

Current	Previous
CMP : Rs.313	
Rating : BUY	Rating : BUY
Target : Rs.396	Target : Rs.434

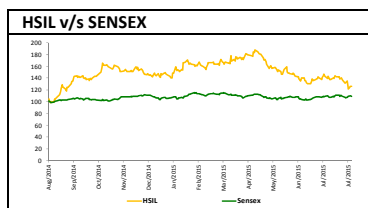
STOCK INFO	
BSE	500187
NSE	HSIL
Index	S&P BSE 500
Bloomberg	HSI IN
Reuters	HSNT.BO
Sector	Ceramic Products & Containers
Face Value (Rs)	2
Equity Capital (Rs mn)	145
Mkt Cap (Rs mn)	22,630
52w H/L (Rs) (Adj.)	477/232
3m Avg Daily Volume (BSE + NSE)	127,731

SHAREHOLDING PATTERN		%
(as on Jun. 2015)		
Promoters		47.1
FIs		11.4
DIs		24.7
Public & Others		16.8

Source: BSE

STOCK PER. (%)	1m	3m	12m
HSIL	-12	-20	26
SENSEX	0	2	9

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

Standalone (Rs Mn)	Q1FY16	Q4 FY15	Q1FY15	QoQ (%)	YoY (%)	INSPL Var (%) Estimate	Consensus Var (%)
Net Sales	4,081	5,411	4,072	-24.6	0.2	4577 -10.8	4418 -7.6
EBIDTA	593	881	615	-32.7	-3.6	705 -15.9	802 -26.1
PAT	174	398	150	-56.4	15.7	224 -22.7	250 -30.7
EPS	2.4	5.5	2.3	-56.4	5.7	3.1 -22.7	3.5 -30.7

Source: Company, Bloomberg, IndiaNivesh Research

HSIL reported disappointing Q1FY16 results against our as well as street expectations. It reported weakest performance of building products segment in last 5 years with EBIT margin of 13.8%. Packaging products segment which was under pressure in FY14 performed well with EBIT margin of 8%.

We attended the conference call with the management of HSIL Ltd and following are the key takeaways:

- Building products segment of HSIL grew by 6.8% in Q1FY16. This was muted due to discontinuation of tiles business from July 2014 (which had an impact of 3%). Sanitaryware business grew at 4.5% yoy and faucets business grew at 4.5% yoy. Sanitaryware / Faucets /others contributed 67% / 22% / 11% to the building products revenues. Tier-1 and Metro cities reported sluggish growth while Tier-2 and Tier-3 cities continued to drive the growth. Segment profitability was impacted by higher advertisement cost which was a one-time effect due to new television commercials released with Bollywood celebrities. The company incurred additional advertisement expenditure of Rs 85 mn. Adjusting for this expense, EBIT margin of the segment stood at 18.3%. The management mentioned that the segment would return to earlier margins by end of FY16E as the additional expenditure would reduce over the quarters.
- Packaging products segment was impacted by short summer which impacted the demand of beverages. The company reported volume de-growth of 7.5%-8%. HSIL has container glass capacity of 4 furnaces equivalent to 1600 tons per day. Currently one furnace is temporarily closed due to weak industry demand. The capacity utilisation of operational facility stood at 82-83% for Q1FY16.
- In sanitaryware, the company operates 1.8 mn pcs per annum plant at Bahadurgarh and 2 mn pcs per annum plant at Bibinagar. Faucets plant at Kaharani with capacity of 2.5 mn pcs operated at 50% utilisation rate in Q1FY16. By the end of FY16E, the management expects faucets capacities to operate at 85%.
- The company is entering pipes business at its existing land in Gujarat with a capex of Rs 1.05 bn. Pipes business capacity would be 30,000 tons per annum. The plant would commission production in 12-18 months. The revenue mix would be 60% for CPVC and balance for UPVC. The company guided that the project has potential to generate revenue of Rs 4400-4500 mn from pipes business in fifth year of commercial production. The margins in the business would be higher due to higher allocation to CPVC business.

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- Largest market for CPVC business is Southern India followed by Western India. The company chose Gujarat due to its proximity to port for importing the raw materials. Also, land was readily available due to its Greenfield capacity expansion which is getting delayed. 20% of that land would be used for pipes while the balance would be used for sanitaryware expansion.
- The company would incur capex of around Rs.1.12 bn towards setting up a project for producing security Caps and Closures required for protection of products from counterfeiting. This product will be a value addition to the existing portfolio of the Packaging Products Division of the Company. In this regards, the Company has also filed for necessary product patents.
- The company would be incurring capex of Rs 500-600 mn in FY16E for its new sanitaryware capacities of 0.4.m pcs per annum likely to commission by end of FY16E. This also includes maintenance capex of Rs 100-200 mn. The company would finance the new capex of Rs Rs 2.17 bn in the debt to equity ratio of 2:1.
- The management guided for revenue growth of 12-15% in building products segment and 7-9% in packaging products segment in FY16E.

Revision in estimates

Taking into consideration Q1FY16 performance and future outlook of the business, we have revised our estimates downwards for the company. Despite positive long term outlook we would wait for the company to perform in near term, which appears challenging. We expect net sales / EBITDA / PAT to grow at a CAGR of 10.3% / 8.3% / 14.3% over FY15-FY17E. EPS of the company would reach Rs 15.5 in FY17E from Rs 11.8 in FY15.

Particulars (Rs Mn)	FY16E			FY17E		
	New	Earlier	% Chg	New	Earlier	% Chg
Sales	21497	21616	-0.5	23642	24516	-3.6
EBITDA	3037	3257	-6.8	3448	3770	-8.5
PAT	965	1059	-8.9	1120	1354	-17.2
EPS	13.3	12.9	3.5	15.5	18.7	-17.2
EBITDA Margin (%)	14.1	15.1	(94 bps)	14.6	15.4	79 bps
PAT Margin (%)	4.5	4.9	(41 bps)	4.7	5.5	(78 bps)

Source: Company, IndiaNivesh Research

Valuation

At CMP of Rs 313, HSIL trades at PE of 23.5x and 20.2x its FY16E and FY17E earnings of Rs 13.3 and Rs 15.5 per share respectively. The company's dismal performance is a reflection of bleak demand scenario which is a short term phenomenon in our opinion. The long-term outlook of the building products sector continues to be robust and HSIL should be the key beneficiary in such an event. Packaging products segment has attained breakeven in FY15 and is likely to improve performance going forward. However, near term pressure cannot be overlooked. We have revised our estimates taking into consideration the current scenario and would revisit them post witnessing uptick in demand. One of the key triggers for the stock would be the separation of building products and packaging products business which would reduce the volatility in segmental performance. Recent correction in stock price provides an opportunity to accumulate the stock. We maintain BUY rating on the stock with revised SOTP based target price of Rs 396 per share (earlier price target was Rs 434). Key risk to our estimates would include increase in power and fuel cost lead by increase in gas prices and continuance of subdued demand.

Particulars	Methodology	EBITDA	Multiple	Value
Building products	EV/EBITDA (FY17E)	2,410	12x	28,918
Packaging Products	EV/EBITDA (FY17E)	1,860	4x	7,441
	Total EV (Rs Mn)			36,359
	Net Debt (FY15) (Rs Mn)			7,718
	Market Cap (Rs Mn)			28,641
	O/s Shares (mn)			72
	Target Price (Rs Per Share)			396

Source: IndiaNivesh Research

Financial Performance

Rs in mn	Q1FY16	Q4 FY15	Q1FY15	QoQ (%)	YoY (%)
Net sales	4,081	5,411	4,072	-24.6	0.2
Raw Materials	1,469	2,272	1,519	-35.4	-3.3
Power and Fuel	578	632	685	-8.5	-15.6
Staff cost	515	542	429	-4.9	20.0
Other expenditure	<u>927</u>	<u>1,085</u>	<u>825</u>	-14.5	12.5
Operating Expenses	3,489	4,530	3,457	-23.0	0.9
EBITDA	593	881	615	-32.7	-3.6
<i>EBITDA Margin (%)</i>	<i>14.5%</i>	<i>16.3%</i>	<i>15.1%</i>	<i>(176 bps)</i>	<i>(57 bps)</i>
Other Operating Income	47	178	50	-73.5	-5.0
Other Income	13	5	6	144.2	111.7
Depreciation	<u>282</u>	<u>309</u>	<u>276</u>	-8.7	2.4
Profit bef. Int. & Tax	370	755	395	-50.9	-6.2
Interest & finance ch.	<u>104</u>	<u>180</u>	<u>171</u>	-42.0	-39.1
Profit before tax	266	575	224	-53.7	19.0
Total tax expenses	<u>93</u>	<u>177</u>	<u>74</u>	-47.7	25.5
Add/Less: Extraordinary Items	0	0	0		
Net profit	174	398	150	-56.4	15.7
PAT	174	398	150	-56.4	15.7
<i>Effective tax rate</i>	<i>34.8%</i>	<i>30.8%</i>	<i>33.0%</i>		
<i>PAT Margins (%)</i>	<i>4.3%</i>	<i>7.4%</i>	<i>3.7%</i>	<i>(310 bps)</i>	<i>57 bps</i>
EPS	2.4	5.5	2.3	-56.4	5.7

Source: Company, IndiaNivesh Research

Segmental Performance

Rs in mn	Q1FY16	Q4 FY15	Q1FY15	QoQ (%)	YoY (%)
Revenue (Rs Mn)					
Building Products	2054	2883	1922	-28.8	6.8
Packaging Products	2070	2705	2193	-23.5	-5.6
Others	5	1	7	284.6	-24.2
Total	4129	5589	4122	-26.1	0.2
EBIT (Rs Mn)					
Building Products	284	532	406	-46.6	-30.0
Packaging Products	166	336	53	-50.7	215.2
Others	3	-1	5	NA	-38.3
Total	453	868	464	-47.8	-2.3
EBIT Margin (%)					
Building Products	13.8	18.5	21.1	<i>(462 bps)</i>	<i>(729 bps)</i>
Packaging Products	8.0	12.4	2.4	<i>(442 bps)</i>	<i>560 bps</i>
Others	58.0	-61.5	71.2	NP	NA

Source: Company, IndiaNivesh Research

Consolidated Financial statements

Income statement

Y E March (Rs m)	FY 13	FY 14	FY 15P	FY 16E	FY 17E
Net sales	17367	18279	19421	21497	23642
Growth %	20.1	5.3	6.2	10.7	10.0
Expenditure	15026	16049	16481	18460	20194
Raw Material	5428	6475	7315	8486	9200
Power and Fuel	4037	3770	2801	3010	3310
Employee	1822	1884	2160	2365	2601
Others	3739	3919	4205	4600	5083
EBITDA	2341	2230	2940	3037	3448
Growth %	0.7	-4.7	31.8	3.3	13.5
EBITDA Margin %	13.5	12.2	15.1	14.1	14.6
Other Income	284	341	421	442	464
Depreciation and amortisation	932	1101	1250	1318	1376
EBIT	1693	1470	2111	2161	2536
EBIT Margin %	9.7	8.0	10.9	10.1	10.7
Interest	694	718	775	699	839
Exceptional/Extraordinary item	237	0	0	0	0
PBT	1236	752	1335	1462	1697
PBT Margin %	7.1	4.1	6.9	6.8	7.2
Tax	415	412	481	497	577
Effective tax rate %	34	55	36	34	34
PAT	820	340	854	965	1120
Adj. PAT	584	340	854	965	1120
Growth%	-37.6	-41.8	151.4	12.9	16.1
Adj. PAT Margin %	3.4	1.9	4.4	4.5	4.7

Balance sheet

Y E March (Rs m)	FY 13	FY 14	FY 15P	FY 16E	FY 17E
Share Capital	132	132	145	145	145
Reserves & Surplus	10131	10151	13086	13755	14579
Net Worth	10263	10283	13231	13900	14724
Total debt	10341	11330	7969	7769	9319
Net deferred tax liability	1141	1154	1045	1045	1045
Total Liabilities	21745	22767	22245	22713	25087
Gross Fixed Assets	19430	20704	22777	23177	24177
Less Depreciation	4384	5510	6761	7944	9319
Capital Work in Progress	622	1195	200	500	500
Net Fixed Assets	15668	16388	16217	15733	15359
Investments	108	109	109	109	109
Current Assets	9924	10245	9984	11437	14415
Inventories	4067	4443	4744	5374	5911
Sundry Debtors	3893	4192	4138	4729	5319
Cash & Bank Balance	820	603	251	394	2200
Loans & advances	1112	968	816	903	946
Other Current assets	32	39	35	37	39
Current Liabilities & provisions	3955	3975	4065	4566	4795
Net Current Assets	5969	6270	5919	6871	9620
Mis Exp not written off	0	0	0	0	0
Total assets	21745	22767	22245	22713	25087

Cash Flow

Y E March (Rs m)	FY 13	FY 14	FY 15P	FY 16E	FY 17E
PBT	1236	752	1335	1462	1697
Adjustment for:					
Depreciation	932	1101	1250	1318	1376
Others	393	715	775	699	839
Changes in working capital	-1912	-787	-156	-954	-955
Tax expenses	-343	-157	-481	-497	-577
Cash flow from operations	306	1624	2723	2029	2381
Capital expenditure	-1204	-1925	-1079	-700	-1000
Free Cash Flow	-898	-300	1645	1329	1381
Others	450	39	38	0	0
Cash flow from investments	-755	-1886	-1040	-700	-1000
Interest	-673	-721	-775	-699	-839
Loans availed or (repaid)	1410	997	-3361	-200	1550
Proceeds from Issue of shares (incl share premium)	0	0	2390	0	0
Dividend paid (incl tax)	-229	-231	-296	-296	-296
Cash flow from Financing	508	45	-2043	-1195	415
Net change in cash	60	-217	-360	133	1796
Cash at the beginning of the year	706	766	549	189	323
Cash at the end of the year	766	549	189	323	2118
Other Bank Balances	54	54	62	71	82
Cash as per Balance Sheet	820	603	251	394	2200

Key ratios

Y E March	FY 13	FY 14	FY 15P	FY 16E	FY 17E
Adj. EPS (Rs)	8.8	5.1	11.8	13.3	15.5
Cash EPS (Rs)	26.5	21.8	29.1	31.6	34.5
BVPS	155.4	155.7	183.0	192.3	203.6
DPS (Rs)	3.0	3.0	3.5	3.5	3.5
Adj. P/E (x)	35.4	60.8	26.5	23.5	20.2
P/CEPS (x)	11.8	14.3	10.8	9.9	9.1
P/BV (x)	2.0	2.0	1.7	1.6	1.5
EV/EBITDA(x)	39.4	41.9	33.4	32.2	28.3
M cap/sales (x)	1.2	1.1	1.2	1.1	1.0
ROCE	8.7	7.0	9.9	10.1	11.1
ROE	8.2	3.3	7.3	7.1	7.8
Inventory (days)	74.9	85.0	86.3	85.9	87.1
Debtors (days)	66.5	80.7	78.3	75.3	77.6
Trade Payables (days)	29.8	31.2	27.8	26.9	27.9
Total Asset Turnover (x)	0.7	0.7	0.7	0.8	0.8
Fixed Asset Turnover (x)	1.1	1.1	1.2	1.3	1.5
Debt/equity (x)	1.0	1.1	0.6	0.6	0.6
Debt/ebitda (x)	4.4	5.1	2.7	2.6	2.7
Interest Coverage (x)	2.4	2.0	2.7	3.1	3.0
Dividend Yield %	1.0	1.0	1.1	1.1	1.1

Source: Company, IndiaNivesh Research