

July 21, 2011

HSIL LTD

BUY

Incorporated in 1960, **HSIL Ltd (HSIL)** is one of India's leading sanitaryware manufacturers with an organized market share of over 40% and the second largest in Container Glass manufacturing with 17% and 70% share of national and south Indian markets respectively.

- The outlook for the sanitaryware segment is strong led by the residential housing demand in the country along with the aspirational demand coming from the replacement segment. The demand for Glass containers would be driven by growth in user industries like processed foods (FMCG), beverages, beer, liquor, pharma and retail.
- The company is pursuing a capacity expansion plan of Rs 6.5bn, wherein the sanitaryware capacity is expected to increase to 5mn pieces; the glass container capacity would increase to 2.5mn pieces and faucet business would be made sizeable with a 2.5mt Greenfield unit.
- The recent acquisition of Garden Polymers, a manufacturer of Pet bottles and a leading supplier to premier customers in the liquor, pharma and FMCG industries for Rs 890mn will provide synergies with HSIL's container glass division.
- We expect margin expansion in both the businesses as lower outsourcing would increase margins in the Building Products division, while entry into specialty bottles and recent de-bottlenecking of the plant would increase efficiency in the Container Glass division.
- The management is expecting a growth of 30% for Building products and 30-32% growth for glass containers. The growth will be driven by newer capacity coming on stream, growth of higher realization products and better product mix. The company expects 15% volume growth for glass containers in FY12.

Based on a consolidated FY13 P/E multiple of 10, the fair value for the company works out to Rs 225

Financial Snapshot

Projections (Rs Mn)	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E
Revenue	5,208	6,158	8,042	10,785	13,330	16,697
Y-o-Y Growth %	9.0%	18.2%	30.6%	34.1%	23.6%	25.3%
EBIDTA	849	946	1,474	2,100	3,243	4,138
Y-o-Y Growth %	1.8%	11.3%	55.9%	42.5%	54.4%	27.6%
PAT after MI	268	317	437	782	1,126	1,487
Y-o-Y Growth %	-3.8%	18.4%	37.6%	79.0%	44.0%	32.1%
EPS Rs	4.6	5.5	7.6	11.8	17.0	22.5
BVPS Rs	39.5	43.4	84.9	101.7	118.8	141.3
EBIDTA %	16.3%	15.4%	18.3%	19.5%	24.3%	24.8%
NPM %	5.1%	5.2%	5.4%	7.2%	8.4%	8.9%
ROE %	11.7%	12.6%	8.9%	11.6%	14.4%	15.9%
PER x					10.9	8.2
P/B Ratio					1.6	1.3

www.fullertonsecurities.co.in

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy – Expected Returns > 20% p.a.

Buy – Expected Returns from 10 to 20% p.a.

Hold – Expected Returns from 0% to 10% p.a.

Reduce – Expected Returns from 0% to 10% p.a. with possible downside risk

Sell – Returns < 0%



STOCK DATA

BSE / NSE Code	500187 / HSIL
Bloomberg Code	HSI IN EQUITY
No. of Shares (Mn)	66
Sensex / Nifty	18,502.38 / 5,567.05

PRICE DATA

CMP Rs (20th July '11)	185.1
Beta	0.38
Market Cap (Rs mn)	12,226
52 Week High-low	189 / 112.65
Average Daily Volume	43,681

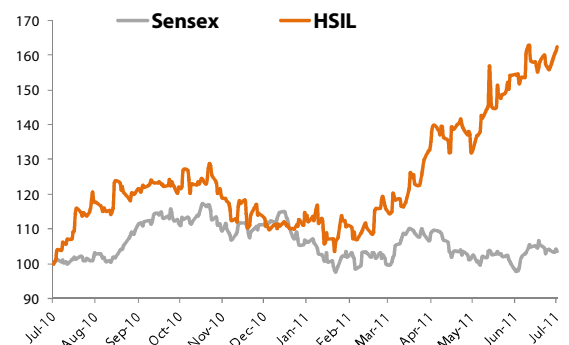
STOCK RETURN (%)

	30D	3M	6M	1Y
HSIL	5%	20%	43%	62%
Sensex	6%	-5%	-3%	3%
Nifty	6%	-5%	-3%	4%

SHARE HOLDING PATTERN (%)

Promoter	51.3
Institution	26.0
Non Institution	22.7
Total	100.0

1 Year Price Performance (Rel. to Sensex)

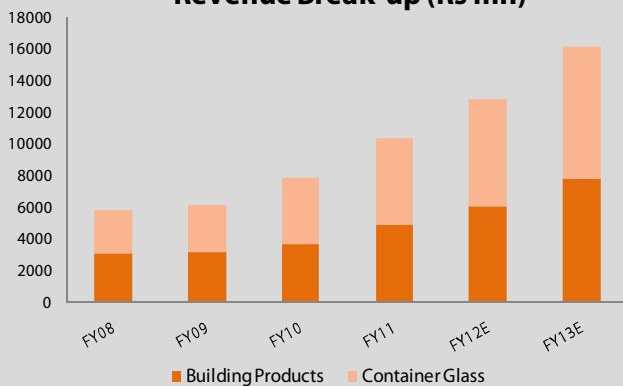


BUSINESS PROFILE

HSIL Ltd (HSIL) was incorporated as Hindusthan Twyford Ltd. in 1960 by the Somany family in collaboration with Twyford Ltd., UK, to introduce vitreous china ceramic sanitaryware in India. Mr. R.K. Somany established the Bahadurgarh plant, which commenced production in 1962. The company diversified into the manufacturing of glass containers through the acquisition of **Associated Glass Industries Limited** in 1981. Currently, HSIL has two business segments, namely, Building Products Division (Sanitaryware) and Container Glass Division. It is the market leader of India's sanitaryware industry with a significant market share of over 40% in the industry. The company carries on the manufacturing of sanitaryware under the **Hindware Brand** and manufacture of container glass under **AGI brand**. The **Hindware** brand markets bathroom furniture and is available across the length and breadth of the country supported by over 1,550 direct dealers and 12,000 sub dealers. Hindware has expanded its product portfolio to include ceramic tiles recently. HSIL is also the market leader in container glass in South India and enjoys 70% market share in that geography and the second largest market player nationally with a market share of 17%. The company has five manufacturing facilities in India across Andhra Pradesh (3), Haryana (1) & Rajasthan (1).

HSIL commands over 40% market share in sanitaryware industry

Revenue Break-up (Rs mn)



Building Products Business....

HSIL, the largest manufacturer of sanitaryware products in India, has progressed from a simple sanitaryware manufacturer to providing bathroom and kitchen solutions and sells its products under the Hindware and Raasi Brands, the Hindware also comprising of the 'Hindware Art' and 'Hindware Italian collections'. It also markets globally renowned brand 'Keramag' through its distribution channels. The division's current capacity is 2.8mn pieces (Bahadurgarh, Haryana - 1.5mn pieces, Bibinagar, Andhra Pradesh - 1.3mn pieces). To further strengthen its presence in this segment, it acquired the Crabtree brand from Havells India in 2010 with a manufacturing capacity of 0.3mn pieces of faucets at Bhiwadi in Rajasthan. The Crabtree brand has been rebranded Benelave. Currently, nearly 50% of faucets sold are outsourced and the rest is manufactured in-house.

The company plans to increase Sanitaryware capacity to 5mn pieces per year, with a Brownfield expansion in Bibinagar and a Greenfield plant at Gujarat with a capacity of 1.2mn pieces to be operational by 2013. The expanded capacity at Bibinagar plant will commence operation by Sep 2011 and the Bahadurgarh plant by Oct 2012. A new Greenfield project in Bhiwadi (about 5km from existing plant) will be operational in 2013 for chrome-plated fittings, enabling total manufacturing capacity of 2.5mn pieces per year, which would be in addition to doubling current faucet capacity in its current location at Bhiwadi.

Sanitaryware capacity will increase production to 5mn pieces per year from 2.8mn pieces per year

Key Institutional clients of Building Products Division

Real Estate	Hotels	Corporates
The DLF Group	The Park Hotels Group	Larsen & Toubro
Unitech	The Taj Hotels Group	Infosys Technology
Omaxe Construction	ITC Hotels	Bengal Ambuja
Mahindra Gesco	Grand Intercontinental Hotels	The Prestige Group
Lokhandwala Construction	Hyatt Hotels	The Everest Group
Mahadev Homes		
RNA Group		
Oberoi Construction		
NCC Urban		
Shapoorjee Palonjee		
Purvankara Projects		
Kanakiya Builders		
IVRCL Info Projects		

BUSINESS PROFILE & INVESTMENT RATIONALE

Strong Distribution Network....

The **Hindware** brand markets bathroom furniture and is available across the country supported by over 1,550 direct dealers, 12,000 sub dealers, retailers and 21 depots. Currently about 75% of the building products sales comes from retailers and 25% from institutional business. The realizations are higher in retail sales as the institutional sales come at higher cost and involves bigger discount. Besides the traditional distribution network, the company aims to grow its revenues and promote brand awareness through its own display centers: Lacasa in select cities, and franchise outlets through Hindware Boutiques and Hindware Arcades in major towns, where the entire Hindware range would be on display. The Company has launched EVOK brand of specialty home fashion mega stores to provide a range of more than 12,500 home interior products under one roof in May 2008 through its wholly owned subsidiary Hindware Home Retail Private Ltd. Currently it has five stores (cumulative ~65,000sf) located at Delhi NCR. In FY12 it proposes to add another 6 stores and about 7 stores a year after next year taking the aggregate stores to around 20 stores by FY14.

Strong distribution network of 1,550 direct dealers, 12,000 sub dealers, retailers and 21 depots

Forward Integration Through Retail Shops

	Number	Location	Details	Future Plans
Hindware Boutiques	32	All-India	Exclusive to HSIL (600-1,500 sq.ft.)	Plans to open 10 boutiques each in the next three years
Hindware Arcades	2	Hyderabad, Chennai	Over 3,000 sq.ft.	Plans to open eight arcades in the next three years
Lacasa	2	Mumbai, Cochin	Over 3,000 sq.ft. coowned exclusive showroom only for display	Plans to open two Lacasas yearly
Evok	5	Delhi, Ghaziabad, Faridabad, Gurgaon	Retail store, catering to home furnishings: living, lighting, flooring, bath and kitchen	Launch four or five stores yearly in the next five years
Shop-in-Shop	80	All-India	Shops within showrooms for exclusive display of HSIL products	Plans to open 30 shops in each of the next three years

Key Institutional Customers in Container Glass Division

Pharma	Beverages	Foods Products
GKS Healthcare	Pepsico Holding Co.	Hindustan Unilever
Ranbaxy	Hindustan Coca Cola	GSK
Dr. Readdy's Pharma	United Breweries	Mutual Foods, Bangladesh
Pfizer	McDowell & Shaw Wallace	Dabur, India
Aurobindo	Seagram Distillaries	Continental Coffee
Tablets India	Radico Khaitan	Priya Foods
Raptakos, Brett & Co	South African Breweries	Global Green
Wyeth	Parle Agro	
Amrutanjan	Foster India	

Glass Container Business....

HSIL Ltd. is the second largest manufacturer of container glass in India with a capacity of 1720mn bottles per annum. It enjoys 17% and 70% share of national and south Indian markets respectively. This division's diversified products portfolio caters to soft drink, alcoholic beverages, food processing, chemical and pharmaceuticals sectors. The company has two container glass plants strategically located in Hyderabad and Bhongir, in Andhra Pradesh. As freight is the critical element in this business, the company capitalizes on its location advantage. Its institutional customers in this segment include Coca Cola, Dabur, Glaxo, HUL, Pepsi, Ranbaxy and United Breweries among others. India has a low per capita consumption of container glass. The container glass industry has a bright demand outlook, led by growth in down stream user industries like processed foods (FMCG), beverages, beer, liquor, pharma and retail.

The company is planning to incur Rs 3.5bn to increase capacity to 1500 MTD through Brownfield expansion in Bhongir. The increased capacity at the Sanathnagar facility at Hyderabad of 50 TPD (80mn pieces) through debottlenecking exercise in FY11 has raised the capacity to 1075 TPD (1720mn pieces) from 1025TPD (1643mn pieces) at a cost of Rs 450mn. The recent acquisition of Garden Polymers, a manufacturer of Pet bottles and a leading supplier to premier customers in the liquor, pharma and FMCG industries for Rs 890mn will provide synergies with HSIL's container glass division.

www.fullertonsecurities.co.in

Capacity Expansion to 2.5mn bottles per annum by FY13



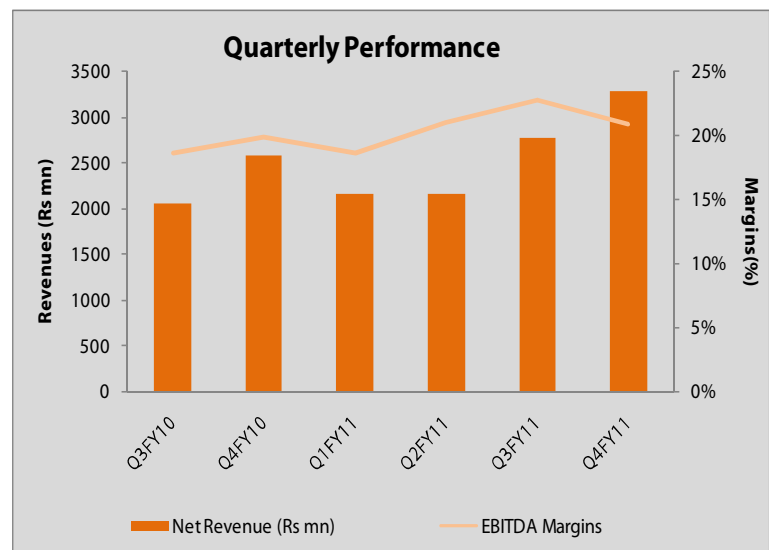
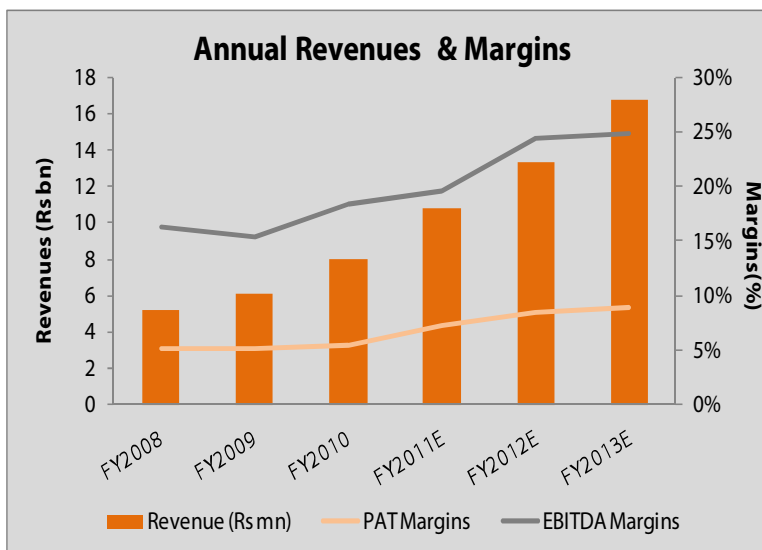
BUSINESS PERFORMANCE & PEER COMPARISON

Strong Revenue Growth....

The FY11 revenues crossed the Rs 10bn mark and were up 34.1% to Rs 10.78bn and the net profit was up 79% to Rs 0.78bn. Both the business segments reported over 30% revenue growth with Container Glass Division reporting a growth of 31% to 5.91bn and the Building Products Division reporting growth of 35% to 5.17bn. While the faucet plant acquisition of Havells India in 2010 contributed to the Sanitary ware division's growth, the increased capacity at the Sanathnagar facility of 50 MTD through debottlenecking exercise resulted in healthy sales growth at the container glass division.

The volume growth for sanitaryware business and glass container was 14% & 19% respectively. The balance growth in topline came from higher sales realization both on account of price hike as well as product mix with higher sales price.

Net Profit to grow at a CAGR of 38% over FY2011-13



Peer Group Comparison

Companies	Revenue (Rs. mn)	EBIDTA Margin (%)	PAT Margin (%)	ROE (%)	P/E (x)	P/B (x)	CMP (Rs.)	FV (Rs.)
HSIL	10,785	19%	7%	12%	15.6	1.8	185	2
Cera Sanitary	2,429	21%	11%	30%	8.2	2.5	228	5
Hindustan National Glass	15,535	16%	4%	6%	32.0	1.8	216	2
Piramal Glass	7,505	28%	9%	15%	17.0	2.5	135	10

*FY11 figures

Peer Comparison

The company is trading at a higher P/E multiple as compared to its listed peer Cera Sanitaryware, justifying its leadership position in the organized sanitaryware market. The profitability is relatively lower as compared to Cera Sanitaryware as the margins also reflect container glass business margins, which are lower. HSIL, when compared to its Hindustan National Glass is trading at a discount because of relatively lower market share in the container glass business.

Trading at a premium to Cera Sanitaryware



July 21, 2011

VALUATION

We expect HSIL's revenues to grow at a CAGR of 24.4% over FY11-13 to Rs 16.69bn. We further estimate that PAT would grow at a CAGR of 38% over the same period to Rs 1.487bn in FY13 from Rs 0.78bn in FY11.

Historically, the company has traded at a wide 1 year forward P/E multiple range of 6-18x. Considering the ramp-up in capacity expansion plans and expected margin expansion in both the businesses, we have valued the company at its 5 year average of 1 year forward P/E multiple of 10.

Based on a consolidated FY13 P/E multiple of 10, the fair value for the company works out to be Rs 225. We recommend a 'BUY' rating on the stock.

Based on a consolidated FY13 P/E multiple of 10, the fair value for the company works out to be Rs 225

Financial Analysis and Projections

Particulars (Rs Mn)	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E
Net Revenue	5,208	6,158	8,042	10,785	13,330	16,697
Other Income	78	94	146	207	133	167
Total Income	5,286	6,252	8,189	10,992	13,463	16,864
Operating Expenditure	4,437	5,306	6,715	8,892	10,220	12,726
Depreciation	264	284	503	554	905	1,022
EBIT	585	662	971	1,547	2,338	3,116
EBIT Margin (%)	11.2%	10.7%	12.1%	14.3%	17.5%	18.7%
Interest	163	168	402	365	632	863
Profit Before Tax	422	493	569	1,182	1,706	2,253
Less: Tax	154	176	133	401	580	766
PAT After MI	268	317	437	782	1,126	1,487
PAT Margin (%)	5.1%	5.2%	5.4%	7.2%	8.4%	8.9%
ROE (%)	11.7%	12.6%	8.9%	11.6%	14.4%	15.9%
EPS (Rs)	4.6	5.5	7.6	11.8	17.0	22.5
BVPS (Rs)	39.5	43.4	84.9	101.7	118.8	141.3
Valuation Ratios (x)					FY12E	FY13E
P/E					10.9	8.2
P/B					1.6	1.3



Board of Directors

Director Name	Current Position	Description
Mr. Rajendra K. Somany	Chairman & MD	Mr. Rajendra K. Somany serves as Chairman of the Board, Managing Director of Hindustan Sanitaryware and Industries Limited. He has 54 years of working experience, has prestigious fellowship of the Institute of Ceramics, U.K., fellow member of Charter Management Institute, Emirates member of American Ceramic Society and member of Institute of Materials, Minerals and Mining, U.K. and Life Fellow of the All India Management Association (AIMA). He has helped Bureau of Indian Standards to develop quality standards for Sanitaryware Industry. He is presently member of Employees State Insurance Corporation (ESIC) and convener of Domestic Sanitary Appliances & Accessories Sub Committee. He is a past President of the ASSOCHAM, PHD Chambers of Commerce and Industry (PHDCCI) and Employers' Federation of India, past Chairman of Council of Indian Employers and founder President of Bahadurgarh Chamber of Commerce and Industry (BCCI).
Mr. Sandip Somany	Joint Managing Director	Mr. Sandip Somany serves as Joint Managing Director, Executive Director of Hindustan Sanitaryware and Industries Limited. He is a Commerce graduate and a diploma holder in ceramic manufacturing technology from the US, he is associated with the ceramics and glass industry for 24 years. He is a Managing Committee member of PHD Chamber of Commerce and Industry, Federation of Indian Chambers of Commerce and Industry (FICCI) and ASSOCHAM and member of the All India Glass Manufacturers Association. He is also the Chairman of INCOSAMA and member of the Delhi Chapter of the Young Presidents' Organisation and Delhi Achievers Round Table.
Mr. V.K. Bhandari	Non-Executive Independent Director	Mr. V.K. Bhandari serves as Non-Executive Independent Director of Hindustan Sanitaryware and Industries Limited. He is an ex-banker and former General Manager of the Central Bank of India, he has over 30 years' worth of experience in the banking industry and was the former head of credit, credit monitoring, treasury, investment, funds management, merchant banking and international banking divisions. He is the Chairman of the Company's Audit Committee and member of Remuneration and Shareholders'/ Investors' Grievance Committee.
Mr. S.B. Budhiraja	Non-Executive Independent Director	Mr. S.B. Budhiraja serves as Non-Executive Independent Director of Hindustan Sanitaryware and Industries Limited. He is a management consultant and mechanical engineer by profession, he was the youngest ever Managing Director of Indian Oil Corporation Ltd. He has also been a former Managing Director of IBP, Balmer Lawrie & Co. Ltd, Indian Oxygen Ltd and Director of the Al-Futtaim Group, UAE. He also holds the distinction of being a former President of the Institute of Management Consultants of India and the Indian Chamber of Commerce and ex-Executive Director of Management Development Institute (MDI), Gurgaon. He was a fellow of the All India Management Association and Institute of Management Consultants of India and an ex-member of a World Bank team that studied the restructuring of the Haryana power sector. He is the Chairman of the Company's Remuneration Committee and Shareholders'/Investors' Grievance Committee and member of the Audit Committee.
Mr. Ashok Jaipuria	Non-Executive Independent Director	Mr. Ashok Jaipuria serves as Non-Executive Independent Director of Hindustan Sanitaryware and Industries Limited. He is a Qualified in business administration and marketing sciences, he is Chairman and Managing Director of Cosmo Films Ltd since 1981 and also the Chairman of Cosmo Ferrites Ltd. He started Cosmo Films to manufacture biaxially oriented polypropylene (BOPP) film with a mere 800 TPA initial capacity and transformed it into the largest domestic BOPP film manufacturer and exporter. He is also a member of the Executive Committee of the FICCI and President of the Golf Foundation – a charitable society which helps under-privileged potential golfers in India.
Mr. N.G. Khaitan	Non-Executive Independent Director	Mr. N.G. Khaitan serves as Non-Executive Independent Director of Hindustan Sanitaryware and Industries Limited. He is an attorney-at-Law, advocate and notary public, appointed by the Government of India, he is practicing in the Calcutta High Court and in the Supreme Court of India. He is also a senior partner at Khaitan & Co., one of India's oldest law firms. He holds the reputation of being a committee member of the Federation of Indian Chambers of Commerce and Industry (FICCI), Vice-President of Indian Council of Arbitration, New Delhi and committee member of Bharat Chamber of Commerce, Calcutta. He is also a Director in various other companies and is a member of the Company's Audit Committee and Shareholder/ Investor Grievance and Remuneration Committee.
Mr. Binay Kumar	Non-Executive Independent Director	Mr. Binay Kumar serves as Non-Executive Independent Director of Hindustan Sanitaryware and Industries Limited. He has a degree in business science, he is the Chairman of Banaras House Ltd. and UP Hotel Clarks Ltd. He is also the President of Indo-Polish Chamber of Commerce & Industry, member of Indo-German Chamber of Commerce and Executive Committee of FICCI, life member of the Indian National Trust for Art and Cultural Heritage and Confederation of Asian Chamber of Commerce & Industry, Taiwan. He is former President of Federation of Indian Export Organisations, Rotary Club of Delhi Midtown, Indo-American Chamber of Commerce & Industry, Indo-French Chamber of Commerce and Industry, PHD Chamber of Commerce and Industry.
Mr. Vishal K.K. Marwaha	Non-Executive Independent Director	Mr. Vishal K.K. Marwaha serves as Non-Executive Independent Director of Hindustan Sanitaryware and Industries Limited. He is a chartered accountant associated with renowned international banks and private equity investors, he was a Director of HSBC Private Equity Management (Mauritius) Ltd and Business Head for management of the private equity operation for the US\$60-mn Indian dedicated fund. He is a representative of the Company's investor HPC (Mauritius) Ltd, Mauritius (Henderson) and associated with the Henderson Equity Partners Ltd (India), as Director for sourcing investments in South Asia. He is a member of the Company's Audit Committee.
Mr. G.L. Sultania	Non-Executive Independent Director	Mr. G.L. Sultania serves as Non-Executive Independent Director of Hindustan Sanitaryware and Industries Limited. He is an FCA, FCS and consultant by profession, he is a member of Capital Market Committee of the Merchants' Chamber of Commerce and a FICCI nominated member of the Cost Accounting Standard Board of ICWAI. He is a member of the Company's Shareholders'/ Investors Grievance Committee.

