

BUY
 TP: Rs 600 | ▲ 40%

HINDWARE HOME INNOVATION

| Building Materials

| 13 February 2024

Tough quarter but outlook healthy

- EBITDA fell 35% short of our estimate due to tepid demand climate and steep margin compression across segments
- Management guiding for sharp operating margin expansion from 8.6% in FY23 to 13-14% over the next two years
- TP cut to Rs 600 (vs. Rs 700) on 13% reduction in our EPS estimates for FY25 and FY26; maintain BUY

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Weak Q3: HINDWARE missed our estimates on all counts in Q3FY24, with revenue/EBITDA/adj. PAT coming in 11%/35%/79% below expectations, due to a tepid demand environment and sharp margin compression across segments. Revenue for the quarter fell 3% YoY, but EBITDA grew 2% off a low base.

Poor performance across segments: HINDWARE reported better revenue growth (+5.6% YoY) compared to CRS (-3.1%) for the bathware segment in Q3. However, its bathware EBITDA margin fell sharply by 255bps QoQ to 13.6% owing to higher advertising spend. Plastic pipe volumes declined 3% YoY and segment EBITDA margin dropped 310bps QoQ to 7.7% following a steep decline in resin prices. Consumer appliance revenue declined 5% YoY and operating loss has risen sequentially as the company exited non-performing product categories.

Margin guidance intact: Management believes demand conditions could remain challenging ahead of India’s general elections. The company expects consolidated revenue to grow 15-17% and EBITDA margin to improve sharply to 13-14% over the next two years. CRS retained guidance of expanding bathware EBITDA margin to 18% over two years, with plastic pipe volumes targeted to grow at more than 15% and the segmental margin improving to 10-12%. Management also expects the consumer segment to fare better over the next 2-3 quarters due to rationalisation of the product portfolio. The company plans to exit the loss-making retail business soon.

Maintain BUY, TP cut 14%: We reduce FY24/FY25/FY26 EPS estimates for CRS by 36%/13%/13% to account for the disappointing quarter. Even so, we still expect the company to clock a robust EPS CAGR of 48.8% over FY23-FY26. This coupled with reasonable valuations leads us to maintain our BUY rating. The stock is trading at 26.5x on 1Y forward P/E vs. its historical average of 33.6x. We value CRS at an unchanged P/E multiple of 30x on Sep’25E EPS – close to its historical average – and have a revised TP of Rs 600 (Rs 700 earlier) following estimate changes.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HINDWARE IN/Rs 430
Market cap	US\$ 378.1mn
Free float	49%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 664/Rs 325
Promoter/FPI/DII	51%/7%/9%

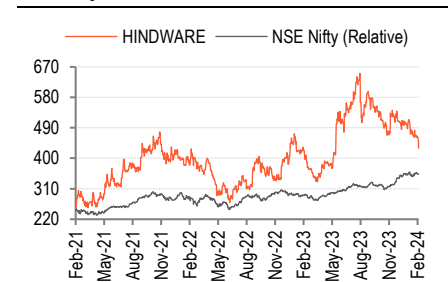
Source: NSE | Price as of 13 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	28,733	27,862	30,693
EBITDA (Rs mn)	2,469	2,622	3,510
Adj. net profit (Rs mn)	574	492	1,220
Adj. EPS (Rs)	7.9	6.8	16.9
Consensus EPS (Rs)	7.9	18.1	28.1
Adj. ROAE (%)	10.4	8.1	17.8
Adj. P/E (x)	54.1	63.2	25.5
EV/EBITDA (x)	12.1	10.3	6.9
Adj. EPS growth (%)	(51.8)	(14.4)	148.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Total operating income	6,929	7,125	(2.8)	7,004	(1.1)	20,272	21,054	(3.7)
Raw-Material expense	3,751	4,055	(7.5)	3,765	(0.4)	10,897	11,990	(9.1)
Gross Profit	3,178	3,071	3.5	3,238	(1.9)	9,375	9,064	3.4
Employee expense	1,064	1,038	2.5	1,064	(0.1)	3,184	3,053	4.3
Energy costs	219	305	(28.0)	234	(6.0)	660	862	(23.4)
Other expense	1,389	1,231	12.8	1,222	13.7	3,704	3,510	5.5
EBITDA	506	497	1.9	719	(29.6)	1,826	1,638	17
D&A	313	251	24.7	304	3.1	910	726	25.3
EBIT	193	246	(21.5)	415	(53.5)	916	912	0.5
Interest cost	235	220	7.0	243	(3.2)	703	542	29.9
Non-operating expense/(income)	(91)	(87)	4.0	(93)	(2.2)	(222)	(245)	(9.6)
PBT	48	113	(57.2)	264	(81.7)	435	616	(29.4)
Tax	3	35	(91.2)	44	(92.9)	186	268	(30.6)
Reported PAT	45	78	(41.8)	220	(79.4)	249	348	1
Adjusted PAT	45	78	(41.8)	225	(79.9)	277	348	(20.3)
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	45.9	43.1	277	46.2	(37)	46.2	43.1	319
Employee cost	15.4	14.6	78	15.2	15	15.7	14.5	121
Other cost	20.0	17.3	277	17.4	260	18.3	16.7	160
EBITDA margin	7.3	7.0	33	10.3	(296)	9.0	7.8	123
Tax rate	6.4	31.2	(2475)	16.6	(1,020)	42.7	43.5	(74)
APAT margin	0.7	1.1	(44)	3.2	(256)	1.4	1.7	(29)

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue (Rs mn)								
Bathware	4,016	3,803	5.6	3,961	1.4	11,597	11,237	3.2
Plastic Pipe	1,740	1,979	(12.1)	2,011	(13.5)	5,311	5,654	(6.1)
Consumer Products	1,124	1,189	(5.4)	963	16.7	3,140	3,733	(15.9)
Retail	49	155	(68.2)	69	(28.4)	225	432	(48.0)
EBITDA margin (%)			(bps)		(bps)			(bps)
Bathware	13.6	14.3	(73)	16.1	(254)	15.4	13.4	206
Plastic Pipe	7.7	0.9	684	10.8	(309)	8.6	3.6	501
Consumer Products	(4.1)	4.0	(813)	(2.8)	(129)	(1.9)	5.6	(750)
Retail	(40.7)	(3.3)	(3,736)	(40.9)	25	(39.0)	0.0	(3,904)

Source: Company, BOBCAPS Research

Earnings call highlights

Bathware

- **Performance:** Bathware revenue grew 5.6% YoY in Q3FY24 driven by both sanitaryware (low-single-digit growth) and faucetware (double-digit growth). Segment EBITDA margin dropped 255bps QoQ to 13.6% mainly due to higher advertising spend.
- **Demand:** Bathware demand sentiments remained subdued in Q3, especially for the mid and affordable segments, owing to inflation concerns. Management expects demand to stay weak ahead of the general elections in April-May, but to improve thereafter given a pickup in the real estate cycle.
- **Guidance:** Bathware revenue is targeted to grow in double digits, with EBITDA margin expanding to 18% over the next two years.

Plastic pipes

- **Performance:** Pipe volumes dipped 3.3% YoY in Q3FY24 due to a steep decline in polymer prices and EBITDA margin fell sharply by 310bps QoQ to 7.7% driven by lower realisation (-13%) and MTM inventory loss (Rs 15mn).
- **Guidance:** The company aims to achieve volume growth of more than 15% in FY25, an EBITDA margin of 10-12% over the next two years, and pipe revenue of Rs 20bn over the next five years.
- **Product launches:** HINDWARE has launched composite (plastic and metal) faucets & pipes and plans to introduce underground drainage pipes in Q1FY25 and DWC (double wall corrugated) pipe & fire sprinkler systems in Q3FY25. Management believes this will help the company grow at a better pace than the industry and also improve the margin profile.
- **Capex:** The new plant in Roorkee, Uttarakhand, is expected to be operational by Q3FY25. The company also plans to come up with pipe plants in the eastern and western markets to create a pan-India presence over the long term.

Consumer appliances

- **Performance:** Despite higher revenue (+16.7% QoQ), operating loss in the consumer appliance division has gone up from Rs 27mn in Q2FY24 to Rs 46mn in Q3FY24 due to rationalisation of the product portfolio. The company indicated that it has registered growth in kitchen appliances, which account for 60-65% of division revenue, in Q3.
- **Guidance:** Management plans to expand its kitchen appliance range and exit from non-performing small appliances, which would help enhance the margin profile over the next 2-3 quarters. The company also plans to aggressively enter into kitchen fittings due to a common distribution network and healthy product margins.

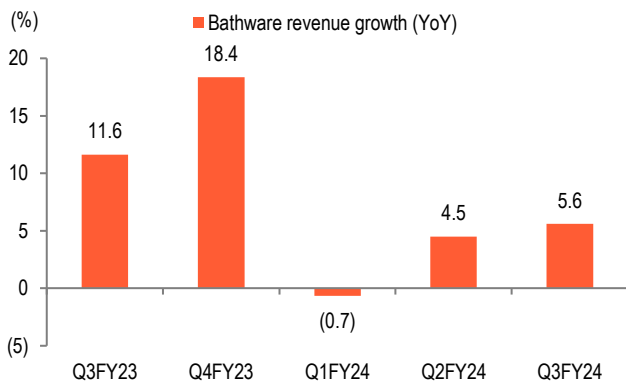
Retail

- **Performance:** The retail segment reported an operating loss of Rs 20mn on revenue of Rs 49mn in Q3.
- **Guidance:** The company plans to exit this segment in the near term due to a rise in competitive intensity.

Consolidated

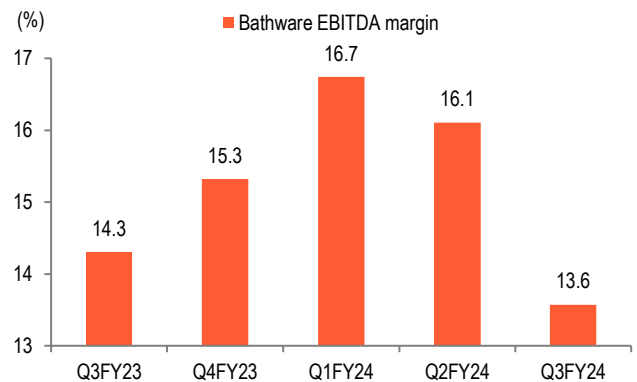
- **Guidance:** HINDWARE is targeting consolidated revenue growth of 15-17% and EBITDA margin improvement to 13-14% over the next two years.
- **Capex:** The company has spent Rs 350mn in 9MFY24 to expand its pipe capacity by 6,000mtpa. It plans to spend Rs 1.14bn on the Uttarakhand pipe plant (Rs 0.14bn in FY24 and Rs 1bn in FY25). Bathware segment capex is estimated at Rs 0.6bn-0.7bn for FY24.
- **Net debt:** The net debt level has gone up from Rs 8.6bn in Sep'23 to Rs 9.3bn in Dec'23 due to an increase in working capital on account of subdued demand conditions. However, management expects net debt to come down over the next couple of quarters as inventories get liquidated.

Fig 3 – HINDWARE’s bathware revenue grew at a muted 5.6% YoY in Q3FY24...



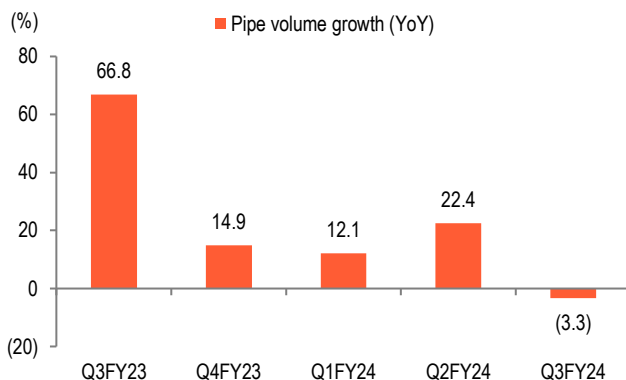
Source: Company, BOBCAPS Research

Fig 4 – and EBITDA margin fell sharply QoQ on higher advertising spend



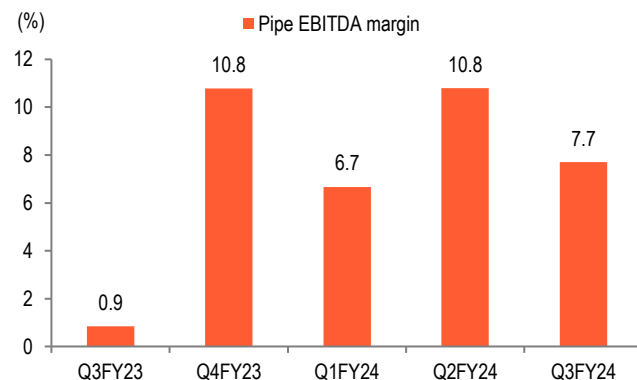
Source: Company, BOBCAPS Research

Fig 5 – Pipe volumes slipped 3.3% YoY due to a steep decline in resin prices...



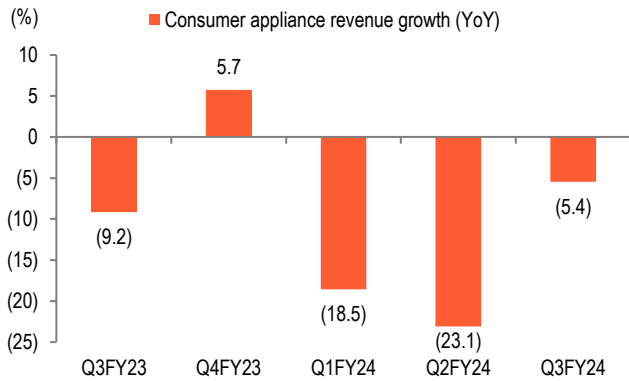
Source: Company, BOBCAPS Research

Fig 6 – ...and EBITDA margin dropped QoQ on lower resin prices and MTM inventory loss



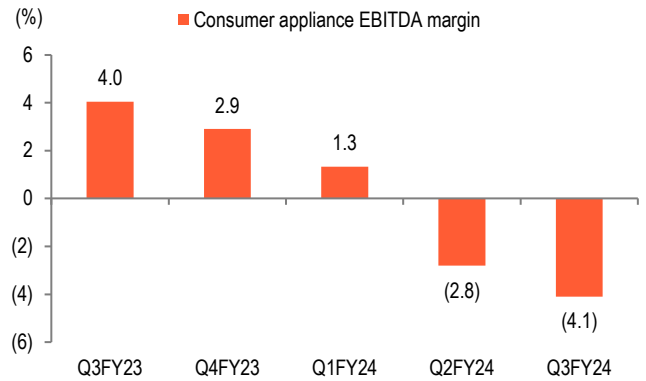
Source: Company, BOBCAPS Research

Fig 7 – Consumer appliance revenue declined 5.4% YoY in Q3FY24 over a weak base...



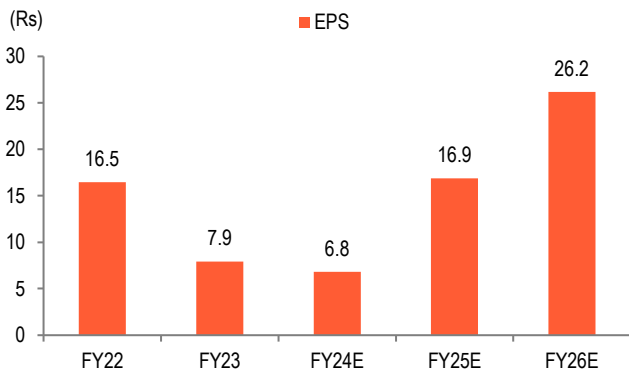
Source: Company, BOBCAPS Research

Fig 8 – ...and posted higher operating losses due to product portfolio rationalisation



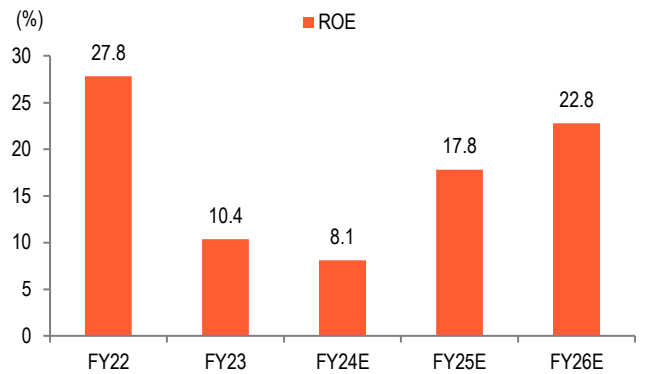
Source: Company, BOBCAPS Research

Fig 9 – HINDWARE’s EPS is forecast to grow at 49% CAGR over FY23-FY26E



Source: Company, BOBCAPS Research

Fig 10 – ROE is also projected to improve from 10.4% in FY23 to 22.8% in FY26E



Source: Company, BOBCAPS Research

Valuation methodology

We scale back our FY24/FY25/FY26 EPS estimates for CRS by 36%/13%/13% to account for the disappointing December quarter. Even so, we still expect the company to clock a robust EPS CAGR of 48.8% over FY23-FY26. This coupled with reasonable valuations leads us to maintain our BUY rating.

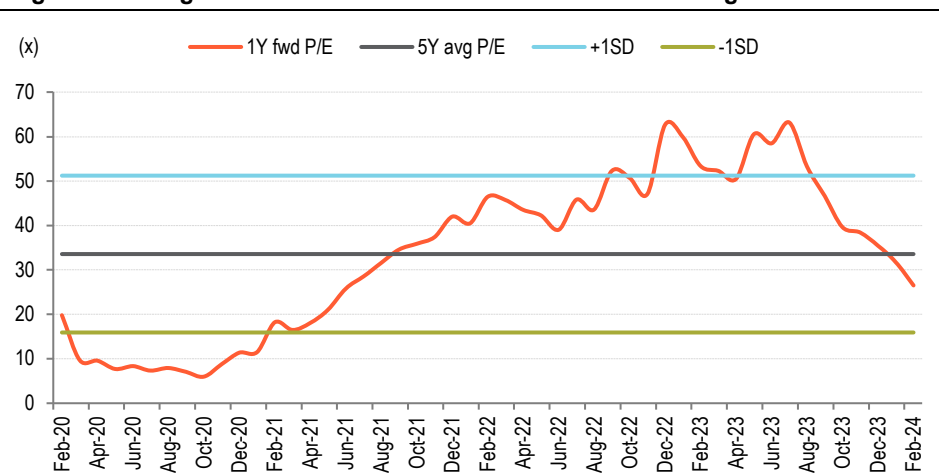
The stock is trading at 26.5x one-year forward P/E vs. its historical average of 33.6x. We value CRS at an unchanged P/E multiple of 30x on Sep'25E EPS – close to its historical average – and have a revised TP of Rs 600 (Rs 700 earlier) following estimate changes. See our report of 17 January, [Strong foundations](#), for a detailed view.

Fig 11 – Revised estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Total operating income	27.9	30.7	34.4	29.5	33.4	37.8	(5.5)	(8.0)	(8.9)
EBITDA	2.6	3.5	4.3	3.0	3.9	4.8	(13.7)	(10.0)	(10.0)
EBITDA Margin (%)	9.4	11.4	12.5	10.3	11.7	12.6	(89bps)	(26bps)	(16bps)
Adjusted PAT	0.5	1.2	1.9	0.8	1.4	2.2	(36.2)	(12.9)	(13.1)
EPS (Rs)	6.8	16.9	26.2	10.7	19.4	30.1	(36.2)	(12.9)	(13.1)

Source: BOBCAPS Research

Fig 12 – Trading at 26.5x on 1Y forward P/E vs. historical average of 33.6x



Source: Bloomberg, BOBCAPS Research

Fig 13 – Key assumptions

Parameter	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue Mix (%)						
Bathware	68.3	57.7	48.3	51.9	53.3	57.0
Plastic Pipe	7.8	14.3	22.8	26.4	27.3	26.2
Consumer Product	18.3	22.4	25.6	18.8	17.4	15.8
Retail	5.6	5.6	3.3	2.9	2.0	1.0
Segment Revenue Growth (%)						
Bathware	(7.8)	38.6	28.8	3.7	10.0	10.0
Plastic Pipe	75.5	50.1	29.4	(7.1)	9.9	18.5
Consumer Product	25.8	(5.2)	16.2	(11.9)	13.6	10.0
Retail	(35.5)	14.7	(16.0)	(51.4)	(28.2)	-
EBITDA margin (%)						
Bathware	13.2	11.4	13.9	15.6	16.3	16.8
Plastic Pipe Segment	NA	7.6	5.6	9.0	10.1	11.4
Consumer Products Segment	6.8	2.2	2.6	(1.0)	3.6	5.6
Retail	(1.9)	7.4	3.4	(39.3)	-	-

Source: Company, BOBCAPS Research

Key risks

- Market share loss in bathware and plastic pipes would be a key downside risk to our estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.4	737	600	SELL
Astral	ASTRA IN	6.2	1,900	2,000	HOLD
Century Plyboards	CPBI IN	2.0	748	700	HOLD
Cera Sanitaryware	CRS IN	1.2	7,535	8,100	HOLD
Finolex Industries	FNXP IN	1.6	219	230	HOLD
Greenlam Industries	GRLM IN	0.8	520	500	HOLD
Greenpanel Industries	GREENP IN	0.6	369	400	HOLD
Greenply Industries	MTLM IN	0.3	232	300	BUY
Hindware Home Innovation	HINDWARE IN	0.4	430	600	BUY
Kajaria Ceramics	KJC IN	2.4	1,219	1,400	HOLD
Prince Pipes & Fittings	PRINCP IN	0.8	596	650	HOLD
Somany Ceramics	SOMC IN	0.3	687	900	BUY
Supreme Industries	SI IN	6.1	3,914	4,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	22,936	28,733	27,862	30,693	34,419
EBITDA	1,760	2,469	2,622	3,510	4,295
Depreciation	393	1,010	1,210	1,230	1,268
EBIT	1,367	1,459	1,412	2,280	3,027
Net interest inc./(exp.)	(204)	(771)	(939)	(930)	(819)
Other inc./(exp.)	293	346	351	320	320
Exceptional items	12	4	0	0	0
EBT	1,444	1,030	824	1,670	2,528
Income taxes	417	365	267	410	636
Extraordinary items	(1,009)	0	0	0	0
Min. int./Inc. from assoc.	(18)	(94)	(66)	(40)	0
Reported net profit	2,017	571	492	1,220	1,892
Adjustments	(826)	3	0	0	0
Adjusted net profit	1,191	574	492	1,220	1,892

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,524	2,972	2,882	3,175	3,560
Other current liabilities	9,517	4,234	4,234	4,234	4,234
Provisions	81	61	59	65	73
Debt funds	1,432	7,117	7,281	7,001	6,501
Other liabilities	2,640	2,812	2,812	2,812	2,812
Equity capital	145	145	145	145	145
Reserves & surplus	5,119	5,613	6,066	7,203	8,968
Shareholders' fund	5,264	5,830	6,283	7,421	9,186
Total liab. and equities	21,457	23,027	23,551	24,708	26,366
Cash and cash eq.	536	93	842	1,061	954
Accounts receivables	3,059	3,776	3,817	4,204	4,715
Inventories	6,753	6,838	5,904	6,034	6,860
Other current assets	1,535	1,268	1,475	1,625	1,823
Investments	873	880	1,000	1,000	1,000
Net fixed assets	4,902	6,527	6,816	7,086	7,318
CWIP	579	358	358	358	358
Intangible assets	2,534	2,597	2,597	2,597	2,597
Deferred tax assets, net	391	390	430	430	430
Other assets	294	301	311	311	311
Total assets	21,457	23,027	23,551	24,708	26,366

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	7,376	(3,198)	2,832	2,691	2,519
Capital expenditures	(6,869)	(2,491)	(1,500)	(1,500)	(1,500)
Change in investments	(873)	(6)	(121)	0	0
Other investing cash flows	1,290	342	351	320	320
Cash flow from investing	(6,453)	(2,155)	(1,269)	(1,180)	(1,180)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(462)	5,685	164	(280)	(500)
Interest expenses	(204)	(771)	(939)	(930)	(819)
Dividends paid	0	(36)	(39)	(82)	(127)
Other financing cash flows	(53)	27	0	0	0
Cash flow from financing	(719)	4,905	(814)	(1,292)	(1,446)
Chg in cash & cash eq.	204	(448)	749	219	(107)
Closing cash & cash eq.	320	321	2,314	7,684	5,264

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	27.9	7.9	6.8	16.9	26.2
Adjusted EPS	16.5	7.9	6.8	16.9	26.2
Dividend per share	0.0	0.5	0.5	1.1	1.8
Book value per share	72.8	79.6	85.9	101.6	126.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.2	1.0	1.0	0.8	0.7
EV/EBITDA	16.3	12.1	10.3	6.9	5.8
Adjusted P/E	26.1	54.1	63.2	25.5	16.4
P/BV	5.9	5.4	5.0	4.2	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	82.5	55.7	59.6	73.0	74.8
Interest burden (PBT/EBIT)	105.6	70.6	58.4	73.2	83.5
EBIT margin (EBIT/Revenue)	6.0	5.1	5.1	7.4	8.8
Asset turnover (Rev./Avg TA)	106.9	124.8	118.3	124.2	130.5
Leverage (Avg TA/Avg Equity)	5.0	4.2	3.9	3.6	3.2
Adjusted ROAE	27.8	10.4	8.1	17.8	22.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	29.2	25.3	(3.0)	10.2	12.1
EBITDA	22.7	40.3	6.2	33.9	22.4
Adjusted EPS	134.5	(51.8)	(14.4)	148.1	55.1
Profitability & Return ratios (%)					
EBITDA margin	7.7	8.6	9.4	11.4	12.5
EBIT margin	6.0	5.1	5.1	7.4	8.8
Adjusted profit margin	5.2	2.0	1.8	4.0	5.5
Adjusted ROAE	27.8	10.4	8.1	17.8	22.8
ROCE	24.8	13.9	13.0	18.0	21.3
Working capital days (days)					
Receivables	49	48	50	50	50
Inventory	107	87	77	72	73
Payables	40	38	38	38	38
Ratios (x)					
Gross asset turnover	5.2	3.8	2.9	2.7	2.7
Current ratio	0.9	1.1	1.1	1.1	1.2
Net interest coverage ratio	6.7	1.9	1.5	2.5	3.7
Adjusted debt/equity	0.2	1.2	1.0	0.8	0.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**

Logo: 

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

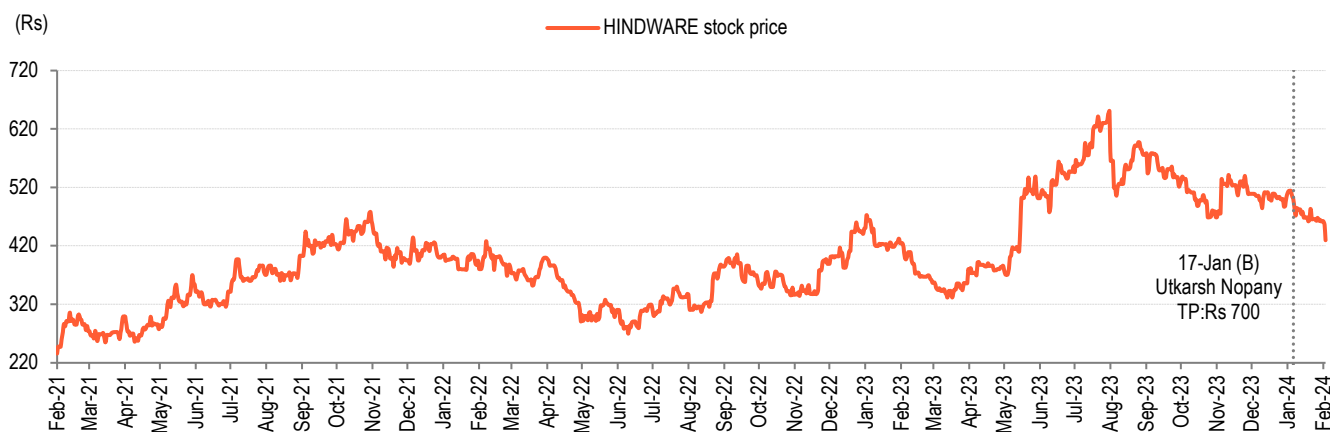
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): HINDWARE HOME INNOVATION (HINDWARE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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