

Q2FY24 Result Update

Hindware Home Innovation

Sanitaryware and pipes shine; consumer appliance falls short

- Revenue fell 2% YoY, but grew 10% QoQ, to INR700cr (est. INR714cr) in Q2FY24, on lower-than-expected revenue from the consumer appliance segment.
- Revenue from building products, which include faucets, sanitary ware, and pipes, grew 4% YoY and 15% QoQ to INR597cr (est. INR590cr).
- Revenue from pipes and fittings (P&F) rose 2% YoY and 29% QoQ to INR201cr (est. INR200cr). Realisation fell 16% while volume rose 22% YoY.
- The P&F segment reported a historically high EBITDA margin of 10.8% in Q2FY24 versus 6.8%/2.8% in Q1FY24/Q2FY23.
- Revenue from sanitaryware grew 5% YoY to INR396cr (2% above our estimate). EBITDA margin expanded by 344bp YoY due to greater contribution from premium and super premium products. Margin exceeded 16% for the second quarter in a row.
- Revenue from consumer products fell 23% YoY to INR96cr (est. INR 111cr) on subdued demand.
- Overall EBITDA rose 29% YoY to INR72cr, with EBITDA margin expanding by 248bp to 10.3%. The impact of a lower EBITDA margin in consumer appliance was offset by a major improvement in the sanitary ware and pipe segments.
- PAT grew 21% YoY to INR19.7cr (est. INR27cr). The miss was due to higher interest cost and a lower-than-expected revenue.
- Net debt stood at INR863cr in Q2FY24 versus INR798cr QoQ.

Sanitary ware growth slows on weak demand, but margin stays elevated

The bath ware division (consist of mainly sanitary ware and faucets as the tile business is small) contributes the lion's share of revenue (56.6% in Q2FY24 versus 53% YoY). Segmental revenue grew 5% YoY due to muted demand in the mid and entry category as consumer sentiment was impacted by rising inflation and higher interest rates. The management expects the growth momentum to accelerate due to the festive season. Despite a muted H1, it has maintained its FY24 bath ware revenue growth guidance of 1.25–1.5x that of the industry. In Q2FY24, EBITDA margin expanded by 344bp YoY to 16.1% due to operating leverage on the back of an improved product mix. It aims to maintain an EBITDA margin of more than 16% for FY24, with a 50–100bp improvement in FY25. We expect the bath ware segment to clock 13% (earlier 16%) revenue CAGR over FY23–25, with an EBITDA margin of 16.5% (earlier 16%) by FY25 due to an improved product mix, higher realisation, and in-house production.

P&F space sees healthy volume growth and historically high margin

Despite the 22% YoY volume growth, revenue grew 2% to INR201cr (inline) due to a decline in realisation (down ~16%) on lower PVC prices. As per the management, seasonal demand for CPVC/agri pipes is strong in the fourth/first quarter of a fiscal. Home plumbing saw some slowdown in Q2FY24, which resulted in a higher PVC contribution. It expects CPVC contribution to rise in H2FY24, translating into a better realisation and margin. In Q2FY24, EBITDA margin expanded by 800bp YoY to 10.8% due to a favourable base and a better sales mix. In the pipes business, the management expects an EBITDA margin of 10–12% in FY24. HINDWARE is investing INR180cr in a greenfield plant in Roorkee (Uttarakhand). This capex to be funded via internal accruals and borrowings. The initial manufacturing capacity will be 12,500mt, with the facility expected to turn operational in Q3FY25. At an incremental capex of INR50–60cr, these capacities can be increased by 2.5–3x. As it is operating at an industry-high operating levels (85% utilisation), it is adding one more machine at its Hyderabad plant, with a capacity of 5,000–7,000mt, which will be operational in December. With this addition, its overall capacity will rise to 58,000mtpa. It is planning to add one more line in Q4FY24 with a similar capacity.

Muted demand hits consumer appliance segment

Revenue fell 23% YoY and 8% QoQ to INR96cr due to a sharp decline in air cooler revenue on account of unseasonal rains. Except air cooler, other products in the consumer appliance segment reported a better performance. The management expects some recovery in H2FY24. We expect 10% (earlier: 15%) revenue CAGR in this segment over FY23–25 to reach INR605cr by FY25, with an EBITDA margin of 5%, due to increasing scale, an improved product mix, a stronger focus on brand building, and product innovation.

Valuation and view

From being a manufacturer of just one product, HINDWARE has grown significantly to gain market leadership in sanitary ware and is a major faucet ware player. We are optimistic about its medium to long-term growth prospects given its: i) strong positioning in bath ware, ii) greater presence in pipes and fittings and consumer appliances, iii) comprehensive product portfolio, iv) strong brand recall, and v) wide and expanding distribution reach. With a constant focus on product innovation, a timely ramp up in pipe capacity, and a positive demand outlook, it is expected to deliver strong overall growth. However, due to lower-than-expected numbers in H1FY24, we trim our FY24/FY25 PAT estimate by 17%/14%. We maintain 'BUY' with a revised TP of INR637 (earlier: INR672).

Year to March	Q2FY24	Q2FY23	% Change	Q1FY24	% Change	FY23	FY24E	FY25E
Revenues (INR Cr)	700	715	-2%	634	10%	2,873	3,185	3,738
EBITDA (INR Cr)	72	56	29%	60	20%	246	351	464
Net Profit (INR Cr)	20	16	21%	-1	-3748%	58	130	209
P/E (x)						60	26	16
EV/EBITDA (x)						18	12	9
RoACE (%)						12	15	20
RoAE (%)						10	20	26

CMP: INR475
Rating: BUY
Target Price: INR637
Upside: 34%
 Date: November 10, 2023

Bloomberg:	SHILL:IN
52-week range (INR):	325 /664
M-cap (INR cr):	3,434
Promoter holding (%)	51.32



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Q2FY24 Result Highlights

(INR Cr)	Q2FY24	Q2FY23	YoY(%)	Q1FY24	QoQ(%)	H1FY24	H1FY23	YoY(%)
Net Revenues	700	715	-2%	634	10%	1,334	1,393	-4%
Cost of Goods Sold	377	411	-8%	338	11%	715	794	-10%
Gross Profit	324	304	7%	296	9%	620	599	3%
Employee Expenses	106	104	3%	106	1%	212	201	5%
Other expenses	146	144	1%	130	12%	276	284	-3%
Operating Expenses	628	659	-5%	574	10%	1,202	1,279	-6%
EBITDA	72	56	29%	60	20%	132	114	16%
Depreciation	30	25	21%	29	4%	60	47	26%
EBIT	41	30	36%	31	34%	72	67	9%
Interest expenses	24	19	30%	22	8%	47	32	45%
Other income	8	9	-6%	8	-3%	16	17	-2%
PBT	25	20	24%	17	51%	42	51	-18%
Tax	4	5	-11%	14	-68%	18	23	-21%
Reported PAT	21	16	35%	3	NM	24	28	-15%
Share of Profit from JV and Associates	-1	1		-2	-	-3	-1	
Adj PAT after Eol	20	16	21%	1	NM	20	27	-25%
Equity Capital	14	14	-	14	-	14	14	0%
No of Shares	7	7	-	7	-	7	7	0%
EPS	3	2	-	-0	-	3	4	-25%
Gross Profit Margin	46.2%	42.5%	376 bps	46.7%	-42 bps	46.4%	43.0%	341 bps
EBITDA Margin	10.3%	7.8%	248 bps	9.5%	79 bps	9.9%	8.2%	170 bps
PAT Margin	2.8%	2.3%	54 bps	0.1%	271 bps	1.5%	1.9%	-41 bps

Source: Company, Nuvama Wealth Research

Revised Estimates

(INR cr)	FY24E			FY25E		
	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	3,325	3,185	-4.2	3,889	3,738	-3.9
Gross Profit	1,459	1,397		1,728	1,661	
Gross margin (%)	44	44		44.4	44	
EBITDA	387	351	-9.1	502	464	-7.7
EBITDA margin (%)	11.6	11.0		12.9	12	
PBT	222	186	-16.2	337	292	-13.3
PBT margin	7	6		8.7	8	
Net profit	157	130	-17.2	243	209	-13.8
Adj EPS (Rs)	22	18	-17.2	34	29	-13.8

Source: Company, Nuvama Wealth Research

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Segment Wise Revenue Performance

Revenue Break-down (INR in Cr)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Consumer appliances	131	121	129	125	119	128	105	96
YoY Growth			91%	12%	-9%	6%	-19%	-23%
Retail	22	15	14	14	15	13	11	7
YoY Growth			48%	-34%	-29%	-12%	-24%	-50%
Building products	496	550	535	576	578	627	518	597
YoY Growth			102%	19%	16%	14%	-3%	4%
(i) Sanitaryware & Faucets (Bathware)	341	345	364	379	380	408	362	396
YoY Growth			104%	16%	12%	18%	-1%	5%
(ii) Plastic Pipes & Fittings (TruFlo)	156	205	171	197	198	219	156	201
YoY Growth			97%	25%	27%	7%	-9%	2%

Revenue Contribution	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Consumer appliances	20.2%	17.6%	19.0%	17.5%	16.7%	16.6%	16.6%	13.8%
Retail	3.4%	2.2%	2.1%	1.9%	2.2%	1.7%	1.7%	1.0%
Building products	76.5%	80.2%	78.9%	80.6%	81.1%	81.7%	81.7%	85.3%
(i) Sanitaryware & Faucets (Bathware)	52.5%	50.3%	53.7%	53.0%	53.4%	53.2%	57.1%	56.6%
(ii) Plastic Pipes & Fittings (TruFlo)	24.0%	29.9%	25.2%	27.5%	27.8%	28.5%	24.6%	28.7%

EBIT Margin %	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Consumer appliances	3.4%	-0.5%	1.8%	5.7%	0.9%	-0.2%	-2.7%	-7.2%
Retail	8.4%	8.6%	0.9%	-1.5%	-5.2%	-5.5%	-6.7%	-50.7%
Building products	9.3%	10.4%	8.0%	5.7%	6.2%	10.0%	9.2%	10.1%
(i) Sanitaryware & Faucets (Bathware)	10.7%	11.3%	9.6%	8.7%	10.4%	11.2%	12.1%	11.6%
(ii) Plastic Pipes & Fittings (TruFlo)	6.3%	8.8%	4.7%	-0.1%	-1.9%	7.9%	2.3%	7.3%

EBIT Contribution	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Consumer appliances	8.4%	-1.1%	5.1%	18.0%	3.1%	-0.5%	-6.4%	-13.9%
Retail	3.5%	2.2%	0.3%	-0.5%	-2.2%	-1.2%	-1.6%	-6.9%
Building products	88.1%	98.9%	94.7%	82.5%	99.2%	101.6%	108.0%	120.8%
(i) Sanitaryware & Faucets (Bathware)	69.4%	67.6%	77.6%	82.7%	109.8%	73.9%	99.8%	91.6%
(ii) Plastic Pipes & Fittings (TruFlo)	18.7%	31.2%	17.7%	-0.3%	-10.5%	27.7%	8.2%	29.1%

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Financial Charts

Exhibit 1: Consol. revenue CAGR of 14% over FY23-FY25E aided by strong growth in bathware and Pipe segments

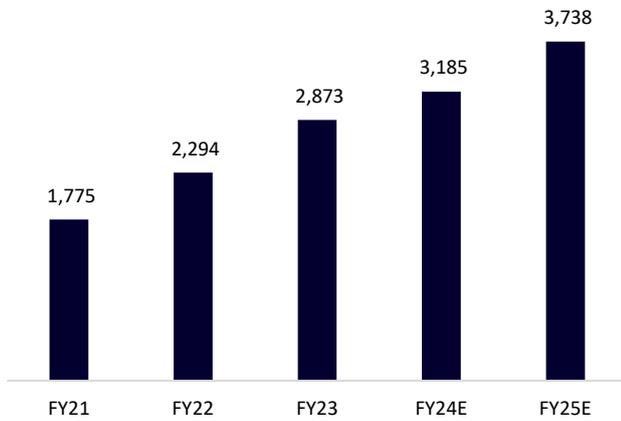


Exhibit 2: Inventory loss in Pipe segment to impacted EBITDA margin in FY23, however recovers in FY24

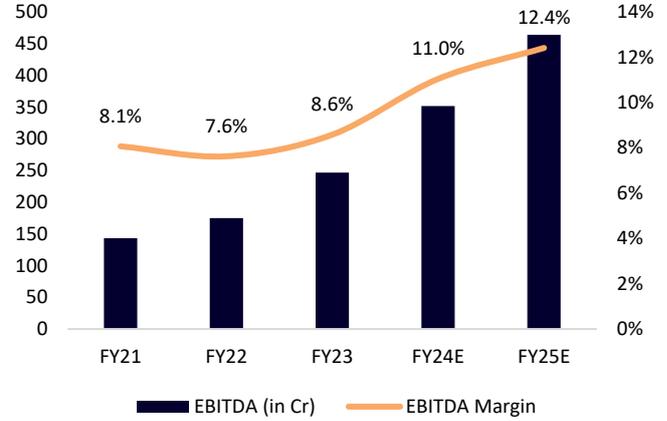


Exhibit 3: Bathware dominates the revenue mix with ~50% share

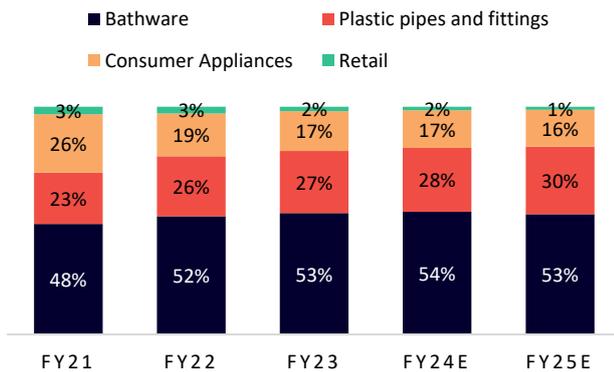


Exhibit 4: EBITDA of Plastic pipes and fittings to grow faster with scale

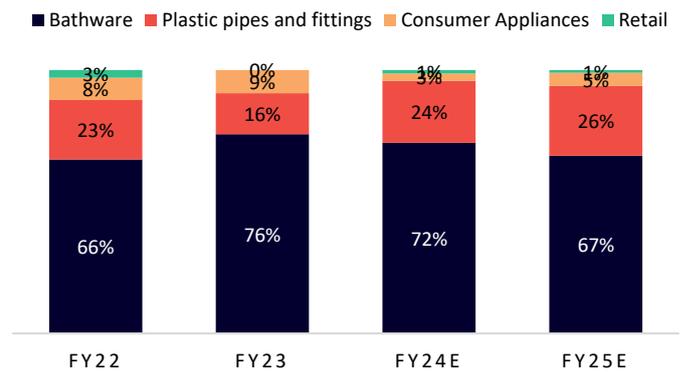


Exhibit 5: APAT CAGR likely at 91% over FY23-FY25E

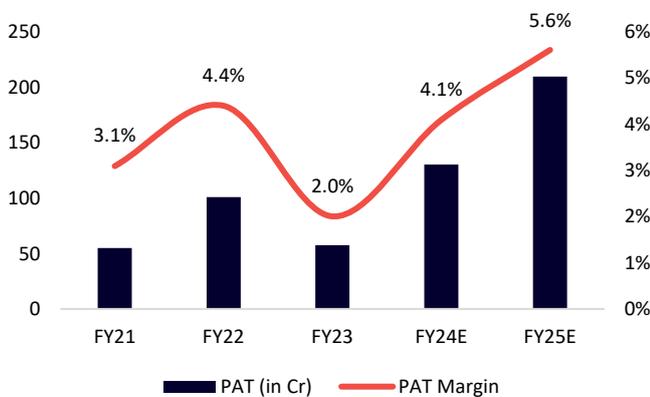
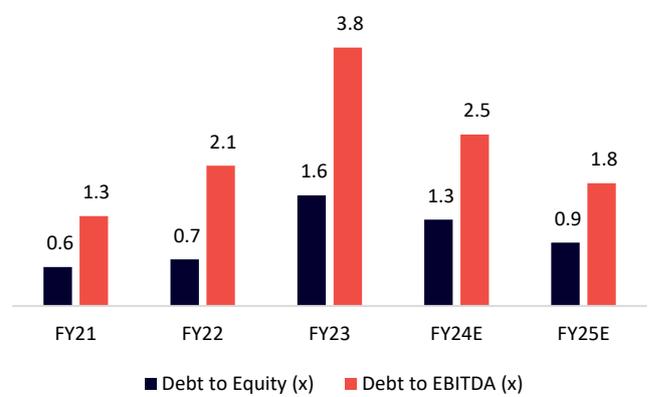


Exhibit 6: Better cash flow generation, working capital management, and debt repayment to reduce debt/equity and debt/EBITDA level



Source: Company, Nuvama Wealth Research

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Previous Outlook

Q1FY24: From being a manufacturer of just one product, HINDWARE has grown significantly to gain market leadership in sanitary ware and being a major faucet ware player. Given its strong positioning in bath ware, a greater presence in P&F and consumer appliances, a comprehensive product portfolio, strong brand recall, and a wide and expanding distribution reach, we are optimistic about its medium to long-term growth prospects. With a constant focus on product innovation, a timely ramp up in pipe capacity, and a positive demand outlook, it is expected to deliver strong overall growth. Due to lower-than-expected numbers in Q1FY24, we trim our FY24/FY25 PAT estimate by 4%/7%. With a positive sentiment around the stock and an unchanged growth guidance for FY24 (despite a slow start), we raise our target multiple to 20x (from 18x) FY25E EPS and maintain 'BUY' with a revised TP of INR672 (earlier: INR653).

Q4FY23: From being a manufacturer of just one product, HINDWARE has grown significantly to gain market leadership in sanitary ware and being a major faucet ware player. Given its strong positioning in bath ware, a greater presence in pipes and fittings and consumer appliances, a comprehensive product portfolio, strong brand recall, and a wide and expanding distribution reach, we are optimistic about its medium to long-term growth prospects. With a constant focus on product innovation, a timely ramp up in pipe capacity, and a positive demand outlook, it is expected to deliver strong overall growth. Over FY23–25, we expect sales/EBITDA/PAT CAGR of 18%/46%/114%. We foresee EBITDA margin at 13.2% (pre-estimate: 11.5%) in FY25. We raise our FY24/FY25 PAT estimate by ~22%/20% and maintain 'BUY' with a revised TP of INR653 (earlier: INR546), at an unchanged 18x FY25E P/E.



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Financials

Income Statement		(INR cr)				
Year to March	FY21	FY22	FY23	FY24E	FY25E	
Income from operations	1,775	2,294	2,873	3,185	3,738	
Direct costs	1,194	1,565	1,637	1,788	2,077	
Employee costs	181	231	402	443	487	
Other expenses	257	323	587	603	710	
EBITDA	143	175	246	351	464	
Depreciation and amortization	39	39	101	120	131	
EBIT	104	135	145	231	333	
Interest expenses	29	20	77	80	75	
Other income	18	29	35	35	35	
Profit before tax	92	144	103	186	292	
Provision for tax	38	42	37	47	73	
Core profit	55	103	66	139	218	
Extraordinary items	-	101	-	-	-	
Profit after tax	55	203	66	139	218	
Minority interest	-	-	-	-	-	
Share from JV / Associate	-	-2	-9	-9	-9	
Adjusted net profit	55	202	58	130	209	
Equity share outstanding (Cr)	7	7	7	7	7	
EPS (INR) basic	8	28	8	18	29	
Diluted shares (mn)	7	7	7	7	7	
EPS (INR) fully diluted	8	28	8	18	29	
Dividend per share	0	0	0	1	1	
Dividend payout (%)	4	2	6	5	4	

Common size metrics - as % of net revenues

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating expenses	91.9	92.4	91.4	89.0	87.6
Depreciation	2.2	1.7	3.5	3.8	3.5
Interest expenditure	1.7	0.9	2.7	2.5	2.0
EBITDA margins	8.1	7.6	8.6	11.0	12.4
Net profit margins	3.1	8.8	2.0	4.1	5.6

Growth metrics (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues	10.0	29.2	25.3	10.8	17.4
EBITDA	62.3	22.1	41.0	42.6	31.9
PBT	178.7	56.2	-28.7	80.5	57.0
Net profit	136.6	267.6	-71.5	126.2	60.9
EPS	136.6	267.6	-71.5	126.2	60.9

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Balance Sheet						(INR cr)
As on 31st March	FY21	FY22	FY23	FY24	FY25	
Equity share capital	14	14	14	14	14	
Preference share capital	-	-	-	-	-	
Reserves & surplus	315	512	561	684	884	
Shareholders' funds	330	526	576	698	898	
Secured Loans	189	219	542	542	492	
Unsecured Loans	-	142	397	347	347	
Borrowings	189	362	939	889	839	
Minority interest	-	-	7	7	7	
Other liabilities	-	-	-	-	-	
Sources of funds	519	888	1,522	1,594	1,744	
Gross block	265	878	1,148	1,264	1,364	
Depreciation	108	135	236	356	487	
Net block	157	743	912	908	877	
Capital work-in-progress	11	59	36	20	20	
Total fixed assets	168	802	948	928	897	
Unrealized profit	-	-	-	-	-	
Investments	26	114	97	97	97	
Inventories	280	675	684	758	890	
Sundry debtors	408	306	378	419	491	
Cash and equivalents	8	27	9	14	40	
Loans and advances	101	154	127	127	127	
Other current assets	-	-	-	-	-	
Total current assets	797	1,162	1,197	1,318	1,547	
Sundry creditors and others	415	1,206	721	748	797	
Provisions and others	19	8	6	6	6	
Total CL & provisions	433	1,214	727	754	803	
Net current assets	363	-53	471	564	744	
Net deferred tax	37	38	36	36	36	
Other Assets	-74	-13	-30	-30	-30	
Misc expenditure	-	-	-	-	-	
Uses of funds	519	888	1,522	1,594	1,744	
Book value per share (INR)	46	73	80	97	124	

Cash flow statement

Year to March	FY21	FY22	FY23	FY24E	FY25E
Net profit	55	101	58	130	209
Add: Depreciation	39	39	101	120	131
Add: Misc expenses written off	-21	-60	17	-	-
Add: Deferred tax	6	-2	2	-	-
Add: Others	-	-	-	-	-
Gross cash flow	79	78	178	250	340
Less: Changes in W. C.	-101	-435	541	88	156
Operating cash flow	180	513	-363	163	185
Less: Capex	39	39	248	100	100
Free cash flow	141	474	-611	63	85

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Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
RoAE (%)	18.2	23.5	10.4	20.4	26.2
RoACE (%)	19.9	20.3	12.5	15.2	20.4
Debtors (days)	84	49	48	48	48
Current ratio	1.8	1.0	1.6	1.7	1.9
Debt/equity	0.6	0.7	1.6	1.3	0.9
Inventory (days)	58	107	87	87	87
Payable (days)	30	40	32	32	32
Cash conversion cycle (days)	112	116	103	103	103
Debt/EBITDA	1.3	2.1	3.8	2.5	1.8
Adjusted Debt/equity	0.6	0.6	1.6	1.3	0.9

Valuation parameters

Year to March	FY21	FY22	FY23	FY24E	FY25E
Diluted EPS (INR)	7.6	13.9	8.0	18.0	29.0
Y-o-Y growth (%)	136.6	83.8	-	42.9	126.2
CEPS (INR)	13	19	22	35	47
Diluted P/E (x)	62.6	34.1	59.7	26.4	16.4
Price/BV (x)	10.4	6.5	6.0	4.9	3.8
EV/Sales (x)	2	2	2	1	1
EV/EBITDA (x)	25	22	18	12	9.1
Diluted Shares O/S (Cr)	7	7	7	7	7
Basic EPS (INR)	7.6	13.9	8.0	18.0	29.0
Basic P/E (x)	62.6	34.1	59.7	26.4	16.4
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2

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