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Informed Investor

A retail investor's take on the Indian stock markets

Inflation Begins Inching Up Again

Inflation has begun to rise again though it remains marginally negative at -0.21 per cent on account of what is called the base effect.

Around this time last year inflation stood at 13 per cent. Since then commodity prices have eased bringing down input costs of manufactured goods.

However crude prices are still way above their 52-week lows and rising. Despite the monsoons reviving the kharif crop seems to be lost for good.

So food prices are still rising even as state governments put up a show about cracking down on hoarders and the black market.

The RBI has warned of inflation far above the expected 5 per cent mark due to higher food prices.

In other words, time to gear up for rising interest rates spoiling the corporate party.

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Investment Idea

Hawkins Cookers

SEBI Tightens Norms.....Slowly

Last week, the Securities Exchange Board of India (SEBI) came out with fresh norms governing corporate disclosures and investor protection.

The new Issue of Capital and Disclosure Requirements (ICDR) Regulations 2009 which replaces the Disclosure and Investor Protection (DIP) Guidelines 2000 makes it more expensive for promoters who do not exercise their options on preferential warrants..

Henceforth promoters stand to lose the upfront payment they make at the time of allotment of warrants if they let their options lapse. In cases of part exercise of options, upfront payment for the lapsed portion of the warrants would not be allowed to be adjusted against the exercised portion.

Earlier SEBI had increased the upfront payment on preferential allotments from ten per cent to 25 per cent of the warrant exercise price.

Such measures should increase the risks for promoters and other privileged classes of investors who are allowed to pick up shares at low prices during a bull-market.

The concept of preferential allotment goes against the spirit of a democratic marketplace since it does not allow the retail investor to partake of the rewards and risk that is open to a certain class of privileged investors. Since the regulator is in no hurry to do away with this practice, it would be in the fitness of things to bring about more fairness and transparency to it.

Though late in the day, SEBI has moved against tainted persons from repeatedly hitting the capital markets. Companies with promoters, directors and persons in control of companies debarred by the regulator would no longer be allowed to access the capital markets. While SEBI's intentions are honorable, it remains to be seen what action is forthcoming against unscrupulous persons who violate the regulator's rulings with impunity.

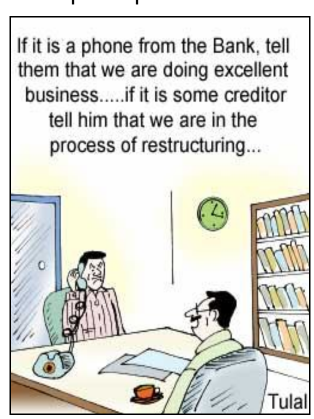
It is an open secret on the Street that high profile speculators and brokers who were found guilty of manipulating the markets in the bull runs earlier this decade continue to operate via front men. In a country where it is par for the course to prop up assorted clansmen, relatives and family retainers on boards of companies, cracking down on manipulation by operators remains a challenge.

Retail investors would also be interested in the attempt to make more transparent the redress of grievances by the stock exchanges.

SEBI has asked the stock exchanges to disclose details of complaints against trading members and companies on their websites. Exchanges would also have to provide details of the action taken on the complaints.

While such a measure would allow one to keep an eye on companies and brokerages that repeatedly come into conflict with investors, SEBI should have formalized an interactive mechanism to enable the average investor obtain updates on companies and brokerages that often fall afoul of the law.

One wishes that SEBI itself becomes more transparent in its functioning and adopts the directives issued to the stock exchanges. It could start by providing details on action taken against various market participants.■



BSE: 508486
NSE: HAWKINCOOK
CMP (BSE): Rs 420.50
Market Cap (Rs Cr.): 222.35

P/E (TTM): 10.11
ROCE: 60.19
ROE: 81.85
Dividend Yield (%): 4.76
52Wk H/L (Rs) 470/130
Debt/Equity: 0.20
3 Yr CAGR Sales (%): 20
3 Yr CAGR Profit (%): 54

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A Boring, Safe Play on Consumer Durables

If you are in search of boring, safe companies that compound steadily as prescribed by veterans like Benjamin Graham and Warren Buffett, don't look any further!

Hawkins Cookers Ltd is one of those companies that have been compounding sales and profits steadily year after year as in an industry that has been growing at a healthy clip. Today, HCL has emerged as a market leader in the pressure cooker and kitchenware segments.

The Mumbai-based company has manufacturing units at Janpur, Thane and Hoshiarpur where it produces kitchen utensils in addition to pressure cookers which is the mainstay of its business.

Apart from Hawkins Cookers sold in the mass market category, the company also owns Futura, Contura, Ventura and Miss Mary brands in the premium segments.

Established more than half a century ago, HCL caters to the domestic segment and the restaurant and catering ends of the business. The company has emerged as a major player in the commercial segment with its Big Boy brand of cookers that allow for huge quantities of food to be cooked.

Analysts estimate the pressure cooker industry in India at Rs 650 cr. every year. The cookware industry is said to be worth another Rs 150 cr. annually. Though the industry is dominated by the unorganized sector with nearly 300 regional players, Hawkins and TTK Prestige have managed to carve a big chunk of the market for themselves.

While the urban markets have been saturated with nearly every household owning a pressure cooker, major players like Hawkins are concentrating on the replacement market and young people branching out to set up new homes. The company is also looking at newer markets like rural households with growing disposable incomes.

Investment Rationale

HCL has managed to grow its sales by an average of 20 per cent annually even as margin improvement has allowed the company to increase profitability at a far higher rate. The management has also indicated that the company would not require any capital expenditure in the near future as capacity utilization remains at around 30 per cent.

The company has also managed a healthy growth with its Return on Equity growing from 26.2 per cent in 2005 to 81.8 per cent in 2009.

HCL has managed to keep a tight rein on cost of raw materials whose costs account for as much as 37 per cent of sales. The June FY10 quarter saw raw material cost rise ten per cent YoY even as the company's top line grew 22 per cent.

Going forward, the company is likely to benefit from falling aluminium prices which could help HCL improve its margins. The company is also looking towards tapping modern retail outlets like shopping malls to increase market penetration.

According to reports, the company is concentrating on growing its premium brand of products like Futura that enjoy higher margins. The premium segment is said to be growing at the rate of 20-25 per cent per annum.

Thanks to its focus on the Indian consumer market, HCL is unlikely to be affected by any recession in the global economy.

HCL has also been very prudent about financial management which has resulted in reduction of debt which consistently resulted in lower interest burden.

Working capital requirements of the company is also declining as the company brought down debtor days from 41 days to 35 days in FY08.

Risks and Concerns

Since the HCL management is increasingly focusing on the rural markets, factors like poor monsoons can hamper the company's growth prospects.

There is also the lingering risk from Chinese imports though the company has built a deep moat around itself by building its brands.

Hawkins Cookers Ltd has so far stuck to its core competency of pressure cookers and kitchen ware. This has allowed the company to grow revenues and profits consistently.