

HIL Ltd.

Raw material inflation impacted margins, Vision intact to reach sales of \$1 billion by 2026

HIL reported revenue growth of 10.3% YoY in Q1FY23. Roofing, Building, Polymer and Flooring segment reported revenue growth of 9.8%/48.5%/31%/(3.6%) YoY respectively in Q1FY23. Company faced margin pressure across its business segments (except Building Solution) due to increase in raw material prices in Roofing & Flooring segment, inventory losses impacted margins in the Polymer Solution segment due to a sharp fall in resin prices. Management expects raw material led margin pressure to continue atleast in Q2FY23 post which expect recovery in margins in H2FY23. In Q1FY23 volumes in the Roofing segment increased by ~6% YoY (industry growth was ~3%-4%) on a high base of Q1FY22, company has gained market share by ~100 bps YoY. Company has done test launch of construction chemical products and expect sales of ~Rs 250 mn in the first year and expects to achieve sales of ~Rs 3000+ mn in the next 3-5 years. Construction chemical segment includes products like tile adhesives, water proofing, primers, distemper etc. Management highlighted that HIL is well on the way to achieve revenue of \$1 bn by 2026 & progressively advancing towards becoming a "One-Stop" building material & Solution provider. In order to reach this target, the management would also take resort to in-organic opportunities. Going forward growth will be driven from Polymer and Flooring segment, supported by growth from Roofing & Building segment. Thus, we are positive about the growth prospects of HIL and maintain a "Buy" rating on the stock.

Key Highlights for Q1FY23

- In Q1FY23 company reported revenue growth of 10.3% YoY. Roofing, Building, Polymer, Flooring Solutions segment reported revenue growth of 9.8%/48.5%/31%/(3.6%) YoY respectively.
- Revenue contribution in Q1FY23 from Roofing, Building, Polymer, Flooring Solutions segment stood at 41.7%/11.5%/13%/33.6% respectively.
- Gross Margins in Q1FY23 declined by 529 bps YoY to 42.1% due to increase in raw material prices. EBITDA fell by 24.4% YoY to Rs 1228 mn & margin declined by 519 bps YoY at 11.3%.
- PBIT margins declined in roofing and flooring segment by 605 bps & 467 bps YoY respectively on account of steep increase in raw material cost. Polymer division reported PBIT loss of (Rs 30 mn) due to an inventory loss of ~Rs 70 mn on account of sharp fall in resin prices. PBIT margin in Building Solution segment improved by 639 bps YoY on the back of increased demand, pricing power & optimum capacity utilisation.
- PBIT contribution in Q1FY23 from Roofing, Building, Polymer, Flooring Solutions segment was at 85%/12%/(3%)/3% respectively.
- PAT decreased by 12.9% YoY to Rs 867 mn mainly due to a sharp decline in gross margins. Company has repaid debt of Rs 350 mn in Q1FY23.

Outlook and Valuation:

We are positive about the growth prospects of HIL over the medium to long term run despite the near term pressures on margins as indicated above. The superior growth trajectory of the company along with its commitment to achieve USD 1 billion revenue by 2026 as well as the enhanced return ratios makes us value the stock at 14x FY24e EPS to arrive at a target price of Rs. 5,597 offering return potential of ~49% based on the CMP. We thus maintain a "Buy" rating on the stock.

Y/E Mar (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Net sales	10,847	9,835	10.3%	9,494	14.2%
Operating costs	9,619	8,211	17.1%	8,561	12.3%
EBITDA	1,228	1,624	-24.4%	933	31.6%
EBITDA Margin (%)	11.3%	16.5%	(519)Bps	9.8%	149 Bps
Depreciation	279	311	-10.0%	276	1.3%
Interest	29	37	-22.1%	30	-5.6%
Other income	139	112	24.8%	23	519.1%
PBT	1059	1391	-23.8%	650	63.0%
Provision for tax	195	396	-50.8%	149	30.5%
Effective tax rate (%)	18.4%	28.4%		23.0%	
PAT (Reported)	867	995	-12.9%	507	71.2%
NPM (%)	8.0%	10.1%		5.3%	

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	25,549	18%	2,372	9.3%	1,060	-7%	141.5	14.3%	10.4%	26.6	12.9
FY21	30,436	19%	4,093	13.4%	2,143	102%	286.3	21.5%	21.2%	13.1	7.5
FY22	35,202	16%	3,914	11.1%	2,104	-1.8%	280.1	18.0%	18.6%	13.4	7.8
FY23e	38,783	10%	3,477	9.0%	1,852	-12%	246.4	14.2%	14.8%	15.3	8.8
FY24e	43,842	13%	5,034	11.5%	3,004	62%	399.8	19.4%	22.2%	9.4	6.1

*Source: Company, SMIFS Research



Rating: Buy Upside: 49%
Current Price: 3,765 Target Price: 5,597

Earlier recommendation

Previous Rating: Buy
Previous Target Price: 6,035

Market data

Bloomberg:	HIL IN
52-week H/L (Rs):	6,750/3,195
Mcap (Rs bn/USD mn):	28.4/359.4
Shares outstanding (mn):	7.51
Free float:	59.29%
Avg. daily vol. 3mth (in '000):	13.5
Face Value (Rs):	10
Group:	S&P BSE SmallCap

Source: Bloomberg, ACE Equity, SMIFS Research

Shareholding pattern (%)

	Jun-22	Mar-21	Dec-21	Sep-21
Promoter	40.71	40.71	40.71	40.83
Institutions	9.07	8.28	8.27	8.36
Non Insti	50.22	51.01	51.02	50.81
Total	100	100	100	100

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
BSE SmallCap	11.03	-2.88	1.74	120.41
HIL	5.65	-1.15	-40.66	228.0

*as on 1 Aug 2022; Source: BSE, SMIFS Research

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Q1FY23 — Key takeaways from the management call

Roofing Solutions:

- In Q1FY23 sales volumes increased by ~6% YoY to ~3,50,000 MT. Industry volume growth is estimated at ~3%-4%.
- **In Q1FY23 company has gained market share by ~100 bps YoY.** Some of the players have reduced prices from end of May 2022, but company being the market leader has not taken any price reduction.
- There has been raw material price increase in fiber, cement, fly-ash, together with increase in sea freight. Company has taken some price increases but was not able completely pass on increase in raw material prices which impacted profitability of the segment.
- Generally, Q2 being a monsoon period is a lean season and prices comes down by ~4%-5% on QoQ basis. Company will take pricing decision depending on the pricing action by the competition.
- **Currently the contribution from Charminar Fortune is very less in the overall roofing sales** as it caters mostly to the institutional segment but is gaining momentum. Humid Cure technology has worked well and is ramping up well to deliver volume growth going forward.

Building Solutions:

- The Building Solutions segment has reported robust performance in Q1FY23 with highest ever revenue and profits in a quarter. Performance was backed by strong **demand coming particularly from the Tier 2 and Tier 3 cities.** Company is confident of maintaining profitability and growth going forward.
- Segment margins improved on the back of strategic pricing and cost rationalization measures.
- The capacity utilization has reached to ~100% for the segment and thus company is under going automation across its plants to increase utilization levels. **Company is also looking for outsourcing opportunity in order to service the strong demand.**
- The on-going capacity expansion in East is on track and is expected to start commercial production from Q4FY23.
- The Board has approved **acquisition of Fastbuild Blocks Pvt Ltd (FBPL) an AAC blocks manufacturer in Cuttack, Odisha** on a slump sale basis for a purchase consideration of Rs 370 mn on a debt free cash free basis. Primary market served by FBPL are Odisha, Jharkhand & West Bengal. FBPL has a revenue of Rs 250 mn & EBIDTA of ~Rs 45-50 mn in FY22. Company has an installed capacity of 1,50,000 Cum with a potential for further expansion. **This acquisition will help HIL in expanding its presence in the fast growing AAC Blocks market in Eastern region and maintain its leadership position.** Current capacity of the plant is ~60% with a scope to increase capacity utilization.
- **Company has a target to double sales of the division in the next 3-4 years.** Company expect revenue mix of ~55%-60% from boards and panels & rest from AAC block business.

Polymer Solutions:

- **In Q1FY23 company reported revenue growth of ~31% YoY in the Polymer Solutions business, but margins got impacted owing to a sharp fall in resin prices & inventory loss of ~Rs 70 mn.** HIL is driving growth in the business on the back of new SKUs, improving quality, increasing manufacturing efficiency and increasing influencer activity.
- **Company expects pressure on margins even in Q2FY23 due to some inventory losses.** Expect margins to recover from Q3FY23.
- **Management targets to reach revenue of ~Rs. 15,000 mn in next 3-4 years.** Growth will be driven by launch of new SKU's, distribution expansion & inorganic opportunities. Currently company is building distribution network in East and South India.
- The segment operated at a capacity utilization of ~60%. Company is now also targeting B2B customers along with its earlier focus on B2C customers.

Flooring Solution- Parador:

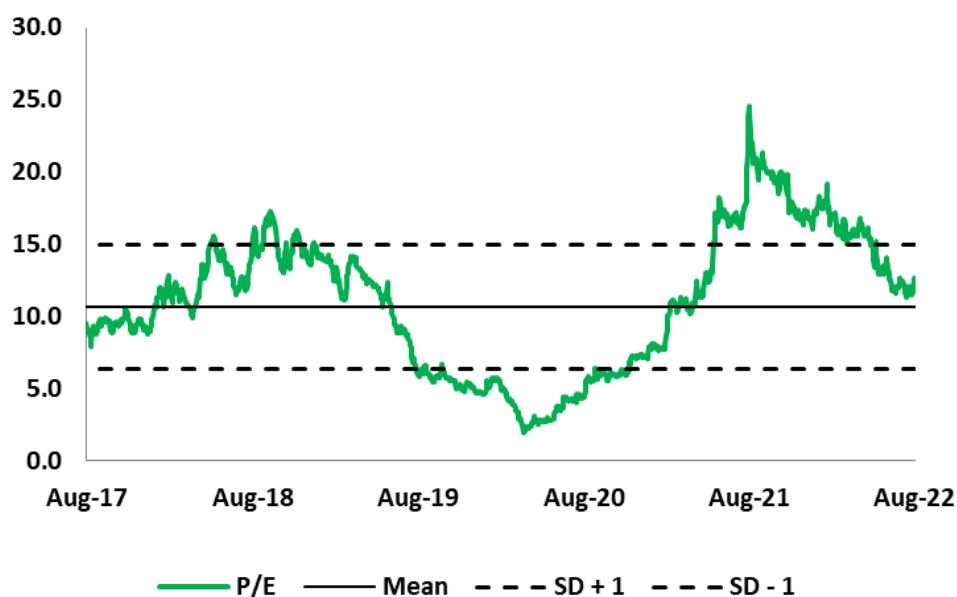
- In Q1FY23 revenue declined by ~3.6% YoY due a high base of last year. Margins in segment were impacted due to an increase in raw material cost which was not completely passed on to the consumers.
- Currently the consumer sentiment is low in most parts of Europe due to geopolitical crisis, economic hardship due to rising inflation and lately unprecedented heatwave. Management expect some impact on demand in the coming few months due to the above & situation to improve from Q3FY23.
- Company has incorporated a new legal entity in UK for expanding its operations. Currently there are no big local manufacturer of flooring products in UK.
- Sales in Germany and Austria forms ~50% of the overall sales of Parador. Company is looking to grow Parador business in Spain, France, UK etc.
- Parador is the market leader in Germany and Austria and second largest player in Spain.
- **Parador is on track to achieve revenues of around Euro 350-400 mn in the next 3-4 years.**

Outlook and Valuation

HIL's diversified business profile, geographical diversification, pan-India manufacturing presence, wide distribution and dealership network, strong brand recall, along with prudent working capital management and strong pricing power would help in healthy performance going forward. Despite the near term pressures, with the increasing thrust on development and housing; rising income levels of the people; increase in demand of fibre cement (FC) sheets and building materials would provide opportunity and growth to the company's like HIL.

Thus, considering HIL's dominant market position in the domestic Fibre Cement Sheet industry and its commitment to achieve USD 1 bn revenue by 2026 as well as the enhanced return ratios, we have **valued the stock at 14x FY24E EPS of Rs. 399.8 to arrive at a target price of Rs. 5,597** offering return potential of ~49% based on the CMP. **We maintain a "Buy" rating on the stock.**

Fig 1: 1-year forward P/E



Source: Company, SMIFS Research

Quarterly financials, operating metrics and key performance indicators

Fig 2: Quarterly Financials (Consolidated)

Y/E March (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Sales	7,038	8,029	8,440	9,835	7,659	8,214	9,494	10,847
COGS	3,519	4,230	4,352	5,175	4,335	4,691	5,337	6,281
Employee Costs	970	1,007	1,028	1087	980	1033	1088	1081
Other Expenditure	1,625	1,784	1,942	1950	1715	1761	2136	2257
EBITDA	923	1,008	1,118	1,624	629	729	933	1,228
Depreciation	267	282	289	311	292	285	276	279
Interest	68	55	48	37	29	30	30	29
Other Income	65	60	30	112	47	124	23	139
Reported PBT	487	526	626	1391	358	547	650	1059
Tax	171	209	184	396	96	206	149	195
Tax rate (%)	35.1%	39.7%	29.4%	28.4%	26.8%	37.7%	23.0%	18.4%
Reported PAT	943	526	626	995	261	342	507	867
YoY Growth (%)								
<i>Revenue</i>	20.1%	37.8%	30.8%	41.9%	8.8%	2.3%	12.5%	10.3%
<i>EBITDA</i>	86.7%	135.7%	98.5%	61.6%	-31.8%	-27.7%	-16.5%	-24.4%
<i>PAT</i>	195.3%	446.2%	163.5%	97.9%	-72.3%	-35.0%	-19.1%	-12.9%
QoQ Growth (%)								
<i>Revenue</i>	1.6%	14.1%	5.1%	16.5%	-22.1%	7.2%	15.6%	14.2%
<i>EBITDA</i>	-8.2%	9.2%	10.9%	45.3%	-61.3%	15.9%	28.0%	31.6%
<i>PAT</i>	87.6%	-44.2%	19.0%	59.0%	-73.8%	31.0%	48.1%	71.2%
Margin (%)								
<i>RMC/revenue (%)</i>	50.0%	52.7%	51.6%	52.6%	56.6%	57.1%	56.2%	57.9%
<i>Gross margin (%)</i>	50.0%	47.3%	48.4%	47.4%	43.4%	42.9%	43.8%	42.1%
<i>Employee cost/revenue (%)</i>	13.8%	12.5%	12.2%	11.0%	12.8%	12.6%	11.5%	10.0%
<i>Other expenses/revenue (%)</i>	23.1%	22.2%	23.0%	19.8%	22.4%	21.4%	22.5%	20.8%
<i>EBITDA margin (%)</i>	13.1%	12.6%	13.2%	16.5%	8.2%	8.9%	9.8%	11.3%
<i>PAT margin (%)</i>	13.4%	6.6%	7.4%	10.1%	3.4%	4.2%	5.3%	8.0%

Source: Company, SMIFS Research

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Net Sales	25,549	30,436	35,202	38,783	43,842
COGS	13,049	15,722	19,539	22,542	24,253
% of sales	51.1%	51.7%	55.5%	58.1%	55.3%
Gross Profit	12500	14714	15663	16241	19589
Personnel	2477	3940	4188	4363	4910
% of sales	9.7%	12.9%	11.9%	11.3%	11.2%
Other Exp.	6549	6682	7561	8401	9645
% of sales	25.6%	22.0%	21.5%	21.7%	22.0%
EBITDA	3,474	4,093	3,914	3,477	5,034
EBITDA Margin (%)	13.6%	13.4%	11.1%	9.0%	11.5%
Depreciation & Amortisation	971	1090	1163	1201	1255
EBIT	2,504	3,003	2,751	2,276	3,779
Interest Expenses	385	278	126	82	36
EBT	2,118	2,725	2,625	2,195	3,743
Other Income	246	181	304	300	320
PBT	1,269	2,917	2,951	2,515	4,087
Tax-Total	279	774	847	663	1083
Effective tax rate (%)	22.0%	26.5%	28.7%	26.4%	26.5%
Extraord. items - Adj.	0	0	0	0	0
Reported PAT	990	2143	2104	1852	3004

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Sources of funds					
Capital	75	75	75	75	75
Reserves & Surplus	7352	9878	11589	12933	15373
Shareholders' Funds	7,427	9,953	11,664	13,008	15,449
Minority Interest	0	0	0	0	0
Total Debt	6387	3487	2886	1786	686
Deferred Tax Liabilities	1112	1048	980	980	980
Other Non-current Liabilities	533	581	539	549	544
Total Liabilities	15,459	15,068	16,069	16,323	17,658
Application of funds					
Net Block	9,948	10,300	10,076	10,256	10,301
Capital WIP	350	108	228	228	228
Non-current Asset	585	555	543	599	638
Net Fixed Assets	10,883	10,963	10,847	11,083	11,166
Investments	166	304	4	4	4
Goodwill	1251	1293	1270	1270	1270
Inventories	5684	4866	7161	7720	7974
Sundry Debtors	1184	965	1098	1275	1682
Other Current Assets	1486	1443	1118	1297	1256
Cash & Bank Balances	891	1301	734	184	1109
Total Current Assets	9,245	8,575	10,112	10,476	12,020
Creditors	3,205	3,205	3,692	4,014	4,319
Other Current Liabilities	2627	2562	2130	2174	2152
Provisions	252	300	343	322	333
Total Current Liabilities	6,085	6,067	6,165	6,511	6,804
Net Current Assets	3,160	2,508	3,947	3,965	5,216
Total assets	15,459	15,068	16,069	16,323	17,658

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23e	FY24e
Growth ratios (%)					
Net sales	17.8%	19.1%	15.7%	10.2%	13.0%
EBITDA	-2.8%	72.5%	-4.4%	-11.2%	44.8%
Reported PAT	-7.3%	102.3%	-1.8%	-12.0%	62.2%
Margin Ratio (%)					
Gross Margin	48.9%	48.3%	44.5%	41.9%	44.7%
EBITDA Margin	9.3%	13.4%	11.1%	9.0%	11.5%
EBIT Margin	5.5%	9.9%	7.8%	5.9%	8.6%
PBT Margin	5.0%	9.6%	8.4%	6.5%	9.3%
PAT Margin	4.1%	7.0%	6.0%	4.8%	6.9%
Return Ratio (%)					
ROE	14.3%	21.5%	18.0%	14.2%	19.4%
ROCE	10.4%	21.2%	18.6%	14.8%	22.2%
Turnover Ratio days (days)					
Inventory Period	159	113	134	125	120
Debtors Period	17	12	11	12	14
Creditors	90	74	69	65	65
Cash Conversion Cycle	86	50	76	72	69
Solvency Ratio (x)					
Debt-equity (x)	1.0	0.5	0.3	0.2	0.1
Net Debt-equity (x)	0.9	0.4	0.2	0.1	0.0
Liquidity ratio (x)	1.2	1.3	1.4	1.4	1.6
Interest coverage ratio (x)	3.6	10.8	21.8	27.9	106.0
Per share (Rs)					
Adjusted EPS	141.5	286.3	280.1	246.4	399.8
CEPS	271.0	431.9	439.9	406.3	566.8
Book value	992	1330	1558	1738	2064
Dividend per share	20.0	40.0	65.0	65.0	120.0
Dividend Payout (%)	14%	14%	23%	26%	30%
Dividend Yield (%)	0.5%	1.1%	1.7%	1.7%	3.2%
Valuation					
P/E	26.6	13.1	13.4	15.3	9.4
P/BV	3.8	2.8	2.4	2.2	1.8
EV/EBITDA	12.9	7.5	7.8	8.8	6.1
Market Cap/Sales	1.1	0.9	0.8	0.7	0.6

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Operating profit before WC changes					
Operating profit before WC changes	2506	4198	3856	3729	5305
Net change in working capital	-758	1379	-1310	-594	-347
Income tax paid (net)	-446	-918	-926	-663	-1083
Cash flow from operating activities (a)	1302	4660	1621	2471	3875
Capital expenditure	-1108	-1064	-769	-1400	-1300
Free Cash Flow	194	3596	852	1071	2575
Cash flow from investing activities (b)	-1196	-344	-462	-1352	-1252
Cash flow from financing activities (c)	75	-3898	-1793	-1670	-1699
Net change in cash (a+b+c)	181	418	-634	-550	925
Opening cash balance	642	862	1269	621	71
Ending cash balance	862	1269	621	71	996

Source: Company, SMIFS Institutional Research Estimates

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Analyst holding in stock: **NO**

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