)

- Provides various glass packaging solutions to beverage, beer, food, pharmaceuticals and liquor with capacity of 1,600 TPD. Given the oversupply in the market, company has shut down one facility (280 TPD), taking its current running capacity to 1320 TPD.
- Second largest player in CG with a market share of 20% and a leader in South India, with a dominant market share of over 60%.
- Clients include large corporates like Coca Cola, Pepsi, Dr Reddy’s Labs, Hindustan Unilever, Peron Ricard, Pfizer, Sab Miller, Dabur, Nestle, etc.
- It had acquired Garden Polymers Pvt Ltd (GPPL) in FY11 for Rs 890mn. Company is engaged in manufacture of PET bottles, caps & closures and supplies to liquor, pharma and FMCG industry. It has total capacity of 9500 TPA, with plants in Uttarakhand & Karnataka. Later in FY14, GPPL was merged with the container glass segment and re-named as Packaging products segment.
- Packaging products segment revenues have grown at 20% CAGR and EBIT CAGR has declined by 32% CAGR in last 5 years.

## Hindware Home Retail (EVOK)

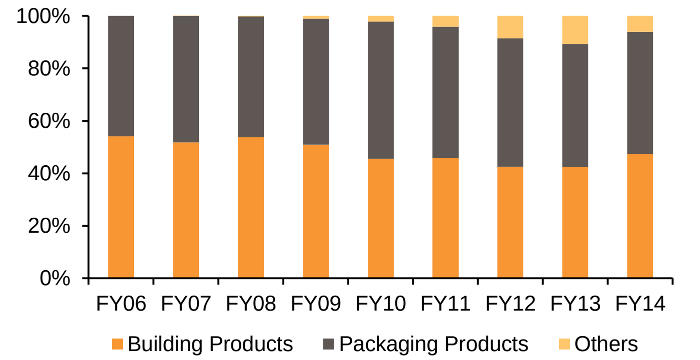
- Ventured into home furnishing via its subsidiary, Hindware Home Retail Pvt Ltd and currently, has 19 large stores under the brand “EVOK”, with about 60% of the revenues coming from furniture. The subsidiary posted revenues of Rs 936mn and net loss of Rs 202mn for FY14.

**Exhibit 37: Consolidated revenues have grown at 20% CAGR**




*Source: Company, Emkay Research*

**Exhibit 38: Equal mix of Building products & packaging products**




*Source: Company, Emkay Research*

# Annexures

## Sanitaryware Industry

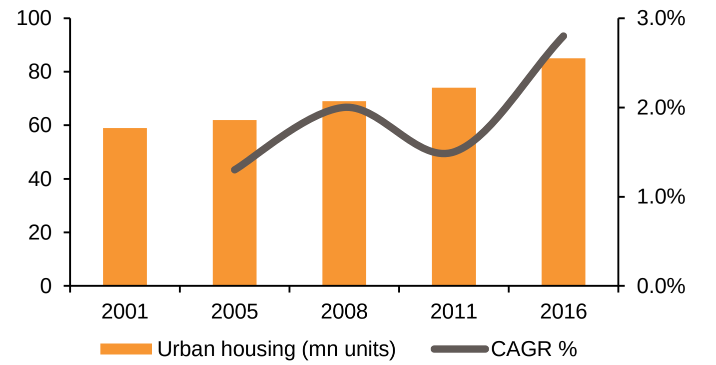
### A. Industry Dynamics

- **Size & Growth rate:** India's sanitary ware industry accounts for nearly 8% of the world's sanitary ware production. The Indian sanitary ware market is estimated to be Rs 30bn, of which about 60% is organized market, which is growing at 14-16% p.a. This is much higher than the global average growth of about 7%, thereby depicting the increasing penetration of India sanitaryware in the global market.
- **Players & Market share:** The sanitary ware industry faces low competition as a large share is dominated by the top three players. HSIL is the market leader in this industry, followed by Parryware ROCA and Cera, who collectively control over 80-85% of the organized market.
- **User industry:** The user group in the sanitary ware industry ranges from institutions in the real estate sector to builders, architects, contractors and even the end consumer. However, a large part of the demand is derived from individual housing i.e. retail. Moreover, demand in this sector emanates largely from new customers i.e. 92%. The balance 8% demand comes from the replacement market for India.

### B. Demand Drivers & Opportunities

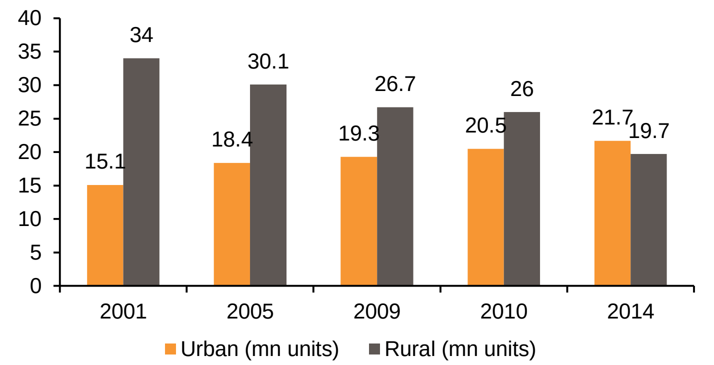
- **Limited access to sanitation -** Penetration of sanitary ware in India is about 40%, which is much lower than neighboring Asian countries. With rising need for sanitation in the country, this industry has the potential to sustain the current growth momentum. Current government's focus on sanitation through "Clean India" drive depicts that there is ample scope for increased penetration in this category.
- **Rising demand for new housing:** Almost 80% of the real estate demand for sanitary ware products emerges from housing sector. Demand for new houses has been on the rise due to sustained economic growth, rapid urbanization, rising income levels among the upper middle class, higher aspiration levels, easy availability of cheap finance, etc. As per a UN study, it is projected that 15mn new homes would be constructed in India by 2016. This makes housing demand a key growth driver for the sanitaryware industry.
- **Replacement market has high potential:** The demand for replacement market in the sanitary ware industry has been low in India as compared to developed countries, whose demand (80%) is largely met through replacement market. Although, new housing demand is one the major drivers, players in this space also cater to the individual retail segment.

**Exhibit 39: Urban housing supply also provides ample scope**




*Source: Company, Emkay Research*

**Exhibit 40: Huge shortage in Rural & Urban Housing**




*Source: Company, Emkay Research*

### C. Threats

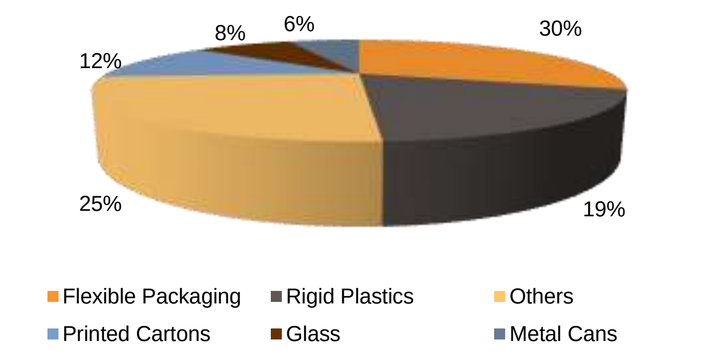
- Sanitary ware business depends on new housing demand. If slowdown in housing demand continues, it could impact industry's growth prospects.
- Availability of cheap Chinese substitutes may impact the growth of organized players in the Tier III and rural markets.

## Container Glass Industry

### A. Industry Dynamics

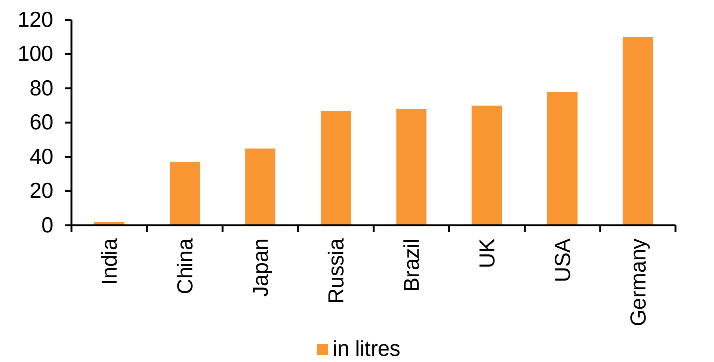
- **Size:** The Indian container glass market is estimated to be over Rs 70bn and accounts for about 8% of the packaging industry. In terms of volumes, total glass melting capacity was nearly 6,500 MT per day and utilization levels were at 80%. Geographically, south and west are key markets and account for more than 75% of the glass packaging demand.
- **Players & Market share:** This industry has few players as the high capital intensive nature of the business acts as an entry barrier. The top 3 players are HNG, HSIL and Piramal Glass, with HNG having 55% market share followed by HSIL with 22% market share.
- **User Industry:** A large part of the container glass demand comes from liquor and beer industry, which constitute more than 50% of the requirement and have been growing at 10-12% p.a. This is followed by industries like food, soft drinks, cosmetics and pharma, etc. which account for the balance and have been growing at 12-15% p.a.

**Exhibit 41: Glass accounts for 8% of India's packaging market**




*Source: Company, Emkay Research*

**Exhibit 42: Per capita consumption of Beer is the lowest**




*Source: Company, Emkay Research*

### B. Demand Drivers & Opportunities

- **Country demographics are favourable for user industry –**Favourable demographics like rising share of young population, shift from un-branded to branded products, rise of organized retail would aid demand momentum. All these positive factors are expected to drive growth for the user industry, be it liquor or beer or food and cosmetics category.
- **Per capita consumption of user industry is low -** More than 50% of the glass packaging demand is satiated by user industries viz, Liquor and Beer. India is one of the lowest consumers of beer & liquor at less than 2 litres. Liquor industry is expected to grow at 8% CAGR, while pharma industry is slated to grow at 20% for the next 5 years. Food industry is expected to double in the next 5 years. Given that growth of container glass is directly proportional to the growth of the user industry group, we believe low per capita consumption of user industry would drive growth in glass packaging business as well.
- **Increasing relevance of health based packaging –** Given the rising hazard of using recycled packaging substances, the food and drug regulators have been educating about enhanced usage of safe recycled products like glass. This has been particularly relevant for products made for infants, pregnant women & mothers and senior citizens. This in turn should drive increased consumption of glass as a packaging substance.

### C. Threats

- Huge capacity expansion by industry leaders, has led to temporary over supply in the system.
- Availability of power at reasonable prices has been a constraint due to acute shortage of power in the country.
- Rising soda ash prices continue to be a cause of concern. This has severely impacted operating costs of CG players, as cost pass through is not frequent in this industry.

## Key Financials (Consolidated)

### Income Statement

| Y/E Mar (Rs mn) | FY13 | FY14 | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| **Net Sales** | **17,367** | **18,279** | **20,174** | **23,688** | **27,564** |
| **Expenditure** | **15,006** | **16,001** | **16,690** | **19,265** | **22,313** |
| **EBITDA** | **2,607** | **2,581** | **3,484** | **4,424** | **5,251** |
| Depreciation | 932 | 1,101 | 1,298 | 1,413 | 1,542 |
| **EBIT** | **1,675** | **1,479** | **2,186** | **3,010** | **3,710** |
| Other Income | 19 | (9) | 42 | 46 | 50 |
| Interest expenses | 694 | 718 | 794 | 608 | 410 |
| **PBT** | **1,000** | **752** | **1,433** | **2,448** | **3,350** |
| Tax | 652 | 413 | 550 | 884 | 1,179 |
| Extraordinary Items | (236) | 0 | 0 | 0 | 0 |
| Minority Int./Income from Assoc. | 0 | 0 | 0 | 0 | 0 |
| **Reported Net Income** | **112** | **340** | **884** | **1,564** | **2,170** |
| **Adjusted PAT** | **348** | **340** | **884** | **1,564** | **2,170** |

### Balance Sheet

| Y/E Mar (Rs mn) | FY13 | FY14 | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| Equity share capital | 132 | 132 | 132 | 145 | 145 |
| Reserves & surplus | 10,131 | 10,151 | 11,300 | 15,686 | 18,241 |
| **Net worth** | **10,263** | **10,283** | **11,432** | **15,831** | **18,385** |
| **Minority Interest** | **0** | **0** | **0** | **0** | **0** |
| **Loan Funds** | **9,473** | **9,645** | **9,645** | **7,345** | **5,645** |
| Net deferred tax liability | 1,141 | 1,154 | 1,154 | 1,154 | 1,154 |
| **Total Liabilities** | **20,877** | **21,082** | **22,231** | **24,329** | **25,184** |
| **Net block** | **15,046** | **15,194** | **14,395** | **13,732** | **12,940** |
| **Investment** | **127** | **128** | **128** | **128** | **128** |
| **Current Assets** | **9,905** | **10,225** | **12,125** | **15,771** | **18,463** |
| Cash & bank balance | 820 | 603 | 1,637 | 3,670 | 4,629 |
| Other Current Assets | 13 | 19 | 18 | 21 | 24 |
| **Current liabilities & Provision** | **4,823** | **5,660** | **5,612** | **6,496** | **7,541** |
| **Net current assets** | **5,082** | **4,565** | **6,513** | **9,275** | **10,921** |
| Misc. exp | 0 | 0 | 0 | 0 | 0 |
| **Total Assets** | **20,877** | **21,082** | **22,231** | **24,329** | **25,184** |

### Cash Flow

| Y/E Mar (Rs mn) | FY13 | FY14 | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| **PBT (Ex-Other income) (NI+Dep)** | **981** | **762** | **1,392** | **2,402** | **3,299** |
| Other Non-Cash items | 393 | 715 | 0 | 0 | 0 |
| Chg in working cap | (2,098) | 313 | (914) | (729) | (688) |
| **Operating Cashflow** | **306** | **1,624** | **1,269** | **2,249** | **3,024** |
| Capital expenditure | (1,098) | (1,623) | (500) | (750) | (750) |
| **Free Cash Flow** | **(792)** | **1** | **769** | **1,499** | **2,274** |
| Investments | 57 | (1) | 0 | 0 | 0 |
| Other Investing Cash Flow | 267 | (252) | (42) | (46) | (50) |
| **Investing Cashflow** | **(755)** | **(1,886)** | **(500)** | **(750)** | **(750)** |
| Equity Capital Raised | 0 | 0 | 0 | 2,500 | 0 |
| Loans Taken / (Repaid) | 1,903 | 172 | 0 | (2,300) | (1,700) |
| Dividend paid (incl tax) | (229) | (231) | 266 | 334 | 384 |
| Other Financing Cash Flow | (472) | 821 | 794 | 608 | 410 |
| **Financing Cashflow** | **508** | **45** | **266** | **534** | **(1,316)** |
| **Net chg in cash** | **60** | **(217)** | **1,034** | **2,033** | **959** |
| Opening cash position | 735 | 820 | 603 | 1,637 | 3,670 |
| **Closing cash position** | **820** | **603** | **1,637** | **3,670** | **4,629** |

## Key Ratios

| Profitability (%) | FY13 | FY14 | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| EBITDA Margin | 14.8 | 13.9 | 17.3 | 18.7 | 19.1 |
| EBIT Margin | 9.5 | 8.0 | 10.8 | 12.7 | 13.5 |
| Effective Tax Rate | 65.2 | 54.8 | 38.3 | 36.1 | 35.2 |
| Net Margin | 2.0 | 1.8 | 4.4 | 6.6 | 7.9 |
| ROCE | 11.9 | 9.5 | 13.8 | 17.2 | 19.6 |
| ROE | 7.4 | 7.0 | 16.6 | 19.3 | 18.8 |
| RoIC | 14.8 | 10.7 | 16.0 | 21.9 | 27.0 |

| Per Share Data (Rs) | FY13 | FY14 | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| EPS | 5.3 | 5.1 | 13.4 | 21.6 | 30.0 |
| CEPS | 19.4 | 21.8 | 33.0 | 41.2 | 51.3 |
| BVPS | 74.6 | 71.9 | 89.3 | 142.4 | 177.7 |
| DPS | 3.5 | 3.5 | 4.0 | 4.6 | 5.3 |

| Valuations (x) | FY13 | FY14 | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| PER | 83.2 | 85.2 | 32.8 | 20.3 | 14.6 |
| P/CEPS | 22.6 | 20.1 | 13.3 | 10.7 | 8.6 |
| P/BV | 5.9 | 6.1 | 4.9 | 3.1 | 2.5 |
| EV / Sales | 2.2 | 2.1 | 1.8 | 1.5 | 1.2 |
| EV / EBITDA | 14.4 | 14.7 | 10.6 | 8.0 | 6.2 |
| Dividend Yield (%) | 0.8 | 0.8 | 0.9 | 1.1 | 1.2 |

| Gearing Ratio (x) | FY13 | FY14 | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| Net Debt/ Equity | 1.8 | 1.9 | 1.4 | 0.4 | 0.1 |
| Net Debt/EBIDTA | 3.3 | 3.5 | 2.3 | 0.8 | 0.2 |
| Working Cap Cycle (days) | 88.3 | 77.8 | 88.2 | 86.4 | 83.3 |

| Growth (%) | FY13 | FY14 | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|
| Revenue | 20.1 | 5.3 | 10.4 | 17.4 | 16.4 |
| EBITDA | 3.7 | (1.0) | 35.0 | 27.0 | 18.7 |
| EBIT | (10.1) | (11.7) | 47.8 | 37.7 | 23.2 |
| PAT | (88.4) | 203.1 | 160.1 | 77.0 | 38.8 |

| Quarterly (Rs mn) | Q3FY14 | Q4FY14 | Q1FY15 | Q2FY15 | Q3FY15 |
|---|---|---|---|---|---|
| Revenue | 3,666 | 6,290 | 4,122 | 4,238 | 4,621 |
| EBITDA | 608 | 1,059 | 664 | 748 | 943 |
| **EBITDA Margin (%)** | **16.6** | **16.8** | **16.1** | **17.6** | **20.4** |
| PAT | 118 | 294 | 150 | 191 | 303 |
| **EPS (Rs)** | **1.8** | **4.4** | **2.3** | **2.9** | **4.6** |

| Shareholding Pattern (%) | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 |
|---|---|---|---|---|---|
| Promoters | 51.6 | 51.6 | 51.6 | 51.6 | 51.6 |
| FIIs | 20.1 | 14.2 | 14.1 | 11.4 | 10.7 |
| DIIs | 8.9 | 14.2 | 17.6 | 19.6 | 20.5 |
| Public and Others | 19.4 | 20.0 | 16.7 | 17.5 | 17.2 |

## Emkay Rating Distribution

| | |
|---|---|
| BUY | Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months. |
| ACCUMULATE | Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months. |
| HOLD | Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months. |
| REDUCE | Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months. |
| SELL | The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months. |

**Emkay Global Financial Services Ltd.**
CIN - L67120MH1995PLC084899
7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com