



“slow and steady wins the race”

HSIL LTD (BSE Code: 500187)

Report made by:

Name: Sagar Shah

Email id: shah.sagar11@yahoo.in

Twitter : https://twitter.com/saggy_cool98

LinkedIn : <https://www.linkedin.com/in/sagar-shah-583620b4>

Facebook : <https://www.facebook.com/sagar.shah.982>

Blog: <https://sagarshah11.wordpress.com/>

Content Index

1. Company Snapshot
2. Understanding Business and company
3. Industry Overview
4. Financial Disclosure
5. Management and shareholding pattern
6. HSIL – Performance Snapshot
7. Dividend Policy
8. Valuations
9. Risk and Mitigation

Company Snapshot (10th Oct'16)

BSE CMP - 341

Dividend Yield - 1.17%

BSE CODE - 530589

Target Price – Rs 600

Market Capitalization - 2476.87 Cr.

Total Equity Shares - 7.22 Cr.

Face Value – Rs 2

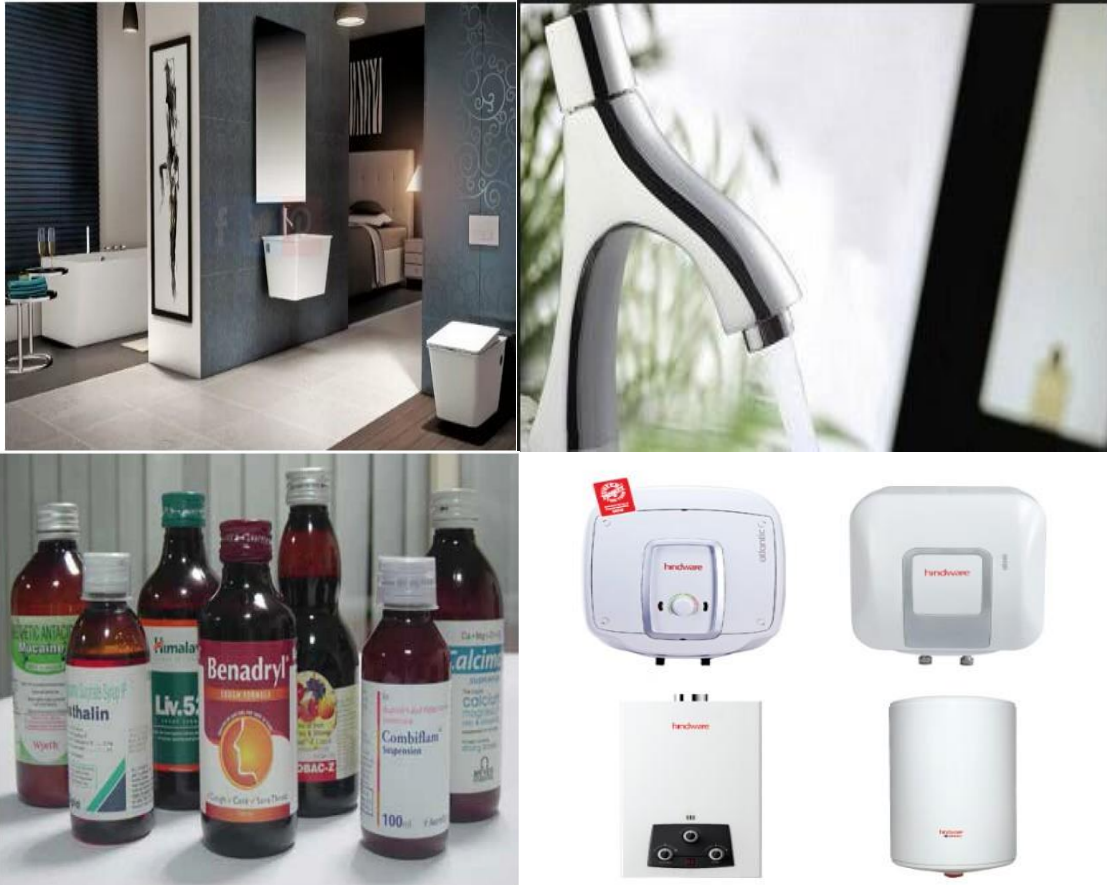
52 Weeks High/Low - Rs 224 / 370

Financial Snapshot:

Inc/Exp Statement(Consolidated)					(Rs in Crore)
Description	FY12	FY13	FY14	FY15	FY16
Net Sales	1462.82	1761.27	1858.21	1980.62	2056.09
Total Income	1467.90	1765.11	1862.02	1984.19	2059.58
Total Expenditure	1213.00	1502.58	1604.90	1648.11	1740.90
PBIDT	254.90	262.53	257.12	336.09	318.68
PAT	93.55	82.05	33.98	85.44	89.04
Dividend %	150.00	150.00	150.00	175.00	200.00
Adj. EPS(Rs)	14.16	12.42	5.14	11.82	12.32
PBIDTM (%)	16.27	13.80	12.87	15.82	14.45
EBITM (%)	12.12	10.15	7.36	9.93	9.00
Pre Tax Margin(%)	9.44	6.50	3.77	6.29	7.13
PATM (%)	5.97	4.31	1.70	4.02	4.04

Understanding Business and company

HSIL Limited is a diversified, consumer-focused organisation, with leadership position in sanitaryware and glass containers industries. While in the bathroom fittings business, the Company has already reached #3 position in the faucet category, it is concurrently gaining considerable market traction in the newly launched Consumer Products Business. As a consumer-centric entity, HSIL is driven by the strong support of its customers to deliver better quality products and solutions designed as per their evolving aspirations.



HSIL is a leading player in two business segment-

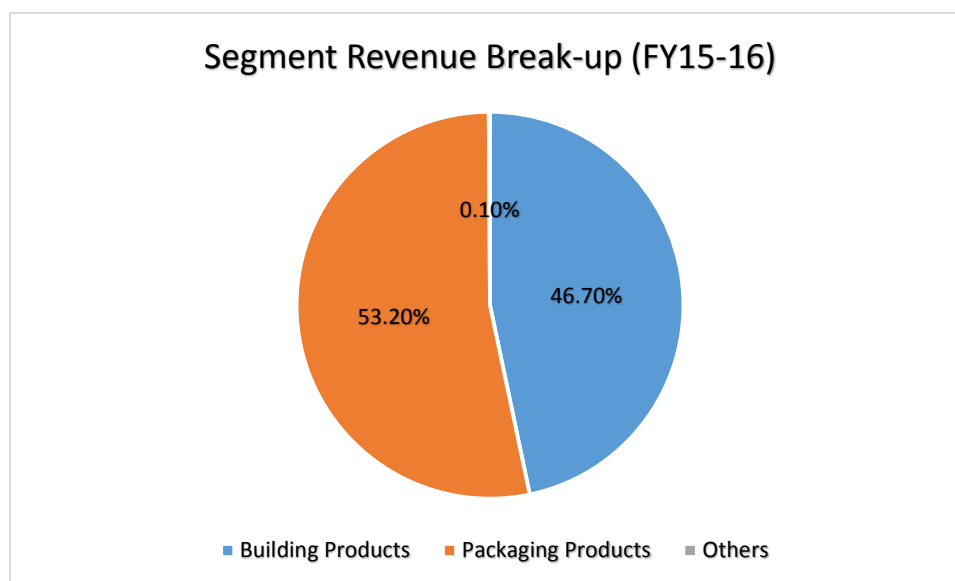
- Building products division
- Packaging Products division

Basically, it provides bathroom solutions, glass and plastic containers for packaging beverages, liquor, Pharmaceutical and food products.

Company has forayed into the CPVC and UPVC pipes & fitting segments, where the company expects greater scale building up in the coming years. It has also expanded business by entering into new product lines, specially purification and water heaters and caps & closure category.

The company sells its products through a network of around 3000+ dealers and 20,000+ retail touch points across India and operates manufacturing facilities in Haryana, Telangana, Rajasthan and Karnataka.

Business Model:



BPD (in Crores)	FY13	FY14	FY15	FY16
Net Revenue	747	881	936	1034
EBIT	136	183	178	151
EBIT%	18.2%	20.8%	19.0%	14.6%

PPD (in Crores)	FY13	FY14	FY15	FY16
Net Revenue	826	864	920	909
EBIT	71	10	84	113
EBIT%	8.6%	1.2%	9.1%	12.4%

Revenue Break-up for each division:

BPD (in crores)	FY16	PPD (In Crores)	FY16
Sanitaryware	724	Bottles	909
Faucets	248	Caps & Closures	Starts from March' FY17
Consumer Products	62		
CPVC & UPVC pipes	starts from March' FY17		

Packaging Product segment will play as turnaround segment for the company since Substitution of high cost fuel (furnace oil) by alternate fuel, which has helped reduce the fuel cost and company decide to foray into manufacture of security caps and closure, thus promising to add new revenues of growth. Company has increased capacity utilization for coloured bottles, as well as chemical and smaller bottles, led to positive effect on the profitability of PPD business.

Industry Overview

Building Product Division

Sanitaryware Market:

- CAGR around 12-14% during last four years.
- Industry size currently estimated at around Rs3,800 Crore.
- Around 55% of market with organized player.

Faucet Market:

- CAGR of around 16%.
- Industry size estimated around Rs6,500 Crore.
- Around 52% of market with organized player.

Demand drivers for sanitaryware and Faucet Market:

- By 2025 India expected to have additional new mega cities, accommodating a population of 10 million or More.
- The demand for replacement market in the sanitary ware industry is low in India - estimated at around 15% compared to developed countries where it is around 80%.
- Average life of a bathroom in urban India is expected to come down from 20 years to 12-14 years.
- Swachh Bharat Mission (SBM) launched on 2nd October, 2014 with an aim to eliminate open defecation.

Consumer Products Market:

- As per Management guidance, in next four to five years' company will achieve 500 Crores with 5% market share.
- It will generate 10% to 12% EBITDA Margin and it will generate more than 20% ROCE.

CPVC & UPVC pipes Market:

- Overall pipes industry estimated at around Rs25,000 Crore Market.
- Market size of this targeted segment in India estimated around at Rs 7,500 Crore.
- For plumbing Pipes, Industry CAGR around 18% and for Hot & cold pipes, Industry CAGR around 32%.

Asset turnover ratio for HSIL in sanitaryware segment is at 1.2x which seems as best in the industry while asset turnover ratio for faucets is at 2.25x.

Packaging Product Division

Packaging Product Market:

- Global container and packaging market is expected to grow at 6.8%.
- Indian Glass Packaging Industry is estimated at around Rs. 6,000 crore.
- India's per capita consumption of packaging is only 4.3 kgs as compared to Germany – 42 kgs and Taiwan – 19 kgs
- Liquor and beer represent the largest user segment of container glass and constitute 50% of the requirement and this share has been growing in coming years.
- Total IMFL market estimated at around 320 million cases in year 2015-16 against 316 million cases in year 2014-15.
- Beer market in country is estimated at 250 million cases in 2015 and over 98% beer is packaged in glass bottles with crown closure India's per capita beer consumption of 1.9 bottles is lowest in BRIC nations.

Some Important Highlights:

- Company's EBIT growth of 35% mainly due to higher usage of PET coke
- HNG and piramal are main competitors for the company which operates at 78% to 82% capacity utilization while HSIL operates closed to 100% capacity utilization.
- Haldyn glass is leader in glass segments but profit margin of HSIL is higher than haldyn glass approx. around 50%.

Security caps and closures Market:

- Estimated market size is 3700 million pieces of caps per annum & with strong growth potential.
- New project will have capacity to produce 720 million pieces of caps per annum.
- Project located in State of Telangana & expected to be completed by March 2017.

Financial Disclosure

- In balance sheet, company has total debt of Rs 560 crore in which Rs230 crore working capital loan and Rs330 is long term loan. In which company will repay Rs 125 crore in FY17 and FY18. So, company will become debt free by FY18.
- Board has taken approval for issue of NCD worth of Rs 500 Crore (Non – convertible debenture). Cash flow generated from current year. First, it will use to repay Rs125 crore. if company needed some fund for setup security caps & closure plan then they will issue NCD to finance their new plant.
- Management has given guidance about Rs 350 crore capex for next 15 months.
- Company has subsidiary called HHRPL (Hindware Home Retail Private limited) which is incurring loss around Rs 27 crore in FY16 mainly due to ownership business model. Now company has adopted new strategy to minimize cost which is franchise business model. Presently, company has given 12 franchise and 16 outlets are opened under ownership business model which should break even by FY 18. Company has given guidance on loss reduction of 35% to 40% every year.

Management and shareholding pattern

HSIL is lead by Somany family with Mr. Rajendra K Somany as Chairman and Managing Director and Sandip Somany as the Joint Managing director. The Promoters own reasonably good 47.7% stake in the company and thereby their interests are directly aligned with those minority shareholders.

The management has diluted equity in the last 10 years and has managed to grow the business through internal and external accruals.

	Jun'16	March'16	Dec'15
Promoter and promoter	47.11%	47.11%	47.11%
Group			
India	26.95%	27.38%	29.13%
Foreign	5.88%	6.13%	3.72%
Public	20.05%	19.37%	20.04%
Total	7,22,96,395	7,22,96,395	7,22,96,395

From investor's perspective it's important for the ones running the company to have high ownership as it aligns their interest in line with those of minority shareholders and in case of HSIL the promoters own reasonably good stake at 47.11%.

As on 31st March'16, the major shareholders of the company and their stakes are as below:

Name of Shareholder	Category	% stake in HSIL Ltd.
Promoters and PAC	Promoters	47.11%
Reliance Capital Trustee Company Limited	Institutions	8.36%
Sundaram Mutual Fund	Institutions	5.61%
Soma Investments Limited	Institutions	5.53%
New Delhi Industrial Promoters and Investors Limited	Institutions	5.05%

HSIL – Performance Snapshot

We believe that, HSIL has potential to outperform the industry, both management and business are good it will reflect in the operating and financial performance of the company. Financial performance has been improving for last 3 years and there is visible sign for improvement in coming years.

DESCRIPTION (In Cr)	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16
Net Sales	804.24	1095.55	1462.82	1761.27	1858.21	1980.62	2056.09
Total Cost of Goods sold	671.47	889.18	1213.00	1502.58	1604.90	1648.11	1740.90
Gross Profit	132.77	206.37	249.82	258.70	253.31	332.52	315.19
Gross Profit Margin (%)	17%	19%	17%	15%	14%	17%	15%
EBITDA	107.20	173.59	212.95	193.14	185.34	258.57	277.48
EBITDA Margin (%)	13%	16%	15%	11%	10%	13%	13%
Profit After Tax	43.65	78.15	93.55	82.05	33.98	85.44	89.04
PAT Margin (%)	5%	7%	6%	5%	2%	4%	4%
ROE (%)	12.36	13.72	11.41	8.23	3.31	7.27	6.59
Cash From Operating Activities	18.31	171.97	153.64	30.62	162.47	264.42	295.96
Total Debt/Equity(x)	1.05	0.59	0.89	1.01	1.10	0.59	0.45

Company has also taken steps for marketing initiatives by positioning shahrukh khan for building product division as a brand ambassador and rolled out new campaign "Bathrooms you keep admiring". These campaigns have helped take awareness of hindware brand to 85 per cent top-of-mind recall. Company has expanded the online retail reach of our brands through innovative digital initiatives.

Opportunity Lies ahead:

- There is potential in the replacement market to drive expansion in the Building Product Division (BPD).
- The Government's initiative to boost the economic sentiment, 'swachh Bharat Abhiyan' which leads to increase in the demand of sanitaryware products.
- Government is trying to make homes more affordable and with expanding middle class will drive higher demand for sanitaryware products.
- The government has implemented the 7th pay commission which leads to increase in pension by 20% which benefiting several sectors, sanitaryware, real estate etc.

Dividend Policy

Dividend Payout Ratio				
	FY13	FY14	FY15	FY16
Dividend Payout Ratio	24%	58%	30%	32%

From FY13 to FY15, the company paid Rs 3/- per share as dividend thereby with increasing profitability company has paid dividend of Rs 4/- in FY16.

As the company is having debt and is planning expansion through external accruals, we believe that dividend policy will be moderated in the near future. Company is well balanced in terms of sharing profits with the shareholders and retaining the balance for future growth.

VALUATION

At around current price of Rs 344, the market capitalization of the company is Rs2,486 crores. The company is having total debt of Rs560 crores.

For FY17 and FY18, we expect the company to report (on consolidated basis) ~ Rs253cr and Rs 295cr of PBT. Thus, the stock is available at ~13 times FY18 (E) earnings and we therefore believe that the valuations of the company are reasonable around current levels of Rs342. Presently, the return on equity stood at 7% and estimated Return on equity for FY18 stand at 12% (Excluding CPVC and UPVC Business & Caps and Closure business)

SOTP Valuation:

Building Product Division				
Categories	FY16	FY17	FY18	Growth
Sanitaryware	724	775	829	7%
Faucets	248	293	345	18%
Consumer Products	62	150	170	
CPVC & UPVC pipes	0	0	0	0
Total	1034	1217	1344	
EBIT	151	183	202	
EBIT %	14.60%	15.00%	15.00%	

Packaging Product Division				
Categories	FY16	FY17	FY18	Growth
Bottles	909	1018	1140	12%
Caps and closures	0	0	0	0
Total	909	1018	1140	
EBIT	113	132	148	
EBIT %	12.43%	13.00%	13.00%	

Standalone profit and Loss statement			
Particulars (in crore)	FY16	FY17	FY18
EBIT (BPD)	151	183	202
EBIT(PPD)	113	132	148
Total EBIT (BPD + PPD)	264	315	350
Interest	78	44	44
PBT	186	271	306
Tax	68	94	106
PAT	118	177	200
Number of o/s shares	7,22,96,395	7,22,96,395	7,22,96,395
EPS	16.3	24.5	27.7
Consolidated P&L			
PBT	157.3	252.9	294.9
Profit / Loss	-28.7	-18.0	-11.0
Tax	68.3	87.3	101.8
PAT	89.0	165.6	193.1
Number of o/s shares	7,22,96,395	7,22,96,395	7,22,96,395
EPS	12.3	22.9	26.7

(* In SOTP valuation, we have not included CPVC & UPVC pipes business & Caps and Closure Business which will generate revenue from March'FY17. Hence, there would be more upside for Top line & Bottom line profit once CPVC & UPVC, Caps and closure businesses starts generating revenue for the company.)

Risk and Mitigation

- Adverse trends in the real estate sector and reduced activity in property repair and renovation may impact demand for HSIL products. To mitigate the risk, the company reduced its dependence on institutional sectors to 24% from 30% earlier, thus further curtailing the risk
- Market conditions remain highly competitive, which could lead to increased downward pressure on sales, prices and profit margins. To mitigate the risk, Company has focussed expenditure on advertising and promotional activities which enjoys “hindware brand” as top of the mind recall and is a market leader in the sanitaryware industry.
- Cost pressures and reduced productivity could negatively impact operating margins and expansion plans. To mitigate the risk, Company has started to use alternate fuels instead of high cost fuel has had a significant bearing on margins in the container segment and focusing on improvement of productivity by debottlenecking and capacity augmentation.
- HHRPL (Hindware Home Retail Private Limited) is making loss of Rs27 Crore in FY16. It will take two years to perform and it should breakeven EBITDA level from FY18.

DISCLAIMER

Past performance is not indicative of future results. Neither my analysis nor my Report guarantees any specific outcome or profit. You should be aware of the real risk of loss in following any strategy or investment discussed on this Research Report. Strategies or investments discussed may fluctuate in price or value. Investors may get back less than invested. Investments or strategies mentioned on this Report or on the show may not be suitable for you. This material does not take into account your particular investment objectives, financial situation or needs and is not intended as recommendations appropriate for you. You must make an independent decision regarding investments or strategies mentioned on this Research Report. Before acting on information on this Research Report, you should consider whether it is suitable for your particular circumstances and strongly consider seeking advice from your own financial or investment adviser.