

HSIL Ltd

August-14

Industry: Sanitaryware/Ceramics

CMP: 315

Recommendation: Buy/Accumulate

Target Rs: 600 (12 Months)

Key Data

BSE Code	500187
NSE Code	HSIL
52 Week High (Rs)	329
52 Week Low (Rs)	76
Market Cap (Rs Cr)	2093
Face Value	2

About the Company:

HSIL Ltd is over 5 decades old largest Sanitaryware and container glass manufacturer in India with a strong presence in faucet segment, tiles and kitchen appliances. The company operates through its two divisions- Sanitaryware and Glassware. It has five manufacturing facilities at Bahadurgarh (Haryana), Somanyapuram, Hyderabad and Bhongir (AP). The clientele base for both the segments are huge and diversified includes leading institutional of the country. The company is on rapid capacity addition mode across all product categories to maintain its leadership.

Industry Snapshot

Customers	Open
Market Presence	GLOBAL
Govt Regulations	Medium
M-View	Positive

Investment Rationale:

1) Leader in Sanitaryware Industry: HSIL has leading position with positive brand recall to provide edge HSIL has 40% market share in organised sanitaryware industry. Well-known brands like QUEO Hindware Art and Benevalve, enable HSIL to cater to varied segments of the market. HSIL has good opportunity to tap the growing sanitaryware industry in the country which is witnessing around 15-16% pa growth in demand and high replacement demand which is around 8-10% pa in domestic market compared to 80% in developed markets.

2) Expanding capacities in all segments for better economies of scale: HSIL has plans to set up 1.2 mn units per annum in its third manufacturing plant in Gujarat with an investment of about Rs 150 Cr, taking its combined capacity to 5 mn units per annum by end 2016. At present in Haryana the installed capacity is of 1.8 mn & 2 mn units per annum in Nalgonda district of Telangana. With the new capacity on-stream by 2016, HSIL would be one of the top ten sanitaryware players in the world in terms of production capacity and the leading manufacturer in India which in turn will help the company to cater to the rising demand in the market.

3) Targeting Retail & Export Expansion: HSIL plans to add around 100 large format retail stores per year and around 600 smaller stores per year across the country to boost its retail business. As on date, the Retail segment contributes 72% to the topline and rest from Institutional segment (28%). Besides this the company also plans to expand in its existing export markets, which include countries like Fiji, New Zealand, Australia, parts of Europe, and a few African countries like Nigeria, Kenya, & South Africa.

4) Government focus on sanitation to boost organised players like HSIL: Narendra Modi led BJP Govt reiterated his promise to improve sanitation system in the country, This focus will be the key driver for the organised industry and is likely to gain more demand. The industry has already grown at a fast clip in 2013-14 it grew by 26% and it has huge potential to grow much faster due to under penetration in the domestic market. We expect the industry would to grow continuously witnessing high growth for a least next 5-10 years before it saturates. Adding to this urbanisation program laid down by Govt for 100 smart Cities will add additional demand flow going forward.

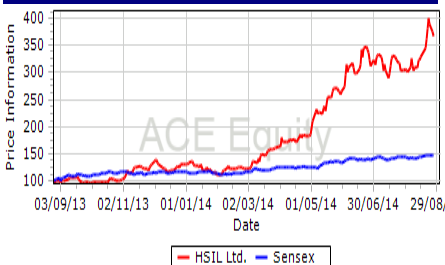
Shareholding on June 2014

Promoters	51.6%
Foreign	14.1%
DII	17.6%
Public & Others	16.7%

Promoters/ Management

Rajendra K Somany	CMD
Sandip Somany	JMD
Sumita Somany	Add Dir
N G Khaitan	Director
V K Bhandari	Director

Price Charts



Mview

Considering the overall rationales, we believe HSIL stands out to be the leading player to capture the rising demand of sanitaryware in the organised space. With Govt focus on sanitation, high replacement market and expansion plans in place; HSIL gives a good investment opportunity for healthy returns. At the CMP, the stock is trading at a valuation of 17x to FY16EPS of Rs 18.8. Hence, we recommend to "Accumulate/Buy" with a target price of Rs 600 with medium to long term investment horizon and also expect the stock to be re-rated going forward.

Financial Performance (Rs.Cr)

	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Net Sales	1,761	1,828	2,102	2,480	2,927
EBITDA	262.5	257.1	325.8	401.8	482.9
EBITDA margin (%)	14.9%	14.1%	15.5%	16.2%	16.5%
Net Profit	82	34	74	124	161
PAT Margins (%)	4.7%	1.9%	3.5%	5.0%	5.5%
EPS	12.4	5.1	11.1	18.8	24.4

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