SKP Securities Ltd

May 4, 2012

Hindusthan National Glass & Industries Ltd.

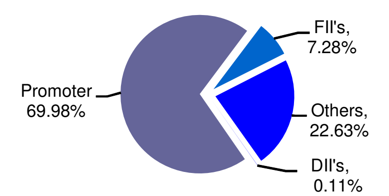
Well Packaged…

CMP INR 205.0 | **Target INR 268.4** | **Initiating Coverage - BUY**

Key Share Data

Face Value (INR)	2.0
Equity Capital (INR Mn)	87.3
52 Week High/Low (INR)	233.9/121.5
6 months Avg. Daily Volume (NSE)	2,329
BSE Code	515145
NSE Code	HINDNATGLS
Reuters Code	HNGI.BO
Bloomberg Code	HNGI IN

Shareholding Pattern (as on 31st Mar. 2012)



Source: BSE

Key Financials (INR Million)

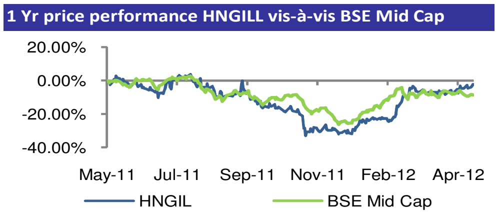
Particulars	FY11	FY12E	FY13E	FY14E
Net Sales	15,535.2	20,106.1	31,488.1	38,309.6
Growth (%)	*12.3%*	*29.4%*	*56.6%*	*21.7%*
EBITDA	2,550.2	3,405.9	5,694.7	7,367.4
PAT	587.8	780.8	1,477.1	2,366.1
Growth (%)	*-61.9%*	*32.8%*	*89.2%*	*60.2%*
EPS (INR)	6.7	8.9	16.9	27.1
BVPS (INR)	131.6	138.8	153.4	178.1

Key Financials Ratios

Particulars	FY11	FY12E	FY13E	FY14E
P/E (x)	30.8	22.2	12.1	7.6
P/BVPS (x)	1.6	1.4	1.3	1.2
Mcap/Sales (x)	1.2	0.9	0.6	0.5
EV/EBITDA (x)	9.6	10.8	7.6	5.9
ROCE (%)	8.7%	7.9%	10.0%	11.8%
ROE (%)	5.3%	6.6%	11.6%	16.3%
EBITDA Mar (%)	16.4%	16.9%	18.1%	19.2%
PAT Mar (%)	3.8%	3.9%	4.7%	6.2%
Debt - Equity (x)	0.6	1.6	1.9	1.7

Source: Company, SKP Research

1 Yr price performance HNGILL vis-à-vis BSE Mid Cap



Analyst: Nikhil Saboo

Ph: +91 33 4007 7408, M: +91 9330186643

Email: nikhil.saboo@skpmoneywise.com

Company Background

Hindusthan National Glass & Industries Ltd. (HNGIL), incorporated in 1946, is a part of the Chandra Kumar Somany Group. The company is engaged in the manufacturing of container glass bottles that find application in industries as diverse as liquor, beer, pharmaceuticals, food, carbonated drinks and cosmetics among others. The company has six manufacturing facilities in India and one in Germany.

Investment Rationale

Pan India presence with dominant market share

- HNGIL is the only player in the container glass industry having Pan India presence and a market share of ~50%. It generates ~64% of sales from North & East region where it already has a strong presence, however South and West contribute to ~32%, thus providing significant geographical risk diversification.

Cost efficiencies to contain margin erosion

- To improve production efficiency, HNGIL has introduced the Narrow Neck Press and Blow technology which reduces the weight of glass by 15 to 35% resulting in cost savings. It has also implemented the usage of gas at four of its plants and intends to use the same for remaining plants in near future. **Going forward, we expect EBITDA margins to improve by 229 bps ~FY12-14E to 19.2%.**

Capacity addition to drive volumes

- HNGIL is implementing a greenfield expansion of 650 TPD plant at Naidupeta, Andhra Pradesh at an investment of INR 8,250 million which is expected to be operational by July 2012. It is also adding another 425 TPD through rebuilding its existing facilities.

Investments to unlock value

- HNGIL holds 47.4% strategic stake in HNG Float Glass which is engaged in the manufacturing of float glass to meet the needs of construction and auto sectors. It also holds 14.6 million shares in HNG & Ace Trust, which at CMP is valued at INR 2.99 billion.

Valuation

We rate a BUY rating on the stock with a price target of INR 268.4 /share, implying an upside potential of 30.9% from current levels in 18 months. Our target price is based on the 50% weightage to DCF value of INR 258.4/share, 25% equal weightage to each P/E multiple of 12x FY14E EPS of INR 27.1/share and P/Bv multiple of 1.3x FY14E book value of INR 178.1/share.

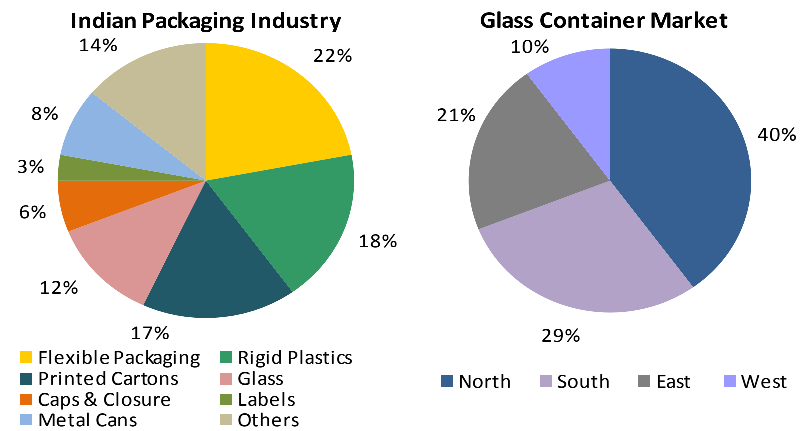
Industry Overview

The major packaging producing countries in the world are USA, Japan, China, Germany and France

- The global packaging industry is estimated at ~USD 690 billion (2011) in revenues, and is **projected to grow at a CAGR of 3 percent over the next five years to reach ~USD 800 billion**, according to the Pira International Ltd.

- The Indian packaging industry is estimated at ~USD 14.0 billion and has been growing at a CAGR of ~15 percent over the last few years. The glass industry comprises of four key segments: hollow glass (mostly containers), flat glass, fibres and special glass. Container glass is the largest segment which is witnessing strong demand from end user segments (liquor, beer, pharmaceuticals, food, cosmetics etc).

Exhibit: Snapshot of Indian Packaging & Glass Container market



Source: Company, SKP Research

India's per capita float glass consumption is 1 kg as against China's 12 kg, all of ASEAN's 8.4 to 11 kg, Europe's 12.5 kg and 10.4 kg in USA

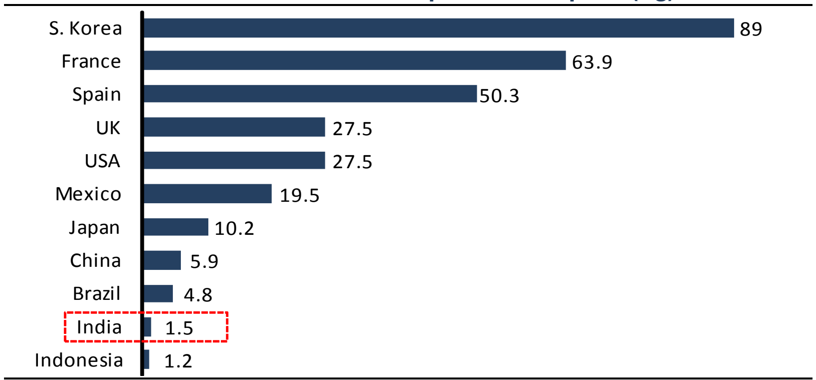
- Float glass has emerged as the preferred flat glass product. India's total installed capacity for float glass is estimated to be 4,700 TPD. It accounts for 90 percent of total glass consumption and is growing at a CAGR of ~12 percent. The usage of glass in housing as well as commercial buildings is a rising trend, owing to its aesthetics and time saving building value. **Going forward, the demand for float glass is expected to grow at a CAGR of ~12 to 15 percent over the next three to five years.**

- Liquor and beer industries are the main users of glass containers with 65 percent share, followed by food (12 percent), pharmaceuticals (10 percent), carbonated drinks (8 percent) and cosmetics & others account for the remaining.

- The container glass industry has been growing at 8-10 percent consistently and is estimated at ~USD 1.1 billion, accounting for ~8 percent of the entire domestic packaging industry. However, market opportunity still appears to be untapped as per capita consumption of container glass in India is only 1.5 kg compared with 5.9 kg in China, 10.2 kg in Japan and 27.5 kg each in the US and UK.

The increasing per capita income of average Indians and low per capita glass consumption is expected to drive the off-take of the container glass industry

Exhibit: World Glass Container Per Capita Consumption (Kg)



Source: Company, SKP Research

Favourable demographics and rising disposable incomes driving consumption across end-user industries in India

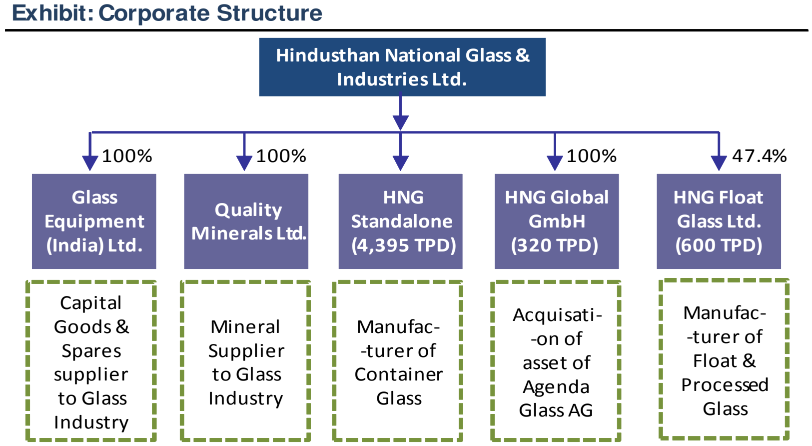
- **The liquor industry is expected to grow 10 percent annually, with the Indian Made Foreign Liquor (IMFL) segment expected to grow at 15 percent every year. The domestic pharmaceuticals industry is expected to grow to USD 55 billion by 2020 from USD 12.3 billion in 2010.** Pharmaceutical companies are increasingly accepting glass bottles as a packaging medium for cough syrups, tonics, liquid injectables and other drugs. **The country's retail food sector is expected to grow to USD 150 billion by 2025 and the fruit-drinks segment is growing at 25 percent annually.**

Company Profile

HNGIL possesses one of the widest portfolios for container glass, ranging from 5 ml to 3200 ml across multi-coloured bottles (amber, flint and green)

- Hindusthan National Glass & Industries Ltd. (HNGIL), incorporated in 1946, is a part of the C.K. Somany Group. The company is engaged in the manufacturing of container glass bottles that find application in industries as diverse as liquor, beer, pharmaceuticals, food, carbonated drinks and cosmetics among others. It is a market leader in the container glass segment and enjoys market share of ~50 percent. HNGIL has three subsidiaries namely Glass Equipment (India) Ltd, Quality Minerals Ltd in India and HNG Global GmbH in Germany.

Exhibit: Corporate Structure



Source: Company, SKP Research

Manufacturing facilities in six locations across India, facility at Naidupeta shall start by July 2012

- Multi-locational production facilities along with marketing offices in Delhi, Kolkata, Mumbai, Hyderabad, Bengaluru and Chennai, focus on product innovation and global technological alliance helps HNG to cater the demand of its customers across India. Its products are exported to more than 30 countries, which contribute ~4 percent of its revenue.

Exhibit: Manufacturing Facilities

Particulates/ Plant Location	Rishra (West Bengal)	Nashik (Maharashtra)	Neemrana (Rajasthan)	Rishikesh (Uttarakhand)	Bahadurgarh (Haryana)	Puducherry (Union Territory)
Year of commencement	1952	2005	2007	2002	1964	2002
Installed Capacity	890 TPD	1,010 TPD	180 TPD	460 TPD	845 TPD	360 TPD
Number of Furnaces	Three	Two	One	Two	Three	One
No of Manufacturing Lines	Thirteen	Four	Three	Six	Fourteen	Four
Manufacturing	Amber, Flint & Green glass	Flint glass	Flint & Amber glass	Green, Flint & Georgia Green	Amber & Flint glass	Sand benefication plant, foundry & mould workshop

Source: Company, SKP Research

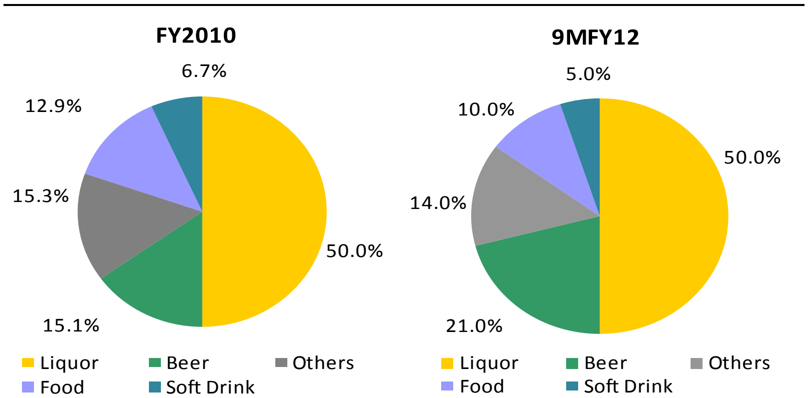
India's total installed capacity for float glass is ~4,700 TPD which results into saleable production of 3,840 TPD

- HNGIL also holds 47.4 percent strategic stake in HNG Float Glass which is engaged in the manufacturing of float glass with installed capacity of 600 TPD. The manufacturing unit is located in Halol, Gujarat, where ~18 percent of the raw materials are sourced within 100-150 km and ~20 percent of the production is sold within 500 km. It is one of the fastest float glass companies with Pan India market share of 21 percent in clear glass and industry leader in western Indian markets with market share of 30 percent.

- The liquor and beer industries are the main users of HNGIL container glass with ~70 percent contribution, followed by food (10 percent), soft drink (5 percent) and others (14 percent). Going forward, the management expects to maintain the same sales volume mix.

Small bottles will be the key growth driver as it caters to the cosmetic, food and pharmaceutical industries

Exhibit: Sales Volume Mix



Source: Company, SKP Research

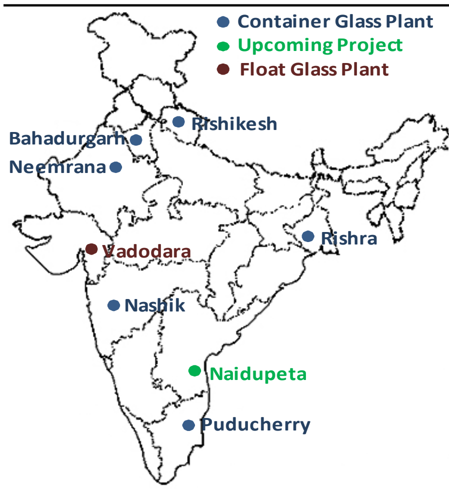
Investment Rationale

Pan India presence with dominant market share

HNGIL is the only player in the container glass industry with a Pan India presence

- HNGIL is the only player in the container glass industry with a Pan India presence. It enjoys a market share of ~50 percent, enjoying benefits of first mover advantage (presence of over six decades).It has six manufacturing facilities in India and one in Germany. Its plant in India is located at Rishra (West Bengal), Nashik (Maharashtra), Neemrana (Rajasthan), Rishikesh (Uttarakhand), Bahadurgarh (Haryana) and Puducherry.

Exhibit: Pan India Presence



Location	Capacity (FY12)	Capacity (FY4E)
Neemrana	180	300
Bahadurgarh	845	845
Rishikesh	460	460
Rishra	890	1,005
Nashik	1,010	1,200
Puducherry	360	360
Naidupeta	-	650
Total*	**3,745**	**4,820**

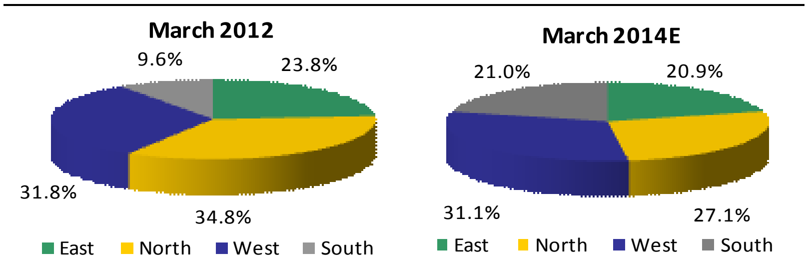
* Excluding Germany plant with capacity of 320 TPD & Float Glass Plant with capacity of 600 TPD

Source: Company, SKP Research

The Company's operational capacity comprises 12 furnaces and 44 production lines

- HNGIL generates ~64 percent of sales from North & East region where it already has a strong presence, however South and West contribute to ~32 percent, thus providing significant geographical risk diversification. The company is setting up a green field plant at South (Naidupeta, Andhra Pradesh), which going forward will further strengthen its geographical reach**.**

Exhibit: Geographical distribution of capacities



Source: Company, SKP Research

Acquired and turned around four loss making units over the last nine years

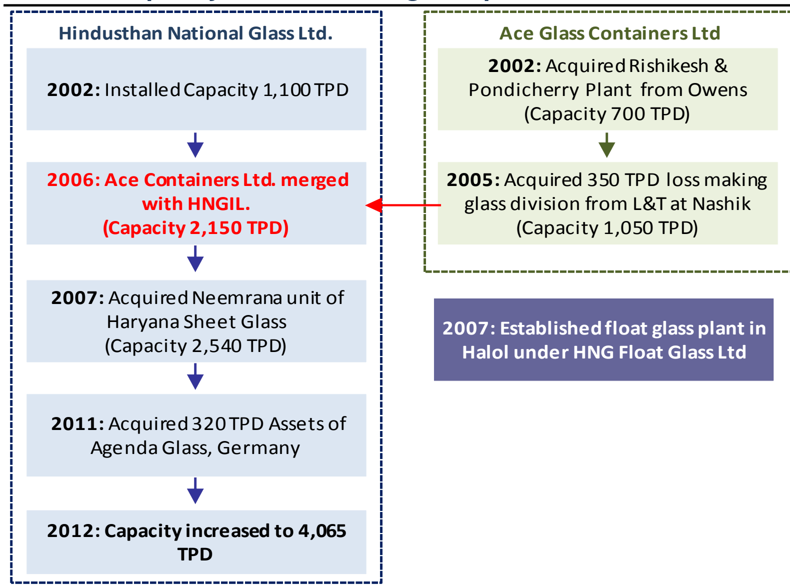
- In the past, HNGIL has successfully transformed the under-performing units of Owens Brockway at Rishikesh and Puducherry, units of Larsen & Tourbo at Nashik and units of Haryana Sheet Glass at Neemrana into profitable business. This was achieved by implementation of cost rationalization initiatives (control over raw materials, power & fuel, manpower and other administration costs).

Hence, the company has consolidated its business through acquisitions.

Sales in FY13E shall further improve on back of higher volumes and better realizations

- In May 2011, HNGIL established its presence in Germany (one of the largest markets for alcohol, beverages and food industries in the world), through the acquisition of assets of Agenda Glass (now known as HNG Global GmbH) situated in Gardelegen, Germany for a total investment of Euro 50 million. The acquisition is strategic for HNGIL in terms of making its international foray and would strengthen its technological and production process going forward. **The plant achieved 76 percent utilization levels in December 2011, and is likely to break-even in FY13E on back of higher volumes and better realizations.**

Exhibit: Capacity addition through acquisition

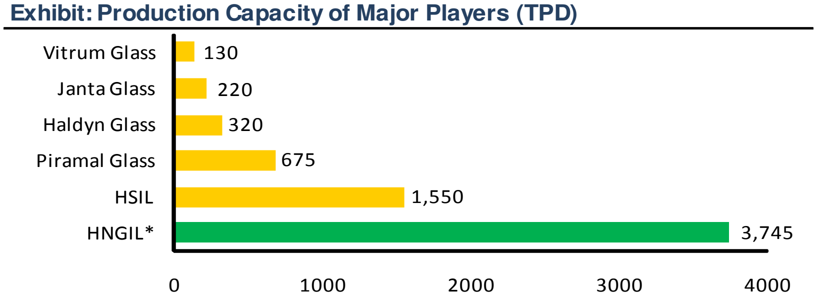


Source: Company, SKP Research

The market is driven by rising disposable income and increasing consumer demand for pure, green and sustainable food and beverage packaging.

- This market is characterized as an oligopoly with top three players namely HNGIL, HSIL & Piramal Glass constituting over 80 percent of the market. The current total production capacity of these three manufacturers is ~6,640 TPD. The market is driven by rising disposable income and increasing consumer demand for pure, green and sustainable food and beverage packaging. Thus, we believe HNGIL is well poised to benefit from growth in end-market demand (liquor, beer, pharmaceuticals, foods, cosmetics etc.).

Exhibit: Production Capacity of Major Players (TPD)



*Source: SKP Research, Note: * Domestic Capacity*

Cost efficiencies to contain margin erosion

Implementation of NNPB technology results into lower raw material, energy and transportation costs and delivers superior glass strength and quality as a result of uniform glass distribution.

- To improve its production efficiency, HNGIL has introduced the cutting edge Narrow Neck Press and Blow (NNPB) technology. NNPB technology is a revolutionary process that not only controls the distribution of glass inside the container, but also reduces the weight of glass by 15 to 35 percent, without having any adverse effects on the performance of the glass containers. Thus, implementation of NNPB technology results into lower raw material, energy and transportation costs and delivers superior glass strength and quality as a result of uniform glass distribution. Currently, Rishra and Bahadurgarh plants are manufacturing bottles through the NNPB technology and it constitutes ~10 percent of the company's total supplies. In the next few years, HNGIL plans to implement this technology at all its plants. Hence, it is a win-win situation for both HNGIL and its consumers (part of the cost savings is passed on to the consumers).

Switching to gas from furnace oil helps in significant cost savings.

- Container glass manufacturing is power and fuel intensive. Power and fuel cost constitutes ~34 percent of HNGIL sales and ~42 percent of total cost. Switching to gas from furnace oil helps in significant cost savings. Currently, HNGIL uses gas at four of its plants and intend to use the same for remaining plants in near future. **We have factored ~200 basis points decline in the power and fuel cost over FY12-14E, owing to substantial cost savings in case of power outages and lower energy cost.**

Exhibit: Plants using Natural Gas

Location	Capacity	Status	Supplier
Neemrana	180	Already using gas	GAIL
Bahadurgarh	845	Already using gas	IOC
Rishikesh	460	Expected in future	GAIL
Rishra	890	Already using gas	Essar Oil
Nashik	1,010	Already using gas	IOC
Puducherry	360	Expected in future	IOC

Source: Company, SKP Research

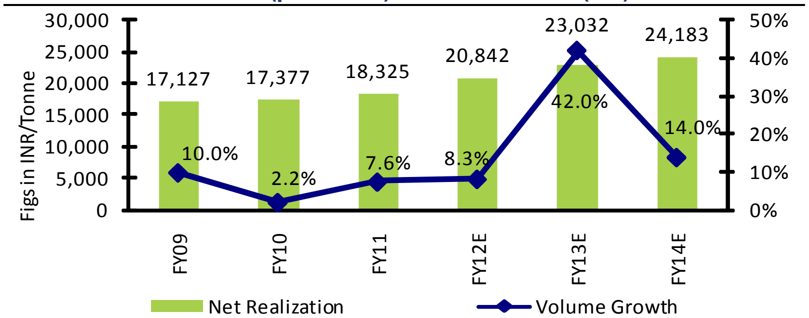
The company has strategically shifted 25 percent of soda ash consumption with black soda because of the price advantage

- HNGIL's key raw materials comprises of silica, limestone, dolomite, soda ash and cullet. Silica and soda ash accounts for 60 to 65 percent of the total raw material cost. The company has strategically shifted 25 percent of soda ash consumption with black soda because of the price advantage. Black soda is a by-product of the paper industry but it is extremely useful and cost effective in glass manufacturing. It is also sourcing amber sand for Rishra unit from Bankura (West Bengal) which has reduced its sand cost for that unit by 40 percent. Further, HNGIL also tied up with distilleries and bottlers for cullet procurement, entering into long-term contracts for seamless supply.

- To mitigate the sharp rise in raw material prices, the company hiked its product prices by about 7 percent (on 30 percent of its sales volume) and about 8 percent (on remaining 70 percent of its sales volume) in the months of January and February 2012.

As HNGIL's additional capacities go on stream, production and sales volumes are expected to improve significantly

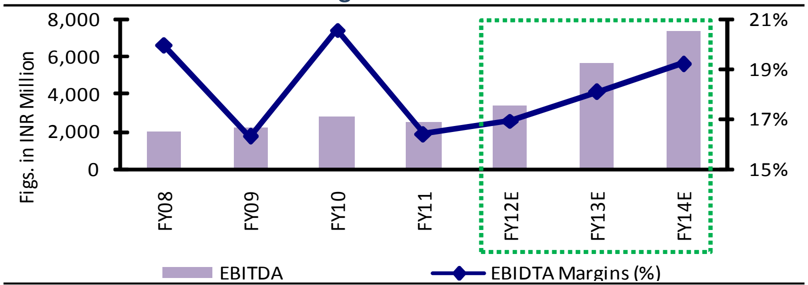
Exhibit: Net Realization (per/tonne) & Sales Volume (MT)



Source: Company, SKP Research

- **Going forward, we expect the EBITDA margins to improve by 229 basis points over FY12-14E to 19.2 percent.**

Exhibit: EBITDA & EBITDA Margins



Source: Company, SKP Research

Capacity addition to drive volumes

The company is implementing a greenfield expansion of 650 TPD plant at Naidupeta, Andhra Pradesh at an investment of INR 8,250 million which is expected to be operational by July 2012

- In February 2012, the company has successfully commissioned its 650 TPD brownfield expansion plant at Nashik, Maharashtra which is operational from March 2012. The plant was built at an investment of INR 7,250 million.

- **Further, the company is implementing a greenfield expansion of 650 TPD plant at Naidupeta, Andhra Pradesh at an investment of INR 8,250 million which is expected to be operational by July 2012.** Naidupeta complex is spread across 210 acres of land with a single largest furnace in the world. This will be HNGIL's seventh glass container plant in India and post commissioning it will strengthen its presence in Andhra Pradesh (southern India accounts for highest consumption of liquor and beer in the country). The funding of the same will be done through a mix of internal accruals and debt in the ratio of 1:3.

Integrating state-of-the-art-technology in facilities through capacity expansions

- Along with above expansion plans, HNGIL is also rebuilding its existing facilities. **The company is adding another 115 TPD facility at Rishra, followed by 120 TPD facility at Neemrana and 190 TPD facility at Nashik. The said expansion is done at an investment of ~INR 5,200 million.** Post expansion, HNGIL total capacity would stand at 5,140 TPD (including German unit of 320 TPD). This capacity will facilitate proximity to key markets in the southern and western region.

Exhibit: Capex

Location	Capacity (TPD)		Expected Commissioning	Capex (INR Crore)	New (N)/ Rebuild (R)
	FY12	FY14E			
Rishra (Furnace 6)	360	475	Oct-12	240	(R)
Neermana	180	300	Jan-13	100	(R)
Nashik (Furnace 1)	360	550	Oct-13	180	(R)
Naidupeta	-	650	Jul-12	825	(N)
Nashik (Furnace 2)	650	650	Started Mar-12	725	(N)

Source: Company, SKP Research

- Translation of these capacities (more than 50 percent of present capacities) into volume growth would help the company to increase its top line and gain further market-share.

Strong clientele base

Six decades of presence in the industry has enabled the company to develop long standing customer relations

- Being present for over six decades in the industry has enabled HNGIL to develop long standing customer relationships. It has a wide range of customers in different users segments which comprise prominent and growing brands like United Spirits, Pernod Ricard, Diageo, Radico, Bacardi in the liquor segment followed by United Breweries, SAB Miller, Asia Pacific Breweries, South Asia Breweries in beer segment; Pfizer, Cipla, Glaxo SmithKline, Reckitt Benckiser, Ranbaxy, Himalaya in the pharma sector; Hindustan Unilever, Glaxo Smithkline, Nestle, Koeleman, Global Green, Heinz, Dabur, Coca Cola and Pepsi in the food and soft drink segment and others.

Exhibit: Clientele Base

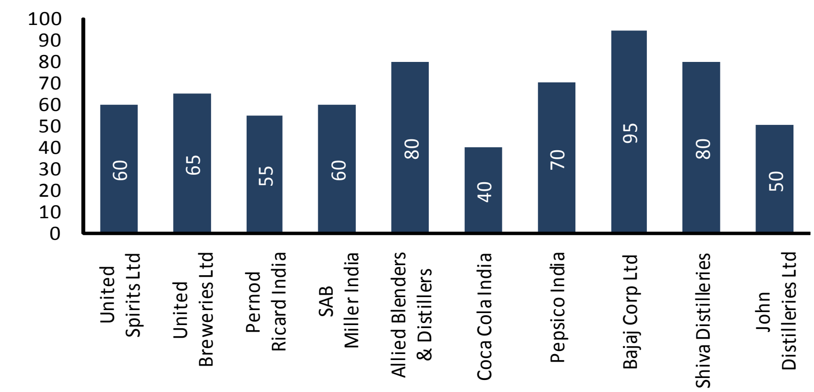
Liquor	UB United Spirits, Pernod Ricard, Diageo, Radico, John, ABD
Beer	UB Group, SAB Miller India, Carlsberg
Food	Unilever, Nestle, Heinz, The Global Green Company
Soft Drinks	Pepsi, Coca-Cola
Pharma	Cipla, Dabur, gsk GlaxoSmithKline, Himalaya, Ranbaxy

Source: Company, SKP Research

Repeat orders from such clients and their established presence provide a stable base

- The company's strong customer profile can be gauged from the fact that it meets 60 percent of bottle requirement of United Spirits in India, followed by United Breweries Ltd (65 percent), SAB Miller (60 percent), Coca Cola (40 percent), Pepsico India (70 percent), Bajaj Corp (95 percent), Shiva Distilleries (80 percent) and many others. Repeat orders from such clients and their established presence provide a stable base.

Exhibit: HNG's Share of Top 10 Customer



Source: Company, SKP Research

Investments to unlock value

We expects management to unlock shareholders value by selling its stake once the company has attained a sizeable business

- HNGIL holds 47.4 percent strategic stake in HNG Float Glass which is engaged in the manufacturing of float glass to meet the needs of construction and auto sectors. The manufacturing unit is located in Halol, Gujarat with a current capacity of 600 TPD. **It has planned a greenfield expansion to add another 900 TPD by FY14E thereby, taking the total capacity to 1,500 TPD.** It is one of the fastest float glass companies with Pan India market share of 21 percent in clear glass and industry leader in western Indian markets with market share of 30 percent. **We expects the management to unlock shareholders value by selling its stake once the company has attained a sizeable business.**

The proceeds from the sale of shares can be utilized for the purpose of meeting capital expenditure requirement and repayment of debt.

- Pursuant to the scheme of amalgamation of Ace Glass Containers Ltd with the company, HNGIL allotted 2.14 million shares to HNGIL Trust and 1.37 million shares to Ace Trust. Post split (shares subdivided from face value of INR 10/share to INR 2/share), the company had 17.5 million shares (including of HNG Trust & Ace Trust). In June 2010, HNGIL sold 2.9 million shares of trust shares to the private equity investors. It currently holds 14.6 million shares, which at current market price is valued at INR 2.99 billion. The proceeds from the sale of shares can be utilized for the purpose of meeting capital expenditure requirement and repayment of debt. **Further, management expects to sell the entire 14.6 million shares, valued at INR 2.99 billion in near future. Though, in our assumption we have not considered the same.**

Key Concerns

Soaring raw material prices

Sharp volatility in raw material prices and power & fuel cost could impact margins going forward

- Rising raw material prices (soda ash) and increasing power and fuel cost poses a major threat. Soda ash constitutes around ~12 percent of total sales and ~45 percent of HNGIL overall raw material cost. Soda ash prices have increased significantly over the last few years. During the last one year the prices are up by ~18 percent and are currently trading at ~INR 14,800/tonne. Thus, sharp volatility in prices could impact margins going forward. Power and fuel cost constitutes ~34 percent of HNGIL sales and ~42 percent of total cost. Hence, any fluctuation in the natural gas prices coupled with rising crude oil prices and increasing electricity tariff rates can pull down the margins going forward.

Threat from substitutes packaging

Glass is 100 percent recyclable with an excellent shelf life.

- Over the last few years, container glass industry has been facing competition from segments like PET bottles, metal cans, Tetra Packs etc. owing to factors like weight, fragility, cost etc. However, the threat is limited for HNGIL due to several advantages of glass over plastic. Glass is 100 percent recyclable with an excellent shelf life. Besides, the growing awareness on account of hygienic packaging demand will drive the demand for container glass over plastic alternatives.

Comparative Valuation

On valuation front, HNGIL is relatively trading at premium compared to its peers owing to its market leadership, pan India presence and aggressive capacity expansion plans

Exhibit: Comparative Valuation *Figs in INR Million*

Particulars	Piramal Glass	HSIL*	HNGIL*
Total Income	**13,334.6**	**12,797.8**	**17,834.3**
EBITDA	3,274.9	2,466.7	2,655.5
EBITDA Margin (%)	*24.56%*	*19.3%*	*14.9%*
PAT	**1,034.7**	**1,096.8**	**788.8**
PAT Margin (%)	*8.83%*	*8.6%*	*4.4%*
Diluted EPS	14.54	16.64	9.0
Book Value Per Share	43.7	114.0	138.6
CMP (3-May-12)	113.4	175.6	205.0
P/E (x)	7.8	10.6	22.7
P/BV (x)	2.6	1.5	1.5
Debt/Equity (x)	**2.90**	**0.87**	**0.87**
ROE (%)	29.3%	14.6%	6.5%
EV/EBITDA (x)	5.9	7.1	10.7
EV/Total Income (x)	1.4	1.4	1.6

Source: Company, SKP Research

Note: Total Income, EBITDA, PAT are on TTM Basis ended December 2011, while Debt/Equity & ROE (%) as on September 2011

** Standalone Numbers*

Sensitivity Analysis

Exhibit: Sensitivity of HNGIL FY14E EBIDTA & EPS - With the change in Net Realization/tonne and Dispatch Volume (MT)

% Change in Dispatch Volume (MT)		% Change in Net Realization						
	Change (%)	-3.0%	-2.0%	-1.0%	0.0%	1.0%	2.0%	3.0%
EBITDA (Figs in INR Million)	-3.0%	5,256.8	5,603.2	5,949.6	6,296.0	6,642.4	6,988.8	7,335.2
	-2.0%	5,603.2	5,953.2	6,303.2	6,653.2	7,003.1	7,353.1	7,703.1
	-1.0%	5,949.6	6,303.2	6,656.7	7,010.3	7,363.8	7,717.4	8,070.9
	0.0%	6,296.0	6,653.2	7,010.3	7,367.4	7,724.5	8,081.6	8,438.7
	1.0%	6,642.4	7,003.1	7,363.8	7,724.5	8,085.2	8,445.9	8,806.6
	2.0%	6,988.8	7,353.1	7,717.4	8,081.6	8,445.9	8,810.1	9,174.4
	3.0%	7,335.3	7,703.1	8,070.9	8,438.7	8,806.6	9,174.4	9,542.2
EPS (Figs in INR)	-3.0%	2.9	6.9	10.9	14.8	18.8	22.8	26.7
	-2.0%	6.9	10.9	14.9	18.9	22.9	26.9	30.9
	-1.0%	10.9	14.9	19.0	23.0	27.1	31.1	35.1
	0.0%	14.8	18.9	23.0	27.1	31.2	35.3	39.4
	1.0%	18.8	22.9	27.1	31.2	35.3	39.4	43.6
	2.0%	22.8	26.9	31.1	35.3	39.4	43.6	47.8
	3.0%	26.7	30.9	35.1	39.4	43.6	47.8	52.0

Source: Company, SKP Research

Valuations

We valued HNGIL, on a 18 month's time horizon, based on Discounted Cash Flow (DCF), Price-to-Earning (P/E) and Price-to-Book Value (P/Bv) methodologies.

Method 1: DCF Approach

Under our DCF methodology, we discounted the future earnings of HNGIL to present using Weighted Average Cost of Capital (WACC) of 10.1 percent and applying a terminal growth rate of 2.0 percent.

We maintain a BUY rating with a price target of INR 268.4/share, reflecting an upside potential of 30.9 percent from current levels

Exhibit: DCF Assumption

Risk Free Rate (Rf)	8.6%
Beta	0.49
Risk Premium	9.0%
Post Tax Cost of Debt (Kd)	8.3%
Weight of Equity (We)	38.4%
Weight of Debt (Wd)	61.6%
Terminal Period	FY18E Onwards
Terminal Growth Rate	2.0%

Source: SKP Research

Through our DCF approach, HNGIL value stood at INR 258.4/share, reflecting 26.0 percent upside from current levels.

Exhibit: DCF Valuation *Figs in INR Million*

Cumulative Present Value of Cash Flow (FY13-18E)	(4,358.0)
Present Value of Terminal Period	46,255.7
Enterprise Value	**41,897.7**
Less: Debt	(19,438.1)
Add: Cash	106.6
Present Value of Equity	**22,566.2**
No. of Outstanding Shares	87.3
DCF - Target Price (INR/Share)	**258.4**

Source: SKP Research

Exhibit: Sensitivity analysis to terminal WACC and terminal growth rate

	Terminal growth rate				
Terminal WACC	1%	1.5%	2.0%	2.5%	3%
9.1%	253.2	290.5	333.1	382.2	439.3
9.6%	222.6	255.8	293.3	336.1	385.4
10.1%	195.5	225.1	258.4	296.1	339.0
10.6%	171.1	197.8	227.5	261.0	298.8
11.1%	149.2	173.3	200.1	230.0	263.6

Source: SKP Research

Method 2: P/E Multiple

HNGIL is trading at a P/E of 12.1x and 7.6x FY13E and FY14E EPS of INR 16.9/share and INR 27.1/share respectively.

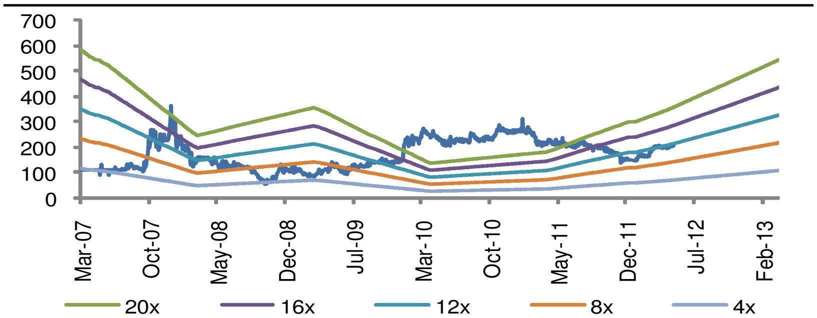
HNGIL historically traded in a wide band of 4x to 20x on the one year forward P/E basis. Through our P/E approach, HNGIL value stood at INR 325.1/share, reflecting 58.6 percent upside from current levels.

Exhibit: Value based on FY14E P/E

Target P/E	12x
FY14E EPS	27.1
Target Price Per Share (INR)	**325.1**

Source: SKP Research

Exhibit: One Year Forward P/E Band



Source: Company, SKP Research

Method 3: P/Bv Multiple

HNGIL is trading at a P/Bv of 1.3x and 1.2x FY13E and FY14E BVPS of INR 153.4/share and INR 178.1/share respectively.

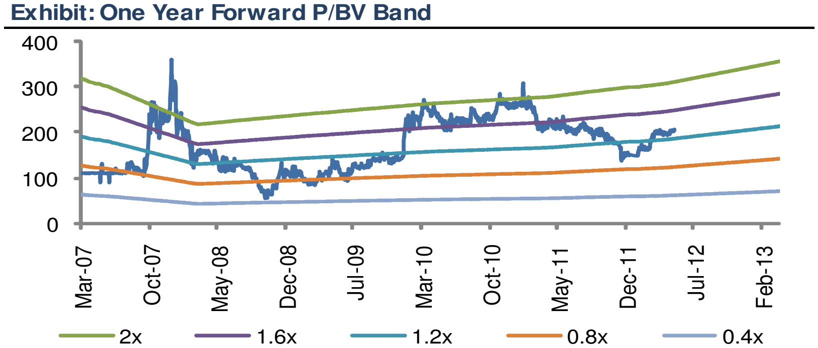
Exhibit: Value based on FY14E P/BV

Target P/BV	1.3x
FY14E BV	178.1
Target Price Per Share (INR)	**231.6**

Source: SKP Research

HNGIL historically traded in a wide band of 0.4x to 2.0x on the one year forward P/Bv basis. Through our P/Bv approach, HNGIL value stood at INR 231.6/share, reflecting 13.0 percent upside from current levels.

Exhibit: One Year Forward P/BV Band



Source: Company, SKP Research

Thus, assigning 50 percent weightage to DCF Approach and 25 percent equal weightage to each P/E and P/Bv methodology, we arrived at a price target of INR 268.4/share, implying an upside potential of 30.9 percent in 18 months. We initiate coverage on the company with BUY rating.

Exhibit: Target Price

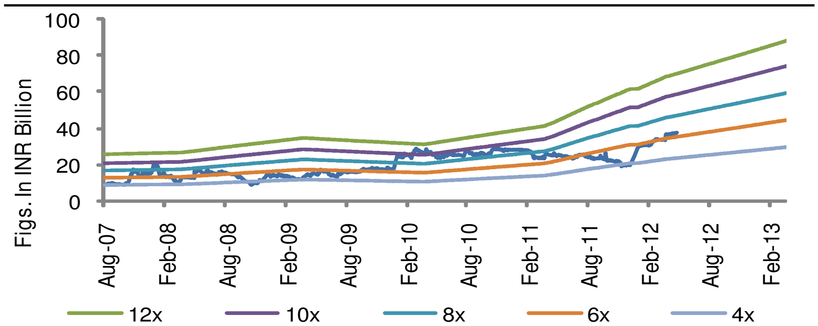
Valuation Methodology	Target Price	Weight	INR/Share
Value Based on DCF Approach	258.4	50%	129.2
Value Based on P/E Multiple	325.1	25%	81.3
Value Based on P/Bv Multiple	231.6	25%	57.9
Target Price Per Share (INR)			**268.4**

Source: SKP Research

One Year Forward EV/EBITDA Band

On an EV/EBITDA basis, HNGIL is trading at 7.6x and 5.9x its FY13E and FY14E EBITDA of INR 5.69 and 7.37 billion respectively

Exhibit: One Year Forward EV/EBITDA Band



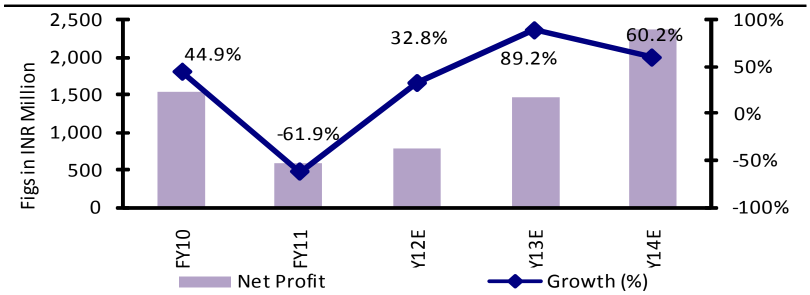
Source: Company, SKP Research

Financial Outlook

Net Profit to grow at a CAGR of 59.1 percent over FY11-14E

Net profit is expected to grow at a CAGR of 59.1 percent to INR 2,366.1 million over FY11-14E

Exhibit: PAT & PAT Growth

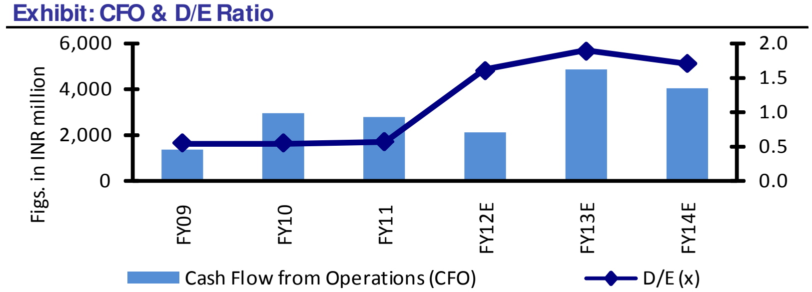


Source: Company, SKP Research

Over leverage balance sheet due to aggressive expansion plans

HNGIL is well placed to support its capex drive on the back of steady operating cash flows

Exhibit: CFO & D/E Ratio



Source: Company, SKP Research

Exhibit: Income Statement *Figures in INR Million*

Particulars	FY11	FY12E	FY13E	FY14E
Net Sales	**15,535.2**	**20,106.1**	**31,488.1**	**38,309.6**
Growth (%)	*12.3%*	*29.4%*	*56.6%*	*21.7%*
Expenditure	**12,985.0**	**16,700.2**	**25,793.5**	**30,942.2**
Material Consumed	4,255.2	5,330.2	8,380.5	10,044.3
Power & Fuel Cost	4,575.7	6,936.6	10,469.8	12,259.1
Employee Cost	894.4	1,206.4	1,968.0	2,394.4
Packing Materials	1,209.8	1,407.4	2,125.4	2,585.9
Admin & Other Exp.	2,050.0	1,819.6	2,849.7	3,658.6
EBITDA	**2,550.2**	**3,405.9**	**5,694.7**	**7,367.4**
Depreciation	1,008.4	1,394.3	2,094.8	2,495.9
EBIT	**1,541.8**	**2,011.5**	**3,599.9**	**4,871.5**
Other Income	180.2	197.9	255.3	274.5
Interest Expense	511.5	1,066.0	1,958.1	2,205.6
Profit Before Tax (PBT)	**1,210.5**	**1,143.4**	**1,897.1**	**2,940.3**
Income Tax	344.8	234.4	388.9	602.8
Effective Tax Rate (%)	*28.5%*	*20.5%*	*20.5%*	*20.5%*
Share of Ass for the yr	-183.2	-128.2	-31.1	28.6
Share of Ass for the FY10	*-94.7*	*0.0*	*0.0*	*0.0*
Profit After Tax (PAT)	**587.8**	**780.8**	**1,477.1**	**2,366.1**
Growth (%)	*-61.9%*	*32.8%*	*89.2%*	*60.2%*
Diluted EPS	6.7	8.9	16.9	27.1

Exhibit: Balance Sheet *Figures in INR Million*

Particulars	FY11	FY12E	FY13E	FY14E
Share Capital	174.7	174.7	174.7	174.7
Reserve & Surplus	11,320.8	11,948.3	13,221.1	15,382.9
Shareholders Funds	**11,495.5**	**12,123.0**	**13,395.7**	**15,557.5**
Secured Loan	6,244.1	19,277.0	25,157.0	26,417.0
Unsecured Loan	161.1	161.1	161.1	161.1
Total Debt	**6,405.2**	**19,438.1**	**25,318.1**	**26,578.1**
Minority Interest	**0.06**	**0.06**	**0.06**	**0.06**
Deferred Tax Liability	**711.0**	**711.0**	**711.0**	**711.0**
Total Liabilities	**18,611.7**	**32,272.1**	**39,424.9**	**42,846.7**
Net Block inc Capital WIP	**13,722.5**	**26,037.3**	**32,342.5**	**31,646.6**
Investments	1,472.8	1,583.3	1,702.0	1,829.7
Current Assets	**6,183.5**	**8,318.9**	**11,407.4**	**15,039.3**
Inventories	**2,325.7**	**2,833.8**	**4,465.3**	**5,524.5**
Sundry Debtors	2,480.8	3,468.4	4,123.2	5,113.1
Cash & Bank Balance	49.4	106.6	142.4	1,049.7
Loans & Advances	1327.7	1910.1	2676.5	3352.1
Current Liabilities & Prov	**2,767.2**	**3,667.3**	**6,027.1**	**5,668.9**
Current Liabilities	2,158.5	2,712.3	4,610.1	4,136.5
Provisions	608.7	955.0	1,417.0	1,532.4
Total Assets	**18,611.7**	**32,272.1**	**39,424.9**	**42,846.7**

Exhibit: Cash Flow Statement *Figures in INR Million*

Particulars	FY11	FY12E	FY13E	FY14E
PBT	**1,210.5**	**1,143.4**	**1,897.1**	**2,940.3**
Depreciation	1,008.4	1,394.3	2,094.8	2,495.9
Interest Provided	511.5	1,066.0	1,958.1	2,205.6
Chg. in Working Capital	326.0	(1,178.0)	(692.9)	(3,082.8)
Direct Taxes Paid	(412.4)	(234.4)	(388.9)	(602.8)
Other Non Cash Charges	120.2	(128.2)	(31.1)	28.6
Operating Cash Flows	**2,764.2**	**2,063.2**	**4,837.0**	**3,984.8**
Capital Expenditure	(3,199.7)	(13,709.0)	(8,400.0)	(1,800.0)
Investments	274.1	(110.5)	(118.7)	(127.7)
Others	65.4	-	-	-
Investing Cash Flows	**(2,860.3)**	**(13,819.5)**	**(8,518.7)**	**(1,927.7)**
Inc / (Dec) in Debt	730.7	13,032.9	5,880.0	1,260.0
Dividend Paid (inc tax)	(133.2)	(153.3)	(204.4)	(204.4)
Interest Paid	(509.4)	(1,066.0)	(1,958.1)	(2,205.6)
Financing Cash Flows	**88.1**	**11,813.6**	**3,717.6**	**(1,149.9)**
Chg. in Cash & Cash Eqv	(8.0)	57.2	35.8	907.2
Opening Cash Balance	57.3	49.4	106.6	142.4
Closing Cash Balance	49.4	106.6	142.4	1,049.7

Exhibit: Ratio Analysis

Particulars	FY11	FY12E	FY13E	FY14E
Earning Ratios (%)				
EBITDA Margin (%)	16.4%	16.9%	18.1%	19.2%
PAT Margins (%)	3.8%	3.9%	4.7%	6.2%
ROCE (%)	8.7%	7.9%	10.0%	11.8%
ROE (%)	5.3%	6.6%	11.6%	16.3%
Per Share Data (INR)				
Cash EPS (CEPS)	18.3	24.9	40.9	55.7
BVPS	131.6	138.8	153.4	178.1
Valuation Ratios (x)				
P/E	30.8	22.2	12.1	7.6
Price/BVPS	1.6	1.4	1.3	1.2
EV/Sales	1.6	1.8	1.4	1.1
EV/EBITDA	9.6	10.8	7.6	5.9
Dividend Yield (%)	0.7%	0.8%	1.0%	1.0%
Balance Sheet Ratios				
Debt - Equity	0.6	1.6	1.9	1.7
Current Ratio	2.2	2.3	1.9	2.7
Fixed Asset Turn. Ratios	1.4	1.2	1.2	1.2

Source: Company Data, SKP Research

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol, Ticker plant and ISI Securities

SKP Securities Ltd

Contacts	Research		Sales	
	Mumbai	Kolkata	Mumbai	Kolkata
Phone	022 2281 9012	033 4007 7000	022 2281 1015	033 4007 7400
Fax	022 2283 0932	033 4007 7007	022 2283 0932	033 4007 7007
E-mail	researchmum@skpmoneywise.com	research@skpmoneywise.com	Skp.sec@bloomberg.net	

Member: NSE BSE NSDL CDSL NCDEX* MCX* MCX-SX FPSB *Group Entities

INB/INF: 230707532, BSE INB: 010707538, CDSL IN-DP-CDSL-132-2000, DPID: 021800, NSDL IN-DP-NSDL: 222-2001, DP ID: IN302646, ARN: 0006, NCDEX: 00715, MCX: 31705, MCX-SX: INE 260707532