

## HSIL Ltd

### Operating into the most growing segments

HSIL Limited (HSIL) is an Indian company, which offers sanitaryware products, faucets and glass bottles. The company's segments include building products division, packaging products division and others division (retail, consumer, pipes, caps and closures, etc.) The company's ~46% revenue comes from building products division, ~43% from Packaging products division and balance from others division.

**Strong demand for sanitaryware to benefit HSIL:** The current market size of sanitaryware is around ₹4,000-4,200cr. The market is expected to grow at ~10% CAGR going forward on the back of increasing disposable income, urbanization, evolving preferences and government initiatives (Swachh Bharat, Housing for All, Smart cities, etc). Going forward, we estimate that HSIL would benefit from the expanding sanitaryware industry backed by strong distribution network, good brand recall and introduction of new products.

**Container glass business to be driven by demand revival:** Indian market for container glass is estimated at ~₹7,000cr, which is expected to grow at 4-5% CAGR going forward. HSIL manufactures container glass for packaging needs of the companies in the user industry (beverages, liquor, pharma, food industry, etc). HSIL is prominent player in the container glass segment in India. In our view, strong growth of companies in the user industry will lead to higher growth for HSIL.

**Forayed into newer segments to boost additional growth:** During FY16, the company has forayed into consumer segment, from which the company is expecting sales turnover of ₹500cr over the next 2 years with 10% of EBIT margin. Further, HSIL has expected to launch security caps and closures in 1QFY19, which would be able to generate revenue around ₹130cr on full operating basis (EBIT is around 20-25%). Moreover, HSIL is also entering the PVC Pipe segment, which is expected to start commercial production around in FY19 (will be able to generate revenue ~₹400cr on peak utilization).

**De-merger of building materials and consumer segment to unlock the value:** HSIL is demerging its consumer and building materials business, which is expected to be completed by July 2018. Consumer and building material businesses contribute more than 50% to the revenues of HSIL.

**Outlook and Valuation:** Considering the various initiatives taken by the government like smart cities, housing for all by 2022, Swachh Bharat Abhiyan and push towards providing sanitation, would create new demand avenues for the sanitaryware segment. Further, the company has entered into new segments like consumer, pipes and caps and closures which will drive the further growth. We expect HSIL to report net revenue CAGR of ~12% to ~₹2,905cr over FY2017-20E. On bottom-line front, we expect CAGR of ~15% to ₹154cr over FY2017-20E owing to improvement in operating margins. **We initiate coverage on HSIL with a Buy recommendation and target price of ₹510, indicating an upside of ~18% from the current levels.**

### Key financials

Y/E March (₹ cr)	FY2017	FY2018E	FY2019E	FY2020E
<b>Net Sales</b>	<b>2,078</b>	<b>2,204</b>	<b>2,506</b>	<b>2,905</b>
% chg	5.0	6.0	13.7	15.9
<b>Net Profit</b>	<b>100</b>	<b>81</b>	<b>114</b>	<b>154</b>
% chg	(7.6)	(19.1)	40.5	34.7
OPM (%)	13.8	12.5	13.3	13.9
<b>EPS (₹)</b>	<b>13.9</b>	<b>11.2</b>	<b>15.8</b>	<b>21.2</b>
P/E (x)	31.2	38.6	27.5	20.4
P/BV (x)	2.2	2.1	2.0	1.8
RoE (%)	6.9	5.4	7.2	9.0
RoCE (%)	7.4	6.6	8.4	10.1
EV/Sales (x)	1.8	1.7	1.5	1.4
EV/EBITDA (x)	13.2	14.0	11.6	9.8

Source: Company, Angel Research, Note: CMP as of February 15, 2018

Please refer to important disclosures at the end of this report

## Quick Take

### BUY

CMP	₹433
Target Price	₹510
Investment Period	12 Months

#### Stock Info

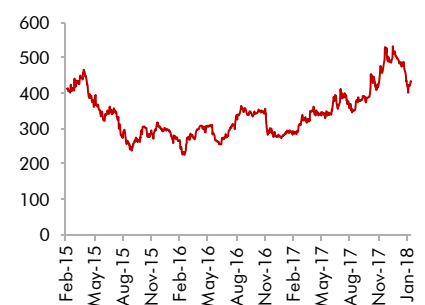
Sector	Sanitaryware
Market Cap (₹ cr)	2,840
Net Debt (₹ cr)	782
Beta	1.1
52 Week High / Low	564 / 278
Avg. Daily Volume	19,199
Face Value (₹)	2
BSE Sensex	34,297
Nifty	10,546
Reuters Code	HSNT.BO
Bloomberg Code	HSI.IN

#### Shareholding Pattern (%)

Promoters	48.4
MF / Banks / Indian Fls	26.2
FII / NRIs / OCBs	7.8
Indian Public / Others	17.6

Abs. (%)	3m	1yr	3yr
Sensex	4.7	21.8	17.7
Nikamal	(5.3)	(5.3)	4.5

### 3 year daily price chart



Source: Company, Angel Research

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## Investment rationale

**Strong demand for sanitaryware to benefit HSIL:** The current market size of sanitaryware is around ₹4,000-4,200cr. The market is expected to grow at ~10% CAGR going forward on the back of increasing disposable income, urbanization, evolving preferences and government initiatives (Swachh Bharat, Housing for All, Smart cities, etc). Going forward, we estimate that HSIL would benefit from the expanding sanitaryware industry backed by strong distribution network, good brand recall and introduction of new products, which will aid in gaining market share and increase revenues.

**Container glass business to be driven by demand revival:** Indian market for container glass is estimated at ~₹7,000cr, which is expected to grow at 4-5% CAGR going forward. HSIL manufactures container glass for packaging needs of the companies in the user industry (beverages, liquor, pharma, food industry, etc). HSIL is prominent player in the container glass segment in India. In our view, strong growth of companies in the user industry will lead to higher growth for HSIL.

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**De-merger of Building material and consumer segment to unlock the value:** HSIL is demerging its consumer and building materials business, which is expected to be completed by July 2018. In this demerger, branding, marketing, sales, distribution, etc. of consumer products and that of furniture, furnishings, home décor (Retail Undertaking) will be demerged into an entity named Somany Home Innovation Limited (SHIL). Moreover, branding, marketing, sales, distribution, etc. of building products (BPDM) will be transferred to Brilloca Limited, which will be a wholly owned step down subsidiary of SHIL. Post sanction of this scheme, SHIL will apply for listing on respective stock exchanges. HSIL will retain the manufacturing of all the building & consumer products in addition to manufacturing and sales of packaging products (Glassware).

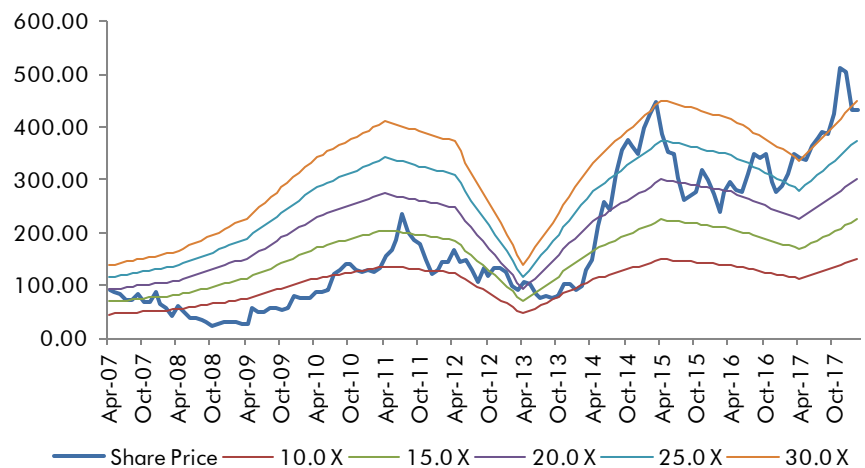
## Company Background

HSIL Limited is an Indian company, which offers sanitaryware, faucets and glass bottles. The company's segments include building products division and packaging products division. The building products division's products include sanitaryware, such as water closets, wash basins, pedestals, squatting pans, urinals, cisterns and bidets; wellness, such as bath tubs, shower panels, shower enclosures and whirlpools; faucets/showers, such as showers, bathroom faucets and kitchen faucets; allied products, such as seat covers and concealed cisterns; and consumer products, such as kitchen appliances (vents, chimneys, waste crusher system, hobs and cooktops), water heaters/geysers, air purifier and kitchen sink. The packaging products division's products include glass containers, polyethylene terephthalate (PET) bottles, security caps and closures. The company's brands include QUEO, Amore, Hindware Italian Collection/Hindware Art, Benelave, Raasi, Moonbow, EVOK, AGI and Garden Polymers.

## Outlook and Valuation

Considering the various initiatives taken by the government like smart cities, housing for all by 2022, Swachh Bharat Abhiyan and push towards providing sanitation, would create new demand avenues for the sanitaryware segment. Further, the company has entered into new segments like consumer, pipes and caps and closures which will drive the further growth. We expect HSIL to report net revenue CAGR of ~12% to ~₹2,905cr over FY2017-20E. On bottom-line front, we expect CAGR of ~15% to ₹154cr over FY2017-20E owing to improvement in operating margins. **We initiate coverage on HSIL with a Buy recommendation and target price of ₹510, indicating an upside of ~18% from the current levels.**

### Exhibit 1: One year forward PE chart



Source: Company, Angel Research

## Risks to our estimates

- Increase in input costs (sand, sandstone, clays, chemical fitting & accessories purchased) could negatively impact profitability of sanitaryware business and any increase in the price of soda ash (important for the container glass business) would impact it negatively.
- HSIL faces competition from domestic as well as international companies (Chinese sanitaryware), which is a major threat for the company.
- Any slowdown in Real estate sector could negatively impact the demand for Sanitaryware products.

**Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
<b>Net Sales</b>	<b>1,979</b>	<b>2,078</b>	<b>2,204</b>	<b>2,506</b>	<b>2,905</b>
% chg	(0.1)	5.0	6.0	13.7	15.9
<b>Total Expenditure</b>	<b>1,663</b>	<b>1,791</b>	<b>1,928</b>	<b>2,173</b>	<b>2,502</b>
Raw Material	763	805	855	975	1,133
Personnel	251	287	309	353	412
Power, Oil & Fuel	232	244	304	356	415
Others Expenses	418	456	461	489	541
<b>EBITDA</b>	<b>315</b>	<b>287</b>	<b>275</b>	<b>333</b>	<b>403</b>
% chg	(5.2)	(9.1)	(3.9)	21.0	20.8
(% of Net Sales)	15.9	13.8	12.5	13.3	13.9
Depreciation & Amortization	115	111	112	118	126
<b>EBIT</b>	<b>201</b>	<b>176</b>	<b>164</b>	<b>216</b>	<b>277</b>
% chg	(3.3)	(12.4)	(7.0)	31.8	28.4
(% of Net Sales)	10.1	8.5	7.4	8.6	9.5
Interest & other Charges	41	33	47	51	53
Other Income	15	5	5	6	6
(% of PBT)	8.5	3.1	4.1	3.2	2.6
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	<b>174</b>	<b>147</b>	<b>121</b>	<b>170</b>	<b>229</b>
% chg	30.4	(15.6)	(17.6)	40.5	34.7
Tax	66	47	40	56	76
(% of PBT)	37.7	31.7	33.0	33.0	33.0
<b>PAT (reported)</b>	<b>109</b>	<b>100</b>	<b>81</b>	<b>114</b>	<b>154</b>
% chg	27.0	(7.6)	(19.1)	40.5	34.7
(% of Net Sales)	5.5	4.8	3.7	4.5	5.3
<b>Basic EPS (₹)</b>	<b>15.0</b>	<b>13.9</b>	<b>11.2</b>	<b>15.8</b>	<b>21.2</b>
<b>Fully Diluted EPS (₹)</b>	<b>15.0</b>	<b>13.9</b>	<b>11.2</b>	<b>15.8</b>	<b>21.2</b>
% chg	27.0	(7.6)	(19.1)	40.5	34.7

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2016	FY2017E	FY2018E	FY2019E	FY2020E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	14	14	15	15	15
Reserves & Surplus	1,372	1,432	1,484	1,569	1,694
<b>Shareholders Funds</b>	<b>1,387</b>	<b>1,447</b>	<b>1,499</b>	<b>1,584</b>	<b>1,709</b>
Minority Interest	-	-	-	-	-
Total Loans	622	933	963	993	1,023
Deferred Tax Liability	247	242	242	242	242
<b>Total Liabilities</b>	<b>2,256</b>	<b>2,621</b>	<b>2,704</b>	<b>2,819</b>	<b>2,974</b>
<b>APPLICATION OF FUNDS</b>					
<b>Gross Block</b>	<b>1,628</b>	<b>1,730</b>	<b>1,880</b>	<b>1,980</b>	<b>2,080</b>
Less: Acc. Depreciation	113	223	335	453	579
<b>Net Block</b>	<b>1,514</b>	<b>1,507</b>	<b>1,545</b>	<b>1,528</b>	<b>1,502</b>
Capital Work-in-Progress	63	152	-	-	-
Investments	29	136	136	136	136
Current Assets	1,049	1,290	1,417	1,631	1,928
Inventories	490	493	537	625	740
Sundry Debtors	390	398	435	508	605
Cash	20	144	114	110	89
Loans & Advances	51	68	88	113	145
Other Assets	97	187	242	276	349
Current liabilities	438	498	429	510	626
<b>Net Current Assets</b>	<b>611</b>	<b>792</b>	<b>988</b>	<b>1,121</b>	<b>1,302</b>
<b>Deferred Tax Asset</b>	<b>40</b>	<b>34</b>	<b>34</b>	<b>34</b>	<b>34</b>
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>2,256</b>	<b>2,621</b>	<b>2,704</b>	<b>2,819</b>	<b>2,974</b>

**Consolidated Cash flow Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	174	147	121	170	229
Depreciation	115	111	112	118	126
Change in Working Capital	55	(16)	(226)	(137)	(202)
Interest / Dividend (Net)	39	32	0	0	0
Direct taxes paid	(71)	(73)	(40)	(56)	(76)
Others	(1)	4	0	0	0
<b>Cash Flow from Operations</b>	<b>311</b>	<b>204</b>	<b>(33)</b>	<b>95</b>	<b>78</b>
(Inc.)/ Dec. in Fixed Assets	(74)	(224)	(150)	(100)	(100)
(Inc.)/ Dec. in Investments	8	(104)	155	3	3
<b>Cash Flow from Investing</b>	<b>(66)</b>	<b>(329)</b>	<b>5</b>	<b>(97)</b>	<b>(97)</b>
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	80	211	30	30	30
Dividend Paid (Incl. Tax)	(25)	(29)	(29)	(29)	(29)
Interest / Dividend (Net)	(302)	65	2	(3)	(3)
<b>Cash Flow from Financing</b>	<b>(247)</b>	<b>248</b>	<b>3</b>	<b>(2)</b>	<b>(2)</b>
Inc./(Dec.) in Cash	(3)	123	(26)	(4)	(21)
<b>Opening Cash balances</b>	<b>19</b>	<b>17</b>	<b>140</b>	<b>114</b>	<b>110</b>
<b>Closing Cash balances</b>	<b>17</b>	<b>140</b>	<b>114</b>	<b>110</b>	<b>89</b>

**Key Ratios**

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	28.9	31.2	38.6	27.5	20.4
P/CEPS	14.0	14.8	16.2	13.5	11.2
P/BV	2.3	2.2	2.1	2.0	1.8
Dividend yield (%)	0.9	0.9	0.9	0.9	0.9
EV/Sales	1.9	1.8	1.7	1.5	1.4
EV/EBITDA	11.8	13.2	14.0	11.6	9.8
EV / Total Assets	1.6	1.4	1.4	1.4	1.3
<b>Per Share Data (Rs)</b>					
EPS (Basic)	15.0	13.9	11.2	15.8	21.2
EPS (fully diluted)	15.0	13.9	11.2	15.8	21.2
Cash EPS	30.9	29.2	26.7	32.1	38.7
DPS	4.0	4.0	4.0	4.0	4.0
Book Value	191.8	200.1	207.4	219.1	236.4
<b>Returns (%)</b>					
ROCE	10.0	7.4	6.6	8.4	10.1
Angel ROIC (Pre-tax)	10.2	8.4	7.4	9.2	11.0
ROE	7.8	6.9	5.4	7.2	9.0
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	1.2	1.2	1.2	1.3	1.4
Inventory / Sales (days)	90	87	89	91	93
Receivables (days)	72	70	72	74	76
Payables (days)	31	39	39	39	40
Working capital cycle (ex-cash) (days)	131	118	122	126	129

Source: Company, Angel Research

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### Disclosure of Interest Statement

### HSIL

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)