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HSIL – Demonetization Impact

Demonetization Impact!!! **18th November, 2016**

Rating

CMP	**Rs 284**
Target Price	**Rs 324**
Recommendation	**ACCUMULATE**

Stock Info

BSE Group	B
BSE Code	500187
NSE Symbol	HSIL
Bloomberg	HSI IN
Reuters	HSNT.BO
BSE Sensex	27,439
NSE Nifty	8,490

Market Info

Market Capital	Rs 2,567 cr
Equity Capital	Rs 14.46 cr
Avg. Trading Vol.	1,01,930
52 Wk High/ Low	370/223
Face Value	Rs 2

Shareholding Pattern (%)	**(SEP'16)**
Promoters	**47.7**
FIIs/DIIs/MFs	**34.7**
Public	**17.6**
Total	**100**

Price Chart:

Demonetization Impact

We had initiated coverage on HSIL with target price of Rs431 as on 21st October, 2016. Keeping in mind current demonetization scenario, we have evaluated impact on HSIL as given below:

- The impact of the government's move to eliminate current high-value currency notes on FMCG, Consumer durables, Sanitaryware companies can be seen in two parts.
- One is on the distribution channel as small retailers—who make up the bulk of sales—mostly deal in cash. While consumers will recover relatively quickly as the new currency notes become available, trade channels may take a few weeks as their transactions will be of higher value. If their purchases decline, that will affect sales growth reported by companies.
- The second impact is at the consumer level if the move causes a liquidity crunch. Consumer staples may not see a sizeable impact, though some down-trading to lower value packs may be seen. Discretionary consumption may see some impact as consumers with a liquidity crunch may become choosy on where they spend. The current quarter may, therefore, show some impact of this development on sales growth of companies.
- Due to monetization policy, it will impact on HSIL business especially on Building Product Division which sells to retail consumers through retail distribution channels and lack of availability of new currency notes, Retail distributors will have to face liquidity crunch to run their business.

Valuation:
We value the stock at 15x FY18EPS, and assign a price target of Rs 324 with "**ACCUMULATE**" rating on the stock.

Financial Snapshot:

Y/E march, (in Rs cr)	FY15	FY16	FY17E	FY18E
Net Sales	1981	2056	2295	2564
yoy%	7%	4%	12%	12%
Operating EBITDA	336	319	345	385
EBITDA Margin	17%	16%	15%	15%
PAT	86	89	130	156
EPS	12.9	12.3	17.9	21.6
P/E (X)	23.2	28.8	15.9	13.2

Source: Company data, Arihant Research

Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17E	FY18E
Income from operations	1981	2056	2295	2564
RM exps	732	763	872	974
Other expenses	917	978	1082	1209
Total Expenses	1648	1741	1955	2183
EBITDA	336	319	345	385
EBITDA Margin	17%	16%	15%	15%
Depreciation and Amortization	125	120	134	137
other income	4	3	4	4
finance cost	78	41	44	41
Exceptional items	0	0	0	0
Profit before tax	134	157	168	206
Total Tax expenses	48	68	38	50
Profit/(Loss) for the year	86	89	130	156
EPS	12.9	12.3	17.9	21.6

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17E	FY18E
Liabilities + Equity				
Share Capital	14	14	14	14
Reserves and surplus	1309	1364	1459	1580
Shareholders fund	1323	1378	1473	1595
Total Non Current Liabilities	486	338	537	412
Total Current liabilities	822	866	877	896
Total - Equity and Liabilities	2631	2582	2887	2903
Assets				
Non Current Assets				
Total Net Fixed Assets	1618	1575	1744	1684
Total Non current Assets	48	56	62	63
Current Assets				
Cash and bank balances	25	20	61	52
Total Current Assets	940	930	1021	1104
Total	2631	2582	2887	2903

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17E	FY18E
Operating Activities				
Net Profit before tax	134	157	168	206
Non cash / Non operating items	195	158	177	179
Total	328	316	345	385
Tax paid	-38	-64	-38	-50
Changes in working capital	-26	45	-63	-57
Cash from operating activities	264	296	244	278
Investing Activities				
Cash flow from investing activities	-92	-61	-277	-83
Financing activities				
Dividends + tax paid	-23	-30	-35	-35
Change in other financing activities	-184	-208	109	-169
Cash from financing activities	-207	-238	74	-204
Opening cash & Cash equivalents	55	19	17	57
Changes during the year	-35.4	-2.8	40.5	-9.0
Closing cash & cash equivalents	19	17	57	48

Ratio Analysis				
	FY15	FY16	FY17E	FY18E
Profitability				
Revenue growth	7%	4%	12%	12%
Operating EBITDA%	17%	16%	15%	15%
PAT%	4.32%	4.33%	5.64%	6.08%
PAT% Growth	151%	4%	45%	20%
Du Pont ROE breakup				
PAT/Sales	4%	4%	6%	6%
Sales/ Avg Total Assets	0.7	0.8	0.8	0.9
Avg Total Assets / Avg Eqty	2.3	1.9	1.9	1.9
ROE	7%	7%	9%	10%
Other Ratios				
Current Ratio	1.1	1.1	1.2	1.2
Long Term Debt / Equity	0.3	0.2	0.3	0.2
EPS	12.9	12.3	17.9	21.6
DPS	3.5	4	4	4
P/E	23.2	28.8	15.9	13.2
P/BV	1.6	1.9	1.4	1.3

(*Closing cash excludes other bank balance.)

Source: Ace Equity, Arihant Research

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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