HDFC securities
Click. Invest. Grow.
20 YEARS

Initiating Coverage – Smallcap (Medium Risk)

HSIL Ltd.

19-July-2021

RETAIL RESEARCH

HSIL Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Packaging	Rs. 247.4	Buy at LTP and add on dips to Rs 223-225 band	Rs. 272	Rs. 314	2 quarters

HDFC Scrip Code	HSILTDEQNR
BSE Code	500187
NSE Code	HSIL
Bloomberg	HSI IN
CMP July 16, 2021	247.4
Equity Capital (Rs cr)	6.47
Face Value (Rs)	2
Equity Share O/S (cr)	12.94
Market Cap (Rs cr)	1600.6
Book Value (Rs)	190.7
Avg. 52 Wk Volumes	488799
52 Week High	264.7
52 Week Low	52.5

Share holding Pattern % (June 2021)	
Promoters	60.2
Institutions	9.9
Non Institutions	29.9
Total	100.0

Fundamental Research Analyst
Hemanshu Parmar
hemanshu.parmar@hdfcsec.com

Our Take:

HSIL is engaged in the business of manufacturing and distribution of Packaging Products comprising three diverse segments: glass containers packaging, PET bottles and products, and counterfeit-resistant security caps and closures. It also has building products manufacture division that includes sanitary ware, faucets, plastic pipes & fitting. It has 11 state-of-the-art manufacturing plants and boasts of advanced and best in class technology and equipment for efficient manufacturing. Capability to operate with alternative fuel and management's conscious decision to use the best available fuel has allowed HSIL to consistently improve its margin profile despite the fluctuation in fuel prices. The demerger wef April 2018 by which Consumer Products Distribution and Marketing Undertaking and Retail Undertaking of the company was transferred to Somany Home Innovation Limited (SHIL) and the Building Products Distribution and Marketing Undertaking was transferred to Brilloca Limited has started to unlock value by creating distinct entities for three of its business undertakings, thereby ensuring sharper focus on and better alignment to the goals. It was a strategic move to enhance capabilities, create future-focused institutions of excellence.

HSIL is the 2nd largest manufacturer of glass containers in India with ~20% market share in organised glass packaging industry catering to marquee clients in the packaged beverages, food, beer, liquor, chemical and pharmaceutical sectors. Its growth dynamics are fully aligned with the fundamental underlying growth profile of its customers and there are multiple growth drivers for the packaging industry. Having established a leadership position in glass packaging segment; it has ample growth opportunities to mark its territory in PET and security caps & closures. Entry into retail space with Greendrop Glassware brand and capacity expansion to cater high margin perfumery and cosmetics industry would improve its topline growth and expand margins. Plastic pipes and fitting, complementing its sanitary ware business could be another major growth driver. The company's decision to consider on-boarding of clients (apart from serving Brilloca Ltd) in the building products space can be a key trigger.

Valuations & Recommendation:

HSIL over the years has strengthened its product development capabilities in building products business, focused on introduction of new green building products, modifying its range of products for local applications as well as improving cost and operational efficiencies. Established track record, experienced promoters, diverse institutional clients across industries in the packaging division along with long term supply contract for the building products with its group company Brilloca Ltd which has well recognised brand name in sanitary ware segment are the key positives for the company. Ongoing and future capex plan to enhance its product offerings and management's decision to serve other players in building products space will be key monitorable. **We think the base case fair value of the stock is Rs 272 (11.25x FY23E EPS) and the bull case fair value is Rs 314 (13x FY23E EPS) over the next two quarters. Investors can buy the stock at LTP and add more on dips to Rs 223-225 band (9.25x FY23E EPS). At the LTP of Rs 247.4, it quotes at 10.2x FY23E EPS**.

Financial Summary (Standalone):

Particulars (Rs cr)	Q4FY21	Q4FY20	YoY-%	Q3FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	633.2	461.0	37.3	541.5	16.9	1,604.8	1,859.1	1,852.6	2,109.2	2,377.3
EBITDA	96.7	54.3	77.9	94.6	2.2	171.3	271.1	280.1	348.0	399.4
Depreciation	30.1	35.5	-15.1	31.0	-2.9	131.3	142.9	121.4	132.2	143.1
Other Income	5.0	7.1	-29.4	6.1	-18.0	41.4	20.3	28.0	31.6	35.7
Interest Cost	14.9	18.4	-19.0	18.6	-20.0	59.0	73.5	71.9	76.0	83.0
Tax	23.7	4.2	463.6	15.2	56.1	7.1	26.6	26.8	43.2	52.7
PAT	33.0	3.4	876.9	35.9	-8.1	15.3	48.4	88.1	128.3	156.3
EPS (Rs)	5.1	0.5	985.9	5.5	-7.7	2.1	6.7	12.7	19.8	24.2
RoE-%						1.1	3.9	7.1	10.0	11.2
P/E (x)						117.3	37.0	19.5	12.5	10.2
EV/EBITDA						15.2	9.9	8.5	7.0	6.2

(Source: Company, HDFC sec)

Q4FY21 Result Review:

HSIL reported robust revenue of Rs 633.2cr, up 37.3% YoY. Revenue growth during the quarter was primarily driven by improved volumes, realizations and better product mix. The volume growth was supported by increasing demand for glass containers packaging from beer, food and the beverage industry. Gross margins fell to 54% as against 61.8% in Q4FY20, mainly on the back of higher raw material input costs which are passed on with a lag. The company reported EBITDA of Rs 96.7cr, up 77.9% YoY. EBITDA Margins improved ~350bps YoY on account of better product mix and high operational efficiencies and stood at 15.3% during the quarter. PAT for the quarter was Rs 33cr vs Rs 3.4cr in Q4FY20.

Revenue from packaging products division was Rs 418.2cr (65.8% of revenue) which reported a strong EBIT margin of 17.9% (up ~670bps YoY). Strong growth was observed in all sub-segments of glass containers, which constitute ~88% of division's revenue. Glass Container plant capacity utilisation increased to 85% as compared to the 79% in the same quarter last year. The management expects that margin of 14.5 to 15% is sustainable and the company is working on tapping the high end of the market which should improve margins in the longer run. Building products division also witnessed decent revenue of Rs 215.9cr (up 59.7% YoY) as demand recovered on gradual opening of the economy. EBIT margins of this division stood at 3.2% during the quarter. Like any other OEM contractor, margin for this division is likely to remain in low single digit. The management expects margins for building materials division to range ~3-4.5%.

HSIL Ltd is planning a capacity expansion of 154 tonnes high end glass furnace to cater the perfumery, nail polish and pharma market. With respect to its building products, the company is investing in its pipes facility that would add 10,000 tonnes capacity in the system. The company' continuous focus on process and cost optimisation has helped it to deliver higher growth and profitability.

Triggers:

Long track record with strong market position:

HSIL, incorporated in 1960 introduced vitreous china ceramic sanitary ware in India and later diversified into the manufacture of glass containers through the acquisition of Associated Glass Industries Limited (AGI) in 1981. Over the many years of operations, the company has built up a reputation in terms of providing excellent quality products and catering to large and demanding customer base with a product range covering Flint, Amber and Green containers. The product range varies from a small 5 ml Pharma bottle to a 4000 ml Chemical/Food jars. The company acquired Garden Polymers Private Limited (GPPL) in 2011, and added PET bottles to its portfolio offerings. It offers customised products and solutions in PET through three state-of-the-art facilities using the best-in class technology to meet clients' requirements. Garden Polymers is the leading supplier of PET bottles to the Health Care Industry in India. Major players in Pharma industry use PET bottles manufactured by Garden Polymers. In addition, it is also the major supplier of PET bottles to the personal care and Alco-beverage industry. In FY18, HSIL commenced the manufacturing of security caps and closures to cater to rising demand for safety and tamper-proof capping (prevents counterfeiting) and currently caters to alcoholic beverage companies in India.

HSIL holds a significant market share in all the business verticals of its presence. HSIL is the 2nd largest manufacturer of glass containers in India with ~20% market share in organised glass packaging industry catering to marquee clients in the packaged beverages, food, beer, liquor, chemical and pharmaceutical sectors. Established clientele, operating efficiencies and stability of prices have ensured decent profitability. This established position is because of the technological upgradation carried out to cater the changing demand of its clients. Recently the company purchased three high technology narrow neck press and blow machines which have advanced control systems to manufacture NNPB bottles rather than conventional blow bottles; addressing the demand of its clients in beer and alike industries.

The company is also a leading manufacturer of sanitaryware products in India and is the second largest faucet players in the domestic market. The company will benefit from long term supply contract of building products with Brilloca; which has strong brand recognition and wide distribution reach.

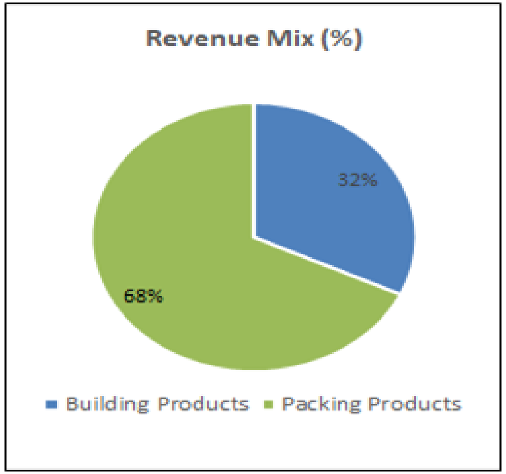
Demerger - Unlocking Value:

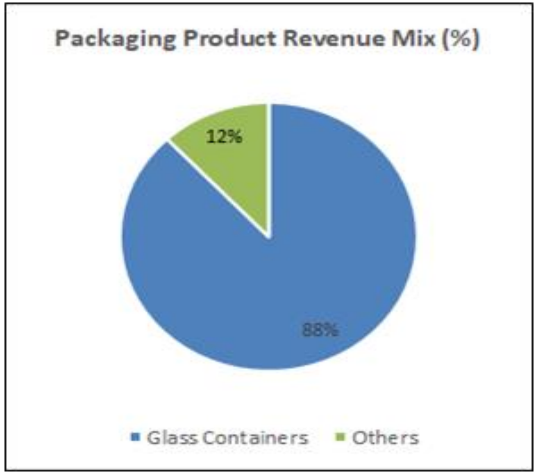
The Board of Directors in its meeting held on November 10, 2017 had approved a Composite Scheme of arrangement, wherein (i) the Consumer Products Distribution and Marketing Undertaking and Retail Undertaking of the company was transferred to Somany Home Innovation Limited (SHIL) and (ii) the Building Products Distribution and Marketing Undertaking was transferred to Brilloca Limited. The scheme was approved by the Hon'ble Kolkata Bench of National Company Law Tribunal vide its order dated June 26, 2019 and was effective from the Appointed Date i.e. April 1, 2018. The objective of the demerger is to unlock value by creating distinct entities for three of its business undertakings, thereby ensuring sharper focus on and better alignment to its customers. As per the terms of the scheme, all the subsidiaries stand transferred to SHIL & Brilloca Limited and the company does not have any subsidiary. HSIL now houses only manufacturing and selling of packaging products i.e. Container Glass, Pet Bottles and Security Caps & Closures, and also the manufacturing of Building Products businesses i.e. Sanitaryware, Faucets and Plastic Pipes & Fittings.

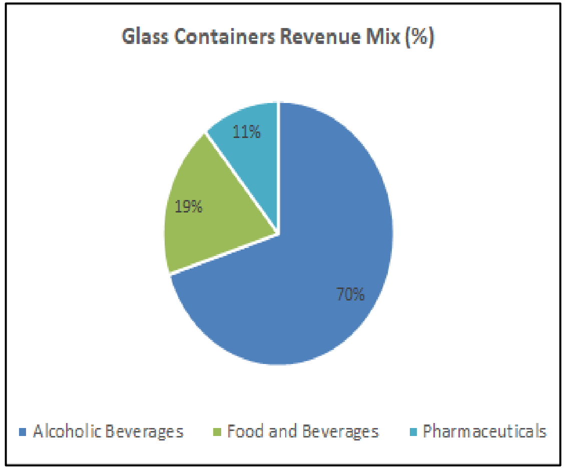
The demerger scheme was a strategic move to enhance capabilities, create future-focused institutions of excellence. The demerger scheme was with a view to focus on operating efficiencies in manufacturing, procurement, and supply chain in the manufacturing businesses and also on the growth opportunities and brand building in SHIL and Brilloca. It has resulted in dedicated and specialised focus on the specific needs of the respective businesses as each division has distinct capital requirements and different structure to enhance its value. It also aids in unlocking intrinsic value of assets, achieving cost & operational efficiencies thereby strengthening their position in the relevant market places.

Diversified product portfolio:

Post the demerger of HSIL, manufacturing of Building and Packaging products continues to remain with HSIL. Packaging Products comprises three diverse segments: glass containers packaging, PET bottles and products, and counterfeit-resistant security caps and closures. It is positioned as one of the significant glass container manufacturers in the country, offering packaging solutions to multiple sectors. The company manufactures wide array of designs, textures, colour, shapes and sizes; with its glass packaging range from a small 5 ml Pharma bottle to a 4000 ml Chemical/Food jar. PET containers mainly used in pharma and FMCG companies, range from 10 ml to 10 litres. PET bottles and products have been valued added segment in its packaging business. HSIL's venture into the security caps and closures business is in synergy with its existing packaging products and aligned with the market requirements to counter pirated products and provide patented, anti-counterfeiting solutions.







(Data: F21, Source: Company, HDFC sec)

Company's product portfolio in the building products division includes range of sanitaryware, faucets, plastic pipe and fittings and other allied products. In FY19, the company forayed into the plastic pipes and fittings business (comprising PVC, CPVC, UPVC and Soil-Waste-Rain or SWR) to enhance its presence as a complete bathroom solutions provider. To ensure product and technological dominance in the markets, it entered into an alliance with Japan's Sekisui Chemical Co. Ltd., for the supply of Chlorinated Polyvinyl Chloride (CPVC) resin to offer best-in-class products in the Indian market. In the pipes and fitting segment, CPVC production is 40%. HSIL over the years has strengthened its product development capabilities in building products business, focused on introduction of new green building products, modifying its range of products for local applications as well as improving cost and operational efficiencies.

The company recently entered into B2C space with its eco-friendly offering under the Greendrop Glassware brand. It uses the Germ Guard technology to manufacture anti-bacterial food storage glass jars and water bottles. Bottles under this brand are free from BPA, toxins, chemicals and lead making them the safest and most durable choice for customers. The company also forayed into the flavoured drink market and designed innovative Child Resistant Caps (CRC) which are well received by the market. The capacity expansion of 154 tonnes high end glass furnace is likely to address high-end perfumery and nail polish market which is likely to improve margins in packaging products division. With the added capacity, HSIL would enter into the manufacturing of vials (Type 2 & Type 3 glass); thereby adding its portfolio of offerings.

Strong relationship with Institutional, Entry into B2C space and Supplier of major brands under Brilloca:

HSIL maintains strong relationships with its institutional customers in the Packaging Products Division. With wide range of packaging products such as glass containers, PET bottles, caps, closures, containers and coloured bottles of various shapes and sizes; the company is able to cater to a diverse portfolio of customers for packaging beverages, food, liquor, edible oil, and pharmaceutical products. With over 40+ years of experience, the company's manufacturing facilities are well equipped with cutting-edge technologies and implements advanced quality management processes which deliver world-class products at optimum costs and achieve consistent quality. Its leading position in glass packaging segment has helped in building large pool of institutional investors and it has long term contracts in place that mitigate seasonality. The PET segment garnered good traction with wide array of designs, textures, colours, shapes and sizes being introduced.

Greendrop Glassware uses the Germ Guard technology to manufacture anti-bacterial food storage glass jars and water bottles. HSIL's venture into the security caps and closures business is in synergy with its existing packaging products and aligned with the market requirements to counter pirated products and provide patented, anti-counterfeiting solutions. The manufacturing of security caps and closures in the state-of-the-art facility aids in preventing counterfeit liquor and edible oils.

Diversified Institutional Clients across Industries

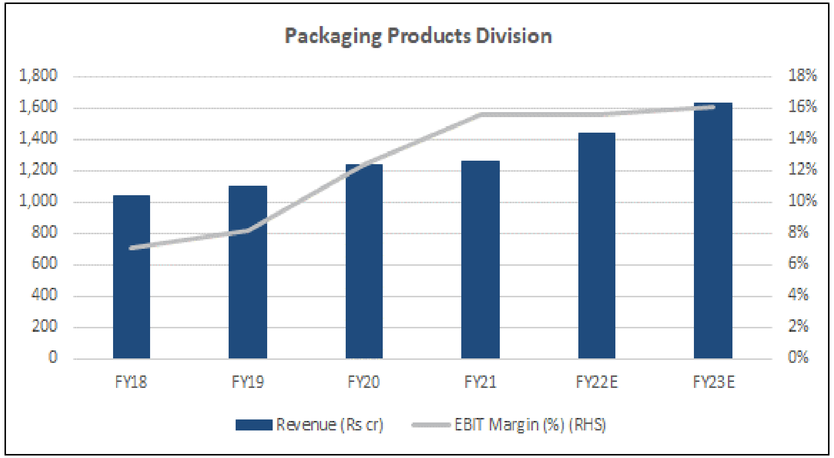
(Source: Company, HDFC sec)

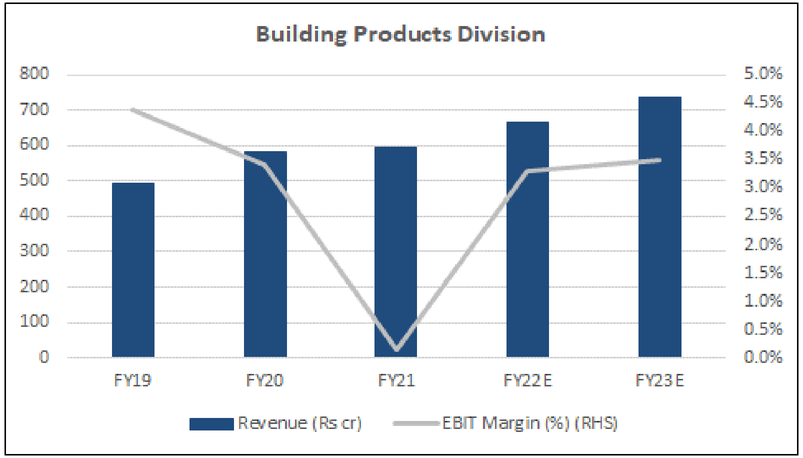
Post the demerger, HSIL entered into a long term contract with Brilloca Limited for supply of building products (like Sanitaryware products, faucets, shower enclosures, CPVC, UPVC Pipes and fittings or other accessories/ allied products) as the specifications of Brilloca Ltd at an arm's length price approved by independent consultants. The company is supplying its entire manufacturing for sanitaryware segments to Brilloca according to their marketing needs. Brilloca has recognized brands in sanitary ware segment – Hindware, Queo, Amore, Truflo – which caters to diverse set of customers of different price range.

Packing business to drive growth and incremental margins; while manufacturing efficiency in building products division to support its operations:

HSIL's growth dynamics are fully aligned with the fundamental underlying growth profile of its customers and there are multiple growth drivers for the packaging industry. There is a growing consumption of spirits, beer, and many other beverages resulting in the increased demand of the glass bottles and glass containers. Users of glass packaging in food and beverage industry are increasing and catching up with the western world from time to time. Institutional clients as well as the end customers are preferring product security, a demand addressed by counterfeit-resistant products.

All the manufactured products of building division (sanitaryware, faucets and pipes) are transferred to Brilloca at agreed arms' length prices arrived by independent valuers. As this division would be similar to OEM business for third party, packaging business would be the major growth driver for the company. Apart from catering to multinational companies in food and beverage industry; the company has entered in retail space with its Greendrop Glassware brand. Greendrop Glassware uses the Germ Guard technology to manufacture anti-bacterial food storage glass jars and water bottles. It is mainly catering to niche market and has a premium feel to the consumers who are into environment friendly products.





(Source: Company, HDFC sec)

HSIL with its new capacity expansion is planning to address high-end cosmetic and perfumery sector which will improve margins going forward. Products manufactured from this expansion are likely to focus on exports to U.S., Australia, and European countries. Decent growth in Building products division would come from growth of the pipe business. The management expects to enhance its utilisation levels to industry-best levels within the next 2-3 years. Improvement in manufacturing operations and higher utilization levels in building products division would support margins. Although the company can sell its products to other parties; the current capacity is just adequate to handle orders from Brilloca Ltd. Before on-boarding new clients in building materials space, the management has to undertake major capex to add capacities.

Efficient manufacturing Capabilities:

HSIL has 11 state-of-the-art manufacturing plants and boasts of advanced and best in class technology and equipment for efficient manufacturing. HSIL has undertaken numerous modernisation and technology upgradation measures. The automation and robotics-oriented approach was piloted across some of the facilities, to improve consistency and enhance the quality of its offerings. Over last 2-3 years, HSIL has invested capital towards the development of coal gasification plant, development of the natural gas connections, which has allowed flexibility to use all mixes of fuels in their plants (glass division) in economical manner. Capability to operate with alternative fuel and management’s conscious decision to use the best available fuel has allowed HSIL to consistently improve its margin profile despite the fluctuation in fuel prices. The research and development team focuses on developing cost-effective alternative raw materials, improving its manufacturing processes. HSIL has developed stringent quality assurance processes to enhance its product quality. Its stringent manufacturing standards and quality products has enabled to develop strong relationships with its clients. The manufacturing facilities are located in proximity to raw material sources, thereby enabling reduction in transportation costs.

Category	Products	Facility	Capacity
Packaging Products	Glass containers	Sanathnagar (Telangana)	650 tonnes per day
		Bhongir (Telangana)	950 tonnes per day
	PET bottles and plastic products	Selaqui (Uttarakhand)	2569 tonnes per annum
		Dharwad (Karnataka)	5284 tonnes per annum
		Sangareddy (Telangana)	2313 tonnes per annum

	Security caps and closures	Sangareddy (Telangana)	912 million pieces per annum
Building Products	Sanitaryware	Bahadurgarh (Haryana)	2 million pieces per annum
		Bibinagar (Telangana)	2.2 million pieces per annum
	Faucets	Kaharani (Rajasthan)	3.7 million pieces per annum
		Bhiwadi (Rajasthan)	0.5 million pieces per annum
	Plastic pipes and fittings	Sangareddy (Telangana)	35,000 tonnes per annum

(Source: Company, HDFC sec)

Industry Triggers:

Packaging Products – Glass, PET Bottles and Counterfeit resistant security caps and closures:

Glass packaging is considered as one of the most trusted forms of packaging for health, taste, and environmental safety and has its application across range of end-user industries despite heavy competition of plastic packaging. Glass packaging preserves the product's taste or flavour and maintains the integrity or healthiness of food & beverages. It is made from all-natural sustainable raw materials and is 100% recyclable and can be reused endlessly with no loss in quality or purity. Additionally, innovative technologies for embossing, shaping and adding artistic finishes to glass are making glass packaging more desirable among end-users.

Global glass bottles and containers market was valued at ~US$57 billion in 2020 and is expected to reach US$ 73 billion by 2025. Europe continues to remain the largest market for glass bottles and containers, and Asia Pacific region is expected to register significant growth compared to other markets due to increasing demand in pharmaceutical and chemical industry; owing to the inert nature of glass bottles. Growth of alcoholic beverage and beer consumption has resulted in augmenting market growth of glass bottles packaging. Additionally, the inherent characteristic advantages of glass such as hygiene, aesthetic appeal, durability and the capability to preserve the aroma, strength, and flavour of the product makes it the most favourable option for packaging. Indian per capita consumption for glass packaging (1.8kg) is much lower compared to other nations. India’s glass container market is expected to grow in high single digit annually over the next 2-3 years. Low per capita consumption, rising consumerism, urbanisation and disposables incomes coupled with growing alcohol and beer consumption and plastic ban in certain states remain key supportive macro trend for the company.

Polyethylene Terephthalate (PET) bottles and products has emerged as a preferred packaging material for businesses, especially in the food and beverages, personal care and certain pharmaceuticals segment; owing to its durability, resistance to microbes, moisture, solvents and multiplicity of usage. The Global PET Packaging market was valued at US$ 55.52 billion in 2020 and is expected to reach US$ 74.2 billion by 2026, at a CAGR of 5% over 2021-26. Growing consumer awareness for packaged products, rising western influence, increasing consumption of carbonated beverages and ready-to-eat foods by young people further influences the use of PET packaging. The beverage industry in India is primarily dominated by PET bottles, which holds a larger market share in beverage packaging in comparison to glass and plastic bottles. PET is a form of polyester that can be shaped into different packaging containers, such as boxes and bottles, depending upon the user's requirement. Besides the food and beverage industry, PET packaging is also used for packaging beauty, personal care products.

Security caps and closures are also is demand from bottled drinks and beverages market. The rising demand for safety and tamper-proof capping (which prevents counterfeiting), propelled the company to move into this business segment by developing its patented products. HSIL products prevent counterfeiting and product piracy which could impact its clients' brand value in the long run.

HSIL growth dynamics are fully aligned with the fundamental underlying growth profile of its customers and there are multiple growth drivers for the packaging industry. Beverage industry is the biggest market for glass packaging industry. Although it is facing intense competition from metal packaging segment (cans); it is expected to maintain its share, due to its usage in premium products. The increasing demand for premium variants in alcoholic drinks is driving the growth of glass bottles. Premium segments constitute more than 40% of IMFL volume and use 100% glass packaging. Among alcoholic beverages, beer witnessed tremendous growth in the past few years. The majority of beer volume is sold in glass bottles (~85%) and is driving the need for increased production rates in the glass packaging industry. Expanding consumption of alcoholic drinks due to rising aspirations, affluence and changing lifestyles remain key drivers for HSIL's products. The gradual acceptance of beer as a social drink, rising disposable incomes and preferences of the young consumer are also driving the growth of the beer market in India. The growth is expected to be witnessed across different beverage products, like juices, coffee, tea, soups, non-dairy beverages, and others.

Share of glass packaging in food segment is 10% and in dairy is 15% and is not expected to change significantly in future, though it is the most preferred choice for premium milk shakes, yogurts and flavoured milk. COVID-19 pandemic impact has further increased awareness for usage of glass packaging for health products. Although the share of glass packaging in pharma sector has come down over the years; its share in liquid formulation is still high given potential risks of storing medicines. Increasing demand of glass bottles from every growing pharmaceutical sector and widening packaging needs of FMCG sector augurs well for the packaging industry. HSIL with its new capacity expansion is planning to address high-end cosmetic sector. The Indian retail cosmetics market was valued over $ 10,441 million in 2018 and is projected to grow at a CAGR of over 16%, to reach around $ 25,987 million by 2024. The rising awareness of beauty products, increasing premium on personal grooming, changes in consumption patterns and lifestyles are expected to boost the industry. The market will maintain healthy growth due to rising preference for specialised cosmetic products such as organic, herbal and ayurvedic products.

Building Products – Sanitary ware, Faucets, Plastic pipes and fittings:

The global sanitary ware market is expected to grow at CAGR of 6.7% over 2021-28 and expected to reach US$ 74,315.50 million by 2028. Factors, such as rise in construction activities in developing countries, increase in concerns related to health & hygiene, and availability of abundant raw materials, propels the growth of the sanitary ware market. The Indian tiles, sanitary ware and bathroom fittings market reached a value of US$ 7953 million in 2020. With sustained public and private measures in recent years, coupled with improving standards of living, the level of sanitation in India has increased manifold. Supportive government initiatives, such as Pradhan Mantri Awas Yojana (PMAY) and Swachh Bharat Mission for infrastructure development, both in urban and rural areas are expected to offer future growth opportunities to the sanitary ware market players. In addition, factors, such as a healthy lifestyle, rising disposable income of consumers, surge in urbanization, growth in shift from unbranded products to branded products, and strong replacement demand, have supplemented the growth of the organised sanitary ware players. The growing awareness of opting for good sanitary ware products due to their various health and hygienic benefits is also acting as a major factor which is driving the growth of sanitary ware market.

There are a number of large companies in the ceramics sector, small and medium enterprises (SMEs) account for more than 50% of the total market in India. Initiatives such as Swachh Bharat Abhiyan, building of smart cities, development of industrial corridors and housing for all schemes will drive the growth over long term. HSIL also enjoys tailwinds from growing urbanisation, better housing affordability, strong replacement demand and shrinking unorganised entities. The trend of moving towards branded products is expected to pick up momentum, amid growing awareness for sanitation.

The global faucet market reached a value of US$ 22.08 Billion in 2020 and as per industry estimates, it is expected to grow at a CAGR of 9.3% during 2021-2026. The Indian bath fittings market had experienced steady growth over the past few years. Dynamism in the home-buying pattern and rapid urbanisation, combined with nuclearisation paves the way for an evolving market. A higher preference for premium bathrooms and functional kitchens generates higher demand for faucets that are contemporary in design and innovative in function. Organised players, constituting more than 50% of the market, tend to gain from this transition. Unlike tiles and sanitary ware, replacement cycle for faucet is faster and drives the industry growth. In terms of demand, retail demand has the major share of 70% and supports growth of organized players, as an established brand with strong recall factor has long term association with the clients. Other factors that enhance demand include supportive government policies and higher upgrade renovation spends.

India PVC pipes market was valued at US$ 3,539.0 mn in 2018 and is projected to be worth US$ 5,209.4 mn by 2027; it is expected to grow at a CAGR of 4.5% during the forecast period. A growing plastic piping industry is vital to India's infrastructural development and within this segment, Polyvinyl Chloride (PVC) pipes are one of the most versatile plastic pipes. Upsurge in the demand for pipes in the irrigation sector and building & construction industry is the major driving factor for India PVC pipes market. Moreover, increased focus of government on rural water management supports the demand for PVC pipes in India. Use of Chlorinated PVC (CPVC) pipes has increased gradually on account of their high temperature applications. The organised sector constitutes 70% of the PVC market in India and is gradually eating up share of unorganised players. Increase in working capital requirement due to rise in raw material prices (PVC resin) is further aiding big organised players to gain market share.

Concerns:

- **Input price pressures:** Soda Ash which is a major raw material for manufacturing glass containers and bottles has been the key contributor to the raw material cost. Power and fuel cost is another significant cost-item for the company. The company has been able to pass on the increase in costs to consumers but with a lag; fluctuation in input prices would impact margins. Increase in input costs (sand, sandstone, clays, chemical fitting & accessories purchased) could negatively impact profitability of sanitaryware business in certain quarters as long term supply agreement (price mark-up mechanism) with Brilloca would adjust prices annually.

- **Ongoing Debt funded capex:** HSIL has announced capital outlay of Rs. 220cr for manufacturing specialty glass (catering perfumery and cosmetics sector) at greenfield facility in Bhongir, which will have a capacity of 150 tonnes per day. Additionally, it has planned capacity expansion of 10,000 TPA for plastic pipes and fitting business at Sangareddy plant and announced an outlay of Rs 100cr. Both the projects are expected to be completed by September 2022. Any delay in expanding their capacity would impact its profitability and leverage metrics.

- **Slowdown in economy:** HSIL's revenue is much aligned with the state of the economy. Any slowdown in the economy would impact the consumption and thus its topline. The building-products (sanitaryware, faucets, pipes) business is exposed to the cyclical nature of the market as it caters to housing and construction segment. Any slowdown in Real estate sector could negatively impact the demand for Sanitaryware products.

- **Low margins of Building Products division:** Building products margin and RoCE are very low pulling down the overall margins and return ratios. Agreement with Brilloca needs to be revamped to ensure better return profile for HSIL. Till this is done, capex in this division may not make much sense.

Company Profile:

HSIL was founded in 1960 as Hindusthan Twyfords Limited, in technical collaboration with Twyfords, United Kingdom to establish the first vitreous china sanitaryware manufacturing company in India. It was renamed as Hindustan Sanitaryware & Industries Ltd. in 1967 and renamed to the present one in 2009. The company houses two business divisions i.e. Packaging Products (68%) and Building Products (32%). The company is in the business of manufacturing and marketing of various packaging products, including, glass containers, Polyethylene Terephthalate (PET) bottles and products and security caps and closures; which caters to various industries like alcoholic and non-alcoholic beverages, fast-moving consumer goods, retail, pharmaceuticals and edible oil amongst others. The Building Products division primarily comprises the manufacturing of sanitaryware, faucets and plastic pipes and fittings. HSIL has 11 state-of-the-art manufacturing facilities across the country.

During FY18, the Board approved a scheme of arrangement for demerger of the company’s businesses. The objective of the demerger is to unlock value by creating distinct entities for three of its business undertakings, thereby ensuring sharper focus on and better alignment with its customers. The scheme has been approved by the Hon’ble Kolkata Bench of National Company Law Tribunal vide its order dated June 26, 2019 and was effective from the appointment date i.e. April 01, 2018. The Marketing and Distribution business of Consumer Products Division and Retail Division was transferred to Somany Home Innovation Limited (SHIL), and the Marketing and Distribution business of Building Products Division was transferred to Brilloca Limited (Brilloca). Building material products, sanitaryware, faucets and pipes, which get manufactured are transferred to Brilloca and the transfer pricing arrangement is approved by the board and the shareholders considering industry benchmarking.

HSIL is the 2nd largest manufacturer of glass containers in India with ~20% market share in organised glass packaging industry catering marquee clients in the packaged beverages, food, beer, liquor, chemical and pharmaceutical sectors. It has two glass container facilities at

HSIL Ltd.

Hyderabad and Bhongir in Telangana with production capacity of 1600 tonnes per day. It offers customised products and solutions in PET through three state-of-the-art facilities in Selaqui (Uttarakhand), Medak (Telangana) and Dharwad (Karnataka) using the best-in class technology to meet clients' requirements; especially in the healthcare industry. In addition, it also supplies PET bottles to the personal care and Alco-beverage industry. In FY2018, the company commenced manufacturing of security caps and closures at new facility at Sangareddy in Telangana. HSIL is one of India's leading manufacturer of sanitaryware and faucets, whereas in the plastic pipes and fittings segment, the company is creating a niche presence with its quality products. It has two sanitaryware plants at Bahadurgarh in Haryana and Bibinagar in Telangana, two faucet plants at Kaharani and Bhiwadi (under temporary shutdown) in Rajasthan and one plastic pipes and fittings plant at Sangareddy in Telangana.

HSIL bought back 75.99 lakh shares in Dec 2020 @Rs.84.12 from open market. The promoters did not offer their shares for buyback and hence their stake rose from 53.91% to 60.24%.

Peer Comparison (Standalone):

	Mcap (Rs cr)	Sales			EBITDA Margin-%			PAT		
		FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
HSIL Ltd	1600.6	1604.8	1859.1	1852.6	10.7	14.6	15.1	15.3	48.4	88.1
Hindusthan National Glass & Industries Ltd	432.5	2391.9	2286.4	1899.0	5.2	10.6	1.5	-173.0	-103.0	-304.1

	RoCE-%			P/E		
	FY19	FY20	FY21	FY19	FY20	FY21
HSIL Ltd	3.4	6.9	8.8	117.3	37.0	19.5
Hindusthan National Glass & Industries Ltd	3.7	7.7	-8.9	-2.5	-4.2	-1.4

(Source: Company, HDFC sec)

HSIL Ltd.

Financials (Standalone):

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	**1604.8**	**1859.1**	**1852.6**	**2109.2**	**2377.3**
Growth (%)	-28.7	15.8	-0.3	13.9	12.7
Operating Expenses	1433.5	1588.0	1572.5	1761.2	1977.9
EBITDA	**171.3**	**271.1**	**280.1**	**348.0**	**399.4**
Growth (%)	**-35.6**	**58.2**	**3.3**	**24.2**	**14.8**
EBITDA Margin (%)	**10.7**	**14.6**	**15.1**	**16.5**	**16.8**
Depreciation	131.3	142.9	121.4	132.2	143.1
EBIT	**40.0**	**128.2**	**158.8**	**215.8**	**256.3**
Other Income	41.4	20.3	28.0	31.6	35.7
Interest expenses	59.0	73.5	71.9	76.0	83.0
PBT	**22.4**	**75.0**	**114.8**	**171.5**	**209.0**
Tax	7.1	26.6	26.8	43.2	52.7
PAT	15.3	48.4	88.1	128.3	156.3
Growth (%)	**-79.6**	**217.1**	**81.9**	**45.6**	**21.9**
EPS	2.1	6.7	12.7	19.8	24.2

Balance Sheet

As at March (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	14.5	14.5	12.9	12.9	12.9
Reserves	1241.6	1242.4	1220.6	1323.0	1450.2
Shareholders' Funds	**1256.1**	**1256.9**	**1233.6**	**1335.9**	**1463.1**
Long Term Debt	703.2	728.7	675.4	785.4	855.4
Net Deferred Taxes	226.9	236.4	256.3	266.3	276.3
Long Term Prov & Others	28.2	28.6	28.0	34.9	39.3
Total Source of Funds	**2214.4**	**2250.5**	**2193.2**	**2422.5**	**2634.1**
APPLICATION OF FUNDS					
Net Block & Goodwill	1842.4	1819.7	1831.3	1959.7	2021.6
CWIP	116.7	33.0	30.5	0.0	0.0
Other Non-Current Assets	146.4	121.5	108.3	138.7	150.2
Total Non Current Assets	**2105.5**	**1974.2**	**1970.2**	**2098.4**	**2171.8**
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	290.7	408.0	436.1	462.3	540.6
Trade Receivables	323.1	293.0	317.3	358.3	403.8
Cash & Equivalents	39.3	47.5	23.4	51.3	85.5
Other Current Assets	79.6	145.6	109.0	127.1	143.3
Total Current Assets	**732.7**	**894.2**	**885.8**	**999.0**	**1173.1**
Short-Term Borrowings	152.0	208.7	128.7	108.7	98.7
Trade Payables	185.7	195.2	230.1	242.7	267.0
Other Current Liab & Prov	286.1	213.9	304.0	323.5	345.0
Total Current Liabilities	**623.8**	**617.9**	**662.8**	**674.9**	**710.8**
Net Current Assets	108.9	276.3	223.0	324.1	462.3
Total Application of Funds	**2214.4**	**2250.5**	**2193.2**	**2422.5**	**2634.1**

HSIL Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	22.4	75.0	114.8	171.5	209.0
Non-operating & EO items	-4.8	18.6	-10.5	-16.3	1.5
Interest Expenses	57.2	72.1	60.6	76.0	83.0
Depreciation	131.3	142.9	121.4	132.2	143.1
Working Capital Change	59.9	-196.4	82.1	-50.3	-92.6
Tax Paid	-16.3	-5.3	-19.6	-43.2	-52.7
OPERATING CASH FLOW (a)	**249.6**	**106.8**	**348.8**	**269.8**	**291.3**
Capex	-286.8	-96.7	-122.5	-230.0	-205.0
Free Cash Flow	-37.2	10.0	226.3	39.8	86.3
Investments	0.0	0.0	0.0	0.0	0.0
Non-operating income	2.3	-18.2	14.9	0.0	0.0
INVESTING CASH FLOW (b)	**-284.5**	**-114.9**	**-107.6**	**-230.0**	**-205.0**
Debt Issuance / (Repaid)	30.2	95.6	-93.3	90.0	60.0
Interest Expenses	-57.9	-71.9	-65.8	-76.0	-83.0
FCFE	-64.9	33.8	67.2	53.8	63.3
Share Capital Issuance/ (Buy Back)	0.0	0.0	-78.4	0.0	0.0
Dividend	-28.8	-20.8	-21.8	-25.9	-29.1
Others	-6.0	-5.4	-3.1	0.0	0.0
FINANCING CASH FLOW (c)	**-62.5**	**-2.4**	**-262.4**	**-11.9**	**-52.1**
NET CASH FLOW (a+b+c)	**-97.4**	**-10.5**	**-21.2**	**27.9**	**34.1**

Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
PROFITABILITY RATIOS					
EBITDA Margin	10.7	14.6	15.1	16.5	16.8
EBIT Margin	5.1	8.0	10.1	11.7	12.3
PAT Margin	1.0	2.6	4.8	6.1	6.6
RoE	1.1	3.9	7.1	10.0	11.2
RoCE	3.4	6.9	8.8	11.6	12.6
SOLVENCY RATIOS					
Debt/EBITDA (x)	5.0	3.5	2.9	2.6	2.4
D/E	0.7	0.7	0.7	0.7	0.7
PER SHARE DATA					
EPS	2.1	6.7	12.7	19.8	24.2
CEPS	20.3	26.5	32.4	40.3	46.3
Dividend	3.0	3.0	4.0	4.0	4.5
BVPS	173.7	173.9	190.7	206.5	226.2
TURNOVER RATIOS					
Debtor days	95	60	60	58	59
Inventory days	97	69	83	78	77
Creditors days	46	37	42	41	39
VALUATION					
P/E	117.3	37.0	19.5	12.5	10.2
P/BV	1.4	1.4	1.3	1.2	1.1
EV/EBITDA	15.2	9.9	8.5	7.0	6.2
EV/Revenues	1.6	1.4	1.3	1.2	1.0
Dividend Yield (%)	1.2	1.2	1.6	1.6	1.8
Dividend Payout	142.0	44.8	29.4	20.2	18.6

(Source: Company, HDFC sec)

HSIL Ltd.

One Year Price Chart

(Source: Company, HDFC sec)

Disclosure:

I**, Hemanshu Parmar, (ACA),** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock – No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.