



**Replacement demand yet to pick up!!!**

**9<sup>th</sup> November, 2016**

<b>Rating</b>	
<b>CMP</b>	<b>Rs 350</b>
<b>Target Price</b>	<b>Rs 431</b>
<b>Recommendation</b>	<b>BUY</b>

**Stock Info**

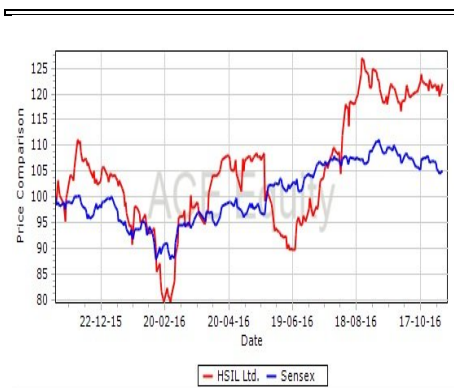
<b>BSE Group</b>	B
<b>BSE Code</b>	500187
<b>NSE Symbol</b>	HSIL
<b>Bloomberg</b>	HSI IN
<b>Reuters</b>	HSNT.BO
<b>BSE Sensex</b>	27,439
<b>NSE Nifty</b>	8,490

**Market Info**

<b>Market Capital</b>	Rs 2,567 cr
<b>Equity Capital</b>	Rs 14.46 cr
<b>Avg. Trading Vol.</b>	1,01,930
<b>52 Wk High/ Low</b>	370/223
<b>Face Value</b>	Rs 2

<b>Shareholding Pattern (%)</b>	<b>(SEP'16)</b>
<b>Promoters</b>	<b>47.7</b>
<b>FIIIs/DIIs/MFs</b>	<b>34.7</b>
<b>Public</b>	<b>17.6</b>
<b>Total</b>	<b>100</b>

**Price Chart:**



➤ **Q2FY17 Net Revenue** at Rs474 crores was line with our expectations. Company has achieved Healthy revenue growth across segments. Sanitaryware and faucet both grew in double digits and PPD growth was steady and has started the process of activating the 4<sup>th</sup> furnace which will be commercialized in Q4FY17. Building Products segment revenue grew by 17.5% and packaging products segment revenue grew by 12.4% on Y-o-Y basis.

➤ **Q2FY17 Operating EBITDA** was at Rs81 crores, with EBITDA margin at 17.2%. EBITDA margin decreased by 120 bps on YoY and increased by 130 bps on QoQ basis. The decline was restricted by Lower fuel cost (-270bps YoY, 12.1% of sales) and lower expenditure (-110bps YoY, 20.4% of sales).

➤ **Q2FY17 Reported PAT** was at Rs31.4 crores up by 8.4% on YoY basis and 19% on QoQ basis. However, higher PAT was due to lower finance cost of Rs 7cr Vs Rs9cr YoY. The company has increased higher spends on marketing, warehouse and channel management pertaining to the consumer appliances segment which will weigh on the EBITDA margin till FY18.

**Con-call Highlights:**

- Consumer product division has grown 2 times on YoY basis and kitchen appliances and water purifiers’ products demand yet to pick up. Recently, company has launched various Consumer Appliances products like kitchen appliances, water purifiers and gas heaters.
- Building Product division has seen healthy margin & strong growth in retail segment especially in Tier II and Tier III towns. Company keeps expanding dealers and distribution network. Sanitary ware segment will grow in line with industry and faucet growth momentum to continue going ahead.
- Packaging products division grew at steady rate despite weak user industry demand. Company is supplying to food & Beverages industry which is seeing healthy traction.
- Management expect to have better improvement in 2nd half of FY 17 and given guidance of 15% growth for Building product division and 6% to 10% growth in packaging product division.

**Valuation:**

We remain **“optimistic”** on Building products segment and consumer appliances segment due to strengthening retail focus which is beginning to show signs of improvement. Penetration of faucets, sanitaryware and consumer appliances are revenue drivers. We value the stock at 20x FY18EPS, and assign a price target of Rs 431 with a **“BUY”** rating on the stock.

Source: Company data, Arihant Research



## Quarterly Results:

Particulars (in cr)	Q2FY17	Q2FY16	Y-o-Y%	Q1FY17	Q-o-Q%
Net sales	474	411	15.2%	460	2.9%
COGS	176	130		173	
Gross Profit	298	281	6.0%	288	3.6%
Other expenses	217	205		214	
EBITDA	81	76	7.5%	73	10.9%
Depreciation	28	27		27	
EBIT	53	48	10.1%	46	15.0%
Interest	7	9		8	
Other Income	2	7		2	
PBT	48	46	5.5%	40	21.2%
Tax Expenses	17	17		13	
Net Profit	31	29	8.4%	26	18.9%
EPS	4.4	4.0		3.7	
EBITDA Margin %	17.2%	18.4%		15.9%	

Source: Company data, Arihant Research



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
<b>Liabilities + Equity</b>				
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
<b>Assets</b>				
<b>Non Current Assets</b>				
Total Net Fixed Assets	1618	1575	1744	1684
Total Non current Assets	48	56	62	63
<b>Current Assets</b>				
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
<b>Operating Activities</b>				
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
<b>Investing Activities</b>				
Cash flow from investing activities	-92	-61	-277	-83
<b>Financing activities</b>				
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
<b>Profitability</b>				
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%
<b>Du Pont ROE breakup</b>				
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%
<b>Other Ratios</b>				
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	28.8	19.8	16.5
P/BV	1.6	1.9	1.7	1.6

(\*Closing cash excludes other bank balance.)

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**Stock Rating Scale**

	<b>Absolute Return</b>
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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