

HIL Ltd.

A soft quarter. Near term pressures to continue

HIL reported a soft quarter with revenue growth of 8.8% YoY in Q1FY22. Building Solutions and Polymer Solutions performed well recording revenue growths of 42% and 48% YoY respectively. Roofing Solutions recorded a revenue growth of 1% YoY (Q2FY21 had a high base because of pent-up demand) while Parador recorded a revenue de-growth of 3.5% YoY. Parador would continue to face pressure because of shortage of raw materials (HDF and MDF) and consequent rise in their prices in Q3FY22. Pressure should ease by mid Q4FY22. It should be noted that barring Roofing there are raw material price pressures in all the other segments and the Management expects this situation to continue in Q3FY22. Product price increases were taken in all the segments barring Roofing, which saw a price reduction of around 2% during Q2FY22. Product price increases by 12-13% for Parador was however not enough to protect its margins and the segment in fact reported an EBIT loss. Having said these, the long term trajectory of revenue growth and margins is commendable for HIL and beginning FY23, the Management has set a target of growing at 20-22% annually to reach a revenue of USD 1 billion in FY26. In order to reach this target the Management would also take resort to inorganic opportunities. Annualised capacity utilisations of all segments barring Building Solutions leave ample room for growth without incurring high capex. Building Solutions' capacity utilisation is around 85-90% and that is the reason why the Company would start a new plant in Odisha at a capex of Rs 800 million. New products such as Tile Adhesive, Primer, Gypsum Plaster, Water Tanks, Waterproof Putty, and Teflon Tapes were introduced in the last three quarters. The Management indicated that their acquisition targets should have double digit EBITDA margins and RoCEs in excess of 20%. Further, the Management said that under no circumstances would HIL's debt-equity ratio exceed 1x post acquisitions. To conclude, we are positive about the growth prospects connected with HIL and we maintain a "Buy" on the stock.

A soft quarter

- HIL reported modest revenue growth of 8.8% YoY in Q2FY22. Building Solutions and Polymer Solutions performed well recording revenue growths of 42% and 48% YoY respectively. Roofing Solutions recorded a revenue growth of 1% YoY while Parador recorded a revenue de-growth of 3.5% YoY.
- Raw material cost pressures were felt during the quarter across Building Solutions, Polymer Solutions and Parador as a result of which Gross Margin declined by 660 bps YoY to 43.4%.
- Employee Expenses and Other Expenses were in control as they rose by 1% and 5.5% YoY during the quarter, the rise in these along with 23% YoY increase in Cost of Goods Sold during the quarter made the EBITDA fall by 32% YoY during the quarter. EBITDA margin dropped by 490 bps YoY during the quarter to 8.2%.
- The market share in Roofing segment improved by 200 bps in H1FY22.**
- Building Solutions segment did very well in Tier 3 and Tier 4 cities.
- Polymer Solutions segment was supported by the brand value and increase in reach.
- The long term demand situation of Parador is very favourable and new markets are being explored.

Outlook and Valuation:

We are positive about the growth prospects connected with HIL over the long run despite the near term pressures as indicated above. The superior growth trajectory of the Company along with its commitment to achieve USD 1 billion revenue in FY26 as well as the enhanced return ratios makes us value the stock at 15x P/E and on FY23e EPS, the target price works out as Rs 7,211. We thus maintain a "Buy" rating.

Y/E Mar (Rs mn)	Q2 FY22	Q2 FY21	YoY (%)	Q1 FY22	QoQ (%)
Net sales	7,659	7,038	8.8%	9,835	-22.1%
Operating costs	7,030	6,115	15.0%	8,211	-14.4%
EBITDA	629	923	-31.9%	1,624	-61.3%
EBITDA Margin (%)	8.2%	13.1%	(490) bps	16.5%	(830) bps
Depreciation	292	267	9.4%	311	-6.0%
Interest	29	68	-57.4%	37	-21.0%
Other income	47	65	-27.7%	112	-57.9%
PBT	358	1273	-71.9%	1391	-74.3%
Provision for tax	96	330	-70.9%	396	-75.7%
Effective tax rate (%)	26.8%	25.9%	(90) bps	28.4%	(160) bps
PAT (Reported)	261	943	-72.3%	995	-73.8%
NPM (%)	3.4%	13.4%	(1000) bps	10.1%	(670) bps

Source: AceEquity, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY19	21,688	70%	2,439	11.2%	1,142	41%	152.6	17.9%	13.5%	29.6	15.0
FY20	25,549	18%	2,372	9.3%	1,060	-7%	141.5	14.3%	10.4%	32.0	15.4
FY21	30,436	19%	4,054	13.3%	2,143	102%	286.3	21.5%	20.9%	15.8	9.0
FY22e	35,823	18%	4,766	13.3%	2,716	27%	362.8	22.0%	22.1%	12.5	7.7
FY23e	41,245	15%	5,918	14.3%	3,599	32%	480.7	23.0%	25.0%	9.4	6.2

Source: AceEquity, SMIFS research



Rating: Buy **Upside/(Downside): 59%**
Current Price: 4,523 **Target Price: 7,211**

Earlier recommendation

Previous Rating: Buy
 Previous Target Price: 7,234

Market data

Bloomberg:	HIL IN
52-week H/L (Rs):	6,750/1,665
Mcap (Rs bn/USD mn):	33.9/453.1
Shares outstanding (mn):	7.5
Free float:	55.00%
Avg. daily vol. 3mth (3M Avg - in '000):	20.8
Face Value (Rs):	10
Group:	S&P BSE SmallCap

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Sep-21	Jun-21	Mar-21	Dec-20
Promoter	40.8%	40.8%	40.8%	40.8%
Institutions	8.4%	8.4%	7.6%	7.9%
Non Insti	50.8%	50.8%	51.6%	51.3%
Total	100.0%	100.0%	100.0%	100.0%

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
BSE SmallCap	1.0	6.5	87.6	106.6
HIL	-11	-17.2	163.1	116.1

*as on 28th October 2021; Source: AceEquity, SMIFS research

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Q2FY22— Key takeaways from the management call

Roofing Solutions:

- HIL like its competitors reduced selling price of fibre sheets by around 2% during the quarter. **However, HIL's price is still at a premium to that of its competitors and HIL continues to maintain leadership position in terms of market share. The market share of HIL has gained by 200bps during H1FY22. 1-2% further price reduction happened in October.**
- There are no challenges with respect to fibre prices though cement prices have been on the rise.
- Charminar Fortune products have been fully tested during the monsoon season and the results have been very impressive. The product is now ready for complete ramp up and is clearly set for superior growth.

Building Solutions:

- The real estate situation has improved substantially in the last few quarters, the benefit of which has accrued to the Building Solutions segment. **HIL's strategy of entering into Tier 2 and Tier 3 cities since the onset of Covid in India has been very fruitful and approximately 30% of Building Solutions sales in Q2FY22 came from these markets.**
- Raw material price increases of cement, fly ash, burnt lime and coal have been felt in this segment. Prices of building solutions products have risen by 2% in Q2FY22 and have increased further by 2% in October to counter the raw material price increases.

Polymer Solutions:

- **This segment has been growing MoM since last 2 years because of increasing geographical reach and superior product profiles. The trend is expected to continue in the near and long term.** Robust quarterly growth on a YoY basis is thus inevitable.
- High raw material prices have been felt in this segment during the quarter and price increases were taken to counter those. High prices of raw material should continue in Q3FY22.

Parador:

- **Parador faced a huge scarcity of HDF and MDF, the two key raw materials for wooden flooring products during the quarter. Supply shortages led to huge increase in prices of these raw materials. Parador took the initiative of increasing prices of Parador products by 12-13% during the quarter, however, those were not enough to cover the increase in prices of these two raw materials along with chemicals and sea freight (HDF and MDF have seen a 40% price increase, 100-200% price increase of chemicals, 7x to 9x increase in sea freight).** Many orders were given up because of lack of raw materials. Thus the demand situation is intact. The shortage in HDF and MDF is primarily due to huge demand from furniture makers.

- In these tough times, Parador has been on the hunt for new MDF and HDF suppliers. They have had discussions with players based in Eastern Europe, South East Asia and India. In some cases contracts have been finalised and supplies have begun. More contracts are expected to be finalised in Q3FY22. Firm commitment of supply of HDF and MDF has been received from some Eastern European suppliers, who will begin the supplies from December 2021-January 2022.
- **The Management expects the supply and pricing situation of HDF and MDF to improve by mid Q4FY22. Q3FY22 should be a tough quarter for Parador but it will not be as bad as Q2FY22. The Management does not expect negative EBIT for this segment in Q3 and Q4FY22. The present situation should be considered as a short term blip and Parador is on its path to achieve a revenue of Eur 350 mln in the next 4-5 years.**
- Cost rationalisation exercises are in place in Parador. In fact the whole Company has become very much focused on cost optimisation post Covid.
- In some cases orders for HDF and MDF based products were shifted to PVC based resilient flooring products after discussion with the customers, but that had an impact on margins as HDF and MDF based products have higher margins.
- The Management stated that it doesn't make sense to set up a backward integration facility for the manufacture of HDF and MDF as the capex cost would be huge (around Eur 125-130 mln) and the capacity installed would be 3 times more than Parador's requirement. Thus, the returns would be sub-optimal.
- Many players of HDF and MDF in Western Europe had shut shop in the last few years when there were no shortages as they were not able to make money in their business. However, currently most of the Western European suppliers have full order books with some having order books of 2-3 years.
- Q2FY22 saw around 70-80% of Parador's sales coming from Europe.
- The capacity utilisation of Parador was between 65-70% during the quarter.
- Parador lost out on DIY sales during the quarter.
- Parador still enjoys a price premium compared to other Europe based wooden flooring players.
- **Normalised EBITDA margin of 10% should come back to Parador by mid of Q4FY22.**

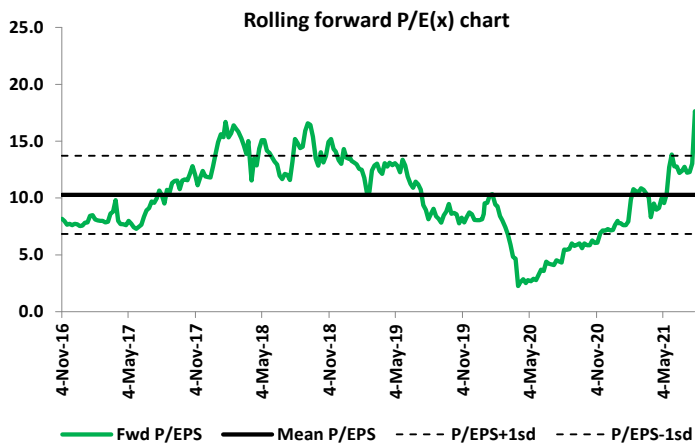
Other Matters:

- The Company is on track to achieve USD 1 bln revenue by FY26.
- The acquisition targets necessary to reach the USD 1 billion mark should have double digit EBITDA margins and RoCE in excess of 20%. HIL will never increase its debt-equity ratio beyond 1 post acquisitions.

Outlook and Valuation

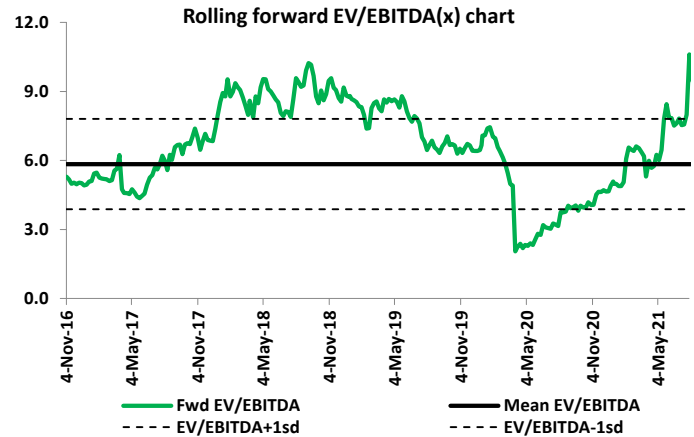
We are positive about the growth prospects connected with HIL over the long run despite the near term pressures as indicated earlier. The superior growth trajectory of the Company along with its commitment to achieve USD 1 billion revenue in FY26 as well as the enhanced return ratios makes us value the stock at 15x P/E and on FY23e EPS, the **target price works out as Rs 7,211. We thus maintain a “Buy” rating.**

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS research

Quarterly financials

Fig 3: Quarterly Financials

Y/E March (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Sales	5,828	6,452	6,930	7,038	8,029	8,440	9,835	7,659
COGS	2,913	3,305	3,620	3,519	4,230	4,352	5,175	4,335
Employee Costs	907	924	934	970	1,007	1,028	1,087	980
Other Expenditure	1,580	1,660	1,370	1,625	1,784	1,942	1,950	1,715
EBITDA	428	563	1,005	923	1,008	1,118	1,624	629
Depreciation	244	253	252	267	282	289	311	292
Interest	102	94	107	68	55	48	37	29
Other Income	38	57	65	65	60	30	112	47
Reported PBT	120	275	504	487	526	626	1,391	358
Tax	33	46	210	171	209	184	396	96
Tax rate (%)	27.7%	16.7%	41.7%	35.1%	39.7%	29.4%	28.4%	26.8%
Reported PAT	96	238	503	943	526	626	995	261
YoY Growth (%)								
Revenue	-6.5%	-3.2%	-9.3%	20.1%	37.8%	30.8%	41.9%	8.8%
EBITDA	-17.0%	-9.2%	5.1%	86.7%	135.7%	98.5%	61.6%	-31.8%
PAT	-4.7%	-12.5%	23.8%	195.3%	446.2%	163.5%	97.9%	-72.3%
QoQ Growth (%)								
Revenue	-0.5%	10.7%	7.4%	1.6%	14.1%	5.1%	16.5%	-22.1%
EBITDA	-13.5%	31.7%	78.5%	-8.2%	9.2%	10.9%	45.3%	-61.3%
PAT	-69.8%	146.7%	111.7%	87.6%	-44.2%	19.0%	59.0%	-73.8%
Margin (%)								
RMC/revenue (%)	50.0%	51.2%	52.2%	50.0%	52.7%	51.6%	52.6%	56.6%
Gross margin (%)	50.0%	48.8%	47.8%	50.0%	47.3%	48.4%	47.4%	43.4%
Employee cost/revenue (%)	15.6%	14.3%	13.5%	13.8%	12.5%	12.2%	11.0%	12.8%
Other expenses/revenue (%)	27.1%	25.7%	19.8%	23.1%	22.2%	23.0%	19.8%	22.4%
EBITDA margin (%)	7.3%	8.7%	14.5%	13.1%	12.6%	13.2%	16.5%	8.2%
PAT margin (%)	1.7%	3.7%	7.3%	13.4%	6.6%	7.4%	10.1%	3.4%

Source: AceEquity, SMIFS research

Financial Statements

Income Statement						Key Ratios					
YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e	YE March	FY19	FY20	FY21	FY22e	FY23e
Net Sales	21,688	25,549	30,436	35,823	41,245	Growth ratios (%)					
COGS	10,919	13,049	15,722	19,583	21,545	Net sales	69.6%	17.8%	19.1%	17.7%	15.1%
% of sales	50.3%	51.1%	51.7%	54.7%	52.2%	EBITDA	65.9%	-2.8%	70.9%	17.6%	24.2%
Personnel	2477	3580	3940	4066	5156	Adjusted PAT	41.5%	-7.3%	102.3%	26.7%	32.5%
% of sales	11.4%	14.0%	12.9%	11.4%	12.5%	Margin Ratio (%)					
Other Exp.	5851	6549	6721	7408	8627	EBITDA Margin	11.2%	9.3%	13.3%	13.3%	14.3%
% of sales	27.0%	25.6%	22.1%	20.7%	20.9%	EBIT Margin	8.1%	5.5%	9.7%	9.9%	11.2%
EBITDA	2,439	2,372	4,054	4,766	5,918	PBT (Adjusted) Margin	8.2%	5.0%	9.6%	10.4%	11.8%
EBITDA Margin (%)	11.2%	9.3%	13.3%	13.3%	14.3%	PAT (Adjusted) Margin	5.3%	4.1%	7.0%	7.6%	8.7%
Depreciation & Amortisation	675	971	1090	1231	1286	Return Ratio (%)					
EBIT	1,764	1,402	2,964	3,534	4,632	ROE	17.9%	14.3%	21.5%	22.0%	23.0%
Interest Expenses	252	385	278	125	89	ROCE	13.5%	10.4%	20.9%	22.1%	25.0%
EBT	1,513	1,016	2,686	3,409	4,543	Turnover Ratio days (days)					
Other Income	267	246	220	298	300	Inventory Period	165	159	113	120	120
Reported PBT	1,566	1,269	2,917	3,721	4,863	Debtors Period	23	17	12	15	15
Tax-Total	615	279	774	1,005	1,264	Creditors	112	90	74	80	80
Effective tax rate (%)	39.3%	22.0%	26.5%	27.0%	26.0%	Cash Conversion Cycle	77	86	50	55	55
Extraord. items - Adj.	-212	-	-	-	-	Solvency Ratio (%)					
Reported PAT	1014	1060	2598	2,716	3,599	Debt-equity (x)	1.0	1.0	0.5	0.3	0.2
Balance Sheet						Net Debt-equity (x)	0.9	0.9	0.4	0.2	-0.0
YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e	Liquidity ratio (x)	1.2	1.2	1.3	1.4	1.7
Sources of funds						Interest coverage ratio (x)	7.0	3.6	10.6	28.3	52.0
Capital	75	75	75	75	75	Per share (Rs)					
Reserves & Surplus	6,297	7,352	9,878	12,294	15,593	Adjusted EPS	152.62	141.54	286.30	362.84	480.72
Shareholders' Funds	6,372	7,427	9,953	12,369	15,669	CEPS	242.80	271.21	431.85	527.33	652.48
Minority Interest	-	-	-	-	-	Book value	851.19	992.17	1,329.53	1,652.38	2,093.10
Total Debt	6,004	6,387	3,487	2,794	1,700	Dividend per share	25.00	20.00	40.00	40.00	40.00
Deferred Tax Liabilities	1,206	1,112	1,048	1,048	1,048	Dividend Payout (%)	16%	14%	14%	11%	8%
Other Non Current Liabilities	331	533	581	552	566	Dividend Yield (%)	0.6%	0.4%	0.9%	0.9%	0.9%
Total Liabilities	13,913	15,459	15,068	16,763	18,984	Valuation					
Application of funds						P/E	29.6	32.0	15.8	12.5	9.4
Net Block	9,635	9,948	10,300	10,742	10,824	P/BV	5.3	4.6	3.4	2.7	2.2
Capital WIP	324	350	108	108	108	P/S	1.6	1.3	1.1	0.9	0.8
Non-current Asset	541	585	555	605	629	EV/EBITDA	15.0	15.4	9.0	7.7	6.2
Net Non Current Assets	10,500	10,883	10,963	11,455	11,561	Cash Flow					
Investments	5	166	304	304	304	YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Goodwill	1,172	1,251	1,293	1,293	1,293	Operating profit before WC changes	2,310	2,506	4,198	5,009	6,163
Inventories	4,941	5,684	4,866	6,438	7,083	Net change in working capital	-248	-758	1,379	-1,094	-460
Sundry Debtors	1,391	1,184	965	1,472	1,695	Cash flow from operating activities (a)	1,346	1,302	4,660	2,910	4,439
Other Current Assets	1,069	1,486	1,443	1,430	1,487	Capital expenditure (organic)	-697	-1,108	-1,064	-1,718	-1,368
Cash & Bank Balances	669	891	1,301	1,099	2,742	FCF	649	194	3,596	1,192	3,071
Total Current Assets	8,070	9,245	8,575	10,439	13,008	Cash flow from investing activities (b)	-3,448	-1,196	-344	-1,663	-1,313
Creditors	3,353	3,205	3,205	4,292	4,722	Cash flow from financing activities (c)	2,660	75	-3,898	-1,449	-1,482
Other Current Liabilities	2,271	2,627	2,562	2,158	2,171	Net change in cash (a+b+c)	558	181	418	-203	1,644
Current Provisions	211	252	300	276	288	Opening cash balance	109	642	862	1,269	1,066
Total Current Liabilities	5,834	6,085	6,067	6,726	7,181	Forex fluctuations	-26	39	-11	-	-
Net Current Assets	2,237	3,160	2,508	3,713	5,827	Ending cash balance	642	862	1,269	1,066	2,710
Total Assets	13,913	15,459	15,068	16,765	18,985	Other bank balances	28	29	32	32	32
						Cash and Bank on balance sheet	669	891	1,301	1,099	2,742

Source: AceEquity, SMIFS research

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Analyst holding in stock: **NO**

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