

Buy
Hanung Toys And Textiles (HTTL)

Face Value	Rs 10
Last Price	Rs 140
Target Price	Rs 220

Industry: Toys & Furnishing

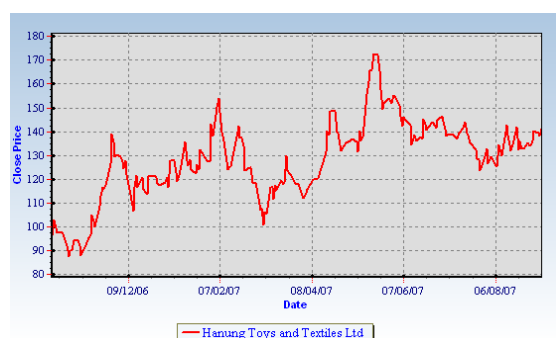
Market Cap (Rs Crs)	352.8
Year High/Low (Rs)	178/87

Holding Pattern (%)

Foreign institutions	7.1
Other foreign	0
Institutions/Mutual Funds	9.8
Corporate Holding	8.1
Promoters	62.3
Public	12.7

(As on 31 June 2007)

Performance (%)	1M	3M	9M
Stock	1.5	-2	21.5
BSE-500	1.5	4.4	14.5

Price Chart: (Daily)

Company Description:

HTTL incorporated in 1993 as a stuff toy manufacturer in technical collaboration with a South Korean company, Hanung Industrial, started manufacturing stuff toys independently five years later. In 2002, HTTL entered home furnishings and textile processing at economic processing zone in NOIDA near Delhi. Presently, HTTL has a manufacturing capacity of 11 million pieces per annum of soft toys, 1.2 million pieces per annum of home furnishing, and 6 million metres per annum of fabric processing. The company tapped the capital market in September 2006 with a Rs 100 crore issue at a premium of Rs 95 per share.

Highlights:

- Keeping with operational benefits, the Hanung factory is located in the Ministry of Commerce's economic processing zone in NOIDA near Delhi.
- HTTL mainly exports to Europe, the US, Latin America and Middle East. But now it is increasing focus in the domestic market, and has launched its stuff toy brands 'Play-n-Pets' and Muskan and home furnishing brand 'Splash'.
- The new unit, which will be used for weaving, dyeing, printing and made-ups, will have a weaving capacity of 21,000 metre a day and a processing capacity of 105,000 metre a day and home furnishing capacity of 16 thousand pieces per day. The project benefits include exemption from excise tax and rebate in sales tax.
- With the spent Rs 69.5 crore of Rs 175 crore project, the first phase of the new plant is expected to go on stream by the January 2008, while the second phase would be completed by April 2008.
- HTTL has the licence to manufacture soft toys resembling characters such as Mickey Mouse and Nemo, the fish from Disney. With growing exposure to Western cartoon characters, this could attract interest.
- With leading Indian retailers already in its customer list, HTTL has also tied up with Reliance's retail venture, Life Style and Pantaloon. It has recently acquired a soft toys company in China, where the industry has been growing at a rapid pace.
- HTTL is raising its domestic market to 35% from the current 25%, and raising its toy production from the current 11 to 14 million units.
- It has already commissioned Home Textiles unit at Roorkee from July 16, 2007, which would further add to the revenue and profitability in the current year.

Key Financial:

(Rs Crore)

Year End March	FY07	FY06	FY08E	FY09E
Sales	275	147	430	750
Other Income	6.02	3.4	9	16
PBIDT	53.7	26.1	82	128
Interest	9.5	5.3	12	18
PBDT	44.2	20.8	70	110
Depreciation	3	1.4	5	9
Tax	13.4	6.5	20	30
PAT	27.8	12.9	45	71
Equity	25.2	15.7	25.2	25.2
Reserves	159.8	51.3	198.8	264.1
Book Value (Rs)	73.4	49.8	89	113
EPS (Rs)	11	8.2	17.9	28.2
OP Margin (%)	19.5	17.7	19	17.1
NP Margin (%)	10	8.8	10.5	9.5
P/E			7.8	5

The Demand Drivers:

The worldwide turnover for toys in 2007 was over US \$ 140 billion, with a positive trend in the USA, Asia and Europe in 2006. The turnover in Europe was € 13.294 billion (source: NPD Group Worldwide 2005, basis: EU-25), an increase of another 2 % in 2006.

Largest sales markets for toys in Europe: England, France, Germany, Italy and Spain

- 78 % of EU toy imports come from China
- 75 million children under 14 years of age live in Europe
- Spending on toys per child in Europe € 150 (EU-15 countries € 180)
- Per capita consumption of toy in the rest of the world averages out to 34 US dollars per child per year.
- Average per capita consumption of toys in India is less than Rs 60 per child/year, which implies great potential in the domestic market.

Valuation & Recommendation:

The company continues to get excellent export orders from reputed business houses leading to substantial increase in revenue & profitability in the coming years.

The company bagged an export order from a leading buyer in May 2007, for exporting home furnishings to the extent of US \$ 65 Million (Rs 275 crore), during the three-year period covering calendar years 2007, 2008, and 2009 vide agreement dated May 10, 2007. In terms of above agreement, the Company expects the business with said buyer to reach a level of US \$ 15 Million (Rs 63 crore) in 2007, US \$ 20 Million (Rs 84 crore) in 2008 and US \$ 30 Million (Rs 127 crore) in 2009.

HTITL has signed export order tie-up with IKEA Sweden in August 2007, for exporting soft toys / kids furnishing to the extent of EURO (€) 108 million (Rs 600 crore). In terms of above agreement, the Company expects the business with said buyer to reach a level of EURO (€) 15 million (Rs 84 crore) in 1st year, EURO (€) 23 million (Rs 128 crore) in 2nd year, EURO (€) 30 million (Rs 165 crore) in 3rd year and EURO (€) 40 million (Rs 223 crore) in 4th year from now.

The established reputation of HTTL, its strong tie up with the international majors like Ikea, Asda, IKEA, Metro and Disney, the substantial scaling up of capacities, the retail initiatives in the domestic market, the growth in the number of department stores and gifting outlets, the gain from tax exemptions and cheaper power coupled with strong orders on hand and its plan to acquire Chinese company provide good earning potential in the future.

The shares traded at Rs 140 at P/E x of 7.8 on FY08E and 5 on FY09E is recommended with a price target of Rs 220 in the medium term.

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