



18th October, 2016

Better growth yet to come!

Rating	
CMP	Rs 350
Target Price	Rs 431
Recommendation	BUY

Stock Info

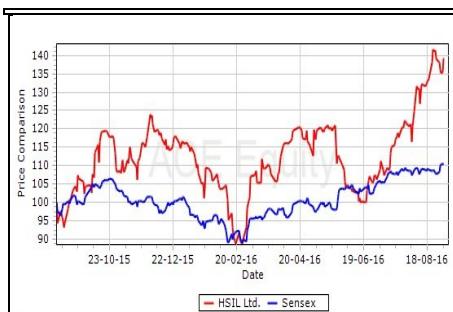
BSE Group	B
BSE Code	500187
NSE Symbol	HSIL
Bloomberg	HSI IN
Reuters	HSNT.BO
BSE Sensex	28,532
NSE Nifty	8,809

Market Info

Market Capital	Rs 2,592 cr
Equity Capital	Rs 14.46 cr
Avg. Trading Vol.	1,05,000
52 Wk High/ Low	370/223
Face Value	Rs 2

Shareholding Pattern (%)	(AUG'16)
Promoters	47.7
FIIs/DIIs/MFs	32.9
Public	19.4
Total	100

Price Chart:



Company Profile

HSIL Limited is a diversified, consumer-focused organization, with leadership position in sanitaryware and glass containers industries. While in the bathroom fittings business, the Company has already reached #3 positions 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. The Company is persistently and dedicatedly striving to deliver higher value to all its stakeholders. Steered by a growing pan-India presence, it is moving towards an exciting future, packed with new possibilities of growth backed by a multi-focused strategy.

Investment Positives

- HSIL holds #3 position in the faucet business in the country. It has the distinction of manufacturing the largest range of faucets in the industry. During the year, company has launched 126 new products, 10 new ranges of faucets and 33 sanitary ware ranges were added across the Company's key brands during the year.
- In the Consumer Products Business, Company is currently among the top three spenders in the geyser/water heater segment. In the Packaging Products Division (PPD) Business, it is leading company producing special coloured bottles for some niche partners.
- Company has forayed into the CPVC and UPVC pipes & fittings segment, where company expect greater scale building up in the coming years.
- Company has expanded business by entering into new product lines, specially purification and water heaters category which has shown significant expansion in Andhra Pradesh, Telangana, Uttar Pradesh, Rajasthan and Haryana Markets.
- Company has also taken steps for marketing initiatives by positioning Actor 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.



Industry Overview

Building Products Industry overview:

Sanitaryware:

In terms of the demand for sanitaryware, India is a market with maximum potential in the Asia-Pacific region and is expected to remain so for the next few years. The sanitaryware industry in India is divided into the organised and unorganised sectors, roughly in 55:45 ratios. The major source of demand for sanitaryware products is the retail sector.

The total size of the sanitaryware market in India is currently estimated at Rs 3,800 Crores with the long term growth trend expected to be robust. As per industry reports, the overall market is growing at CAGR of about 12%-14% over the last four years and is projected to have an even higher growth of nearly 14%-16% by 2021. Players in the organised sanitaryware market are expected to be a major beneficiary of this growth due to the shift in the preferences of the consumers towards high value products.

Faucets:

The faucet industry in India is currently estimated at Rs6,500 Crores estimated and has been growing at a CAGR of 16%. The market is mainly segmented into categories of kitchen faucets and bathroom faucet, with bathroom faucets being the predominant category. Currently, 52% of the market share in this category is being held by organised players. This share is expected to see a significant increase in coming years. According to the Value notes Report – ‘faucets industry in India From FY14 to FY19 is projected to grow at a 16%, to reach Rs10,500 Crores by FY19.

Demand drivers for building products industry

- **Housing Thrust:**

India is poised to be 3rd largest construction market by 2025. India's construction industry is second largest industry of the country, with a total market share of US\$190 billion. The current thrust on real estate development is expected to boost demand for building products.

- **Urbanisation**

The estimated demand for urban housing from 2015 to 2019 will be 15 million units across India. Coupled with projections of stable to positive GDP growth, along with aspirational needs, will drive demand for building products Industry.

- **Expanding Middle Class segment**

In 2030, the number of middle class households in the country will exceed 90 million, significantly higher than 74 million in 2014. This exceptional growth drive by the country's robust middle class segment with an increasing for discretionary spending driven by rising incomes.

- **Replacement Market:**

The current demand in the replacement market in Indian sanitaryware industry is very low which is estimated at 15% when compared with other developed nations where it is around at 80%.



Consumer Products Industry overview:

Water Heaters

The water heater market in India, Comprising electric water heaters, solar water heaters and gas water heaters is currently estimated at around Rs1,800 Crores. Currently, growth is around 20% a year.

Air Purifiers:

India has propelled the demand for air purifiers to eliminate impurities such as dust particles, pollen, smoke and other airborne irritants. Current estimated size of Rs250 crores, the market is expected to grow at CAGR of over 50%.

Kitchen Appliances:

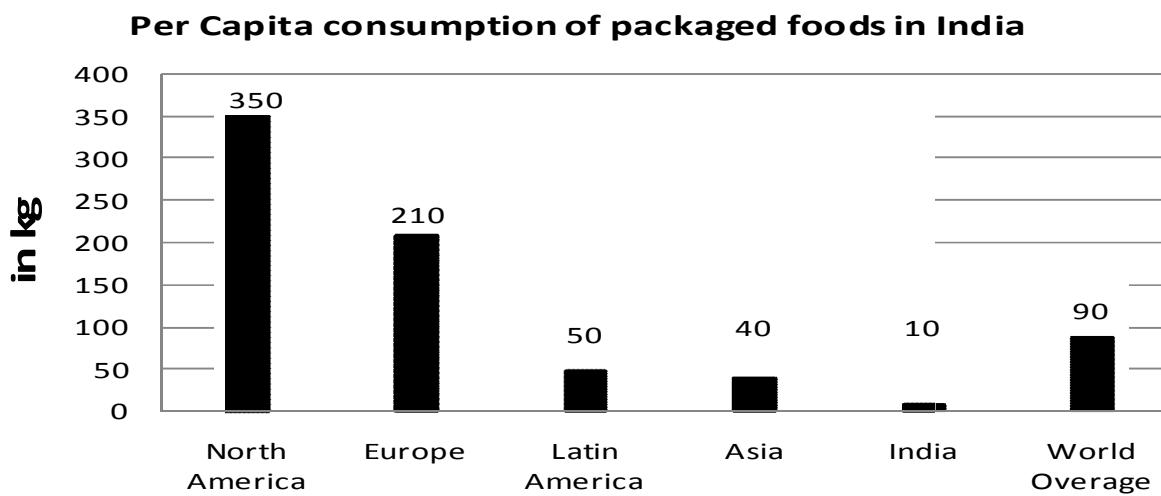
The kitchen appliances market in India has witnessed a boom, with middle class and affluent households in urban India investing in trendy and time saving gadgets. Indian kitchen appliances market size is currently estimated at Rs1,500 crores, with a projected CAGR of more than 15% during 2014-19.

CPVC/UPVC Pipes Industry overview:

The company will be entering in Plastic piping business in the field of plumbing and Sanitation for Building and Construction industry. The market size for this targeted segment is Rs7,000 Crores. The plumbing and sanitation pipe segment is growing at a CAGR of 18% and hot and cold plumbing pipe segment growing at a CAGR of 32%.

Packaging Products Industry overview:

The packaging industry in India is one of the fastest growing industries with an annual average growth rate of 13%-15%. The per capita consumption of packaged goods in India is still very low compared to other regions. Packaging industry in India is expected to reach US\$73 Billion in 2020 from US\$32 Billion in FY 2015. The Indian packaging industry is projected to clock an attractive 18 percent annual growth rate. Company has 17% Market share in packaging product division.





Container Glass Segment

Container glass plays a pivotal role in the packaging industry and is used by various sectors such as liquor and beer; food and beverages; pharmaceuticals; cosmetics; and perfumes. The global glass packaging market for food and beverages is estimated to grow at a CAGR of 2.71 per cent over the period 2014-2019. However, the packaging industry as a whole is projected to grow at a CAGR of 6.87 per cent over the same period. The size of the global glass packaging market will be US\$45.9 billion by 2019.

Demand Drivers for the Container Glass Segment

Liquor and beer Industry:

Urban India is seeing the rise of a huge 'going out for a drink' culture. This is encouraging increased use of container glass as a packaging material, with liquor and beer representing the largest user segments of container glass. The total IMFL market was estimated at around 320 million cases in year 2015-16, as against 316 million cases in 2014-15. The opportunity this provides for the growth of the container glass segment is immense.

Packaged foods and beverages

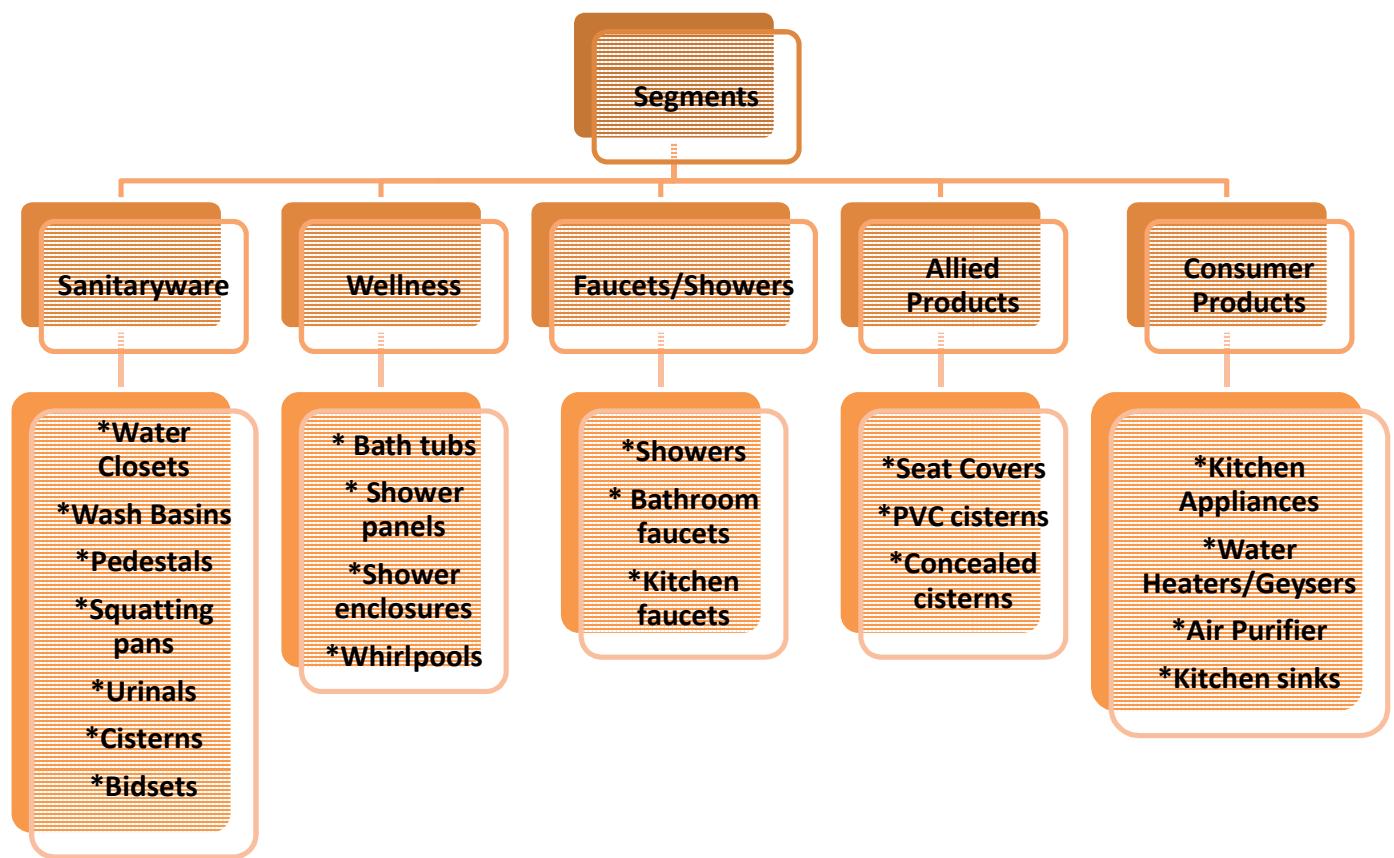
The predominant packaging material for these foods and beverages is glass. The per capita consumption of packaged beverages and food in India is still very low relative to other countries. This category is projected to increase by 14 per cent annually, driven by growing disposable incomes, urbanisation and a young population. The current size of the food service industry is estimated to be nearly US\$13.79 Billion, and its healthy CAGR of 17 per cent will boost the packaging sector.

Pharmaceutical industry

Glass is commonly used in pharmaceutical packaging because it possesses superior protective qualities - inertness, impermeability, no deterioration with age, protection against light through use of coloured glass, availability of effective closures, etc. The pharmaceutical packaging industry in India is expected to grow at a CAGR of 5.46% till 2020.

PET bottles Industry Overview:

Among the vast family of plastics, Polyethylene Terephthalate, popularly known as PET, is expected to grow the fastest. PET bottles have become ubiquitous in the Indian market, with annual growth rate in consumption exceeding 20%. In 2015, the global consumption of PET bottles across industries, e.g. beverages, foods, beauty and home care, amounted to 471 Billion bottles. About 42% of this demand came from the Asia-Pacific region, and consumption is set to rise to 47% by 2019.

**Business Model:****Impressive Brand Portfolio**

HSIL's sanitaryware portfolio comprises a range of brands designed to meet the needs of different types of customers.

HSIL Brands	Sanitaryware & Bathroom Products
QUEO	Luxury
Amore	Wellness and Spa Range
Hindware Italian Collection	Premium/Super Premium
Hindware Art	Premium/Premium
Hindware	Mid Market
Benelave	Mass Market
Rassi	Entry Level

**Production Capacity (In million pieces/per annum):**

Products	Facility	Capacity
	Bahadurgarh (Haryana)	1.8
Sanitaryware	Bibinagar (Telangana)	2.0
	Kaharani (Rajasthan)	2.5
Faucets	Bhiwadi (Rajasthan)	0.5
CPVC/UPVC Pipes	Medak (Telangana)	(under construction)

(Capacity will increase from 3.8 million to 4.2 million pieces/ per annum.)

Glass Containers, PET Bottles, Security Caps and Closures (Under Construction)

Products	Facility	Capacity
Glass Containers (Tonnes Per Day)	Sanathnagar, Hyderabad, (Telangana),	650*
	Bhongir (Telangana)	950
PET Bottles (tonnes per annum)	Selaqui (Uttarakhand)	7050
	Dharwad (Karnataka)	2450
Security Caps & Closures	Medak (Telangana)	Under Construction

* Out of total capacity 300 tonnes/day is shutdown at present.

**Institutional Clients List:**

Building products segment Clients:

Adani	Godrej Properties	M2K	Purvanchal Projects
Amrapali Group	GMR	Marriot	Shaporjee Pallonjee
Ansal Group	Infosys	Omaxe	Shobha Developers
ATS Infrastructures	Jaypee	Oris Infrastructure	Tata Housing
DLF	JMD	Parsvnath Developers	The Taj Hotels
Emaar MGF	L&T	Prestige Developers	Vipul

Packaging Product Segment Clients:

Liquor & Beer	Pharmaceuticals	Food	Soft Drink
Carlsberg	Abbott	GSK	Coca Cola
Pernod Recard	GSK	Heinz	Pepsi Co
SAB Miller	Johnson & Johnson	Hindustan Unilever Limited	
United Breweries	Pfizer	ITC	
United Spirits	Ranbaxy	Global Green	

**Turnaround segment:****Packaging Product Division**

Company manufacturing glass and PET bottles, under the AGI and Garden Polymers brands respectively. Despite an overall sluggishness in the industry, company continue to improved capacity utilization and enhanced efficiencies contributed to boost growth and profitability in this division which enabling a business turnaround.

Key Initiatives:

- Company decide to foray into the manufacture of security caps and closures, thus promising to add new revenues of growth
- Value-added specially coloured bottles business has also contributed to profitable growth in this segment, both in terms of domestic and exports markets.
- Increased capacity utilisation for coloured bottles, as well as chemical and smaller bottles, led to a positive effect on the profitability of PPD business. Key Clients are Nestle, HUL, Pepsi.

Future outlook for the Division:

- Company shall focus on innovating new product designs and building higher efficiencies and continued efforts to grow the business.
- Company shall also strengthen our focus on value-added products, with manufacturing facility for security caps and closures becoming operational in the coming quarters.
- Company is moving strategically into the production of new Narrow Neck Press & Blow bottles.

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 factor.
- 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.
- Hindware Home Retail Private limited currently making loss of Rs18 Crore. As per management guidance, From FY18, It should breakeven EBITDA levels.

**Opportunity:**

- 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, led by initiatives such as '100 Smart Cities', '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.

Outlook:

- Company shall continue to strengthen retail focus and institutional business which is beginning to show signs of improvement.
- Company has opportunity of Rs 6,500 crores in faucet market, recently the company has also launched economy range of faucets under the Benelave brand to boost growth in this segment.
- The replacement market further offers exceptional growth opportunities for this division.
- Company shall also continue to further deepen our reach into Tier III cities, where the response to products has been more than encouraging.
- Company has started expansion into new geographies and strategic initiative to boost brand and sales in consumer Product business.
- Company is continually expanding retail network consists of 3,000+ dealers and 20,000+ retailers across the country.

Valuation & Outlook:

We expect to maintain 12% topline growth for FY17E and FY18E. At CMP of Rs 350 company trades at a P/E multiple of 16 (x) to its FY 18 estimates. We have valued the stock at its FY 18E forward P/E of 20 (x) and arrived at a fair value of Rs 431 per share. We initiate coverage with "**BUY**" rating on the company.

Valuation :	
EPS	21.6
P/E	20
Target Price	431
Current Market Price	350
Upside %	23%



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17E	FY18E
Income from operations	1981	2056	2295	2564
RM exps	732	763	872	974
Other expenses	917	978	1082	1209
Total Expenses	1648	1741	1955	2183
EBITDA	336	319	345	385
EBITDA Margin	17%	16%	15%	15%
Depreciation and Amortization	125	120	134	137
other income	4	3	4	4
finance cost	78	41	44	41
Exceptional items	0	0	0	0
Profit before tax	134	157	168	206
Total Tax expenses	48	68	38	50
Profit/(Loss) for the year	86	89	130	156
EPS	12.9	12.3	17.9	21.6

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17E	FY18E
Liabilities + Equity				
Share Capital	14	14	14	14
Reserves and surplus	1309	1364	1459	1580
Shareholders fund	1323	1378	1473	1595
Total Non Current Liabilities	486	338	537	412
Total Current liabilities	822	866	877	896
Total - Equity and Liabilities	2631	2582	2887	2903
Assets				
Non Current Assets				
Total Net Fixed Assets	1618	1575	1744	1684
Total Non current Assets	48	56	62	63
Current Assets				
Cash and bank balances	25	20	61	52
Total Current Assets	940	930	1021	1104
Total	2631	2582	2887	2903

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17E	FY18E
Operating Activities				
Net Profit before tax	134	157	168	206
Non cash / Non operating items	195	158	177	179
Total	328	316	345	385
Tax paid	-38	-64	-38	-50
Changes in working capital	-26	45	-63	-57
Cash from operating activities	264	296	244	278
Investing Activities				
Cash flow from investing activities	-92	-61	-277	-83
Financing activities				
Dividends + tax paid	-23	-30	-35	-35
Change in other financing activities	-184	-208	109	-169
Cash from financing activities	-207	-238	74	-204
Opening cash & Cash equivalents	55	19	17	57
Changes during the year	-35.4	-2.8	40.5	-9.0
Closing cash & cash equivalents	19	17	57	48

Ratio Analysis				
	FY15	FY16	FY17E	FY18E
Profitability				
Revenue growth	7%	4%	12%	12%
Operating EBITDA%	17%	16%	15%	15%
PAT%	4.32%	4.33%	5.64%	6.08%
PAT% Growth	151%	4%	45%	20%
Du Pont ROE breakup				
PAT/Sales	4%	4%	6%	6%
Sales/ Avg Total Assets	0.7	0.8	0.8	0.9
Avg Total Assets / Avg Eqty	2.3	1.9	1.9	1.9
ROE	7%	7%	9%	10%
Other Ratios				
Current Ratio	1.1	1.1	1.2	1.2
Long Term Debt / Equity	0.3	0.2	0.3	0.2
EPS	12.9	12.3	17.9	21.6
DPS	3.5	4	4	4
P/E	23.2	29.2	19.5	16.2
P/BV	1.6	1.9	1.7	1.6

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Stock Rating Scale**Absolute Return**

Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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