

HIL Ltd.

Resilient performance

HIL Ltd. (HIL) reported Q3FY23 results were slightly lower than our estimates at the PAT level, while revenue was in line & EBITDA was higher than our estimates. Company reported ~6.6% YoY decline in sales due to decline in the flooring & polymer solution segment. Parador business was impacted due to high inflation in European countries which led to low sentiments amongst the consumers which led to lower demand in the market. In Q3FY23 company faced inflationary pressure in most of the business segment due to inflation in key raw material cost, high sea freights and geopolitical scenario in Europe which led to decline in profit margins YoY across all the business segment (except building solution) of the company. There was an improvement in gross margin in Parador business on a QoQ basis due to some reduction in raw material prices and sea freights. Management has taken some initiatives to overcome these challenges by implementing digital shop floor using IoT 4.0 in 12 plants, implementation of various six-sigma projects across functions which will help in getting better efficiencies and lowering of cost.

In the roofing solution segment company expects to continue **maintain its market leadership**. Company's building solution business is performing well and the board of the company has approved an estimated capex of ~Rs 340 mn **to enhance the production capacity of AAC Blocks** at Chennai plant to meet growing customer demand. In the polymer solution business **management aims to reach sales of ~Rs 10 bn in the pipes segment** and ~Rs 4 bn in the putty segment, so overall sales of ~Rs 14 bn over next 3 years. In the Flooring solution segment company expects to double the sales of Parador over next 3-4 years. **In the past management has reiterated 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, management would also take resort to inorganic opportunities. Going forward growth will be driven from Polymer and Flooring segment, supported by growth from Roofing & Building segment.

Key Highlights from 9mFY23 Earnings

- Revenue contribution in 9mFY23 from Roofing, Building, Polymer, Flooring Solutions segment stood at 33%/14%/15%/37% respectively.
- In 9mFY23 company reported revenue growth of ~1.7% YoY. Roofing and Building Solution segment reported revenue growth of ~4%/21% YoY respectively. While revenue in the Polymer & Flooring solution segment declined by ~5%/22 YoY respectively.
- PBIT margins declined YoY in roofing, polymer and flooring segment on account of steep increase in raw material cost. Polymer division reported PBIT profit after reporting losses for last two quarters on account of inventory losses and sharp fall in resin prices. Losses in the flooring division reduced on a QoQ basis due to cost saving initiatives taken by the management.
- PAT declined by ~63.4% YoY to Rs 125 mn due to a sharp decline in margins.

Outlook and Valuation:

Company is yet to conduct their post results Q3FY23 earnings conference call, so due to lack of clarity on the future outlook, we have prepared the future estimates as per our understanding of the business of the company. **Hence, we have kept the rating "Under Watch" till we have further clarity from the management on future outlook of business of the company.**

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23e	Var. (%)
Net sales	7,672	8,214	-6.6%	7,639	0.4%	7,520	2%
Operating costs	7,168	7,485	-4.2%	7,519	-4.7%		
EBITDA	504	729	-30.8%	120	319.5%	420	20%
EBITDA Margin (%)	6.6%	8.9%	(230)Bps	1.6%	500 Bps	5.6%	99 Bps
Depreciation	271	285	-4.9%	263	2.9%		
Interest	57	30	90.3%	35	65.5%		
Other income	5	124	-96.0%	76	-93.5%		
PBT	181	547	-66.9%	-102			
Provision for tax	48	206	-76.7%	-39	-222.5%		
Effective tax rate (%)	26.4%	37.7%		38.3%			
Reported PAT	125	342	-63.4%	-68		139	-10%
PAT Margin (%)	1.6%	4.2%	(253)Bps	-0.9%	252 Bps	1.8%	(22)Bps

Source: Company, SMIFS Institutional Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	30,436	19%	4,093	13.4%	2,143	102%	286.3	21.5%	15.6%	6.1	4.1
FY22	35,202	16%	3,914	11.1%	2,104	-1.8%	280.1	18.0%	13.2%	16.1	9.3
FY23E	35,163	-0.1%	2,707	7.7%	1,363	-35%	181.4	10.9%	8.7%	13.2	7.2
FY24E	39,585	13%	4,204	10.6%	2,317	70%	308.4	16.2%	13.9%	7.8	4.3
FY25E	43,545	10%	4,798	11.0%	2,816	22%	374.8	17.1%	14.5%	6.4	3.5

Source: Company, SMIFS Institutional Research Estimates



Rating: Under Watch

Current Price: 2,400

Earlier recommendation

Previous Rating:	Buy
Previous Target Price:	3,658

Market data

Bloomberg:	HIL IN
52-week H/L (Rs):	4,288/2,321
Mcap (Rs bn/USD bn):	18.14/0.22
Shares outstanding (mn):	7.56
Free float:	59.4%
Avg. daily vol. 3mth (in '000):	13.5
Face Value (Rs):	10

Source: Bloomberg, ACE Equity, SMIFS Research

Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	40.6	40.7	40.7	40.7
FIIIs	2.6	3.0	2.9	3.1
DIIIs	3.4	3.4	3.1	2.7
Public/others	53.4	52.9	53.3	53.5

Promoters Pledging (%)

Pledged	0	0	0	0
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Source: BSE

Price performance (%)*

	1M	3M	12M	36M
NIFTY 50	-0.6	-2.2	3.7	48.9
NIFTY 500	-2.5	-3.8	1.6	51.7
HIL	-15.7	-9.0	-40.0	110.5

*as on 17th Feb 2023; Source: BSE, SMIFS Research

Saurabh Ginodia

Senior Vice President- Institutional Equities

+91 9836140444

saurabh.ginodia@smifs.com

Q3FY23 —Other key points

- On January 19th, 2023 the board of directors at its meeting has approved the **resignation of Mr Dhirup Roy Choudhary, Managing Director & CEO** of the company. His last working date was January 31st 2023.
- Board of directors of the company also approved **appointment of Mr Akshat Seth as MD and CEO of the company effective February 1, 2023**. Mr Seth has joined HIL from CK Birla Healthcare where he was a member of the founding team and served as CEO.
- In the notes to accounts with the Q3FY23 results it is mentioned that during Q3FY23 and 9mFY23, show cause notices were received from Commercial Taxes Department, Government of Tamil Nadu, Chennai with regards to HSN (Harmonized System of Nomenclature) classification code of one of the products sold by the company. **As per the show cause notice an amount of ~Rs 1.10 bn has been computed as tax, interest and penalty.**

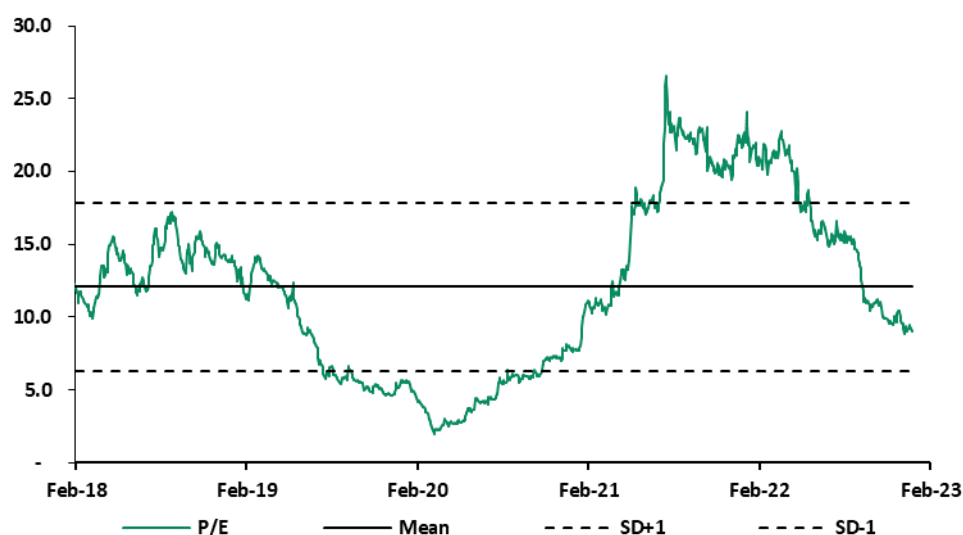
The company has submitted its response to the show cause notice and is awaiting an update from the department. At the end of Q3FY23 company has considered the aforesaid amount as contingent liability. We have not taken any impact of this in our estimates.

Outlook and Valuation

Company is expected to get back to its growth path once situation improves in Europe and demand comes back to normal. 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.

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Fig 1: 1-year forward P/E



Source: Company, SMIFS Institutional Research Estimates

Quarterly financials, operating metrics and key performance indicators

Fig 2: Quarterly Financials (Consolidated)

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	8,440	9,835	7,659	8,214	9,494	10,847	7,639	7,672
COGS	4,352	5,175	4,335	4,691	5,337	6,281	4,718	4,479
Employee Costs	1,028	1087	980	1033	1088	1081	951	950
Other Expenditure	1,942	1950	1715	1761	2136	2257	1850	1739
EBITDA	1,118	1,624	629	729	933	1,228	120	504
Depreciation	289	311	292	285	276	279	263	271
Interest	48	37	29	30	30	29	35	57
Other Income	30	112	47	124	23	139	76	5
PBT	626	1391	358	547	650	1059	-102	181
Tax	184	396	96	206	149	195	-39	48
Tax rate (%)	29.4%	28.4%	26.8%	37.7%	23.0%	18.4%	-38.3%	26.4%
Reported PAT	626	995	261	342	507	867	-68	125
Extraordinary Items	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Adjusted PAT	626	995	261	342	507	867	-68	125
YoY Growth (%)								
Revenue	30.8%	41.9%	8.8%	2.3%	12.5%	10.3%	-0.3%	-6.6%
EBITDA	98.5%	61.6%	-31.8%	-27.7%	-16.5%	-24.4%	-80.9%	-30.8%
Adj PAT	163.5%	97.9%	-72.3%	-35.0%	-19.1%	-12.9%	-125.9%	-63.4%
QoQ Growth (%)								
Revenue	5.1%	16.5%	-22.1%	7.2%	15.6%	14.2%	-29.6%	0.4%
EBITDA	10.9%	45.3%	-61.3%	15.9%	28.0%	31.6%	-90.2%	319.5%
Adj PAT	19.0%	59.0%	-73.8%	31.0%	48.1%	71.2%	-107.8%	LTP
Margin (%)								
RMC/revenue (%)	51.6%	52.6%	56.6%	57.1%	56.2%	57.9%	61.8%	58.4%
Gross margin (%)	48.4%	47.4%	43.4%	42.9%	43.8%	42.1%	38.2%	41.6%
Employee cost/revenue (%)	12.2%	11.0%	12.8%	12.6%	11.5%	10.0%	12.4%	12.4%
Other expenses/revenue (%)	23.0%	19.8%	22.4%	21.4%	22.5%	20.8%	24.2%	22.7%
EBITDA margin (%)	13.2%	16.5%	8.2%	8.9%	9.8%	11.3%	1.6%	6.6%
Adj PAT margin (%)	7.4%	10.1%	3.4%	4.2%	5.3%	8.0%	-0.9%	1.6%

Source: Company, SMIFS Institutional Research Estimates

Fig 3: Change in estimates

Rs mn	New Estimates			Old Estimates			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	35,163	39,585	43,545	35,803	40,244	44,270	-2%	-2%	-2%
Gross profit	14,507	17,346	19,168	14,395	17,643	19,497	1%	-2%	-2%
Gross margin (%)	41.3%	43.8%	44.0%	40.2%	43.8%	44.0%	105 Bps	-2 Bps	-2 Bps
EBITDA	2,707	4,204	4,798	2,622	4,282	4,888	3%	-2%	-2%
EBITDA margin (%)	7.7%	10.6%	11.0%	7.3%	10.6%	11.0%	37 Bps	-2 Bps	-2 Bps
PAT	1,363	2,317	2,816	1,409	2,528	2,968	-3%	-8%	-5%
EPS (Rs)	181	308	375	188	337	395			

Source: Company, SMIFS research estimates

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	30,436	35,202	35,163	39,585	43,545
COGS	15,722	19,539	20,655	22,239	24,377
% of sales	51.7%	55.5%	58.7%	56.2%	56.0%
Employee Cost	3940	4188	3956	4434	4790
% of sales	12.9%	11.9%	11.3%	11.2%	11.0%
Other Exp.	6682	7561	7845	8709	9580
% of sales	22.0%	21.5%	22.3%	22.0%	22.0%
EBITDA	4,093	3,914	2,707	4,204	4,798
Other Income	181	304	250	260	320
Depreciation & Amortisation	1090	1163	1084	1210	1249
PBIT	3,184	3,056	1,872	3,253	3,869
Interest cost	278	126	177	125	66
Core PBT	2,725	2,625	1,445	2,869	3,483
Exceptional items	-	-	-	-	-
PBT	2,917	2,951	1,706	3,153	3,831
Tax Expenses	774	847	343	835	1015
Tax Rate (%)	26.5%	28.7%	20.1%	26.5%	26.5%
Minority Interest	-	-	-	-	-
Adjusted PAT	2143	2104	1363	2317	2816

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
Growth ratios (%)					
Net sales	19.1%	15.7%	-0.1%	12.6%	10.0%
EBITDA	72.5%	-4.4%	-30.8%	55.3%	14.1%
Adjusted PAT	102.3%	-1.8%	-35.2%	70.0%	21.5%
Margin Ratio (%)					
Gross Profit	48.3%	44.5%	41.3%	43.8%	44.0%
EBITDA	13.4%	11.1%	7.7%	10.6%	11.0%
EBIT	9.9%	7.8%	4.6%	7.6%	8.1%
Core PBT	9.0%	7.5%	1.5%	7.3%	8.1%
Adjusted PAT	7.0%	6.0%	3.9%	5.9%	6.5%
Return Ratio (%)					
ROE	21.5%	18.0%	10.9%	16.2%	17.1%
ROCE	15.6%	13.2%	8.7%	13.9%	14.5%
Turnover Ratio days (days)					
Gross Block Turnover (x)	2.6	2.9	2.6	2.7	2.8
Adj OCF/Adj PAT (%)	204	71	163	136	122
Inventory	113	134	115	120	120
Debtors	12	11	12	14	14
Creditors	74	69	65	65	65
Cash Conversion Cycle	50	76	62	69	69
Solvency Ratio (%)					
Debt-equity (x)	0.5	0.3	0.2	0.1	0.0
Net Debt-equity (x)	0.4	0.2	0.1	0.0	-0.1
Gross Debt/EBITDA	1.1	0.7	0.7	0.2	0.1
Current Ratio	1.3	1.4	1.4	1.5	1.8
Interest coverage ratio (x)	10.8	21.8	9.2	24.0	54.1
Per share (Rs)					
Reported EPS	346.9	280.5	181.4	308.4	374.8
Adj. EPS	286.3	280.1	181.4	308.4	374.8
CEPS	431.9	424.4	325.7	469.5	541.1
Book value	1330	1558	1672	1907	2198
Dividend					
DPS (Rs)	40.0	65.0	50.0	60.0	70.0
Dividend Payout (%)	14%	23%	28%	19%	19%
Dividend Yield (%)	1.7%	2.7%	2.1%	2.5%	2.9%
Valuation					
P/E	6.1	16.1	13.2	7.8	6.4
P/BV	1.3	2.9	1.4	1.3	1.1
EV/EBITDA	4.1	9.3	7.2	4.3	3.5
EV/Sales	0.5	1.0	0.6	0.5	0.4
Adj M.Cap /Core PBT	4.3	12.5	33.3	6.0	4.5
Adj M.Cap / Adj OCF	2.7	22.2	7.9	5.5	4.6

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Sources of funds					
Capital	75	75	75	75	75
Reserves & Surplus	9878	11587	12444	14198	16375
Shareholders' Funds	9,953	11,662	12,513	14,267	16,446
Total Debt	3487	2886	1786	686	486
Deferred Tax Liabilities	1048	980	980	980	980
Other Non-current Liabilities	581	539	549	544	547
Total Liabilities	15,068	16,067	15,828	16,477	18,459
Application of funds					
Gross Block	12220	12989	13989	15289	16489
Net Block	10,300	10,076	9,905	9,994	9,945
Capital WIP	108	228	228	228	228
Non-current Asset	555	543	590	629	672
Investments	304	4	0	0	0
Goodwill	1293	1270	1270	1270	1270
Inventories	4866	7161	7074	7311	8014
Sundry Debtors	965	1098	1156	1518	1670
Other Current Assets	1443	1118	1297	1256	1328
Cash & Bank Balances	1301	734	417	648	2094
Total Current Assets	8,575	10,112	9,944	10,734	13,106
Creditors	3,205	3,692	3,678	3,960	4,341
Other Current Liabilities	2562	2130	2102	2080	2091
Provisions	300	343	322	333	326
Total Current Liabilities	6,067	6,165	6,103	6,373	6,758
Net Current Assets	2,508	3,947	3,840	4,361	6,348
Total assets	15,068	16,067	15,828	16,477	18,459

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Op. profit before WC changes	4198	3856	2908	4415	5070
Net change in working capital	1379	-1310	-165	-309	-553
Tax Paid	-918	-926	-343	-835	-1015
Cash flow from operating activities (a)	4660	1621	2400	3271	3502
Adjusted OCF	4382	1495	2223	3146	3436
Capital expenditure	-1064	-769	-1000	-1300	-1200
Adjusted free cash flow	3317	726	1223	1846	2236
Cash flow from investing activities (b)	-344	-462	-952	-1252	-1152
Proceeds from issuance of share capital	9	13	0	0	0
Debt issuance (repayment)	-3442	-1362	-1100	-1100	-200
Interest & lease expenses	-277	-107	-177	-125	-66
Dividend Paid	-187	-337	-488	-564	-639
Cash flow from financing activities (c)	-3898	-1793	-1766	-1788	-904
Net change in cash (a+b+c)	418	-634	-317	231	1446

Source: Company, SMIFS Institutional Research Estimates

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Contact us:

SMIFS Limited. (<https://www.smifs.com/>)

Compliance Officer:

Sudipto Datta,

5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India

Contact No.: +91 33 4011 5401 / +91 33 6634 5401

Email Id.: compliance@smifs.com

Mumbai Office:

206/207, Trade Centre, Bandra Kurla Complex (BKC), Bandra East, Mumbai – 400051, India

Contact No.: (D) +91 22 4200 5508, (B) +91 22 4200 5500

Email Id: institutional.equities@smifs.com

Kolkata Office:

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India

Contact No.: (D) +91 33 6634 5408, (B) +91 33 40115400

Email Id: smifs.institutional@smifs.com
