21 May 2010

HSIL

Rating: **Buy**
Target Price: Rs140
Share Price: Rs84

Strong performance; superior margins; reiterate Buy

- **Solid FY10.** HSIL's profit was above our estimates, led by higher EBITDA and lower-than-expected tax and interest. Robust revenue growth in both the divisions and margin expansion bodes well for HSIL. Reiterate Buy.
- **Sanitaryware segment posts record margins.** The sanitaryware division's revenue grew 32% yoy on the back of a better product mix and higher realizations. The division recorded the highest ever EBIT margins in the last 15 quarters due to improved efficiencies and higher capacity utilisation. EBIT margins for the division stood at 21.3% in 4FY10 (up 210bp yoy and 250bp qoq).
- **Container glass expansion driving growth.** The container glass division expansion (from 953m to 1,643m pieces p.a.) in 1QFY10 led to a 60% yoy rise in revenue during the quarter. EBIT margin in 4QFY10 stood at 12.4%, up 200bp qoq. The glass division has increased its market share in the south to 70% (from 62% earlier).
- **Acquisition.** During 4QFY10, HSIL acquired Havells bathroom fittings and accessories sold under the brand "Crabtree" in an all-cash deal. The unit, with revenue of Rs400m (potential to go upto Rs600m) will make HSIL, second largest in faucets in near future.
- **Outlook.** The company aims at revenue and EBITDA growth of 28% and 29%, respectively, for FY11.
- **Valuations.** At our target price of Rs140, the stock would trade at 11x one-year-forward earnings, in line with its five-year average.

Key data

Key data	HSI IN/HSNT.BO
52-week high/low	Rs92/Rs25
Sensex/Nifty	16446/4931
3-m average volume	US$0.2m
Market cap	Rs4.63bn/US$103m
Shares outstanding	55.02m
Free float	39.5%
Promoters	60.5%
Foreign Institutions	15.7%
Domestic Institutions	6.3%
Public	17.5%

Quarterly results

Year end 31 Mar	4Q09	4Q10	% yoy	FY09	FY10	% yoy
Sales (Rsm)	1,769	2,581	45.9	6,106	7,887	29.2
EBITDA (Rsm)	358	511	42.8	1,110	1,532	38.0
EBITDA margin (%)	20.2	19.8	(44)bps	18.2	19.4	124 bps
Interest (Rsm)	34	98	191.3	166	401	140.9
Depreciation (Rsm)	79	128	62.8	278	490	76.1
Other income(Rsm)	5	3	(37.8)	18	16	(9.1)
PBT (Rsm)	251	289	15.2	683	657	(3.9)
Tax (Rsm)	46.3	-20.4	(144.1)	166.3	104.8	(37.0)
Tax rate (%)	18.5	(7.1)	(2,554)bps	24.3	16.0	(839)bps
Adjusted PAT (Rsm)	204	309	51.2	517	552	6.8

Source: Company, Anand Rathi Research

Financials

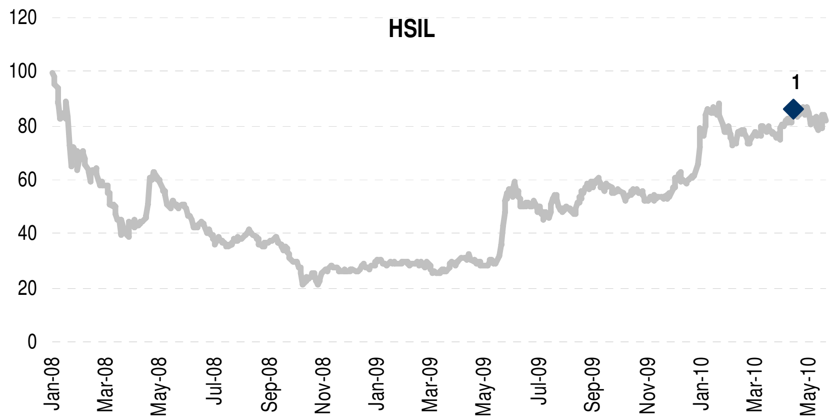
Year-end 31 Mar	FY11e	FY12e
Sales (Rsm)	9,285	10,755
PBT (Rsm)	834	1,042
Net profit (Rsm)	557	698
EPS (Rs)	10.1	12.7
Growth (%)	0.9	25.3
PE (x)	8.3	6.6
RoE (%)	17.8	19.5
RoCE (%)	14.9	16.2
Dividend yield (%)	3.0	3.6
Net gearing (%)	142.5	129.5

Source: Anand Rathi Research

Appendix 1

Analyst Certification
The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures on subject companies
Rating and Target Price History (as of 21 May 2010)



	Date	Rating	TP (Rs)	Share Price
1	15-Apr-10	**Buy**	140	84

Source: Bloomberg

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Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below.

Ratings Guide	**Buy**	**Hold**	**Sell**
Large Caps (>US$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US$1bn)	>30%	10-30%	<10%

Anand Rathi Research Ratings Distribution (as of 31 Mar 10)	**Buy**	**Hold**	**Sell**
Anand Rathi Research stock coverage (118)	61%	12%	27%
% who are investment banking clients	8%	0%	0%

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