IndiaNivesh
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Initiating Coverage
August 22, 2014

HIL Ltd.

V shaped recovery in sight

Current	Previous
CMP : Rs.576	
Rating : BUY	Rating : BUY
Target : Rs.721	Target : Rs.721

STOCK INFO	
BSE	509675
NSE	HIL
Bloomberg	HIL IN
Reuters	HLLT.BO
Sector	Cement Products
Face Value (Rs)	10
Equity Capital (Rs mn)	75
Mkt Cap (Rs mn)	4,314
52w H/L (Rs) (Adj.)	605/238
3m Avg Daily Volume (BSE + NSE)	22,641

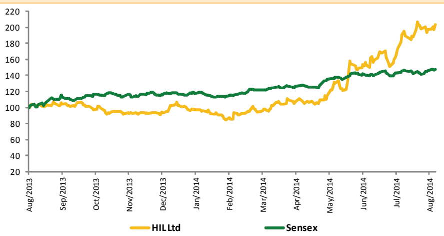
SHAREHOLDING PATTERN	%
(as on 30th Jun. 2014)	
Promoters	41.0
FIIs	0.0
DIIs	4.9
Public & Others	54.1

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
HIL	12	64	103
SENSEX	3	8	47

Source: Capitaline, IndiaNivesh Research

HIL v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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HIL Ltd, formerly known as Hyderabad Industries Ltd, is the market leader in the fibre cement sheet products with market share of 23%. The company is diversifying and expanding in green building products which would reduce its dependence on fibre cement sheets and take advantage of expected growth in construction industry. We expect the company to grow at a CAGR of 26.4% over FY14-FY16E with PAT increase of ~9.5x over the same period (benefitting from low base of FY14). We had recommended BUY in our Nivesh Discovery report at Rs 433 on 23 June 2014. We now initiate coverage on the stock maintaining BUY rating and target price of Rs 721.

Investment Rationale

Fibre Cement Sheet Industry – well poised for growth: With the increasing thrust on rural development and rural housing, rising income of rural India and reducing gap in between cement fibre sheets and alternative products, the industry is likely to grow at 5% CAGR over the next 2 years. HIL being the market leader is in a sweet spot to harness the improved demand opportunity. We expect fibre cement sheet revenue to grow at a CAGR of 22.7% over FY14-FY16E driven by improving demand and low base in FY14.

Rising demand for green building products: According to Indian Green Building Council, from a mere 20,000 square feet in 2003, the green building footprint in India has now reached 1 billion square feet. It is estimated that the market potential for green building products and technologies in India by 2015 is about $100 billion. HIL Ltd is focusing on non- asbestos products and has expanded in green building products namely AAC blocks and panels which are likely to contribute 15.5% to total revenue in FY16E from 11.7% in FY14.

Business restructuring to improve efficiency and profitability: HIL Ltd has restructured its organisation structure to Strategic Business Unit (SBU) format. The company has created SBUs for its building products businesses namely Sheets, Blocks and Panels, Advance Polymer Products. This would enable focused approach for decision making and result in better profitability. The company is also undertaking efficiency management activities and cost management initiatives which are likely to result in better profitability going forward.

Adj. PAT to increase 9.5x over FY14-FY16E: Adj. PAT de-grew at a CAGR of 41.3% over FY10-FY14 to reach Rs 107mn in FY14 from Rs 899 mn in FY14. Taking into consideration demand revival and better cost management and raw material pricing scenario, we expect the financial leverage to play its role going forward. Consequently, we expect PAT to grow 9.5x over FY14-FY16E to reach Rs 1019 mn in FY16E. We also expect PAT margin to improve to 7.4% in FY16E from 1.2% in FY14 driven by better EBITDA margin.

Significant improvement in return ratios: Weak profitability and lower utilisation of capacity resulted in lower return ratios for the company. ROCE and ROE declined to 4.7% and 1.8% in FY14 from 43.6% and 34.3% in FY10 respectively. With improving profitability and better demand scenario expectation, we expect significant improvement in return ratios. ROCE and ROE is likely to reach 31.9% and 23.2% in FY16E respectively.

Valuation and Outlook

With the increasing thrust on rural development and rural housing, rising income of rural India and reducing gap in between cement fibre sheets and alternative products, we expect the fibre cement sheet industry to grow at a CAGR of 5% over the next two years. The company strategy of diversifying into non-asbestos products is likely to drive the growth and reduce its dependence on chrysotile (key raw material). We are positive on the company strategy of establishing itself as a one stop building solutions provider. We expect the company to grow at a CAGR of 26.4% over FY14-FY16E with 794 bps improvement in EBITDA margin. The expected ROE of 23.2% in FY16E provides additional comfort in improving financial performance.

At CMP of Rs 576, the stock trades at PE of 7.7x and 4.2x its FY15E and FY16E earnings of Rs 75.2 and Rs 136 per share respectively. Comparing this with its peers (though not strictly comparable due to presence of other businesses), the stock appears to be attractively valued. Historically, it has traded at one year forward PE of 6.6x over the last 7 years. We value the stock at 5.3x PE (i.e. 20% discount to its historical PE) of its FY16E earnings, to arrive at target price of Rs 721.

Key Risk: Rupee depreciation, Ban on asbestos products in India

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	Adj. PAT	Adj. EPS(Rs)	RoCE(%)	RoE(%)	Adj. P/E(x)	EV/EBITDA(x)
FY13	10322	1165	606	81.0	20.2	16.7	7.1	5.1
FY14	8657	406	107	14.3	4.7	1.8	40.4	12.1
FY15E	10984	1074	563	75.2	19.8	14.2	7.7	4.3
FY16E	13840	1748	1019	136.1	31.9	23.2	4.2	2.2

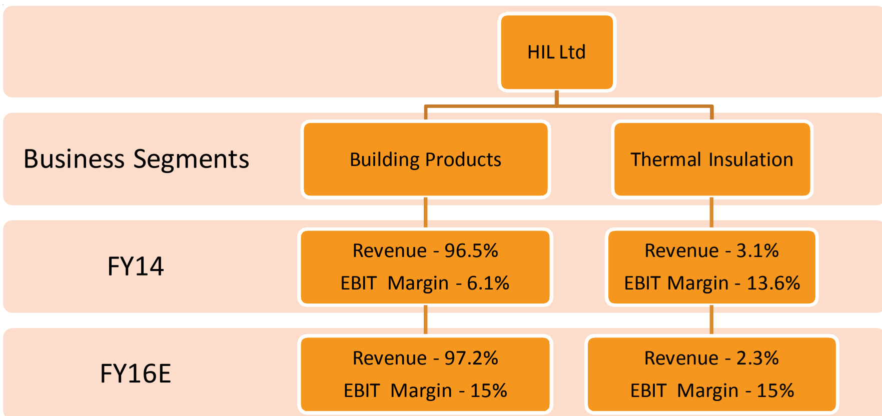
Source: Company, IndiaNivesh Research

Company Background

HIL Ltd, formerly known as Hyderabad Industries Ltd, is a part of the C.K. Birla Group. The company is a complete building solutions provider manufacturing fibre cement sheets, AAC (Autoclaved Aerated Concrete) blocks, AAC panels, C-board, ceiling tiles, among others. It is the market leader in the cement fibre sheets products with share of 23%. Its asbestos products are marketed under the brand of "Charminar" and non-asbestos products are marketed under the brand of "Aerocon". Both the brands have strong recall in the industry. It has recently forayed into advanced polymer products manufacturing plastic plumbing products namely CPVC (Chlorinated polyvinyl chloride) and uPVC (unplasticized polyvinylchloride) pipes and are marketed under "Aerocon" brand. The company also has operations in thermal insulation products which are used in fertiliser, petrochemical, power and cement industry. It has 12 manufacturing facilities spread across the country. The company also has wind power generation capacity of 7.35 MW in Gujarat, Tamil Nadu and Rajasthan. HIL has a wide distribution network spanning across India with 45 sales depots and more than 8,000 sales points.

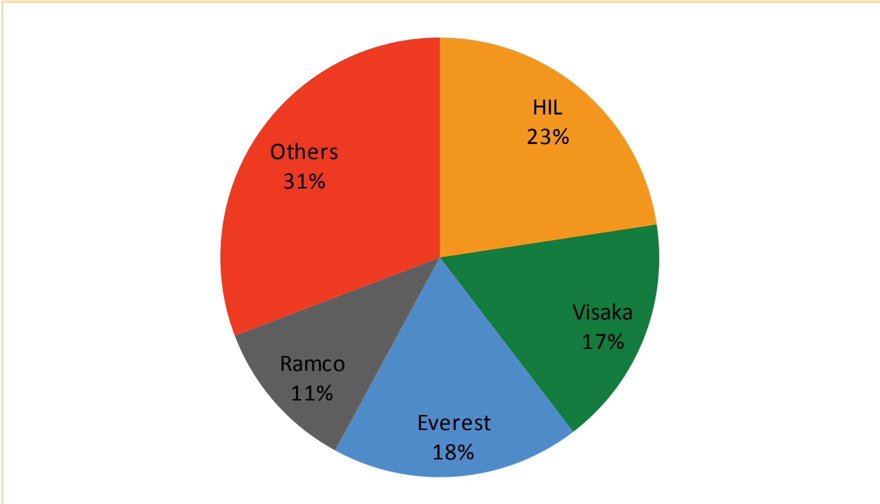
Key Charts

Business Model



Source: Company, IndiaNivesh Research

HIL market share of 23% (in terms of capacity)



Source: Industry, IndiaNivesh Research

Peer Capacity

Company	Capacity
HIL	Cement Fibre Sheets - 1,000,000 tons AAC Blocks - 450,000 tons AAC Panels - 460,000 nos.
Visaka Industries	Cement Fibre Sheets - 752,000 tons Fibre cement flat board panels - 129,750 tons
Everest Industries	Building Products - 810,000 tons
Ramco Industries	Cement Fibre Sheets - 500,000 tons Fibre Cement Pressure Pipe - 3,000,000 tons

Source: Company Annual Reports, IndiaNivesh Research

Peer distribution network

Particulars	HIL	Visaka	Everest	Ramco
Depots	45	36	38	46
Dealers/Stockists	8000+	6000+	6000+	NA

Source: Company Annual Reports, IndiaNivesh Research

Investment rationale

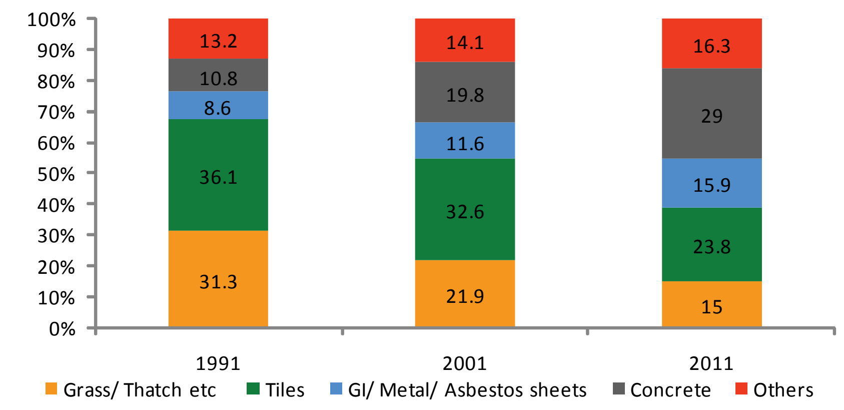
Favourable industry dynamics

a. Improving rural income to benefit the roofing industry

Fibre Cement Sheets are predominantly rural driven products. Its demand is primarily derived from households shifting from kutcha houses made from thatch, wood, grass, mud etc. to semi-pucca and pucca houses.

As per Census 2011, rural population constitutes 68.8% of total population of India. The government has been focusing on creating employment opportunities and raising the standard of living of rural population by introducing schemes like Mahatma Gandhi National Rural Employment Guarantee Act, Prime Minister's Employment Generation Programme and Swarnajayanti Gram Swarojgaar Yojana. It also raised the minimum support price in FY13 resulting in higher income for farmers and agricultural labourers. With improvement in household income, increasing number of households are moving towards pucca houses (concrete and GI/Metal/asbestos sheets). Also the government schemes for rural husing like Indira Awas Yojana have increased the focus on providing better housing facilities for rural population. Accordingly, the share of concrete houses has increased from 19.8% in 2001 to 29% in 2011 and that of sheets has increased from 11.6% to 15.9%. In our opinion, this trend is likely to continue and share of pucca houses has increased with improvement in rural income.

Roofing mix trends - All India Households

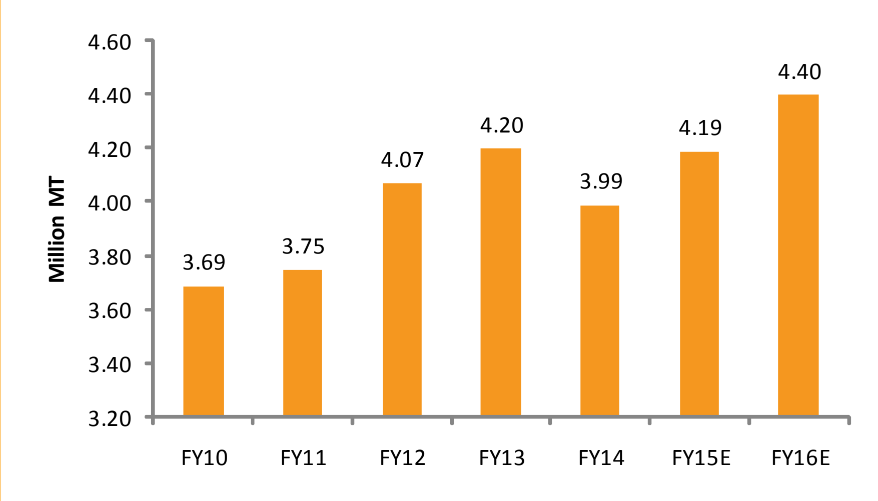


Source: Census India, IndianNivesh Research

b. Fibre Cement Sheet Industry to grow at 5% CAGR over the next two years

The fibre cement sheet roofing industry in India has a capacity of 5.8 mmt (million metric tons) per annum and comprises of 6 national brands and 14 regional brands. The industry grew at a CAGR of 4.4% over FY10-FY13 to reach 4.2 mmt in FY13 from 3.69 mmt in FY10. However, poor demand, over-capacity and reducing differential between fibre cement sheets and alternative products led to decline of ~5% in the industry in FY14. We believe that with the increasing thrust on rural development and rural housing, rising income of rural India and reducing gap in between fibre cement sheets and alternative products, the industry is likely to grow at 5% CAGR over the next 2 years. HIL being the market leader is in a sweet spot to harness the improved demand opportunity.

Industry size to grow at CAGR of 5% over FY14-FY16E



Source: Industry, IndiaNivesh Research

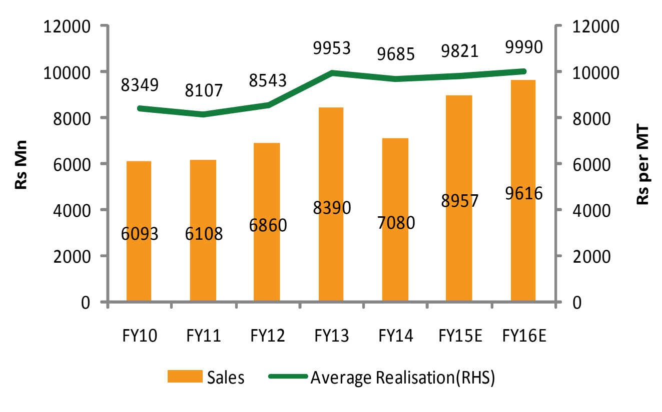
c. Rising demand for green building products

As per Global Construction Perspectives and Oxford economic report, India is likely to become the third largest construction market and is expected to be nearly $1 trillion construction market by 2025. The study expects Indian construction sector to grow at a faster rate than China over the period 2012 to 2025 driven by rise in the number of middle income households and rising population. Green buildings are steadily increasing their footprint in India as construction players aim at reducing wastage and shorten construction cycle. Real estate developers are also increasingly turning to green building due to ready availability of environment-friendly building materials such as AAC blocks, fibre-cement sandwich panels and plywood-substitute lightweight partition panels. Construction using AAC blocks helps to save up to 14% and 18% in terms of structural savings on cement and steel respectively. Low density (about a third of that of traditional clay bricks) of AAC blocks aids in the rapid completion of construction activities, reducing the construction time of a building by as much as 30%. At the same time, the total load on the foundation decreases by up to 27%. The large face of the block helps to reduce the number of joints and mortar usage. Also, AAC blocks with good insulation properties help to reduce power consumption by up to 28 percent. According to Indian Green Building Council, from a mere 20,000 square feet in 2003, the green building footprint in India has now reached 1 billion square feet. It is estimated that the market potential for green building products and technologies in India by 2015 will be about $100 billion.

Fibre cement sheets to grow at 22.7% CAGR

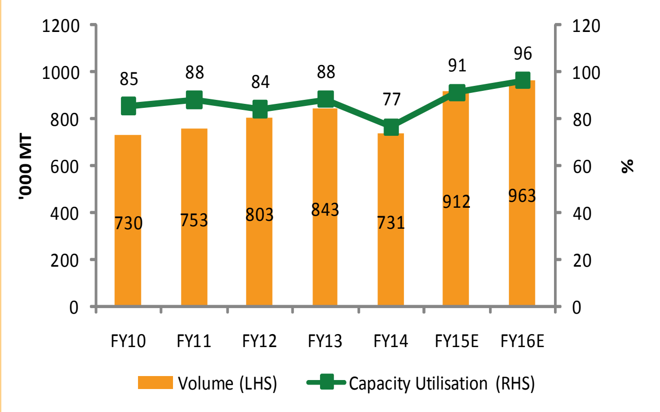
HIL is the market leader in fibre cement sheets business with a capacity of 1 mmt and market share of 23%. Fibre cement sheets revenue grew at a CAGR of 11.3% over FY09-FY13 to reach Rs 8390 mn in FY13. However in FY14, sales of sheets de-grew 15.6% yoy due to poor demand from residential and construction sector and reduced gap in fibre cement sheet and alternative products. This is likely to correct going forward as alternative products have started becoming expensive and demand is reviving across segments. We expect fibre cement sheets to grow at a CAGR of 22.7% over FY14-FY16E driven by volume CAGR of 14.7%. This high volume CAGR is partially impacted by low base of FY14.

Sales growth of 22.7% CAGR partially influenced by low base of FY14



Source: Company, IndiaNivesh Research

Capacity utilisation to reach optimum levels by FY16E



Source: Company, IndiaNivesh Research

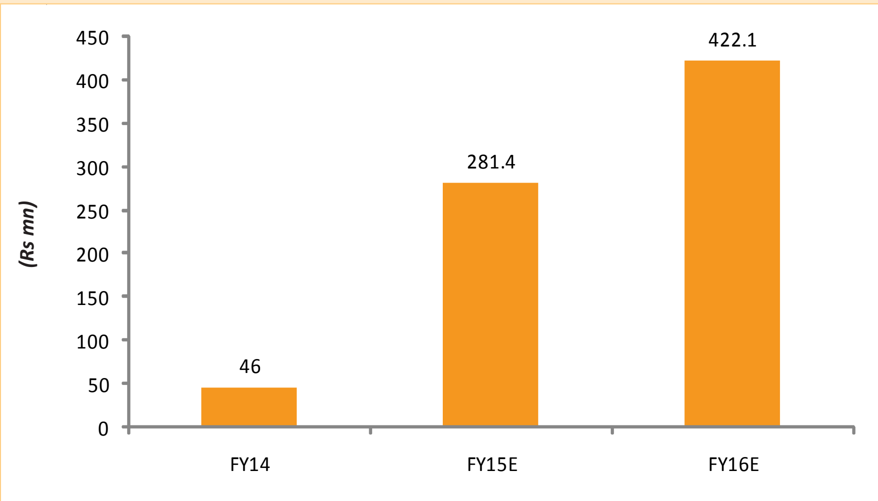
Foray into advanced polymer products

The company recently forayed into advanced polymer products manufacturing CPVC (Chlorinated polyvinyl chloride) and uPVC (unplasticized polyvinylchloride) pipes, fittings and solvents. It began commercial production of APP products in October 2013. The piping industry has grown at a CAGR of 15% over the last 5 years. Total plastic pipe industry is worth Rs 1650 bn while metal pipe industry is worth Rs 600 bn. The organised segment constitutes 60% of the total market. Shift from unbranded to branded pipes, increase in demand for infrastructure and revival of capex cycle is likely to drive the growth of the industry going forward.

We have seen Astral Polytechnik Ltd, leading the segment for more than a decade in this segment. The company has grown at a CAGR of ~41% with stable profitability of ~13% EBITDA margin and ~6.5% PAT margin. Its ROE increased from 16.4% in FY09 to 34.4% in FY14. Hence we are of the opinion that the industry is a promising segment to enter and increase shareholder wealth. However, the only key risk is the source of raw material, which is sold by Lubrazol of USA (the sole supplier). Any disturbance from the supplier side may impact the business adversely.

We expect the APP segment to report revenue of Rs 422 mn in FY16 from Rs 46 mn in FY14, ~ 9x growth over the period; though on a lower base. The segment is likely to increase its share in total revenue from 0.5% in FY14 to 3% in FY16E, driving the growth of the company.

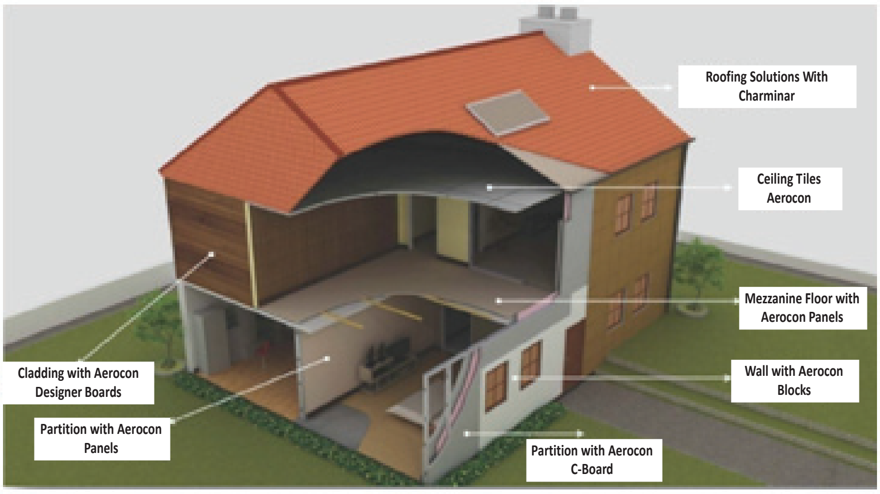
APP revenues to grow ~9x in FY14-16E



Source: Company, IndiaNivesh Research

Focus on non-asbestos products; portfolio to grow at 46% CAGR over FY14-FY16E

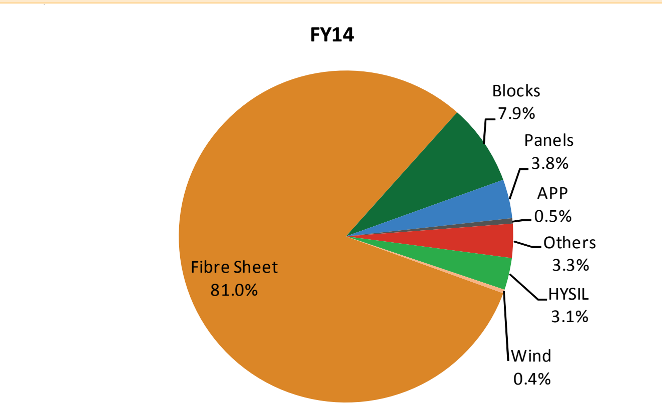
Aiming at catering to green building segment, HIL forayed into AAC blocks, AAC panels, C-Boards & Ceiling Tiles manufacturing. These products are marketed under the 'Aerocon' brand. AAC blocks are used in wall manufacturing instead of bricks. AAC blocks have several advantages over traditional bricks which include light weight, fire resistance (4 hour fire rating), eco friendly, higher strength, among others. AAC panels are substitute for drywalls and used for partitions, pre-fabricated structures and mezzanine floors. The company recently forayed into advanced polymer products manufacturing CPVC (Chlorinated polyvinyl chloride) and uPVC (unplasticized polyvinylchloride) pipes, fittings and solvents. The company plans to enter into more building product segments thereby becoming one stop solution for all building product requirements.



Source: Company, IndiaNivesh Research

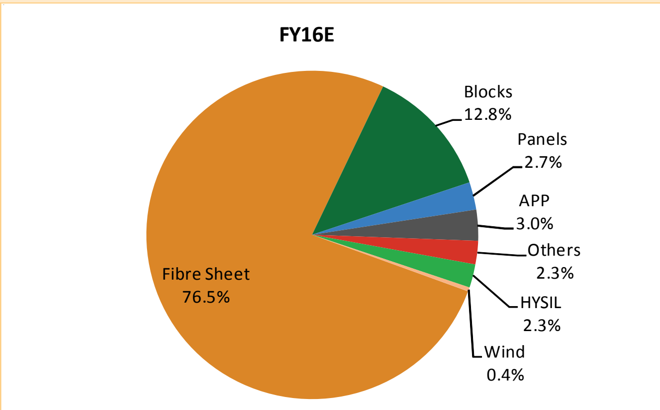
We expect the dependence on fibre cement business to decline to 76.5% in FY16E from 81.4% in FY14. The share of blocks business is likely to increase to 12.8% in FY16E from 7.9% in FY14 due to new capacities coming on-stream. Advanced polymer pipes, (the new product line) is likely to account for 3% of topline in FY16E, up from 0.5% in FY14. The non-asbestos products share in revenue is likely to increase to 20.8% in FY16E from 15.5% in FY14. Though the share of fibre cement sheets is likely to reduce going forward, it is still likely to remain a sizeable portion of the revenues of the company.

Revenue Mix



Source: Company, IndiaNivesh Research

Revenue Mix

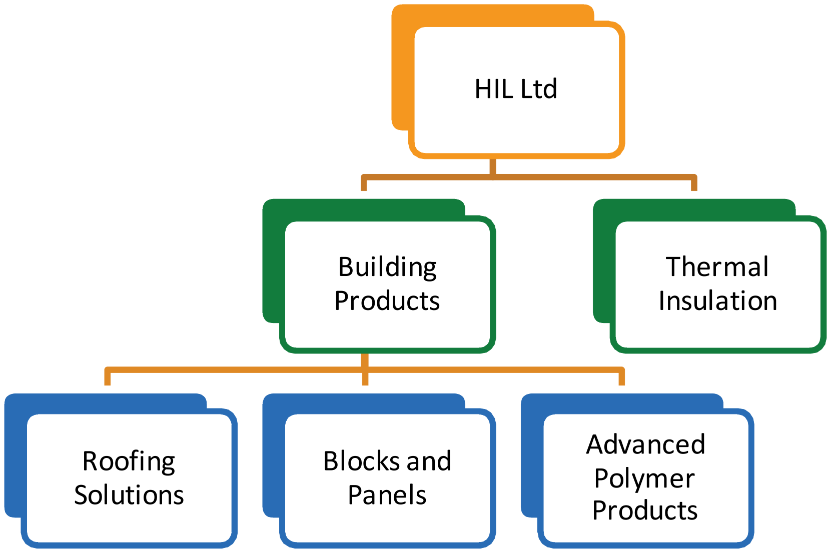


Source: Company, IndiaNivesh Research

Business restructuring to improve efficiency and profitability

HIL Ltd has restructured its organisation structure to Strategic Business Unit (SBU) format. The company has created SBUs for its building products businesses namely Sheets, Blocks and Panels, Advance Polymer Products. This would enable focused approach for decision making and result in better profitability. The company is also undertaking efficiency management activities and cost management initiatives which are likely to result in better profitability going forward.

New Organisation Structure

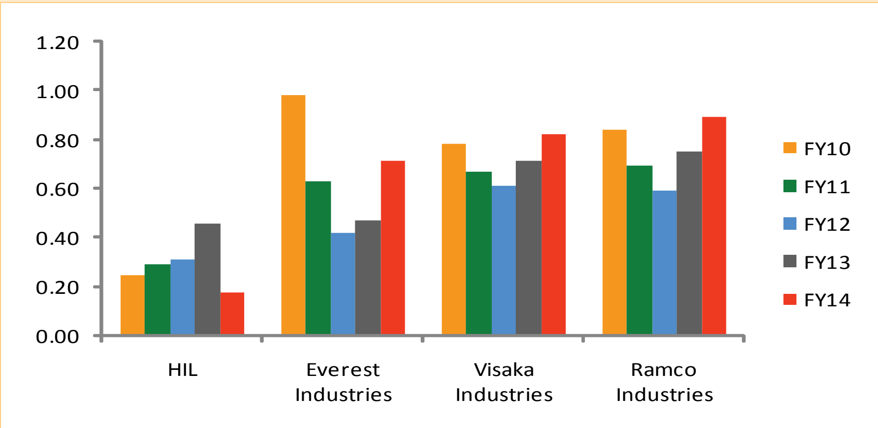


Source: Company, IndiaNivesh Research

Low debt to equity paves way for expansion

HIL has been maintaining low debt to equity. It further reduced its debt by taking inventory reduction initiatives, thereby reducing working capital debt. Its debt to equity is lowest amongst peers at 0.2x in FY14. This strengthens its capability to raise funds as it plans to expand its capacity going forward. Since its fibre cement sheet business would be operating at ~90% in FY15, in our opinion the company may plan to increase its capacity going forward. Currently, it is expanding its blocks capacity by 0.4 mn cubic meters in Jhajhar which is likely to commission production in Q3FY15. It is also expanding its advanced polymer products capacity at cost of Rs 100 mn in FY15. The company is in the process of firming up its expansion or diversification plans, which may provide further fillip to our estimates.

Lowest leverage amongst peers (x)



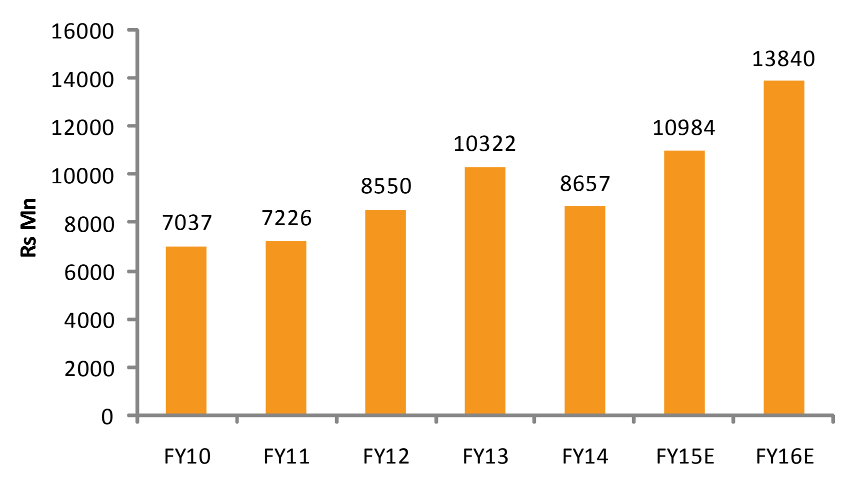
Source: Company, Capitaline, IndiaNivesh Research

Financial Performance

Net sales likely to grow at 26.4% CAGR between FY14-16E; key drivers - fibre cement sheets and blocks

Net sales of HIL Ltd grew at 13.6% CAGR over FY10 – FY13 period, from Rs 7037 mn in FY10 to Rs 10322 mn in FY13. This was driven by higher average realisation in sheeting and AAC blocks products. During the period, volume and average realisation of sheeting business grew at CAGR of 4.9% and 6% respectively. Similarly, volume and average realisation of panels business grew at a CAGR of 15.9% and 4.4% respectively. However in FY14, the sales of the company de-grew 16.1% yoy due to poor demand from residential and construction sector and reduced gap in fibre cement sheet and alternative products. This is likely to correct going forward as alternative products have started becoming expensive and demand is reviving across segments. We expect net sales to grow at 26.4% CAGR during FY14-FY16E to reach Rs 13840 mn, driven by fibre cement sheet and aerocon blocks segment. Sheeting business is likely to grow at a CAGR of 22.7% while blocks business is likely to grow at 60.7% CAGR.

Sales to grow at a 26.4% CAGR



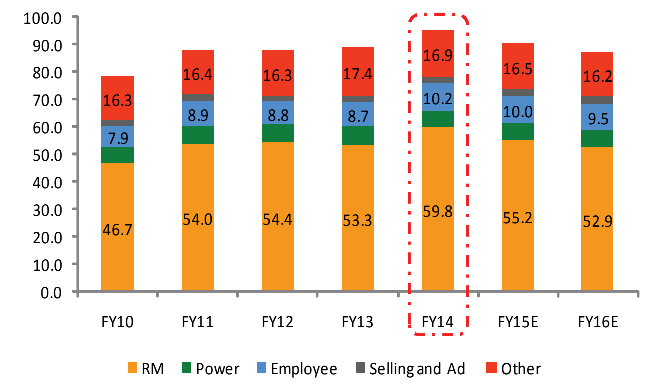
Source: Company, IndiaNivesh Research

EBITDA margin to improve 794 bps over FY14-FY16E driven by lower material cost

EBITDA of the company de-grew by 8.4% CAGR over FY10-FY13 to Rs 1165 mn in FY13. In FY14, EBITDA declined 65.1% yoy to reach Rs 406 mn. Similarly EBITDA margin declined from 21.5% in FY10 to 11.3% in FY13 and 4.7% in FY14. This significant decline in profitability is on account of steep increase in raw material prices. Raw material cost for the company increased to 59.6% in FY14 from 46.7% in FY10 and ~54% in FY13. Constant increase in raw material cost coupled with poor demand and over capacity in the industry in FY14 made it difficult for the company to pass on the higher cost to the customers. Lower sales growth resulted in higher fixed cost (employee, selling and general administration) as % to sales (though not increasing in absolute terms) leading to a depressed EBITDA margin in FY14.

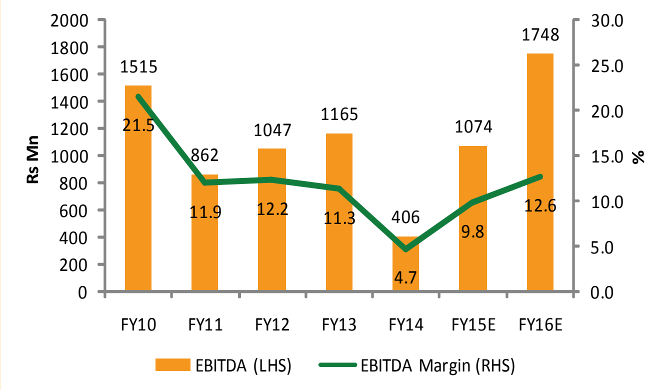
However, with improving demand from FY15 and reducing raw material prices (benefitting from reducing dollar price and rupee appreciation), EBITDA margin is likely to improve. The company is also undertaking cost rationalisation measures like closing non-competitive factories and providing voluntary retirement scheme to employees to reduce cost. Increasing share of higher margin non-asbestos products is likely to improve the margin profile of the company on a sustainable basis. These factors are likely to increase EBITDA margin to 12.6% in FY16E, an improvement of 794 bps over FY14-FY16E. EBITDA is also likely to quadruple to Rs 1748 mn in FY16E from Rs 406 mn in FY14.

Cost structure (as % to sales)



Source: Company, IndiaNivesh Research

EBITDA likely to quadruple by FY16E

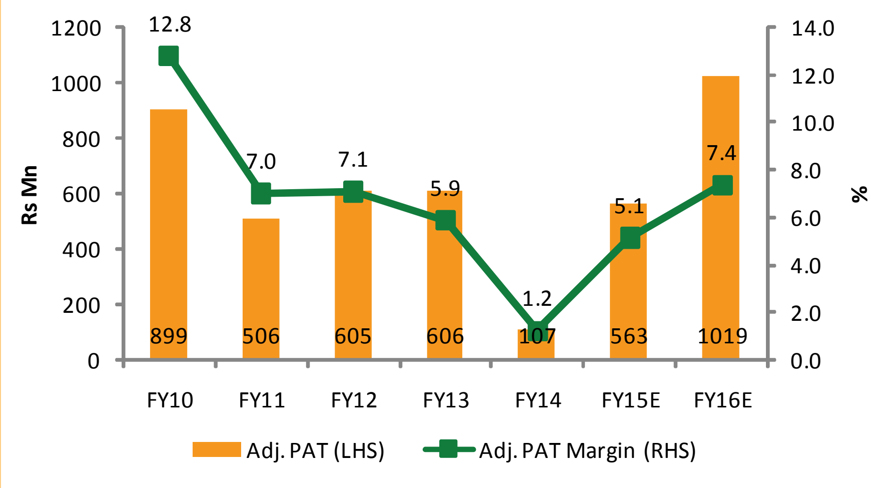


Source: Company, IndiaNivesh Research

Adj. PAT to increase 9x over FY14-FY16E

In-line with EBITDA de-growth, adj. PAT de-grew at a CAGR of 41.3% over FY10-FY14 to reach Rs 107mn in FY14 from Rs 899 mn in FY14. Taking into consideration demand revival and better cost management and raw material pricing scenario, we expect the financial leverage to play its role going forward. Consequently, we expect PAT to grow 9.5x over FY14-FY16E to reach Rs 1019 mn in FY16E. This stupendous growth is partially attributed to low base of FY14. We also expect PAT margin to improve to 7.4% in FY16E from 1.2% in FY14 driven by better EBITDA margin.

Adj. PAT margin to improve 613 bps over FY14-FY16E

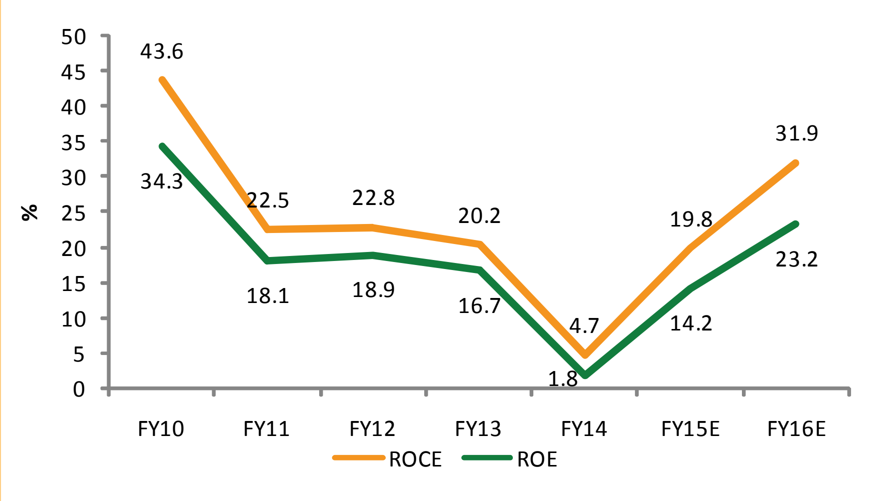


Source: Company, IndiaNivesh Research

Significant improvement in return ratios

Weak profitability and lower utilisation of capacity resulted in lower return ratios for the company. ROCE and ROE declined to 4.7% and 1.8% in FY14 from 43.6% and 34.3% in FY10 respectively. With improving profitability and better demand scenario expectation, we expect significant improvement in return ratios. ROCE and ROE is likely to reach 31.9% and 23.2% in FY16E respectively.

Return ratios likely to improve above 20%



Source: Company, IndiaNivesh Research

Q1FY15 performance depicts the potential improvement

In Q1FY15, HIL reported 33% yoy sales growth to reach Rs 3605 mn. Its raw material declined as % to sales to reach 53.5% in Q1FY15 from 60.5% in Q1FY14. Also, other expenses and employee cost declined to 18.9% and 7.1% of sales in Q1FY15 from 21.3% and 8.9% in Q1FY14. Consequently, higher sales growth and lower costs led to higher EBITDA margin of 14.6% in Q1FY15 as compared to 9.4% in Q1FY14. Higher other income and decline in interest cost led to substantial improvement in bottomline. Adj. PAT (adjusted for VRS) increased 174% yoy to reach Rs 313 mn in Q1FY15 from Rs 114 mn in Q1FY14. Pat margin doubled to 8.7% in Q1FY15 from 4.2% in Q1FY14. Thus improvement in demand and lower cost can lead to substantial improvement in the bottomline as demonstrated in Q1FY15 performance.

Key Risks

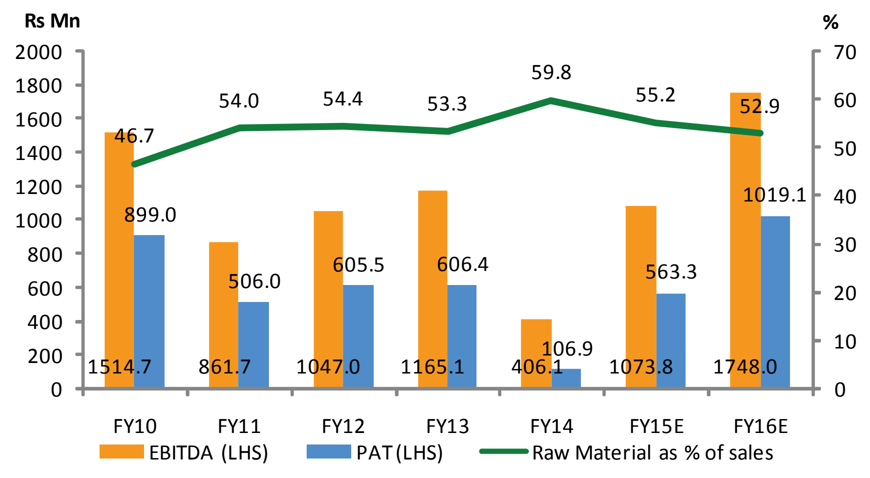
Weak Demand

Good monsoon and improving rural income are the key drivers for the demand of roofing materials. Hence demand tends to be erratic for the industry. In the event of weak demand, players find it difficult to increase prices and utilisation which in turn impacts their profitability. Any weakness in demand is likely put our estimates on downside risk.

Inability to pass increase in costs

Due to concentrated market and poor demand, the company was unable to pass the increase in raw material cost to its customers. The company imports its key raw material i.e. chrysotile. Raw material constitutes more than 50% of sales and chrysotile forms ~55% of total raw material cost. Hence, rupee depreciation along with increase in raw material prices impacted the profitability of the company. In the event of adverse raw material cost, the profitability is likely to come under pressure.

Rising raw material cost



Source: Company, IndiaNivesh Research

As per our sensitivity analysis, an increase in raw material cost of 5% against our base assumptions is likely to result in 18.7% decline in EPS estimate for FY15E and 10.5% in FY16E. Also, rupee depreciation to previous levels of 65 per $ is likely to result in EPS decline of 31.2% in FY15E and 17.4% in FY16E.

Sensitivity analysis of chrysotile price increase

Sensitivity	FY15E		FY16E	
Fibre price increase	5%	10%	5%	10%
EPS Chg (%)	-18.7	-37.4	-10.5	-20.9

Source: IndiaNivesh Research

Sensitivity analysis of INR (with respect to chrysotile) on EPS

INR Sensitivity	FY15E		FY16E	
INR	58	65	58	65
EPS Chg (%)	12.5	-31.2	7.0	-17.4

Source: IndiaNivesh Research

INR vs HIL stock price

Source: Bloomberg, Capitaline, IndiaNivesh Research

Ban of asbestos in india

There has been a continuous lobby worldwide for banning asbestos import and usage including India. As per the lobby, production of asbestos based products causes severe health hazards including tumors and cancers like mesothelioma. This poses a key risk to the largest business segment of the company which contributes ~80% to the revenue. We like the company strategy to reduce its dependence on asbestos products and move towards green building products which reduces the risk to some extent. This is also visible in our sensitivity analysis where the decline in EPS is much lower in FY16E for a similar increase in cost and INR in FY15E.

Valuation and Outlook

With the increasing thrust on rural development and rural housing, rising income of rural India and reducing gap between fibre cement sheets and alternative products, we expect the fibre cement sheet industry to grow at a CAGR of 5% over the next two years. The company strategy of diversifying into non-asbestos products is likely to drive the growth and reduce its dependence on fibre cement sheets. We are positive on the company strategy of establishing itself as a one stop building solutions provider. We expect the company to grow at a CAGR of 26.4% over FY14-FY16E with 794 bps improvement in EBITDA margin. The expected ROE of 23.2% in FY16E provides additional comfort in improving financial performance.

At CMP of Rs 576, the stock trades at PE of 7.7x and 4.2x its FY15E and FY16E earnings of Rs 75.2 and Rs 136 per share respectively. Comparing this with its peers (though not strictly comparable due to presence of other businesses), the stock appears to be attractively valued. Historically, it has traded at one year forward PE of 6.6x over the last 7 years. We value the stock at 5.3x PE (i.e. 20% discount to its historical PE) of its FY16E earnings, to arrive at target price of Rs 721.

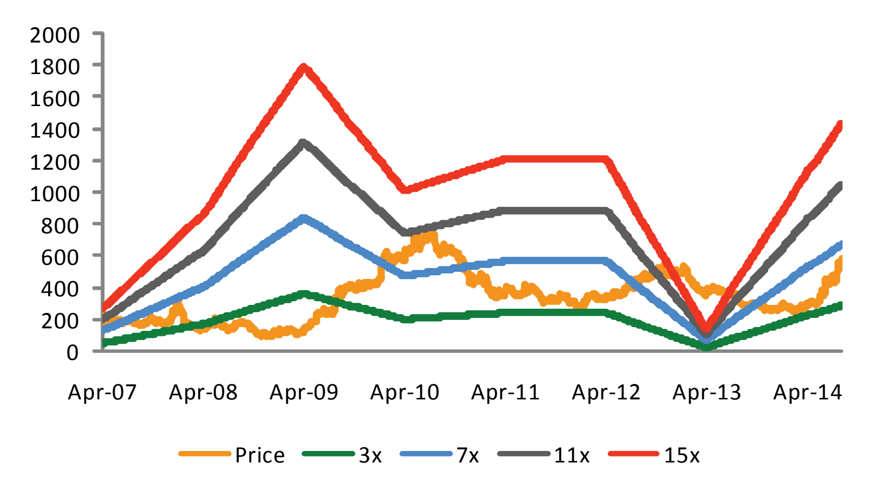
We had initially recommended BUY in our Nivesh Discovery report at Rs 433 on 23 June 2014. Then we recommended it a BUY in our Model Portfolio at Rs 565 on 19 August 2014. We now initiate coverage on the stock with BUY rating and target price of Rs 721.

Peer Valuation

Particulars	Sales CAGR (%)	EBITDA Margin (%)		PAT Margin (%)		ROE (%)		P/E (x)	
	(FY14-16E)	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Visaka Industries	10.0	9.5	10.3	3.1	4.0	9.5	12.2	5.6	3.9
Everest Industries	15.9	6.8	7.8	3.1	4.0	13	16.1	9.8	6.9
Ramco Industries	8.26	12.3	12.8	2.8	3.9	4.8	6.8	23.1	15.6
Average	**11.4**	**9.5**	**10.3**	**3.0**	**3.9**	**9.1**	**11.7**	**12.8**	**8.8**
HIL Ltd	**26.4**	**9.8**	**12.6**	**5.1**	**7.4**	**14.2**	**23.2**	**7.7**	**4.2**

Source: Company, Bloomberg, IndiaNivesh Research

1-yr forward P/E band



Source: Company, Capitaline, IndiaNivesh Research

Standalone Financial Statements

Income statement

Y E March (Rs m)	FY 12	FY 13	FY 14	FY 15E	FY 16E
Net sales	**8550**	**10322**	**8657**	**10984**	**13840**
Growth %	*18.3*	*20.7*	*-16.1*	*26.9*	*26.0*
Expenditure	**7503**	**9157**	**8251**	**9910**	**12092**
Raw Material	4648	5502	5176	6065	7317
Power and Fuel	537	730	523	659	830
Employee	754	894	885	1098	1315
Others	1564	2031	1666	2087	2630
EBITDA	**1047**	**1165**	**406**	**1074**	**1748**
Growth %	*21.5*	*11.3*	*-65.1*	*164.4*	*62.8*
EBITDA Margin %	*12.2*	*11.3*	*4.7*	*9.8*	*12.6*
Other Income	113	122	118	170	184
Depreciation and amortisation	212	267	287	330	345
EBIT	**948**	**1020**	**237**	**914**	**1587**
EBIT Margin %	*11.0*	*11.8*	*2.7*	*8.3*	*11.5*
Interest	75	106	102	73	66
Exceptional/Extraordinary item	0	0	-36	0	0
PBT	**874**	**914**	**99**	**841**	**1521**
PBT Margin %	*10.2*	*8.9*	*1.1*	*7.7*	*11.0*
Tax	268	307	28	277	502
Effective tax rate %	*31*	*34*	*28*	*33*	*33*
PAT	**605**	**606**	**71**	**563**	**1019**
Adj. PAT	**605**	**606**	**36**	**563**	**1019**
Growth%	*19.6*	*0.1*	*-82.4*	*427.1*	*80.9*
Adj. PAT Margin %	*7.1*	*5.9*	*0.4*	*5.1*	*7.4*

Balance sheet

Y E March (Rs m)	FY 12	FY 13	FY 14	FY 15E	FY 16E
Share Capital	75	75	75	75	75
Reserves & Surplus	3351	3782	3808	3996	4640
Net Worth	**3426**	**3857**	**3883**	**4071**	**4715**
Total debt	1050	1746	677	609	548
Net defered tax liability	356	394	401	401	401
Total Liabilities	**4832**	**5997**	**4961**	**5081**	**5664**
Gross Fixed Assets	4805	5325	5982	6482	6782
Less Depreciation	1709	1925	2185	2522	2874
Capital Work in Progress	168	193	331	150	150
Net Fixed Assets	3264	3593	4128	4110	4057
Investments	90	89	88	88	88
Current Assets	**3364**	**4184**	**3028**	**3975**	**5635**
Inventories	1853	2466	1736	2087	2630
Sundry Debtors	846	1014	675	769	1038
Cash & Bank Balance	94	97	78	291	936
Loans & advances	533	555	485	769	969
Other Current assets	36	53	54	60	63
Current Liabilities & provisions	1885	1870	2283	3091	4116
Net Current Assets	**1478**	**2314**	**745**	**884**	**1519**
Mis Exp not written off	0	0	0	0	0
Total assets	**4832**	**5997**	**4961**	**5081**	**5664**

Cash Flow

Y E March (Rs m)	FY 12	FY 13	FY 14	FY 15E	FY 16E
PBT	874	914	99	841	1521
Adjustment for:					
Depreciation	212	267	287	330	345
Others	52	64	56	20	10
Changes in working capital	-487	-803	1642	-317	-544
Tax expenses	-129	-310	-50	-75	-136
Cash flow from operations	**521**	**132**	**2034**	**798**	**1197**
Capital expenditure	-580	-612	-852	-319	-300
Free Cash Flow	**-59**	**-481**	**1183**	**480**	**897**
Others	69	64	81	49	50
Cash flow from investments	**10**	**-416**	**1263**	**529**	**947**
Interest	-74	-105	-104	-73	-66
Loans availed or (repaid)	191	696	-1069	-68	-61
Proceeds from Issue of shares (incl share premium)	0	0	0	0	0
Dividend paid (incl tax)	-138	-172	-109	-175	-175
Cash flow from Financing	**-21**	**419**	**-1282**	**-316**	**-302**
Net change in cash	-11	2	-19	213	645
Cash at the beginning of the year	105	94	97	78	291
Cash at the end of the year	94	97	78	291	936

Key ratios

Y E March	FY 12	FY 13	FY 14	FY 15E	FY 16E
Adj. EPS (Rs)	80.8	81.0	14.3	75.2	136.1
Cash EPS (Rs)	109.1	116.6	47.9	119.3	182.2
BVPS	457.5	514.9	518.4	543.5	629.5
DPS (Rs)	18.4	19.9	5.0	20.0	20.0
Adj. P/E (x)	7.1	7.1	40.4	7.7	4.2
P/CEPS (x)	5.3	4.9	12.0	4.8	3.2
P/BV (x)	1.3	1.1	1.1	1.1	0.9
EV/EBITDA(x)	5.0	5.1	12.1	4.3	2.2
M cap/sales (x)	0.5	0.4	0.5	0.4	0.3
ROCE	22.8	20.2	4.7	19.8	31.9
ROE	18.9	16.7	1.8	14.2	23.2
Inventory (days)	71.9	76.4	88.6	63.5	62.2
Debtors (days)	31.4	32.9	35.6	24.0	23.8
Trade Payables (days)	31.3	29.9	44.6	48.4	49.1
Total Asset Turnover (x)	1.4	1.4	1.1	1.4	1.5
Fixed Asset Turnover (x)	2.8	3.0	2.2	2.7	3.4
Debt/equity (x)	0.3	0.5	0.2	0.1	0.1
Debt/ebitda (x)	1.0	1.5	1.7	0.6	0.3
Interest Coverage (x)	12.7	9.6	2.3	12.5	24.1
Dividend Yield %	3.2	3.5	0.9	3.5	3.5

Source: Company, IndiaNivesh Research

Annexure

Chrysotile: Factsheet

Asbestos is a generic term referring to six types of naturally occurring mineral fibres that are or have been commercially exploited. Asbestos has been known as the 'magic mineral' due its properties such as resistance to heat, acid, chemical and mechanical forces. It also has the ability to reinforce cement and plastic and can be woven or spun to make asbestos textile. It also has good frictional properties and is relatively easy to manipulate and use. Its uses are extensive, the most important being insulation and fireproofing.

Asbestos fibres belong to two mineral groups: serpentines and amphiboles. The serpentine group contains a single variety: chrysotile. The use of all types of asbestos in the amphibole group was banned in much of the Western world by the mid-1980s, and in Japan by 1995.

Chrysotile dominates the asbestos consumption in terms of total quantity, value and number of products. It accounts for 95% of the commercial consumption of asbestos. About 90% of the world production of chrysotile is used in the manufacture of chrysotile-cement, in the form of pipes, sheets and shingles.

The world has 200 mn tons of identified resources of asbestos.

Country	Reserves
United States	Small
Brazil	11,000,000
China	Large
Kazakhstan	Large
Russia	Large
Other Countries	Moderate
World Total	**Large**

Source: U.S. Geological Survey, Mineral Commodity Summaries, IndiaNivesh Research

World Production of Asbestos

Asbestos Production (in '000 tons)	2008	2009	2010	2011	2012	2013E
Russia	1,017	1,000	1,000	1,000	1,000	1,000
China	380	440	400	440	420	400
Brazil	288	288	302	306	307	300
Kazakhstan	230	230	214	223	241	240
Canada	160	150	100	50	0	0
Zimbabwe	11	5	2	0	0	0
Others	1	1	1	0	0	0
Total	2,090	2,110	2,020	2,020	1,970	1,940

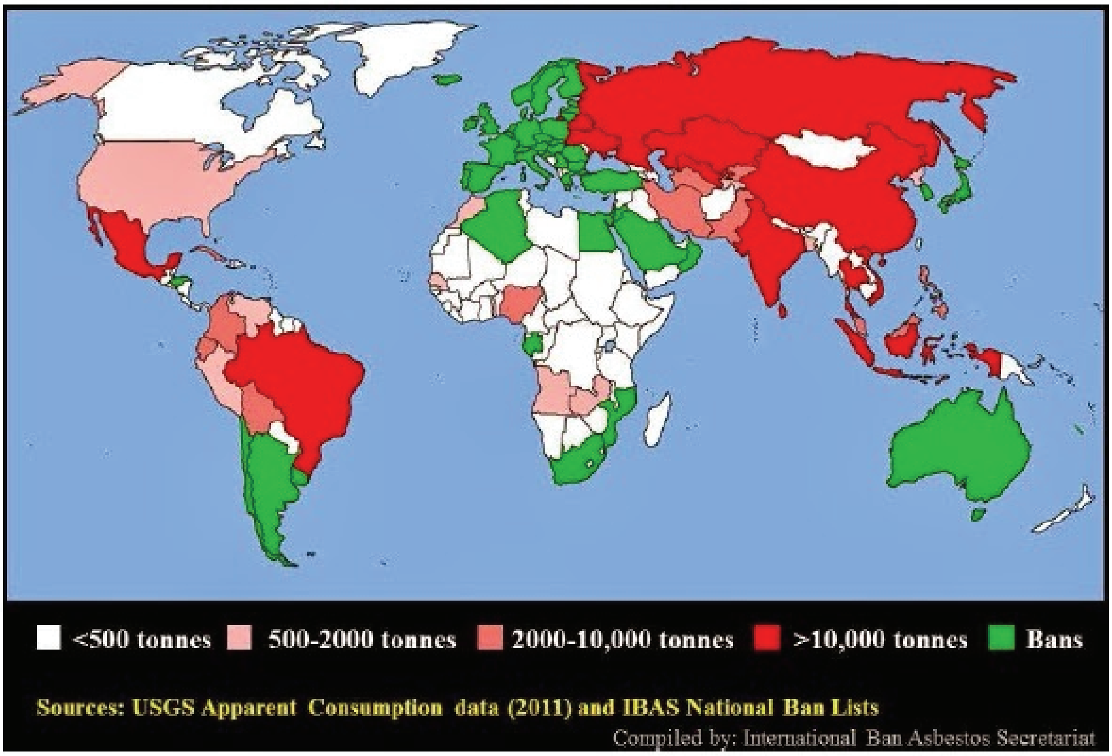
Source: U.S. Geological Survey, Mineral Commodity Summaries, International Ban Asbestos Secretariat, IndiaNivesh Research

World Consumption of Asbestos

Asbestos Consumption	2008	2009	2010	2011	2012
China	665	565	614	638	531
India	349	341	426	322	493
Indonesia	78	82	112	124	161
Brazil	131	140	171	185	168
Kazakhstan	186	40	-1	155	5
Thailand	69	103	79	81	60
Ukraine	64	64	60	56	40
Sri Lanka	58	16	48	61	60
Vietnam	50	81	67	60	80
Others	549	548	483	387	411
Total	2,200	1,980	2,060	2,070	2,010

Source: U.S. Geological Survey, Mineral Commodity Summaries, International Ban Asbestos Secretariat, IndiaNivesh Research

World Map Showing Asbestos Consumption and National Bans - 2012



Facts about asbestos cement

- Chrysotile is also known as White Asbestos.
- Chrysotile (White fibre) used in the manufacture of asbestos cement products under controlled conditions does not pose any health risk.
- Only Chrysotile (white fibre) is used in manufacturing of Asbestos Cement Products in India.
- Use of Chrysotile fibre in manufacturing Asbestos Cement products has definite history of safety.
- Amphibole (Blue and Brown) asbestos fibres are not produced in the world now. And therefore not used in India.

- Health problems in the West in the past were due to different uses which are not relevant to Indian context.
- No health problem is reported in the Western world in Asbestos Cement products containing only Chrysotile (White fibre).
- Only 8-9% of Chrysotile fibres are used which are locked in cement matrix in Asbestos Cement Products and cannot escape into environment.
- No excess of Lung Cancer was observed in studies when White Asbestos is used in manufacture of cement products. (Dr.Gardner, Ohlson, H.F.Thomas, WHO, Health & Safety Executive, U.K.).

Source: Asbestos Cement Products Manufacturers Association (ACPMA)

Comparative Characteristics of various roofing materials

S. No.	Characteristics	Asbestos Cement Sheets	Corrugated / Galvanised / Iron Sheets	Aluminium Sheets	Red Mud / Plastic
1	Life Span (years)	50 (Min) (Non-Corrosive)	5-10 (Corrosive)	Not Available	5 (Tends to getFlattened)
2	Maintenance	Nil	Every 3-5 years	Nil	Nil
3	Fire Rating	Retardant	Tendency to twist & melt	Tendency to twist & melt	Fire Prone
4	Thermal Conductivity / Insulation	Good	Poor	Poor	Fair
5	Accoustic rating	Good	Poor	Poor	Poor
6	Absorption of Rain & Wind Noise	Good (Deadens these Noises)	Poor	Poor	Poor
7	Energy Consumption (KWH/SqM)	3	36.6	33	48
8	Manpower Potential	Intensive	Low	Low	Low
9	Wind Resistence when installed	Good	Poor	Poor	Poor

Source: ACPMA

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