

## Demonetization Impact!!!

7<sup>th</sup> February, 2017

<b>Rating</b>	
<b>CMP</b>	<b>Rs 282</b>
<b>Target Price</b>	<b>Rs 340</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>	28,178
<b>NSE Nifty</b>	8,721

### Market Info

<b>Market Capital</b>	Rs 2,071 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>(Dec'16)</b>
<b>Promoters</b>	<b>47.7</b>
<b>FII/DFIs/MFs</b>	<b>34.7</b>
<b>Public</b>	<b>17.6</b>
<b>Total</b>	<b>100</b>

### Price Chart:



➤ **Q3FY17 Net Revenue** at Rs474 crores was below our expectations. Company has shown weakness in revenue growth across segments. Sanitaryware and faucet both grew in single digit and PPD growth was declined and company has postponed the process of activating the 4<sup>th</sup> furnace mainly due to demonetisation impact on end user industry. Building Products segment revenue grew by 5.5% and packaging products segment revenue declined by 7.88% on Y-o-Y basis.

➤ **Q3FY17 Operating EBITDA** was at Rs72 crores, with EBITDA margin at 15.0%. EBITDA margin declined by 450 bps YoY and declined by 220 bps on QoQ basis. This was mainly due to higher fuel cost (+8.0% YoY, 13.3% of sales) and Higher Employee benefit expenses (+13.1% YoY, 14.3% of sales) and higher other expenditure (+9.7% YoY, 21.5% of sales).

➤ **Q3FY17 Reported PAT** was at Rs26.5 crores down by 33.6% on YoY basis and 15.8% on QoQ basis. However, lower PAT was due to lower operating income of Rs 5.76cr Vs Rs15.45cr 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:

- Management has given extra incentives to supplier to maintain the topline growth which has directly impacted on EBITDA margin. In consumer product division, kitchen appliances and water purifiers' products demand is yet to pick up. Recently, company has launched various Consumer Appliances products like kitchen appliances, water purifiers and gas heaters.
- Building Product division has suffered on margin side & muted growth in institutional 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 growth declined mainly due to demonetization impact on end user industry demand. Company is supplying to food & Beverages industry which is seeing downward traction.
- Management expect to have muted growth in 4<sup>th</sup> quarter of FY 17 and given guidance of 14% to 16% EBIT margin for Building product division and 10% for 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 19x FY18EPS, and assign a price target of Rs 340 with a **"BUY"** rating on the stock.



## Quarterly Results:

Particulars (in cr)	Q3FY17	Q3FY16	Y-o-Y%	Q2FY17	Q-o-Q%
Net sales	482	489	-1.4%	474	1.7%
COGS	176	181		176	
Gross Profit	306	308	-0.5%	298	2.7%
Other expenses	234	212		217	
EBITDA	72	95	-24.3%	81	-11.3%
Depreciation	27	27		28	
EBIT	45	68	-33.8%	53	-15.4%
Interest	7	10		7	
Other Income	2	4		2	
PBT	40	62	-35.9%	48	-17.5%
Tax Expenses	13	22		17	
Net Profit	27	40	-33.6%	31	-15.8%
EPS	3.7	5.5		4.4	
EBITDA Margin %	15.0%	19.5%		17.2%	

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	15.9	13.2
P/BV	1.6	1.9	1.4	1.3

(\*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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