

Current	Previous
<b>CMP : Rs.349</b>	
<b>Rating : BUY</b>	<b>Rating : HOLD</b>
<b>Target : Rs.485</b>	<b>Target : Rs.380</b>

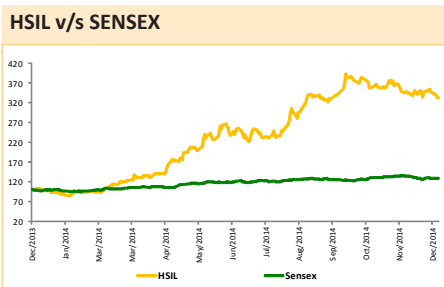
STOCK INFO	
BSE	500187
NSE	HSIL
Bloomberg	HSI IN
Reuters	HSNT.BO
Sector	Ceramic Products & Containers
Index	S&P BSE 500
Face Value (Rs)	2
Equity Capital (Rs mn)	132
Mkt Cap (Rs mn)	23,051
52w H/L (Rs) (Adj.)	423/88
3m Avg Daily Volume (BSE + NSE)	112,241

SHAREHOLDING PATTERN	%
(as on Sep. 2014)	
Promoters	51.6
FIIs	11.4
DIIs	19.5
Public & Others	17.5

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
HSIL	-4	-2	234
SENSEX	-4	3	30

Source: Capitaline, IndiaNivesh Research



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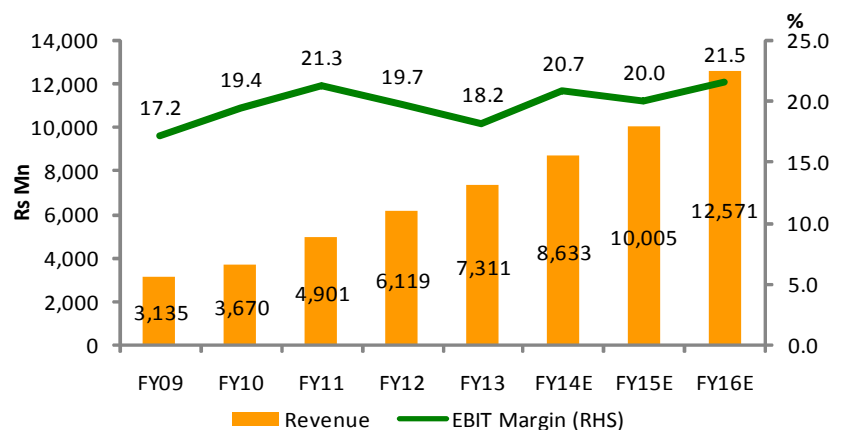
## Growth trajectory to continue; profitability improvement visible; Upgrade stock to BUY rating with target price of Rs 485

HSIL Ltd has corrected ~17% over its peak price of Rs 424 post Q2FY15 results. We met the senior management of the company to assess the current operations and future growth prospects. Following are the key takeaways of the meeting:

### Building Products Segment:

- The building products segment is likely to grow 16-18% in FY15E. This is likely to be driven by volume growth of 5-7% while remaining is likely to come from price hikes. The muted performance of Q2FY15 in building products is not likely to re-occur as the sales in distribution channels have begun at normal pace. The management stated that the key drivers for its building products performance include its huge capacity, capability to maintain its market share and its pricing strategies.
- The company has decided to exit tiles business, which was done on trading basis. This is likely to impact the growth on marginal basis as it contributed ~5% to total building products sales. With growth in rest of the products likely to start improving, this loss may be set off over a period of time.
- As per the management, HSIL Ltd is the second largest player in the faucets segment which is lead by Jaguar. It aims to bridge the wide gap from the segment leader by increasing capacity. Once the utilisation levels of current faucets plant improves, the company may expand its capacity. Current plant has excess land which can increase the faucets plant capacity upto 5 mn pcs per annum. The capacity expansion of faucets business is likely to happen on a gradual basis after taking into consideration the demand-supply scenario and consistently high utilisation levels of current capacity. The erstwhile plant of faucets with capacity of 0.5 mn pcs per annum has been closed and entire production has been transferred to the new plant. The land of the old plant is available and can be put to use for any future growth opportunity.
- Introduction of Goods and Services Tax is not likely to yield major benefits to the company in terms of tax outgo or operational efficiencies. However, it would increase the cost of unorganised players and would provide an indirect benefit to the company in terms of competition, which is likely to be positive for its medium and low-end brands like Raasi. Medium and low-end products contribute ~48% of building products segment.

### Building Products Segment Performance

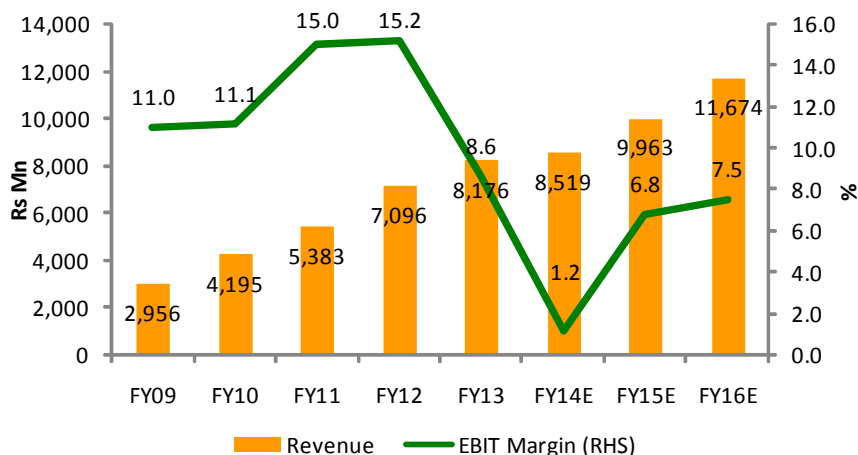


Source: Company, IndiaNivesh Research

**Packaging Products Segment:**

- Packaging products segment consists of container glass products and PET products (from erstwhile Garden Polymers Pvt Ltd). The management expects the packaging products division to continue its growth rate of more than 15% for FY15E.
- Due to poor demand from container glass business, the company closed one furnace bringing down the capacity by ~300 tons per day. Similar to HSIL Ltd, we have observed that other players have also reduced their capacities which include its key competitor Hindusthan National Glass Ltd and few unorganised players. In our opinion, ~1200 tpd capacity of containers glass business has been closed due to poor demand scenario.
- As per the management, an improvement in economy is likely to benefit the industry as well. Key driver for industry demand is likely to be the enforcement of the usage of glass bottles on the pharmaceutical companies. In our opinion that this enforcement is likely to improve the demand of glass bottles by 500-700 tons per day.
- The use of alternate fuel is likely to bring 300-400 bps savings on a consistent basis.

**Packaging Products Segment Performance**



Source: Company, IndiaNivesh Research

**QIP Update**

Recently the company has received shareholder approval for raising Rs 2500 mn through equity (via QIP in our opinion). The money raised is likely to be used for debt reduction. In our opinion, this debt reduction would enable higher profitability due to interest savings.

**Revising estimates**

We returned positive from the management meet that the growth story of the company is intact and the trouble of inventory built-up in distribution channel is behind. The company should be able to maintain its earlier margins and resume its growth trajectory. We therefore revise upwards our building products revenue and EBIT margin assumptions for FY15E and FY16E. We now expect building products segment to grow at CAGR of 20.7% over FY14-FY16E against our earlier assumption of 19.7% CAGR over the same period. We expect EBIT margin to reach 20% and 21.5% in FY15E and FY16E against our earlier assumption of 19% and 21% respectively. For the packaging products segment, we have maintained estimates.

We have also assumed that the company would raise equity at Rs 350 per share, resulting in a dilution of 5.4% on existing capital. Assuming that entire amount of Rs 2500 mn is used for reducing debt in FY16E, interest saving is likely to be to the tune of 22%.

Consequently, revenue and PAT of the company is revised upwards by 0.8% / 0.8% and 10.4%/12.7% from our earlier estimates for FY15E / FY16E respectively. EPS is revised upwards by 10.4% in FY15E while the increase for FY16E is a meagre 1.7% over our earlier estimate due to expected equity dilution. Accordingly, revenue and EPS are likely to grow at a CAGR of 19.1% and 109.1% over FY14-FY16E period against our earlier estimate of 18.6% and 107.4% respectively.

Particulars (Rs Mn)	FY15E			FY16E		
	New	Earlier	% Chg	New	Earlier	% Chg
Sales	21320	21147	0.8	25935	25731	0.8
EBITDA	3093	2958	4.6	3979	3873	2.8
PAT	941	852	10.4	1647	1461	12.7
EPS	14.2	12.9	10.4	22.5	22.1	1.7
EBITDA Margin (%)	14.5	14.0	52 bps	15.3	15.1	29 bps
PAT Margin (%)	4.4	4.0	38 bps	6.4	5.7	67 bps

Source: Company, IndiaNivesh Research

### Valuation

At CMP of Rs 349, HSIL trades at PE multiple of 24.5x and 15.5x its FY15E and FY16E earnings estimate. We are positive about the robust sector outlook of building products segment. Low base of FY14 and expected improvement in profitability of both the businesses is likely to result in higher growth for the company. We continue to value the company on SOTP basis. We revise our target EV/EBITDA multiple for building products segment from 10x to 11x, taking under consideration the lower debt and higher profitability. This would still be at 25% discount to its key peer namely, Cera Sanitaryware Ltd ( which trades at a multiple of 14.5x Bloomberg estimates) as HSIL operates in diversified businesses which are not as profitable as its building product business. We maintain our EV/EBITDA multiple for packaging products segment at 4x. Accordingly, we arrive at target price of Rs 485 for the company (from Rs 380 earlier) and revise rating from HOLD to BUY.

Particulars	Methodology	EBITDA	Multiple	Value
<b>Building products</b>	EV/EBITDA (FY16E)	2,963	11x	32,593
<b>Packaging Products</b>	EV/EBITDA (FY16E)	1,774	4x	7,096
Total EV (Rs Mn)				39,689
Net Debt (FY16E) (Rs Mn)				7,135
Market Cap (Rs Mn)				32,554
O/s Shares (mn)				73
<b>Target Price (Rs Per Share)</b>				<b>445</b>

Source: Company, IndiaNivesh Research

## Consolidated Financial Statements

### Income statement

Y E March (Rs m)	FY 12	FY 13	FY 14	FY 15E	FY 16E
<b>Net sales</b>	<b>14456</b>	<b>17367</b>	<b>18279</b>	<b>21320</b>	<b>25935</b>
Growth %	34.5	20.1	5.3	16.6	21.6
<b>Expenditure</b>	<b>12130</b>	<b>15026</b>	<b>16049</b>	<b>18227</b>	<b>21956</b>
Raw Material	4741	5428	6475	7524	9248
Power and Fuel	2766	4037	3770	4051	4668
Employee	1591	1822	1884	2175	2593
Others	3033	3739	3919	4477	5446
<b>EBITDA</b>	<b>2326</b>	<b>2341</b>	<b>2230</b>	<b>3093</b>	<b>3979</b>
Growth %	25.5	0.7	-4.7	38.7	28.7
<b>EBITDA Margin %</b>	<b>16.1</b>	<b>13.5</b>	<b>12.2</b>	<b>14.5</b>	<b>15.3</b>
Other Income	223	284	341	358	376
Depreciation and amortisation	651	932	1101	1219	1242
<b>EBIT</b>	<b>1898</b>	<b>1693</b>	<b>1470</b>	<b>2233</b>	<b>3114</b>
<b>EBIT Margin %</b>	<b>13.1</b>	<b>9.7</b>	<b>8.0</b>	<b>10.5</b>	<b>12.0</b>
Interest	420	694	718	807	618
Exceptional/Extraordinary item	0	237	0	0	0
<b>PBT</b>	<b>1479</b>	<b>1236</b>	<b>752</b>	<b>1425</b>	<b>2496</b>
<b>PBT Margin %</b>	<b>10.2</b>	<b>7.1</b>	<b>4.1</b>	<b>6.7</b>	<b>9.6</b>
Tax	543	415	412	485	848
<b>Effective tax rate %</b>	<b>37</b>	<b>34</b>	<b>55</b>	<b>34</b>	<b>34</b>
<b>PAT</b>	<b>935</b>	<b>820</b>	<b>340</b>	<b>941</b>	<b>1647</b>
<b>Adj. PAT</b>	<b>935</b>	<b>584</b>	<b>340</b>	<b>941</b>	<b>1647</b>
Growth%	19.7	-37.6	-41.8	176.9	75.1
<b>Adj. PAT Margin %</b>	<b>6.5</b>	<b>3.4</b>	<b>1.9</b>	<b>4.4</b>	<b>6.4</b>

### Balance sheet

Y E March (Rs m)	FY 12	FY 13	FY 14	FY 15E	FY 16E
Share Capital	132	132	132	132	146
Reserves & Surplus	9542	10131	10151	10860	14736
<b>Net Worth</b>	<b>9674</b>	<b>10263</b>	<b>10283</b>	<b>10992</b>	<b>14882</b>
Total debt	8645	10341	11330	11530	8830
Net deferred tax liability	782	1141	1154	1154	1154
<b>Total Liabilities</b>	<b>19101</b>	<b>21745</b>	<b>22767</b>	<b>23676</b>	<b>24866</b>
Gross Fixed Assets	15448	19430	20704	21504	21904
Less Depreciation	3480	4384	5510	6554	7794
Capital Work in Progress	3333	622	1195	200	500
Net Fixed Assets	15301	15668	16388	15150	14610
Investments	111	108	109	109	109
<b>Current Assets</b>	<b>7368</b>	<b>9924</b>	<b>10245</b>	<b>12787</b>	<b>14653</b>
Inventories	3059	4067	4443	5117	5965
Sundry Debtors	2440	3893	4192	4690	5446
Cash & Bank Balance	735	820	603	1766	1695
Loans & advances	1050	1112	968	1173	1504
Other Current assets	84	32	39	41	43
Current Liabilities & provisions	3679	3955	3975	4369	4506
<b>Net Current Assets</b>	<b>3689</b>	<b>5969</b>	<b>6270</b>	<b>8417</b>	<b>10147</b>
Mis Exp not written off	0	0	0	0	0
<b>Total assets</b>	<b>19101</b>	<b>21745</b>	<b>22767</b>	<b>23676</b>	<b>24866</b>

### Cash Flow

Y E March (Rs m)	FY 12	FY 13	FY 14	FY 15E	FY 16E
<b>PBT</b>	<b>1479</b>	<b>1236</b>	<b>752</b>	<b>1425</b>	<b>2496</b>
<b>Adjustment for:</b>					
Depreciation	651	932	1101	1219	1242
Others	374	393	715	807	618
<b>Changes in working capital</b>	<b>-591</b>	<b>-1912</b>	<b>-787</b>	<b>-756</b>	<b>-1189</b>
<b>Tax expenses</b>	<b>-376</b>	<b>-343</b>	<b>-157</b>	<b>-485</b>	<b>-848</b>
<b>Cash flow from operations</b>	<b>1536</b>	<b>306</b>	<b>1624</b>	<b>2211</b>	<b>2318</b>
Capital expenditure	-5173	-1204	-1925	195	-700
<b>Free Cash Flow</b>	<b>-3637</b>	<b>-898</b>	<b>-300</b>	<b>2405</b>	<b>1618</b>
Others	275	450	39	0	0
<b>Cash flow from investments</b>	<b>-4898</b>	<b>-755</b>	<b>-1886</b>	<b>195</b>	<b>-700</b>
Interest	-402	-673	-721	-1219	-1242
Loans availed or (repaid)	4467	1410	997	200	-2700
Proceeds from Issue of shares (incl share premium)	0	0	0	0	2500
Dividend paid (incl tax)	-191	-229	-231	-232	-257
<b>Cash flow from Financing</b>	<b>3873</b>	<b>508</b>	<b>45</b>	<b>-1250</b>	<b>-1699</b>
Net change in cash	512	60	-217	1155	-81
Cash at the beginning of the year	194	706	766	549	1704
Cash at the end of the year	706	766	549	1704	1623
Other Bank Balances	29	54	54	62	71
Cash as per Balance Sheet	735	820	603	1766	1695

### Key ratios

Y E March	FY 12	FY 13	FY 14	FY 15E	FY 16E
Adj. EPS (Rs)	14.2	8.8	5.1	14.2	22.5
Cash EPS (Rs)	24.0	26.5	21.8	32.7	39.5
BVPS	146.5	155.4	155.7	166.4	203.3
DPS (Rs)	3.0	3.0	3.0	3.0	3.0
Adj. P/E (x)	24.6	39.5	67.8	24.5	15.5
P/CEPS (x)	14.5	13.2	16.0	10.7	8.8
P/BV (x)	2.4	2.2	2.2	2.1	1.7
EV/EBITDA(x)	43.0	43.5	46.2	33.0	27.5
M cap/sales (x)	1.6	1.3	1.3	1.1	1.0
ROCE	13.1	8.7	7.0	10.1	13.5
ROE	11.4	8.2	3.3	8.8	12.7
Inventory (days)	66.7	74.9	85.0	81.8	78.0
Debtors (days)	51.5	66.5	80.7	76.0	71.3
Trade Payables (days)	26.2	29.8	31.2	29.3	29.9
Total Asset Turnover (x)	0.8	0.7	0.7	0.8	0.9
Fixed Asset Turnover (x)	1.2	1.1	1.1	1.4	1.7
Debt/equity (x)	0.9	1.0	1.1	1.0	0.6
Debt/ebitda (x)	3.7	4.4	5.1	3.7	2.2
Interest Coverage (x)	4.5	2.4	2.0	2.8	5.0
Dividend Yield %	0.9	0.9	0.9	0.9	0.9

Source: Company, IndiaNivesh Research