

**Hindustan Sanitaryware & Inds. Ltd. INR 53***Purely Vitrified ...***ACCUMULATE**

Oct 30, 2009

**Company Background**

Hindustan Sanitaryware & Industries Ltd (HSIL), incorporated in 1960 is promoted by Somany Family. The company was incorporated in collaboration with Twyford Ltd, UK to introduce vitreous china ceramic sanitaryware in India. HSIL's business can be divided into two sections container glass & building products. It is on significant growth stage which is emerged from India's Real Estate sector through a broad range of sanitaryware products, bath fittings, bathtubs & whirlpools, bath concepts & kitchen appliances.

**Investment Rationale****➔ Financial performance**

HSIL registered a growth of 18% in Net Sales to INR 1576 mn as against INR 1336 mn, while its Net Profit was at INR 24 mn vs INR 69 mn, during the first quarter of FY09 in comparison to the same period a year ago. Its expenditure increased mainly due to uptrend in Depreciation & Interest cost which increased by 61% & 156% respectively. Its segmental revenues were too positive with Building Product segment registered a growth of 7% to INR 83 mn as against INR 77 mn, while its Glassware segment posted a revenue of INR 83 mn vs INR 70 mn, an increase of 20%. Its OPM was at 17.5% while its NPM was at 1.53%.

**➔ Capacity to expand**

HSIL had invested INR 2765 mn in a container glass plant, at AP the largest container glass furnace in Asia with a capacity of 690 mn pieces p.a. Even the plant has started its operation in Mar 09 & is working at 80-85% capacity utilisation level. This would help the company to perform well in comparison to its competitors in near terms.

**➔ Providing wide range of products under one roof**

For building a strong brand value, the company has launched the EVOK brand of specialty home fashion mega stores to provide a range of more than 12500 home interior products under one roof. Currently it has 4 stores located at Delhi NCR & is also planning to add 6 more stores in metro/sub metros by FY11.

**➔ Strong distribution network**

The company's products has pan India presence leveraging a strong network of 1227 authorised dealers & 12000 sub dealers & retail outlets. This strong distribution network of HSIL helps it to grow even in this tough competition environment & is also planning to enter in smaller towns too.

**➔ Rising income to boost growth**

With the rising economic growth & increasing population, HSIL's products would see better demand for its products, so as to satisfy individual needs. According to estimates, the Indian middle class will spend an additional USD 420 bn during the next four years. With growing aspiration, the demand for premium range sanitaryware is expected to remain robust.

**➔ Location a key trigger**

HSIL's manufacturing facilities are located in the areas of Haryana & AP, which is expected to be one of the largest state in terms of consuming beverages, liquor & beer & even giant pharma players are located here. This could be the trigger point for HSIL which would help to generate more revenues & boost its sales.

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**Info Codes**

Reuters	: HSNT.BO
Bloomberg	: HSI@IN
NSE	: HSIL
BSE	: 500187

**Market Data**

52 Wk Range (INR)	: 62 / 23
Shares in Issue (mn)	: 55.05
Mkt. Cap (INR bn)	: 2.94
BSE 2 Wk Avg Vol	: 7069

**Share Holding Pattern (%)**

Promoters	: 60.49
MFs, FIs & Banks	: 6.15
FII	: 0.33
Others	: 33.03

**Investment Theme**

HSIL, is a market leader in sanitaryware segment with having a share of 40% in domestic market & is the second largest manufacturer of container glass in India. Apart from selling its products to nation's players, it also supply outside the nation which contributes around 12% of its total production. The company is about to expand, with infusing around INR 3 bn for its domestic plans while it is also eyeing European markets for its overseas expansion. With the growing economy & increasing disposal income of the individual & wants, the needs for the sanitary ware products are likely to see some great demand, along with the rising Indian Real estate sectors.

**Building Better Baths**

➔ **Indian Sanitaryware Industry**

The sanitaryware market in India has grown rapidly during the last 5-6 years, with key players doubling their production capacities. India has emerged as a major bath & sanitaryware market in the Asia-Pacific region. The organized sector comprises more than half of the total market by value. The major threat for the industry is from the unorganized sector, which provides products at low prices. In terms of market value, organized players lead the market but on the other hand in terms of volume, unorganized players hold the major share. Housing & Institutional sectors are the major growth drivers. At present, housing demand is rapidly rising & with increasing purchasing power people have started taking interest in premium sanitaryware products. Sanitaryware demand comes from new projects as well as from replacement market. The market size is estimated to be INR 12 bn, while demand for sanitarywares in India is growing @ 12% -15% every year.

**Sanitaryware Industry Estimates**

World Production	300 mn pieces
India's Share	22 mn pieces
Global Industry Growth	5-7%
Domestic Growth Rate	12-15%

**Organized Sectors**

% Share of Production	60%
Production Capacity	118000 TPA
Actual production	108000 TPA

**Unorganized Sector**

% Share of Production	40%
Production Capacity	220000 TPA
Actual production	180000 TPA

(Source:- Company)

Government of India's Policy on Housing Sector is very encouraging. The government has announced Income Tax rebate on housing loan to boost the housing sector. All financial institutions are lending money for construction of house at a very low rate of interest. The housing has become a basic necessity, as people in India are looking forward for improved sanitary condition. The concept of making toilet is fast growing even in village areas, where toilet till last two years did not exist. The cost of producing sanitaryware in India is substantially low as compared to the advance countries, because the labour cost & the basic raw materials for manufacturing quality sanitarywares is available at very cheap rate & in abundance. Because of our low cost of production, Indian sanitarywares are very competitive in the neighboring countries & hence export from India is also growing everyday. Housing Sector is growing by approximately 25% every year. The need of housing in India with 1.1 bn population looks to be very potential. As per a research, there will be shortage of about 49 mn houses in the country by the end of year 2011.

**India Housing Scenario**

(In Mn units)

	1991	2001	2011E
Estimated Housing Stock	161	209	286
Estimated Housing Shortage	31	41	49

(Source:- Company)

**Container Glass Industry**

Indian container glass industry is estimated to be around INR 45 bn which is at 6% of the roughly INR 675 bn packaging industry. The industry offers several packaging alternatives, but container glass is preferred as it is healthy, hygienic & eco-friendly. The overall market for container glass is growing at an average rate of 8-10% with Southern India reporting 20% growth. Other packaging materials score over glass due to its fragility & bulkiness, but this character of glass sometimes overrides the broader & long-term concerns like health & environment. The beer & spirits segment account for nearly 55% of the total demand for glass containers followed by the food & beverages industry & the pharma industry which account for 15% each. The cosmetics & perfumery account for 10%. India's per capita packaging consumption is nearly a 7th of the global average. With rise in discretionary spending, annual growth of the packaging industry is expected to double to around 20-25%. Container glass industry, which grew at a CAGR of 8% over five years, is expected to grow at 10% over foreseeable future. Growth of container glass industry is driven by a growth in down stream user industries like processed foods (FMCG), beverages, beer, liquor, pharma & retail. Key reasons for using container glass for packaging

- ➔ Lower cost per life cycle
- ➔ Provide better barrier against oxygen
- ➔ Provide better barrier against UV rays
- ➔ Prevents food contamination
- ➔ More hygienic
- ➔ Visibility of Product

(Source:- Economic Times)

## HSIL

### Its Business segments

The company was incorporated as Hindustan Twyford's Ltd in 1960, in collaboration with Twyford's Ltd. UK. On the back of successful venture it set up "Hindustan Glass Works" in 1952 India's first fully automated, state-of-the-art glass manufacturing unit. Today, the Somany Group has a diversified range of products encompassing glass containers, sanitaryware, bathroom fittings, bath tubs, shower enclosures & ceramic tiles, as well as textiles & engineering goods. HSIL is a market leader in sanitaryware & second largest player in container glass products in India & has four manufacturing facilities at Bahadurgarh (Haryana), Somanyapuram, Hyderabad & Bhongir (Andhra Pradesh). It diversified into the manufacture of glass containers through the acquisition of Associated Glass Industries Limited in 1981.

#### ➔ Building Product Division

HSIL is the largest Indian sanitaryware product manufacturer in Indian & enjoys 40% market share in industry. This segment includes wide range of products ranging from sanitaryware, faucets, wellness products & shower accessories to kitchen appliances. It also ventured into marketing & distribution of its products to capitalize on its existing brand & distribution network. Its clients includes various giant players like DLF, Unitech L&T, Raheja's & Puravankara.

Business Segment	Industry Position	Located at
Building Product Division	➔ Largest Indian sanitaryware product manufacturer ➔ Industry market share of 40%	➔ Bahadurgarh, Haryana ➔ Somanyapuram, Andhra Pradesh

#### ➔ Container Glass Division

HSIL is the second largest manufacturer of container glass in India & enjoys around ~17% share of national markets & ~66% share of South Indian Markets. Its portfolio includes diversified products which caters to segments like soft drink, alcoholic beverages, food processing, chemical & pharma sectors. Its clients includes branded companies including domestic as well as international players like Coca Cola, Pepsi, GlaxoSmithKline, Pfizer, AstraZenca, Ranbaxy, Dr Reddy's Laboratories, Hindustan Unilever, Priya, Global Green, Continental Coffee, Reckitt Benckiser, Seagram, Sab Miller, McDowell, Shaw Wallace & United Breweries etc to name a few.

Business Segment	Industry Position	Located at
Container Glass Division	➔ Second largest Indian container glass manufacturer ➔ Industry market share reinforced in FY08-09	➔ Hyderabad Andhra Pradesh ➔ Bhongir, Andhra Pradesh (Source:- Company)

### Key Arguments

#### ➔ Way to expansion

HSIL is eyeing overseas acquisitions especially in Europe, while it would invest around INR 3 bn for its expansion plans in the domestic markets. The company is scouting for some acquisition in Europe & are in talks with 4-5 companies to expand their retail business in sanitaryware. It is expected that the deal would be close to Euro 30-100 mn & it is hoped that the deal would be closed in the next 6-7 months period. Domestically, the company plans to open 50 large-format stores in the next two years, with an capex of INR 50-8/0 mn per store.

### Drivers of excellence

The Company's proactive marketing team tapped new markets & customers during the current FY. The division serviced 11% of India's container glass demand & 50% of southern India's container glass demand. The plant is strategically located in Andhra Pradesh, the largest beverages, liquor & beer consuming Indian state.

#### Highlights for FY08-09

- ➔ Added 46 brand-enhancing customers through proactive marketing
- ➔ Enjoyed a 15-nation footprint; exports accounted for 15.96% of the division's sales
- ➔ Enhance the footprint in Southeast Asia & Europe
- ➔ Technology partnership with a leading European container glass manufacturer
- ➔ The largest container glass furnace in Asia
- ➔ Most modern & state-of-the-art container glass plant in India
- ➔ Maximum throughput of up to 720 bottles per minute per machine
- ➔ Commissioned a INR 2,765 mn state-of-the-art greenfield container glass manufacturing plant in March 2009.

#### Revenue Mix

➔ Alcoholic Beverages	34.5%
➔ Food Products	25.5%
➔ Pharmaceuticals	24.45%
➔ Beverages	14.73%
➔ Others	0.84%

(Source: Company)

## HSIL

### ➔ Increasing capacity of new glass plant

HSIL Ltd had invested INR 2765 mn in a state-of-the-art container glass plant, at Bhongir, Andhra Pradesh the largest container glass furnace in Asia with a capacity of 690 mn pieces per annum. New plant has expanded the container glass capacity by 72% to 1.643 bn pieces p.a. Plant has already started its operation in March 2009 & is working at 80-85% capacity utilization level. This will help company to increase its overall revenue & bottom line contribution.

### ➔ Increasing product portfolio along with distribution network

HSIL has increased its portfolio by adding more products in its baskets ranging from bathroom & kitchen appliances products, thus increasing the health of its Hindware Brand. HSIL launched 150 new products in FY09, 60% of which were in the premium category. Company offers sanitaryware products in the price range of INR 200 to INR 0.20 mn to tap the demand of all types of customers. The company has a distribution network of 1227 authorized dealers, 120000 sub dealers & retail outlets. The company is also working on a strategy to increase its brand awareness in Central & South India & Nepal region through branding, networking & promotional activities.

### ➔ Strategic location advantage - a key factor

The Company's manufacturing facilities are located in Haryana & AP, proximate to raw material availability & consuming centres. AP is the largest Indian state in terms of consuming beverages, liquor & beer & this factor would help the company to cater to the rising demand in the Southern India. Most of the clients that HSIL supply its products includes companies engaged in beverages as well as pharmaceutical segments, which would help the company to become strong in comparison to its competitors.

### ➔ All under one roof

For building a strong brand value HSIL has launched the EVOK brand of specialty home fashion mega stores to provide a range of more than 12500 home interior products under one roof in May 2008 through its wholly owned subsidiary Hindware Home Retail Private Ltd. Currently company has four stores located at Delhi NCR. Company is aggressively planning to add 6 more stores in metro/ sub metros by FY11 followed by 40 such pan India stores with a retail footprint of 1.5 mn sqft, within the next 4-5 years with a capex of around INR 2500 mn.. This will help company to create significant market share & value.

### ➔ Demand to rise further

Increasing population & disposal income, enlarging basket wants & need for individual happiness would help to create more demand in the coming days.

## Key Financials

Year Ended Mar 31 <sup>st</sup>	FY 07	FY 08	FY 09
Revenue (INR mn)	4830.5	5258.8	6263.3
<b>Rev. growth (%)</b>	<b>21.15</b>	<b>8.87</b>	<b>19.10</b>
EBITDA (INR mn)	847.0	876.7	1021.1
Net profit (INR mn)	291.1	286.5	401.5
Shares outstanding (mn)	55.05	55.05	55.05
EPS (INR)	5.3	5.2	7.3
<b>EPS growth (%)</b>	<b>(4.12)</b>	<b>(1.58)</b>	<b>40.14</b>
P/E (x)	16.6	8.3	3.9
EV/ EBITDA	59.3	29.1	19.0
<b>ROCE (%)</b>	<b>9.7</b>	<b>8.97</b>	<b>8.76</b>

## Key Points

➔ HSIL's Building Products Division addresses urban & suburban customers in the residential, commercial, retail hospitality sectors thus providing its products to every end users.

➔ The Company's container glass products are procured by institutional buyers in the processed food (FMCG), liquor, beverage & pharmaceutical industries including large international brands

➔ The Company widened its product basket across bathroom & kitchen solutions under the Hindware, Hindware Art & Hindware Italian Collection brands.

➔ In a significant forward integration, the Company's wholly-owned subsidiary Hindware Home Retail Private Ltd provides speciality home interior range under the EVOK brand.

➔ It is the market leader in North & East India & holds second position in South India. Company's market share in sanitaryware is 40%, which has exceeded the industry growth which was at 10-12% last year. With the launch of its new products in the current FY, the company is planning to make its presence in smaller towns too.

➔ HSIL's turnover in FY08-09 touched INR 7 bn & is expecting to touch INR 10 bn mark soon. Its production capacity is expected to touch to 3.6 mn pieces p.a from the current 3.2 mn pieces p.a next year. Around 12 % of the production is being exported to Australia, New Zealand some European & African countries & is expected to increase further in near future.



## Financial Statements

### Income Statement

(INR mn)

Year end Mar 31 <sup>st</sup>	FY 07	FY 08	% Chg	FY 09	% Chg
Operating Income	5278.7	5778.4	9.47	6629.1	14.72
Other Income	53.2	63.4	19.17	85.6	35.02
Change in Stocks	95.4	197.7	107.23	(22.8)	(111.53)
Raw Material Con.	1886.7	2042.1	8.24	2359.5	15.54
Employee Exp.	489.2	559.7	14.41	634.8	13.42
Excise	501.4	583.0	16.27	451.4	(22.57)
Other Exp.	1703.0	1978.0	16.15	2225.1	12.49
Operating Exp.	4484.9	4965.1	10.71	5693.6	14.67
Operating Profit	793.8	813.3	2.46	935.5	15.03
Total Interest	142.6	163.1	14.38	166.3	1.96
Gross Profit	704.4	713.6	1.31	854.8	19.79
Net Dep.	248.3	263.2	6.00	278.4	5.78
Total Taxation	165.0	163.9	(0.67)	174.9	6.71
Net Profit/Loss	291.1	286.5	(1.58)	401.5	40.14

### 4 Years Balance Sheets

(INR mn)

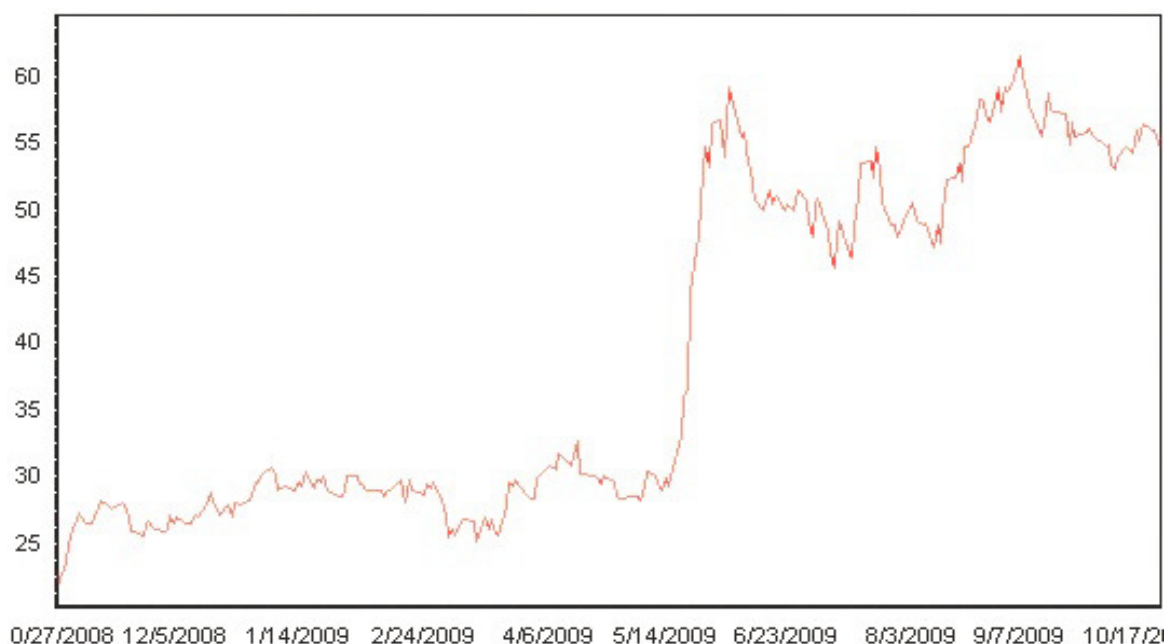
Balance Sheet as on 31 <sup>st</sup>	Mar 2006	Mar 2007	Mar 2008	Mar 2009
<b>SOURCES OF FUNDS</b>	<b>93.6</b>	<b>110.1</b>	<b>110.1</b>	<b>110.1</b>
Equity Share capital	122.5	122.5	271.4	289.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1200.6	1906.9	2096.8	2395.4
Loan Funds	813.0	1649.8	1122.2	4315.1
Unsecured Loans	1517.2	213.4	830.3	306.1
<b>USES OF FUNDS</b>	<b>3624.4</b>	<b>3880.2</b>	<b>4159.4</b>	<b>7126.7</b>
Gross Block	3655.3	4059.6	4440.0	6267.8
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	1606.5	1837.5	2091.7	2235.4
<b>Net Block</b>	<b>2048.8</b>	<b>2222.1</b>	<b>2348.3</b>	<b>4032.4</b>
Capital Work in Progress	51.8	282.3	272.0	1251.5
Investments	578.0	484.2	350.1	427.6
Current Assets	2472.0	2654.5	3182.8	4124.2
Less : Current Liabilities	1526.2	1762.9	1993.8	2709.0
<b>Net Current Assets</b>	<b>945.8</b>	<b>891.6</b>	<b>1189.0</b>	<b>1415.2</b>
Misc. Expenses not written	0.6	0.6	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	235.5	235.5	350.1	427.5
Mkt Val. Quoted Investments	342.9	228.7	0	0
Contingent Liabilities	124.2	379.1	526.5	295.3
Dividend (%)	65	75	75	80

Quarterly Income Sheets

(INR mn)

Quarter Ended	Sep 08	Dec 08	Mar 09	Jun 09
Net Sales	1522.5	1478.7	1768.7	1575.8
Cost Of Sales	930.2	948.4	1130.3	989.2
Operating Profit	592.3	530.3	638.4	586.6
Recurring Income	11.5	24.6	42.0	4.5
Adjusted PBDIT	603.8	554.9	680.4	591.1
Financial Expenses	40.5	57.2	33.5	90.3
Depreciation	65.7	67.7	78.5	107.1
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	497.6	430.0	568.4	393.7
Tax Charges	57.4	47.6	46.3	39.9
Adjusted PAT	440.2	382.4	522.1	353.8
Non Recurring Items	(24.9)	(20.0)	(54.8)	(14.4)
Other Non Cash	356.2	292.7	278.5	315.3
Net Profit	59.1	69.7	188.8	24.1

52 Week Price



HSIL - Closing Prices

Risks Associated

**Economy Risk**

Increasing population & disposal income, enlarging basket wants & need for individual happiness are the key points for the industry. As all this factors are related with the economy, any slowdown in economic condition would have an direct impact in consumer spending in turn would affect the company's sales.

**Quality Risk**

Quality plays an important role for the company, as most of its clients are premium buyers. Any change in quality of its products may divert its clients mind to other players.

**Distribution & Product risk**

Company need to offer a wide range of products to its customers, as a limited range of products may affect customers retention & even an inadequate distribution chain may handicap its growth.



### In a Nutshell

HSIL was established in 1962 by the Somany Group, in partnership with UK's Twyfords. HSIL's business can be divided into two sections- container glass & building products. The glass-containers-section products serve the beverage, pharmaceutical, FMCG, & liquor industries, whereas its building product section provides kitchen & bathing solutions. The company provides bathing solutions including PVC cisterns, tubs, sanitary ware, shower enclosures, whirlpool systems, seat covers, fittings & shower panels. Its products are marketed under brand names like Hindware Art, Rassi, Hindware & Hindware Italian Collection. These brands are also among the most exported sanitary ware from India & accounts for 40% share in domestic market. The Company has two units for manufacturing at Bibinagar, Andhra Pradesh and at Bahadurgarh, Haryana, where the combined capacity of production in these two units is 32,000 tons per year.

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### Rating Interpretation

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate up to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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