



ARIHANT Capital Markets Ltd.

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Result Update – Q4FY17

HSIL Ltd.

Muted Revenue Growth

24th May, 2017

Rating

CMP	Rs 347
Target Price	Rs 312
Recommendation	REDUCE

Stock Info

BSE Group	B
BSE Code	500187
NSE Symbol	HSIL
Bloomberg	HSI IN
Reuters	HSNT.BO
BSE Sensex	30,365
NSE Nifty	9,386

Market Info

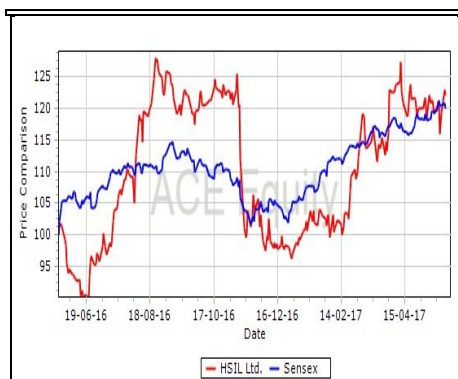
Market Capital	Rs 2,450 cr
Equity Capital	Rs 14.46 cr
Avg. Trading Vol.	1,08,575
52 Wk High/ Low	375/255
Face Value	Rs 2

Shareholding Pattern (%)

(Mar'17)

Promoters	48.4
FII/DII/MFs	33.1
Public	18.5
Total	100.0

Price Chart:



- **Q4FY17 Net Revenue** for the quarter was at Rs 637cr representing a marginal growth of 0.40% on the quarter and 6% YoY. Building products segment growth was steady at 4.6% YoY led by healthy growth in faucets while sanitary ware impacted due to decline in Institutional sales. Revenue was at Rs 304cr. Packaging products segment sales was subdued during the quarter at Rs 260cr vs Rs 310cr YoY. Drop in sales was due to slow down in sector. Consumer product segment sales was Rs 43cr a growth of 226% YoY, for the last two years this segment is growing at 100%YoY, though its EBIT was negative at Rs 8.82cr primary due to high advertising expenses. Retail Business sales was Rs30cr vs Rs 21cr YoY and negative EBIT of Rs1cr vs negative Rs 5cr YoY

- **Q4FY17 Operating EBITDA** was at Rs73cr vs 95cr YoY, EBITDA margin declined by 390bps yoy to 12.3% at multiyear low, impacted by higher fuel cost and employee expenditure.

- **Q4FY17 Reported PAT** was at Rs30cr down by 19% on YoY basis and increase of 37% QoQ. One of the reasons for the reduction in the PAT was mainly due to non receipt of the incentive that was of Rs 17.41cr which was received by Packaging Division from the Government of Telangana as a part of the megaproject scheme in FY16.

Con-call Highlights:

- The process to activate the 4th furnace has been put on hold and will be recalibrated as and when demand improves. Currently the 3 furnaces are working at a capacity utilization of 84%.
- Growth impacted due to weak user industry demand (lower sales in liquor and F&B).
- GST rates of 18% will benefit faucets category as current rate is 24-25% while for other categories the rate is neutral from current rate of 28%.
- Launched brand Benalave targeting low end sanitary ware for affordable housing segment. It is completely outsourced and has already clocked revenue of Rs 300mn in FY17.

Valuation:

We have cut our EPS estimate by 10% for FY18/19E due to higher fuel cost and increase in loss in consumer product business. Revival in core segment (Sanitary ware and Faucets) and improving profit margins in consumer product and packaging will be the key triggers going forward. Given the recent performance with limited upside, we value the stock at 15x FY19 EPS, and assign a price target of Rs 312 with a “Reduce” rating on the stock.

Generating Wealth. Satisfying Investors.

Source: Company data, Arian Research



Quarterly Results:

Particulars (in cr)	Q4FY17	Q4FY16	YoY%	Q3FY17	Q-o-Q%
Net sales	594	588	1%	505	18%
COGS	241	249		190	
Gross Profit	354	339	4%	316	12%
Other expenses	280	244		247	
EBITDA	73	95	-23%	69	6%
Depreciation	25	29		28	
EBIT	48	66	-28%	41	17%
Interest	9	10		8	
Other Income	1	4		1	
PBT	40	60	-34%	34	15%
Tax Expenses	9	23		12	
Net Profit	30	38	-19%	22	37%
EPS	4.3	5		3.1	
EBITDA Margin %	12.3%	16.2%		13.7%	-10%

Source: Company data, Arian Research



Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY16	FY17	FY18E	FY19E
Income from operations	2056	2078	2340	2683
RM exps	763	805	913	1019
Other expenses	978	986	1103	1264
Total Expenses	1741	1791	2016	2284
EBITDA	319	287	328	403
EBITDA Margin	16%	14%	14%	15%
Depreciation and Amortization	120	111	137	141
other income	3	5	4	4
finance cost	41	33	41	35
Exceptional items	0	0	0	0
Profit before tax	157	147	149	226
Total Tax expenses	68	47	31	77
Profit/(Loss) for the year	89	100	118	149
EPS	12.3	13.9	16.4	20.6

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY16	FY17	FY18E	FY19E
Liabilities + Equity				
Share Capital	14	14	14	14
Reserves and surplus	1364	1429	1513	1663
Shareholders fund	1378	1444	1528	1677
Total Non Current Liabilities	338	537	412	287
Total Current liabilities	866	877	896	950
Total - Equity and Liabilities	2582	2858	2836	2915
Assets				
Non Current Assets				
Total Net Fixed Assets	1575	1744	1646	1623
Total Non current Assets	56	62	63	69
Current Assets				
Cash and bank balances	20	31	23	21
Total Current Assets	930	1021	1104	1202
Total	2582	2858	2836	2915

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY16	FY17	FY18E	FY19E
Operating Activities				
Net Profit before tax	157	147	149	226
Non cash / Non operating items	158	177	179	177
Total	316	324	328	403
Tax paid	-64	-42	-31	-77
Changes in working capital	45	-63	-57	-75
Cash from operating activities	296	219	240	251
Investing Activities				
Cash flow from investing activities	-61	-277	-83	-55
Financing activities				
Dividends + tax paid	-30	-35	-35	-35
Change in other financing activities	-208	109	-169	-163
Cash from financing activities	-238	74	-204	-198
Opening cash & Cash equivalents				
Opening cash & Cash equivalents	19	17	66	19
Changes during the year				
Changes during the year	-2.8	48.9	-46.5	-1.9
Closing cash & cash equivalents				
Closing cash & cash equivalents	17	28	19	17

Ratio Analysis

	FY16	FY17	FY18E	FY19E
Profitability				
Revenue growth	4%	1%	13%	15%
Operating EBITDA%	16%	14%	14%	15%
PAT%	4.33%	4.82%	5.06%	5.56%
PAT% Growth	4%	12%	18%	26%
Du Pont ROE breakup				
PAT/Sales	4%	5%	5%	6%
Sales/ Avg Total Assets	0.8	0.8	0.8	0.9
Avg Total Assets / Avg Eqty	1.9	1.9	1.9	1.8
ROE	7%	7%	8%	9%
Other Ratios				
Current Ratio	1.1	1.2	1.2	1.3
Long Term Debt / Equity	0.2	0.3	0.2	0.1
EPS	12.3	13.9	16.4	20.6
DPS	4	4	4	4
P/E	28.8	25.6	21.7	17.2
P/BV	1.9	1.8	1.7	1.5

(*Closing cash excludes other bank balance.)

Source: Ace Equity, Arihant Research

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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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