

Disappointing Margins

15th November 2017

Rating	
CMP	Rs 460
Target Price	Rs 451
Recommendation	Neutral

Stock Info

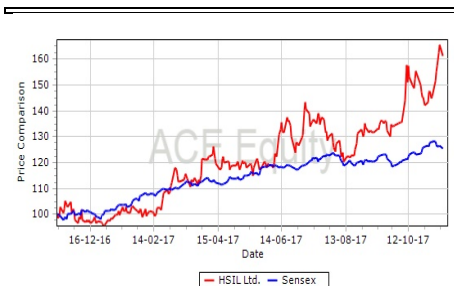
BSE Group	B
BSE Code	500187
NSE Symbol	HSIL
Bloomberg	HSI IN
Reuters	HSNT.BO
BSE Sensex	32,941
NSE Nifty	10,186

Market Info

Market Capital	Rs 3,307 cr
Equity Capital	Rs 14.46 cr
6M Avg. Trading Vol.	1,33,038
52 Wk High/ Low	495/273.5
Face Value	Rs 2

Shareholding Pattern (%)	(Sep'17)
Promoters	48.4
FII/DIRs/MFs	32.5
Public	19.1
Total	100.0

Price Chart:



Q2 FY18 Highlights:

Net Revenue stood at Rs 533 crores representing an increase of 11% QoQ and 7% YoY .

Operating EBITDA stood at Rs 72 crores vs Rs 79 crores YoY , EBITDA margin declined to 14% from 15.9% YoY .

PAT stood at Rs 24 crores vs Rs 29 crores YoY down by 18%.

Segmental Revenue Highlights:

- Building product division** which constitutes of sanitaryware, faucets and other wellness products and also the pipes, for the quarter ended 30th September 2017 achieved revenue of around 258 crores, which has reported a growth of 6.7% over previous year figure. And EBIT for the building product division for the same period is around 54 crores as compared to previous year figure of 46 crores.
- Packaging division** in the quarter ended 30th September 2017, achieved a revenue of around 202 crores, a marginal decline on 0.7% yoy. There was a de-growth due to partial impact of GST down the line and also due to the Supreme Court order i.e. sale of liquor ban on the highways. And that impacted the sale of liquor all across the country, and also the sale of all the ancillary products like bottles which goes into the packaging of the liquor. EBIT for the quarter ended 30th September 2017 was around 15 crores as compared to previous year corresponding figure of 25 crores.
- Consumer products division** is continuing with the growth and have achieved around 93% growth with the revenues of 55 crores. But due to additional marketing spends; both in terms of advertisement and brand building, HSIL reported EBIT level loss of 4.32 crores, as compared to previous year loss of 5.5 crores.
- The retail division** which is the Evok brand furniture store, did a revenue of 25 crores against the previous year figure of 22 crores, which represents 13 % growth Yoy. And EBIT loss of 3.68 crores vs loss of around 3.29 crores Yoy.

Demerger expected to be completed by June 2018 : HSIL will continue to retain the manufacturing activities of all divisions and Packaging products division while branding, marketing, sales and distribution activities of building products, consumer products and retail division will be transferred to demerged entity. HSIL will operate on cost + mark-up model (mark up of 4-6%). This demerger is supposed to create value as HSIL will focus on generating efficiencies on the procurement and supply chain side thereby reducing manufacturing cost whereas the demerged entity will be an asset light business with focus to drive growth. Long term debt will remain on HSIL's books while working capital will be proportionally allocated to respective division.

Scheme of Demerger

Board of Directors has approved a scheme of arrangement whereby:

- Branding, Marketing, Sales, Distribution etc. of Consumer Products (CPDM) and Branding, Marketing, Sales, Distribution etc. of furniture, furnishings, home décor (Retail Undertaking) will be demerged into an entity named Somany Home Innovation Limited (SHIL).
- 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).
- The companies will have a mirror shareholding (1:1 ratio) for HSIL & SHIL.

Valuation:

With Consumer product division growing at a faster pace, Retail space improving on their losses, management expects to breakeven in consumer product division in Q4 FY18 or Q1 FY19. The stock is currently trading at 28.6 PE of our estimated FY19 EPS of Rs 16.1. Given the recent performance, we value the company at 28x PE, and assign a price target of Rs 451 with a “**Neutral**” rating on the stock.

Quarterly Results:

Particulars (in cr)	Q2FY18	Q1 FY18	Q2FY17	YoY	QoQ
Net sales	533	480	496	7%	11%
COGS	201	175	188	7%	7%
Gross Profit	331	305	308	8%	9%
Other expenses	259	252	228	13%	13%
EBITDA	72	53	79	-9%	36%
Depreciation	27	26	29	-8%	-8%
EBIT	45	27	50	-9%	68%
Interest	12	10	7	64%	64%
Other Income	2	1	1	22%	99%
PBT	35	17	44	-21%	-21%
Tax Expenses	11	6	15	-27%	100%
Net Profit	24	12	29	-18%	-18%
EPS	3	1.63	3.9	-18%	100%
EBITDA Margin %	14%	11%	15.9%	-15%	-15%

Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY17	FY18E	FY19E
Income from operations	2078	2187	2311
RM exps	805	823	878
Other expenses	986	1076	1109
Total Expenses	1791	1898	1987
EBITDA	287	289	324
EBITDA Margin	14%	13%	14%
Depreciation and Amortization	111	110	116
other income	5	6	9
finance cost	33	50	46
Exceptional items	0	0	0
Profit before tax	147	136	171
Total Tax expenses	47	43	55
Profit/(Loss) for the year	100	92	116
EPS	13.9	12.8	16.1

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY17	FY18E	FY19E
Liabilities + Equity			
Share Capital	14	14	14
Reserves and surplus	1432	1522	1639
Shareholders fund	1446	1537	1653
Total Non Current Liabilities	591	486	348
Total Current liabilities	1048	1096	1150
Total - Equity and Liabilities	3086	3119	3151
Assets			
Non Current Assets			
Total Net Fixed Assets	1693	1646	1623
Total Non current Assets	1879	2015	1949
Current Assets			
Cash and bank balances	143	67	67
Total Current Assets	1207	1104	1202
Total	3086	3119	3152

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY17	FY18E	FY19E
Operating Activities			
Net Profit before tax	147	136	171
Non cash / Non operating items	146	148	252
Total	293	283	423
Tax paid	-47	-43	-55
Changes in working capital	-16	-57	-75
Cash from operating activities	204	183	293
Cash flow from investing activities	-329	-159	-159
Financing activities			
Dividends + tax paid	-35	-35	-35
Change in other financing activities	282	-66	1
Cash from financing activities	248	-101	-33
Opening cash & Cash equivalents	17	140	-37
Changes during the year	123.2	-76.7	100.4
Closing cash & cash equivalents	140	63	64

(*Closing cash excludes other bank balance.)

Ratio Analysis

	FY17	FY18E	FY19E
Profitability			
Revenue growth	1%	5%	6%
Operating EBITDA%	14%	13%	14%
PAT%	4.83%	4.22%	5.03%
PAT% Growth	13%	-8%	26%
Du Pont ROE breakup			
PAT/Sales	5%	4%	5%
Sales/ Avg Total Assets	0.7	0.7	0.7
Avg Total Assets / Avg Eqty	2.0	2.1	2.0
ROE	7%	6%	7%
Other Ratios			
Current Ratio	1.2	1.0	1.0
Long Term Debt / Equity	0.2	0.2	0.1
EPS	13.9	12.8	16.1
DPS	4	4	4
P/E	26.7	36.1	28.6
P/BV	1.9	2.2	2.0

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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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