Hindware Home Innovation

A compelling Play in Building Material Space

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Long Term Recommendation
Hindware Home Innovation Ltd.

A compelling Play in Building Material Space

Hindware Home Innovation (HINDWARE) has advanced significantly from being a manufacturer of just one product to holding market leadership in sanitaryware and being a significant player in faucetware. It holds a 23%/6% market share in organised sanitaryware and faucetware, respectively. Given its strong positioning in bathware, increasing presence in pipes and fittings and consumer appliances coupled with 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. It can continue to deliver strong overall growth with a constant focus on product innovation, a timely ramp up in pipe capacity, and a positive outlook for demand. Over FY22-25e, we expect a sales/EBITDA/PAT CAGR of 18%/36%/30%. In FY25, we foresee the EBITDA margin to reach 11.5%. We initiate coverage with a 'BUY' rating and a TP of INR 546 by valuing the stock at 18x FY25E earnings.

Expand the addressable market by foraying into new product categories

HINDWARE expanded its addressable market to INR50,000cr in 2022 from INR4,000cr in 2012 by extending its established brand 'Hindware' to new product categories. In 2014, it expanded its product offering beyond sanitaryware to faucets, to consumer appliances in 2015, and to plastic pipes and fittings in 2018. It ranks in the top five in sanitaryware, faucets, kitchen chimney, and air coolers, and sixth in water heaters. It aspires to be one of the top five pipe players and is one of the fastest growing.

Healthy growth in end-use industry — real estate

Demand for HINDWARE's products is linked to the cyclical real estate sector. After the lifting of COVID-related restrictions, the Indian residential market saw a stellar recovery in FY22, with industry sales volumes returning to FY20 levels and unsold inventory falling to 18 months from 46 months over FY20–9MFY23. However, the recent rise in interest rates globally and increase in construction cost led to concerns over the sustainability of residential demand. The sanitaryware market is seeing a marked shift in consumer preference towards branded products, thereby offering growth opportunities to established players like HINDWARE. The management maintains a strong presence in the domestic mass and mid-market sanitaryware segment. We expect the company to continue to expand its dealer base in Tier II and III cities.

Collaboration with MNC players to combine technology with distribution reach

HINDWARE recently forayed into kitchen and furniture fittings segment via a strategic partnership with Italy's Formenti & Giovenzana Group (FGV). In heating solutions, it collaborated with one of Europe's top brands — Groupe Atlantic. HINDWARE provides products in a highly competitive market with a low barrier to entry. In all product categories, it competes with several brands in both the organised and unorganised market. However, Via technology pacts with global firms and the introduction of innovative products, it can increase its market share by utilising its extensive and efficient distribution network.

Valuation and view

We initiate coverage with a 'BUY' rating, given its leading position in sanitaryware and faucets, wide product basket, and strong brand presence. We expect 18%/30% revenue/PAT CAGR over FY22–25 (versus 11%/22% CAGR over FY19–22) driven by market share gains and EBITDA margin expansion (391bps to 11.5% in FY25E), owing to a superior product mix and benefits of scale. Valuing the stock at 18x FY25E earnings, we arrive at our TP of INR 546, an upside of 57% from its CMP. As we await market share and margin expansion execution, the assigned multiple is conservative compared to segment peers. A slowdown in the economy and the housing market, and higher input costs are the key risks to our thesis.

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Revenues (INR Cr)	1,775	2,294	2,804	3,288	3,809
Rev growth (%)	10.0	29.2	22.2	17.3	15.8
EBITDA (INR Cr)	143	175	232	329	439
Adjusted PAT (INR Cr)	55	101	63	136	219
P/E (x)	46	25	40	19	11
EV/EBITDA (x)	19	16	12	9	7
RoACE (%)	19.9	20.3	12.6	16.4	22.8
RoAE (%)	18.2	23.5	11.3	20.9	26.8

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CMP INR: 348

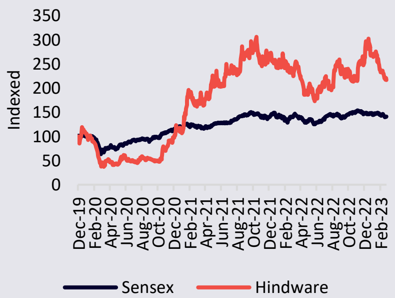
Rating: BUY

Target Price INR: 546

Upside: 57%

Date: April 03, 2023

Bloomberg:	SHILL:IN
52-week range (INR):	263/482
Share in issue (crore):	7
M-cap (INR cr):	2,499
Promoter holding (%)	51.32



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Business Structure

Over the years, HINDWARE diversified from Sanitaryware manufacturing to faucets, to consumer appliances in 2015, and to plastic pipes and fittings in 2018. The company is well-placed in domestic markets. HHIL ranks amongst top 3 companies in Sanitaryware, Faucet and Kitchen Chimney categories in the domestic market; in plastic pipe it is one of the fastest growing companies.

We expect HINDWARE to clock ~18% sales CAGR over FY22-25e, driven by:

- The bath ware segment (Sanitaryware & Faucet) would grow at 1.25-1.5x of industry growth driven by strong brand recall and wide distribution network.
- With the gradual commercialisation of its expanded Pipe& Fittings capacity at the Telangana facility and higher capacity utilisation, driven by extending reach and a healthy demand environment, we expect a rise in revenue at an industry-leading rate. We expect 21% revenue CAGR over FY22–25e.
- Driven by product innovation, brand building, distribution expansion, and e-commerce growth, consumer appliance business can reach INR 700cr by FY25e.

We expect EBITDA margin to expand 391bp over FY22–25, led by benefits of scale across segments, integration of manufacturing units within building products, operational efficiencies, easing commodity pressure and benefit of scale. We expect absolute EBITDA to expand at a 36% CAGR over FY22–25e, driven by strong revenue growth and margin improvement.

Strong operational performance and improved margin profile to boost net profit by ~30% CAGR from FY22 to FY25e.

Over the next two years, management expects a 10-20 day/Year working capital days (WCD) improvement (we kept WCD at same level). Return ratios and cash flow would improve along with lower capex and margin improvement.

We expect consolidated leverage (debt/equity ratio) to touch 0.6x in FY25 (after rising to 1.4x in FY23) from 0.7x in FY22 due to an improvement in operating profit and debt repayment (INR200–250cr in borrowings over the next two years).

Given its strong positioning in bathware, increasing presence in pipes and fittings and consumer appliances coupled with 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. At CMP (INR 348), the stock trades at 11.5x FY25e EPS and 6.5x EV/EBITDA FY25e EBITDA.

We initiate coverage on the stock and recommend a 'BUY' rating with a target price of INR 546 per share, valuing the company at 18x of FY25e earnings.

With strong demand and the company's constant focus on product innovation, brand building, distribution expansion, and capacity addition, we expect HHIL's growth momentum across its business segments to continue.

Capacity expansion in pipes & fittings coupled with new products introduction in consumer appliances would increase the revenue to INR 3,809cr from INR 2294cr.

We forecast consolidated revenue to increase by 18%, EBITDA to grow by 36% and PAT to rise by 30% over FY22–25e.

INR Cr	FY22	FY23E	FY24E	FY25E
Revenue	2,294	2,804	3,288	3,809
EBITDA	175	232	329	439
EBITDA margin (%)	8	8	10	12
PAT	101	63	136	219

INR Cr	FY22	FY23E	FY24E	FY25E
ROACE (%)	20.3	12.6	16.4	22.8
OCF	513	41	94	178
Net D/E ratio	0.7	1.4	1.0	0.6

	FY25E	Target
P/E (x)	18x	546

At CMP, 25E P/E is 11.5x + **FY25E RoCE of 23%** + **At target price, FY25E P/E is 18x**

Upside: 57%

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Focus Charts

Exhibit 1: Consol. revenue CAGR of 18% over FY23-FY25E aided by strong growth in bathware and Pipe segments

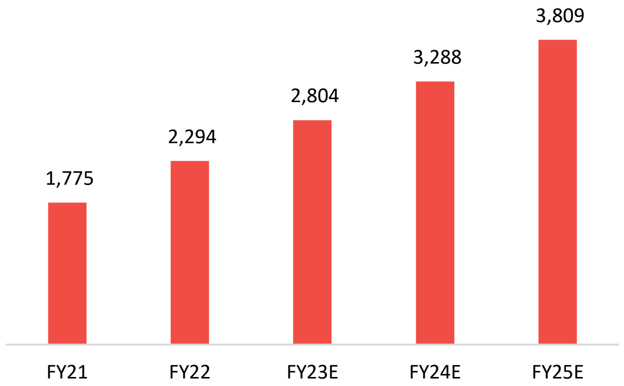


Exhibit 2: Inventory loss in Pipe segment to impact overall EBITDA margin in FY23, however recovers in FY24

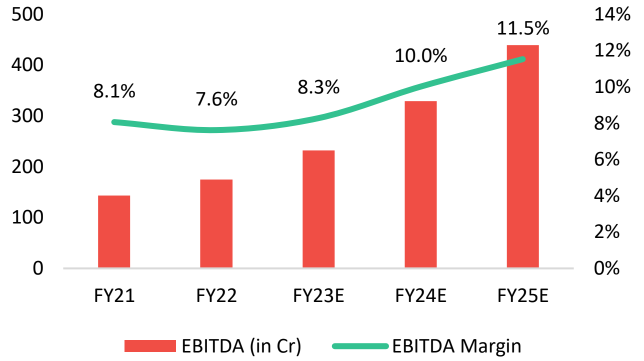


Exhibit 3: Bathware dominates the revenue mix with ~50% share

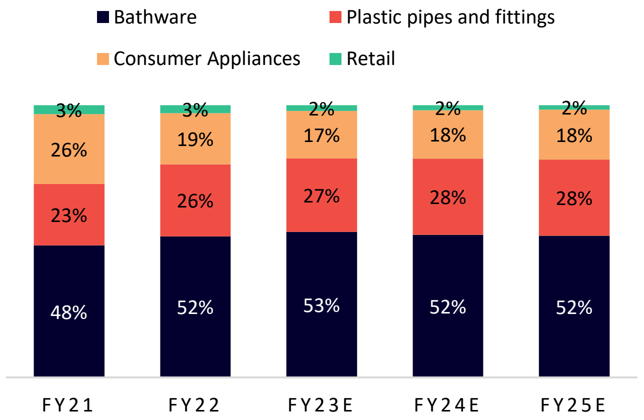


Exhibit 4: EBITDA of Plastic and Consumer Applications to grow faster with scale

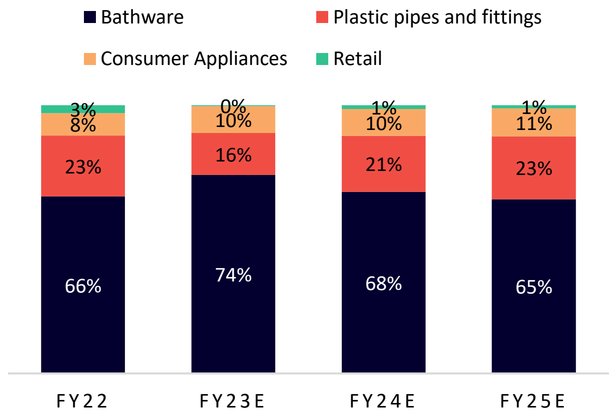


Exhibit 5: High A&P spends have enabled strong brand creation

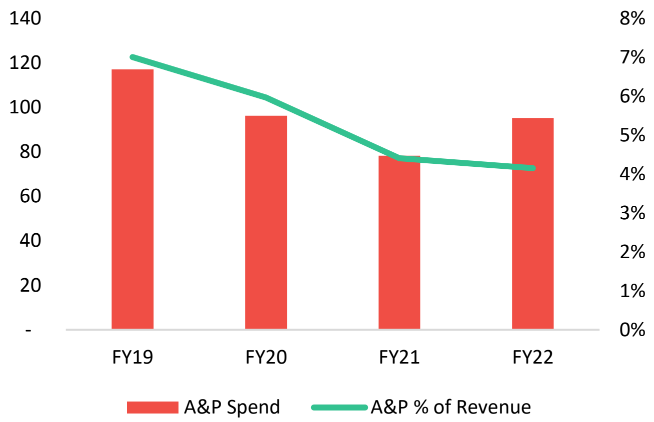
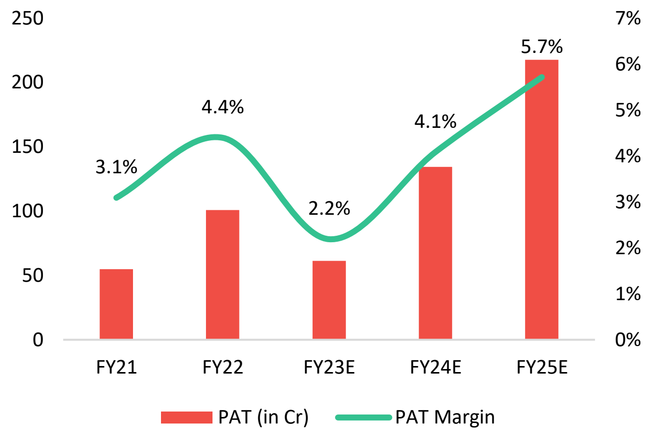


Exhibit 6: APAT CAGR likely at 30% over FY22-FY25E



Source: Company, Nuvama Wealth Research
*= Charts are based on our assumptions

Exhibit 7: Working Capital days at comfortable levels

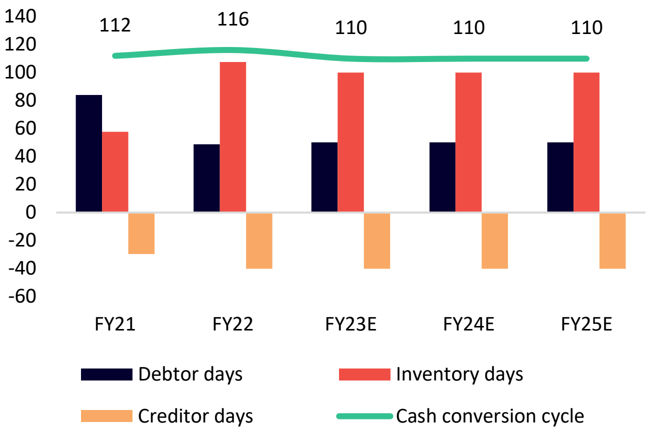


Exhibit 8: Strong revenue and profit growth to drive Operating Cash Flow (OCF)

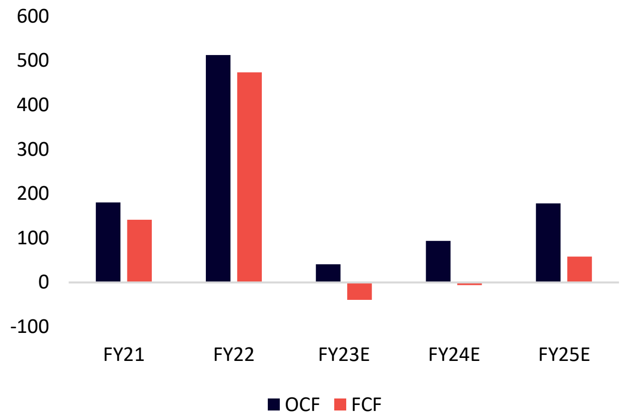


Exhibit 9: Return ratios to improve over FY22-FY25E on the back of better profitability

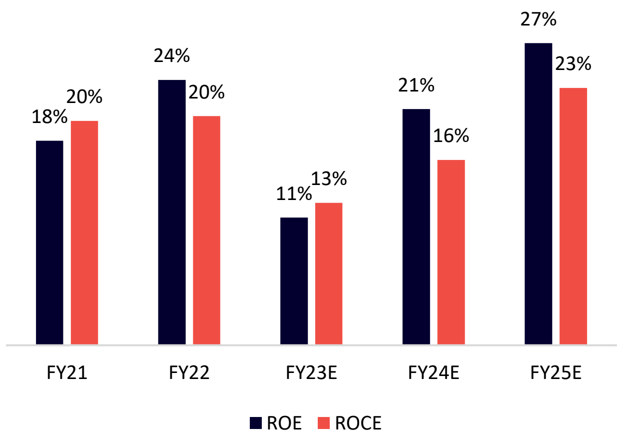
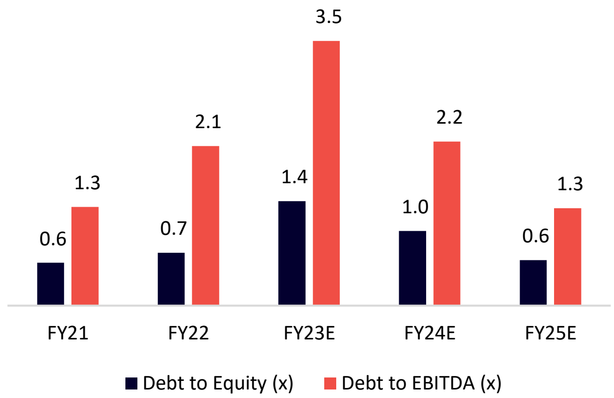


Exhibit 10: Better cash flow generation, working capital management, and debt repayment to lower debt/equity and debt/EBITDA to 0.6x and 1.3x by FY25E



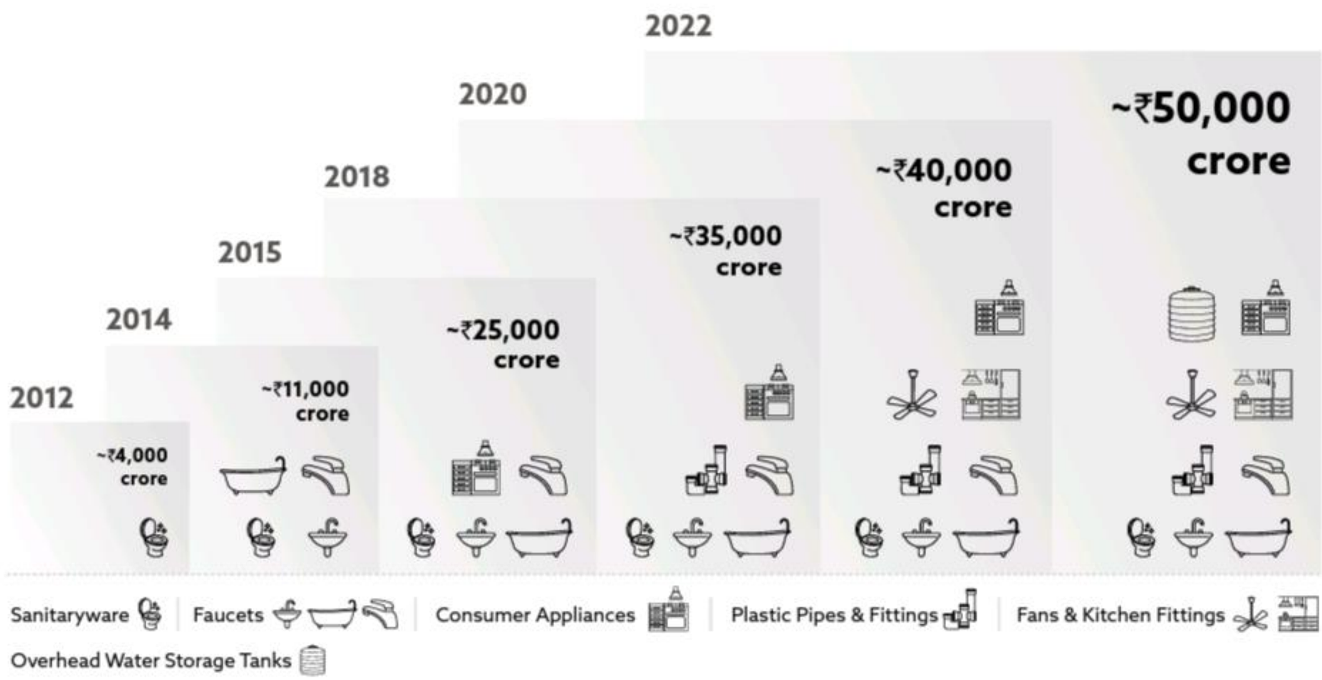
Source: Company, Nuvama Wealth Research
Note: Debt number include lease liabilities

Investment Rationale

I. Expand the addressable market by foraying into new product categories

HINDWARE expanded its addressable market to INR50,000cr in 2022 from INR4,000cr in 2012 by extending its established brand 'Hindware' to new product categories. In 2014, it expanded its product offering from sanitaryware to faucets, to consumer appliances in 2015, and to plastic pipes and fittings in 2018. It ranks in the top five in sanitaryware, faucets, kitchen chimney, and air coolers, and sixth in water heaters. The management aspires to be one of the top five pipe companies and is one of the fastest growing.

Exhibit 11:



i) Bathware :

HINDWARE is the market leader in sanitaryware (with over 23% market share in organised market) and key player faucets. It provides bathware products under a variety of brands across the value chain: 'Queo,' a luxury brand; 'Hindware Italian Collection,' a legacy brand and 'Hindware,' which caters to the premium market. Access to a large client base is provided by more than 350 brand stores, over 20,000 active retail touchpoints, and more than 400 distributors. Dedicated staff cater to over 1,200 prominent institutional clients. Its pan-India service network of more than 650 technicians in over 700 districts meets client demand with a 24/48-hour turnaround time in urban/upcountry areas. Under 'Hindware Italian,' it offers super-premium and premium tiles in over 10 categories that find use in flooring and baths in both commercial and residential establishments.

Exhibit 12: Sanitaryware Market Share

Sanitaryware Market Size in FY22 - INR 5,000cr

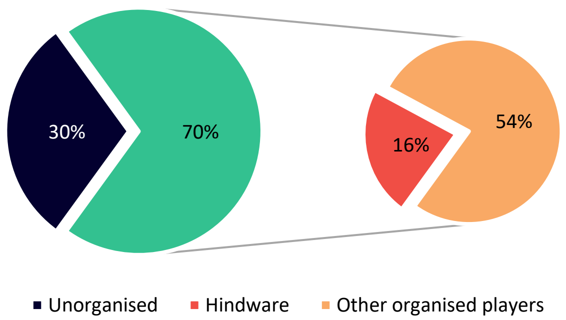
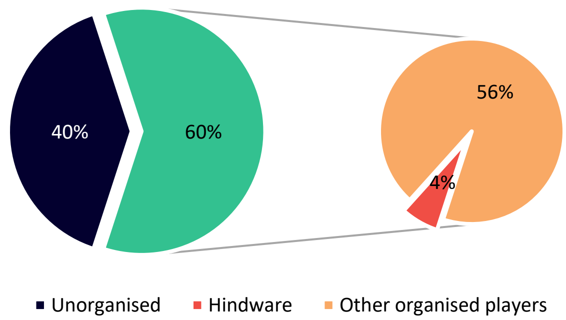


Exhibit 13: Faucets Market Share

Faucet Market Size in FY22 - INR 10,000cr



Source: Industry,Nuvama Wealth Research

Exhibit 14: Bathware Revenue to clock 19% CAGR Share

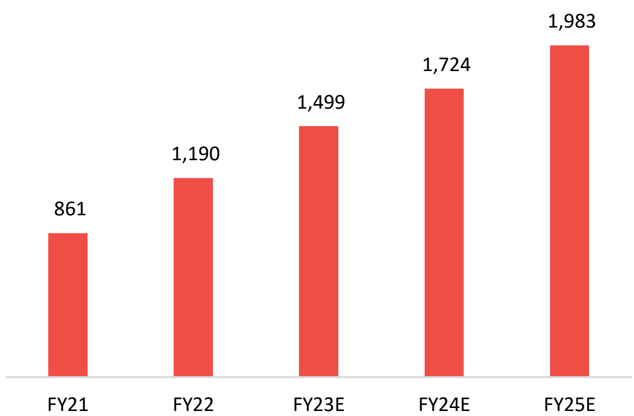
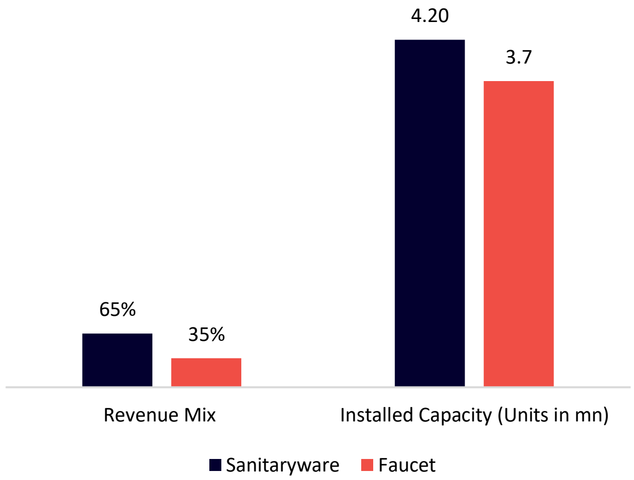


Exhibit 15: HINDWARE's Bathware Capacity and Revenue



Source: Company, Nuvama Wealth Research

The bathware division (mainly sanitaryware and faucets, as the tile business is small) contributes the lion's share of revenue (54%). This business experienced a remarkable resurgence in FY22, with revenue growing 37.8%, led by product launches and developments, a robust distribution network in Tier II and III markets, and healthy real estate demand.

The percentage of sanitaryware/faucets manufactured in-house currently stands at 70%/55–60%. In sanitaryware, the management is focusing on increasing outsourcing (currently: 30–35%). There is enough room to boost the proportion of in-house manufacture in faucets. We expect healthy growth in sanitaryware and faucets over the next three years due to a consistent focus on brand creation, innovative product introductions, consistent expansion in distribution and geographical reach, and strong real estate demand. We expect 19% revenue growth from bathware over FY22–25e. We expect segment EBIT margin to surge 12.5% by FY25 due to improved product mix, higher realisation, and in-house production.

ii) Plastic pipes and fittings

To strengthen its position as a total bathroom solutions supplier, it expanded into the plastic pipes and fittings business (including PVC, CPVC, UPVC, and soil-waste-rain or SWR) in FY19. To ensure product and technological superiority in the market, it signed an agreement with Japan's Sekisui Chemical Co. for the supply of chlorinated polyvinyl chloride (CPVC) compound to deliver best-in-class products in India. CPVC production accounts for 40% of the domestic pipes and fittings industry. HINDWARE has strengthened its product development capabilities in the building products market over the years, focusing on green building products, adjusting its product range for local applications, and enhancing cost and operational efficiencies. TRUFLO — HINDWARE's pipes and fittings brand — is the fastest growing domestic brand in its category. It clocked 67% CAGR over FY19–22 owing to more than 1,500 SKUs such as CPVC, lead-free UPVC (unplasticised polyvinyl chloride), SWR pipes, PVC pipes for potable water, and column pipes for borewell applications. Fittings offer the largest margin in the piping business (over 20%) due to the specialised nature of work and the number of SKUs that must be maintained. CPVC offers the second-best margin (16–18%) given its specialised usage (hot and cold water applications), consumer positioning, and raw material sourcing being primarily organised and imported, resulting in a lesser presence of unorganised actors.

Exhibit 16: Domestic Plastic Pipes & Fittings to clock a 12-14% CAGR over FY21-FY25E

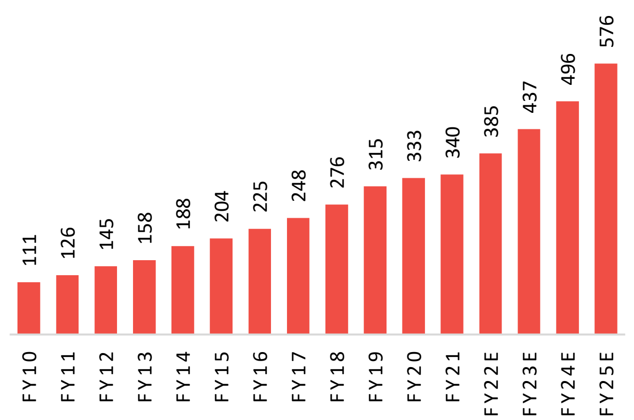


Exhibit 17: Organized segment gaining share on favourable industry dynamics

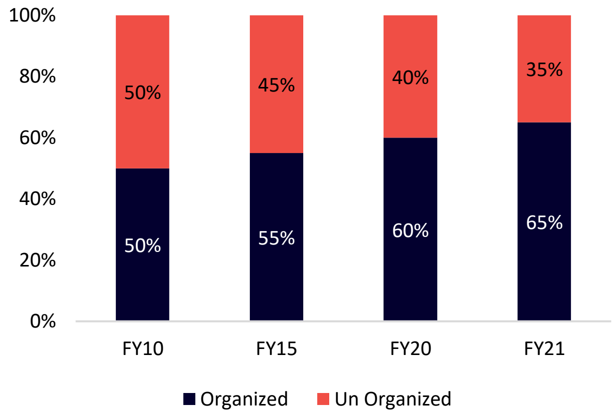


Exhibit 18: Industry Break-up by Polymer type

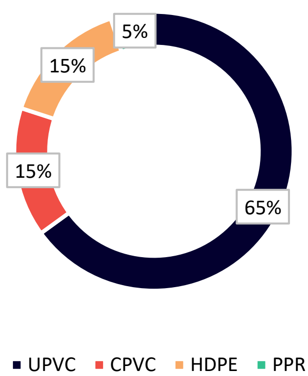
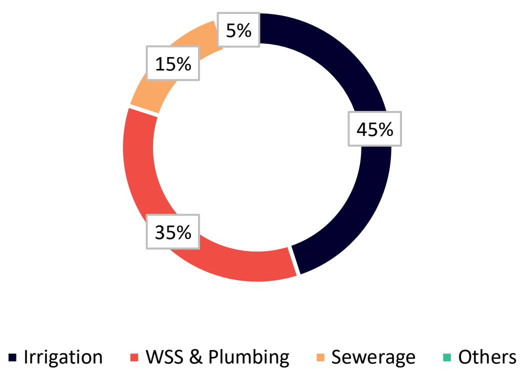


Exhibit 19: Industry Break-up by Application



Source: Nuvama Wealth Research

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To meet rising demand, HINDWARE aims to expand its pipes and fittings capacity through brownfield and greenfield expansion. By FY25, it looks to boost overall pipe capacity by 73%. The brownfield expansion, which took place at its existing facility in Telangana and was financed by a combination of internal accruals and borrowings, was completed on January 23. HINDWARE is also investing INR180cr in a greenfield plant in Roorkee, Uttarakhand, via a combination of internal accruals and borrowings. It has concluded the necessary land purchase. Initial manufacturing capacity will be 12,500mt and will turn operational in Q4FY25. Capacity may increase by 2.5–3x at a capex of INR50–60cr in the future. Following this brownfield and greenfield expansion, its total plastic pipes and fittings capacity will expand to 60,500mt, which should meet growing demand and drive growth over the next two-to-three years. It wants to be among the top five players in the sector by FY27–28, with its complementary product portfolio, sales force, excellent professional assistance, and distribution channel.

Exhibit 20: HINDWARE's Plastic Pipes and Fittings to Clock 21% CAGR

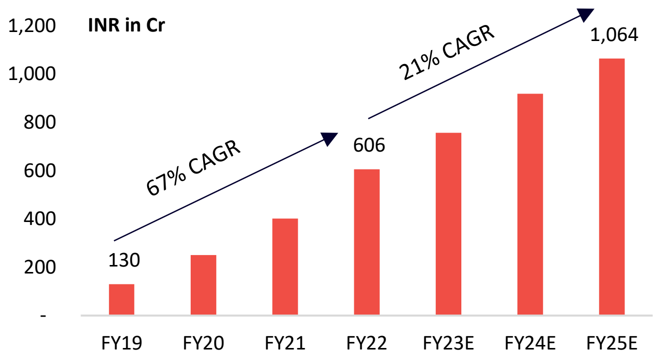
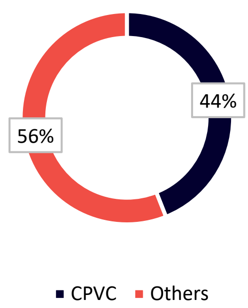


Exhibit 21: HINDWARE's CPVC revenue contribution



Source: Nuvama Wealth Research

Exhibit 22: JINDWARE's Plastic Pipes and Fittings Capacity Addition

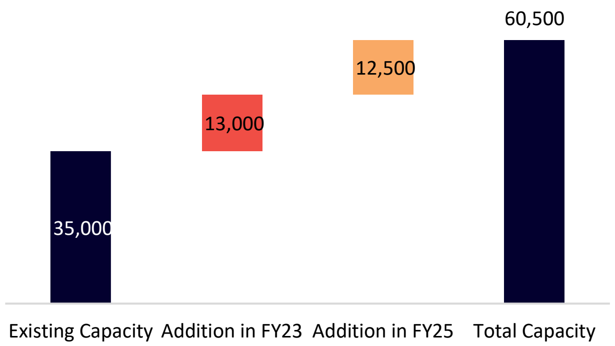
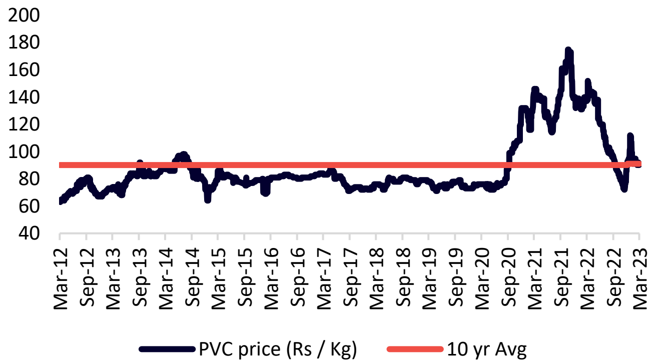


Exhibit 23: PVC price is stabilising near 10 yr avg level



Source: Company, Industry,Nuvama Wealth Research

With the gradual commercialisation of its expanded capacity at the Telangana facility and higher capacity utilisation, driven by extending reach and a healthy demand environment, we expect a rise in revenue at an industry-leading rate. With an inflated revenue base (INR 757cr in FY23e), we expect 21% revenue CAGR over FY22–25e.

A sharp drop in PVC prices over the H1FY23 has impacted margin for most pipes and fittings manufacturers in 9MFY23, with channel de-stocking resulting in sharp inventory losses. In Q3FY23, PVC prices recovered and distributors restocked, which led to the clearing of high-cost inventories. Management said most of its high-cost inventory is being used up, and some inventory gain can be expected in Q4FY23 due to the PVC price increase in Dec 22**.** Though margin expansion due to inventory gains is expected to subside in FY24, expected stability in PVC prices, positive operating leverage and cost-cutting measures, and product mix improvements can help it achieve 9.5% EBITDA margin by FY25.

iii) Consumer Appliance

HINDWARE is the second largest player of kitchen chimneys, hoods, and hobs; the fifth largest producer of air-coolers; and the sixth largest maker of water heaters. It manufactures sinks, water purifiers, fans, room heaters, kitchen and furniture fittings, et al. With over 13,000 retail outlets; more than 1,400 distributors, dealers, modern and large retail stores; and over 160 unique kitchen galleries, it has a wide distribution reach. It achieved 49% revenue CAGR over FY15–22, led by chimney/water heaters/air coolers, which contributed 55%/15%/15% to total segmental sales. e-commerce accounted for ~25% of segmental revenue. It controls ~40% of the Chimney e-commerce market in India. It continues to build a strong portfolio in kitchen chimneys (key revenue contributor), with a focus on superior technology driven solutions and patented innovations such as MaxX Silence and MaxX Auto Clean. Of all brands, HINDWARE has the widest selection of quiet chimneys in India at present.

Exhibit 24: Domestic Built in Hobs Market to Grow at ~11% CAGR

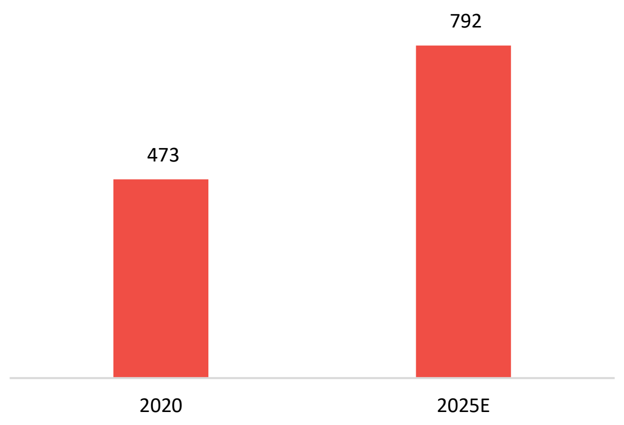
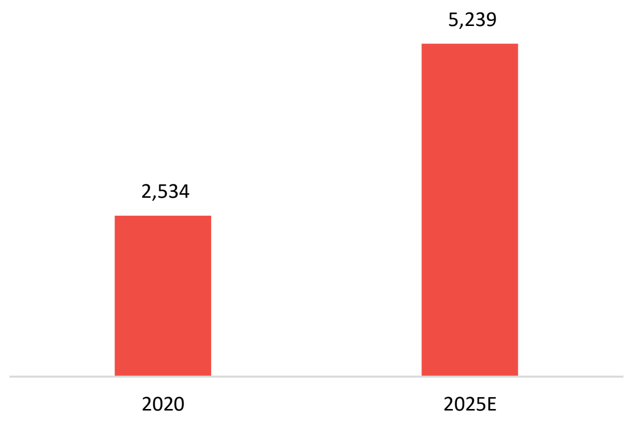


Exhibit 25: Domestic Kitchen Chimneys Market to Grow at 15.6% CAGR



Source: Nuvama Wealth Research

Exhibit 26: Air Cooler Market to Grow at 15-20% CAGR

Market Size - INR 5000 cr in FY22

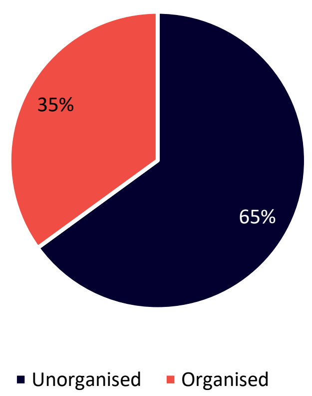
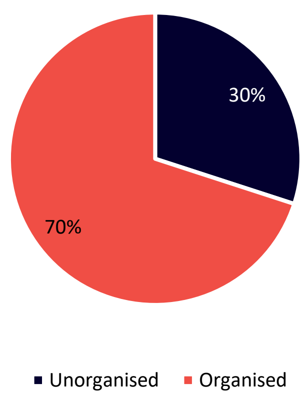


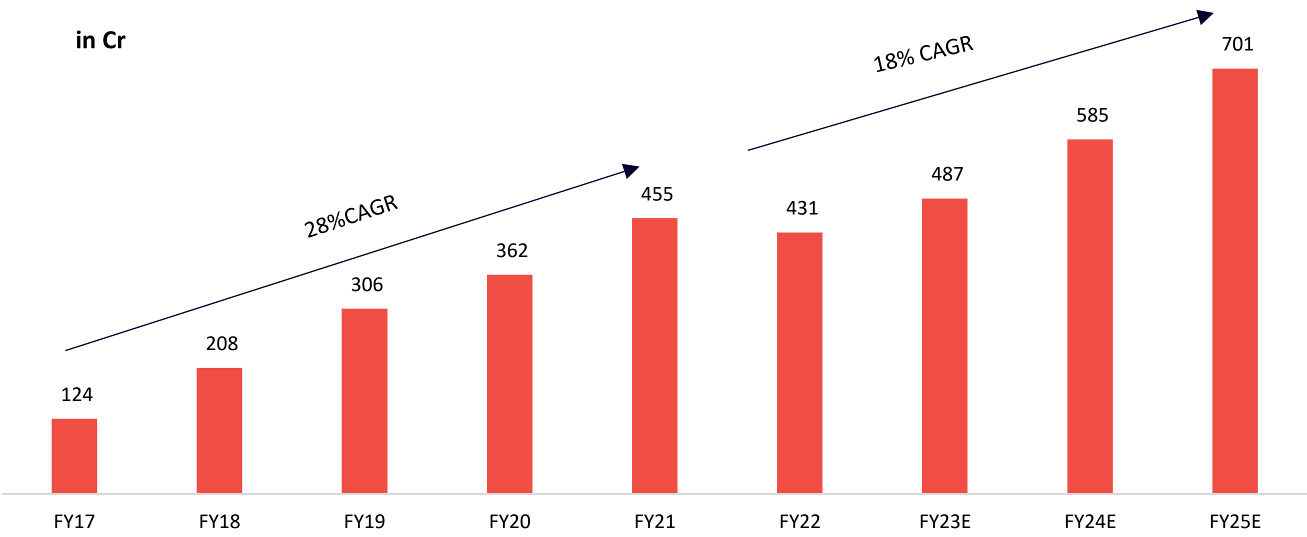
Exhibit 27: Water Heater Market to Grow at 10-12% CAGR

Market Size - INR 2600 cr in FY22



Source: Nuvama Wealth Research

Exhibit 28: Consumer Appliances Segment to clock 18% CAGR over FY22-25e



Source: Nuvama Wealth Research

Exhibit 29: Consumer Appliances revenue breakdown (FY22)

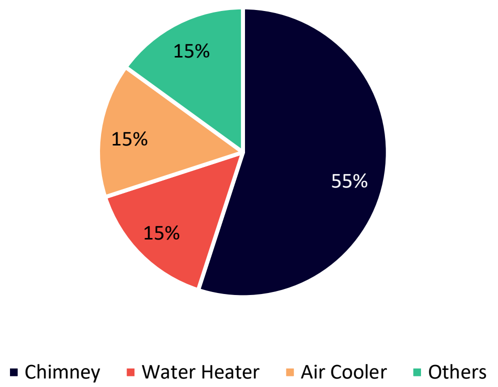
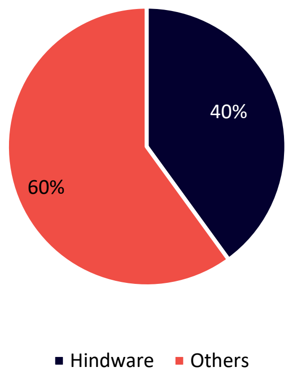


Exhibit 30: Share in E-Commerce for Kitchen Chimney



Source: Company, Nuvama Wealth Research

Going forward, the management aims to concentrate on cutting-edge technology-driven product innovations, with internet of things (IoT)-based smart goods at the forefront. It intends to use its market position to outwit competitors. To boost market penetration and awareness outside brick-and-mortar stores, it is expanding its dealer and retailer network in Tier III and IV cities.

We expect 18% revenue CAGR in the consumer appliances segment over FY22–25 to reach INR701cr by FY25, with an EBITDA margin of 7%, due to increasing scale, with some easing of input cost pressure, improved product mix, a stronger focus on brand building, and product innovation.

II. Healthy growth in end-use industry — real estate

Demand for HINDWARE's products is linked to the cyclical real estate sector. After the lifting of COVID-related restrictions, the Indian residential market saw a stellar recovery in FY22, with industry sales volumes returning to FY20 levels and unsold inventory falling to 18 months from 46 months over FY20–9MFY23. However, the recent rise in interest rates globally and higher construction cost led to concerns over the sustainability of residential demand. Demand for ceramics has risen recently due to government initiatives under the Swachh Bharat Abhiyan (SBA) and Pradhan Mantri Awas Yojana (PMAY), along with higher replacement demand. Factors such as increasing urbanisation (with the government's plan to develop at least 100 smart cities), renewed focus on infrastructure growth, a better demographic profile, and increasing awareness of better sanitation facilities augur well for the industry.

According to the Economic Times Housing Finance Summit, around three houses are being built annually per 1,000 people as against the required construction rate of five houses per 1,000 people. The current housing shortage in urban areas is estimated ~1cr units. An additional 2.5cr affordable housing units are required by 2030 to meet the growth in the country's urban population.

The sanitaryware market is seeing a marked shift in consumer preference towards branded products, thereby offering growth opportunities to established players like HINDWARE. The management maintains a strong presence in the domestic mass and mid-market sanitaryware segment. We expect the company to continue to expand its dealer base in Tier II and III cities.

Exhibit 31: Realty: Pan-India inventory months improve MoM

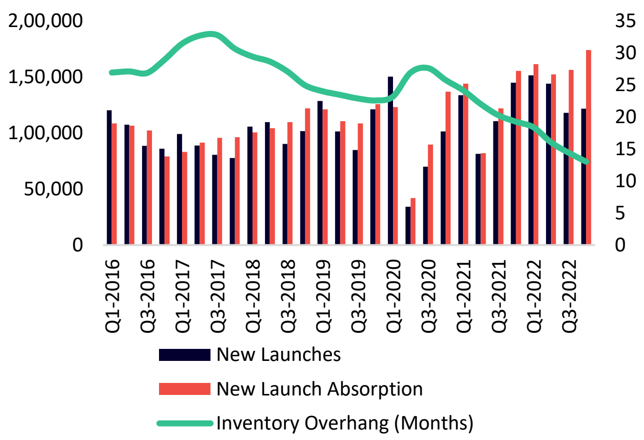


Exhibit 32:CY22 demand is up in all cities

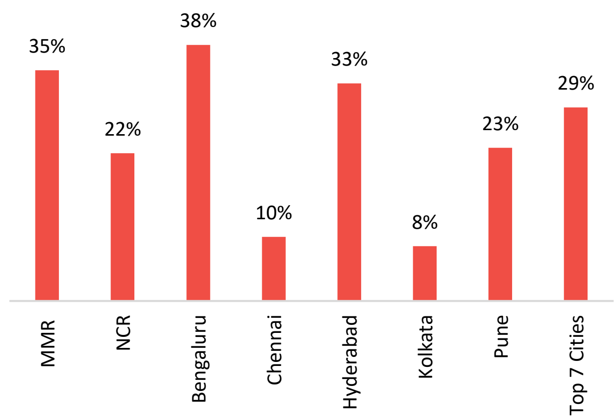


Exhibit 33: Prices, on average, rise YoY in NCR, MMR and Bengaluru

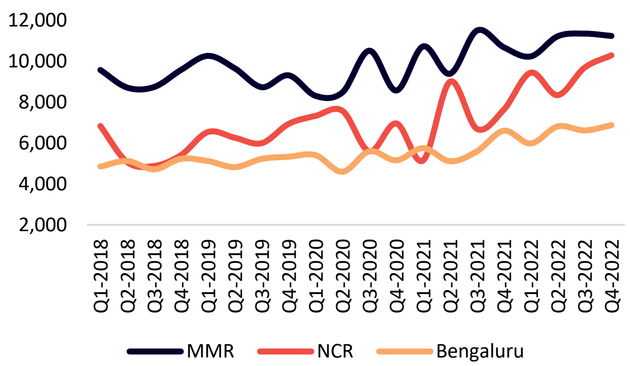
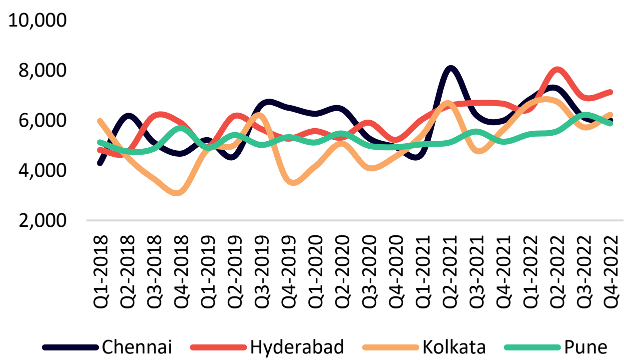


Exhibit 34: Prices increased YoY in all other cities as well



Source: Nuvama Wealth Research

III. Collaboration with MNC players to combine technology with distribution reach

HINDWARE recently forayed into the kitchen and furniture fittings segment via a strategic partnership with Italy's FGV. The collaboration enables it to offer a wide range of quality and functional hardware products locally in the modern furniture and modular kitchens segment (such as normal and soft close hinges, side and bottom mounted drawer channels, and drawer systems). In India, the organised market for furniture fittings is largely dominated by three key players: Hettich India, Hafele India, and Ebco. These three players clocked 15–20% revenue CAGR over FY17–22. Its entry into furniture fittings, with foreign technology and a strong distribution network, should help it garner a decent market share in the medium to long term.

Exhibit 35: Hettich, Hafele and EBCO are the three key organised players in domestic Furniture fittings market

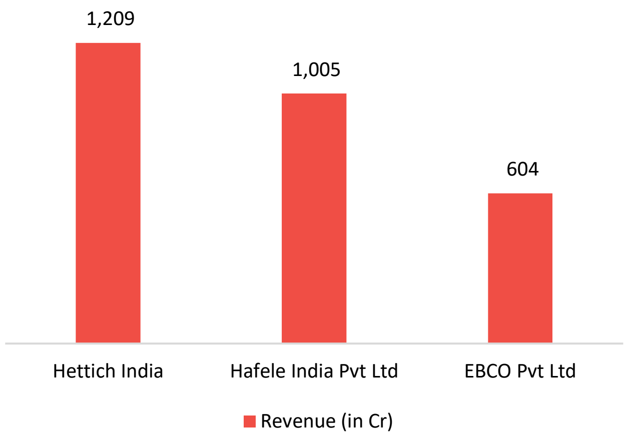
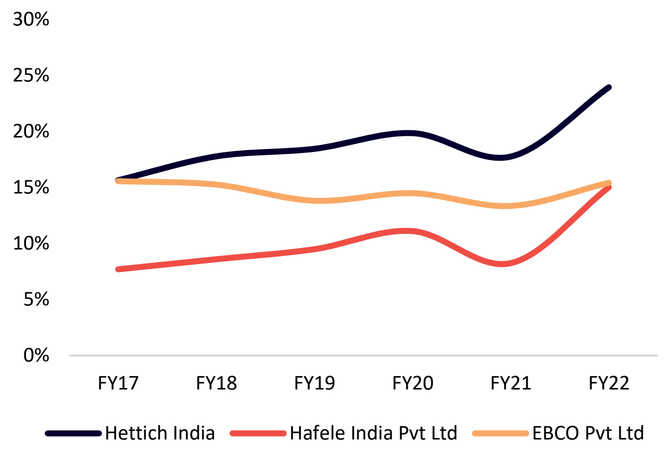


Exhibit 36: Heathy EBITDA margin profile



Source: Nuvama Wealth Research

Exhibit 37: Hindware collaborations with multiple brands for newer offerings and better technologies

Source: Nuvama Wealth Research

The company has collaborated with one of Europe's top brands — Groupe Atlantic — in the heating solutions segment. It formed an equal joint venture — Hintastica Pvt Ltd (HPL) — with Groupe Atlantic, a leading French conglomerate in water heaters and heating solutions. The JV houses the manufacturing, marketing, and distribution of water heaters and room heaters in SAARC, except Pakistan, under the brand name Hindware Atlantic. Earlier the water heater business was operating in a standalone entity, but was transferred to its fully owned subsidiary HPL in December 2020. In Q4FY21, Groupe Atlantic acquired a 50% stake in HPL for INR68cr, transforming HPL into an equal JV.

A compelling Play in Building Material Space

Under this JV, HINDWARE's new facility in Telangana is expected to turn operational over the next few months. HPL will leverage Groupe Atlantic's proven expertise in manufacturing and assembly as well as HINDWARE's strengths in marketing and distribution to deliver to consumers in the SAARC region. This will further reinforce its position in the growing domestic water heater market. The JV will also have access to a wide range of products in Groupe Atlantic's portfolio.

Exhibit 38: Domestic water heater market to Grow at ~7% CAGR

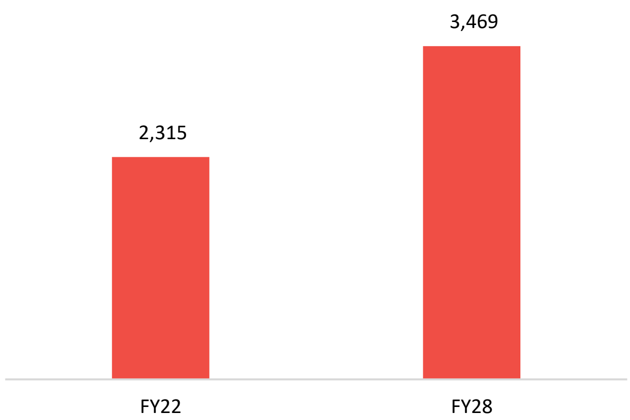


Exhibit 39: Groupe Atlantic generates euro 500mn revenue from water heater in global market

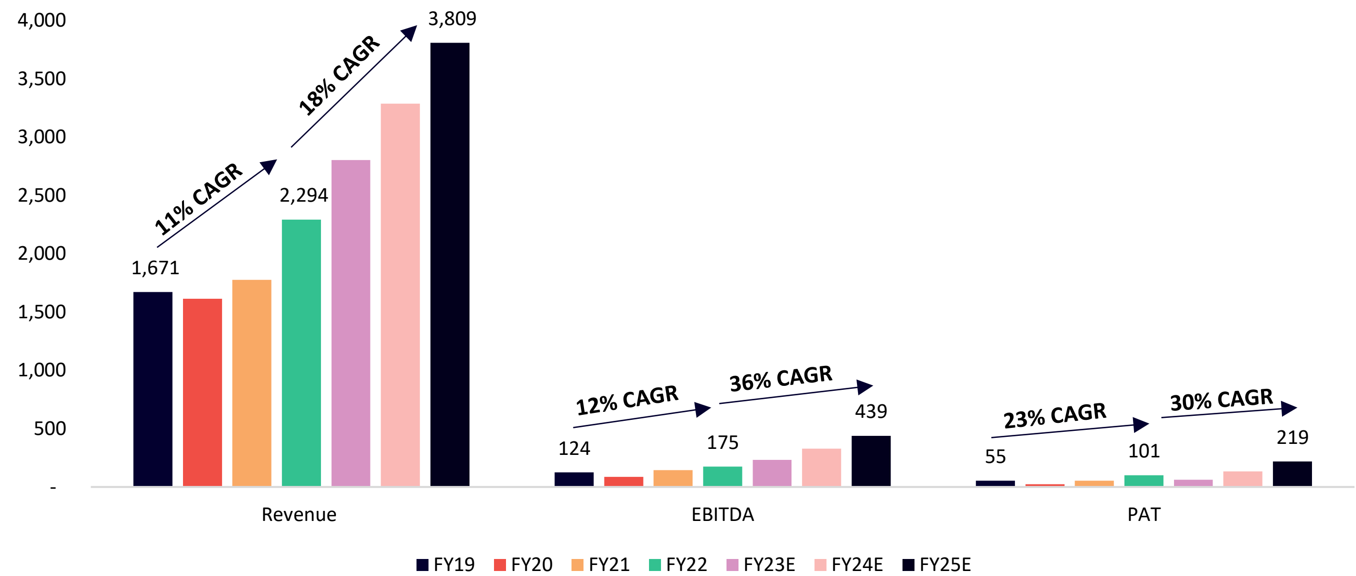
Source: Nuvama Wealth Research

HINDWARE provides products in a highly competitive market with a low barrier to entry. Through its product categories, it competes with several brands in both the organised and unorganised market. Via technological partnership with global firms and the introduction of innovative products, it can increase its market share by utilising its extensive and efficient distribution network.

IV. Financial performance to improve further

We expect 18.4% CAGR in consolidated revenue over FY22–25 due to significant growth across business segments. The management expects the bathware segment to grow 1.25–1.5x faster than industry growth and sees 20–25% revenue CAGR in consumer appliances over FY22–25. Management also anticipates a revenue of INR1,000cr in pipes and fittings by FY25E. We believe the company can exceed this target, given the favourable demand environment in the sector and commissioning of new pipe capacity. We expect EBITDA margin to expand 391bp over FY22–25, led by benefits of scale across segments, integration of manufacturing units within building products, operational efficiencies, and easing commodity pressure. Post-acquisition of the manufacturing unit of another group company, incremental capex is limited to the planned expansion in the PVC pipe segment over the next two-to-three years. The management has guided at an improvement of 10–20 days/year in overall working capital days over the next two years. We expect adjusted net profit to clock 30% CAGR, slightly lower than EBITDA growth, due to higher interest cost in FY23. We foresee a decline in interest cost as the management aims to repay INR200–250cr in borrowings over the next two years with the help of better cash flow generation. Incremental capex will be limited to already planned expansion in the plastic pipe segment over the next two-to-three years, which should keep depreciation under control. With the twin levers of scale and operating efficiencies playing out, we expect a steady improvement in return ratios after a decline in FY23 (RoE/RoCE of 26%/23% in FY25E), resulting in substantial operating cash flow generation (average OCF of INR104cr/year), backed by healthy growth in revenue and profitability. We expect consolidated leverage (debt/equity ratio) to touch 0.6x in FY25 (after rising to 1.4x in FY23) from 0.7x in FY22 due to an improvement in operating profit and debt repayment.

Exhibit 40: Consolidated Revenue/EBITDA/adjusted PAT to clock 18%/36%/29% CAGR over FY22–25



Source: Nuvama Wealth Research

Exhibit 41: Return ratios to improve over FY22-FY25E on better profitability

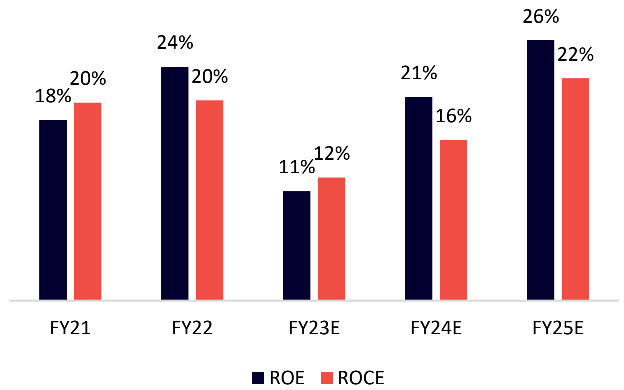
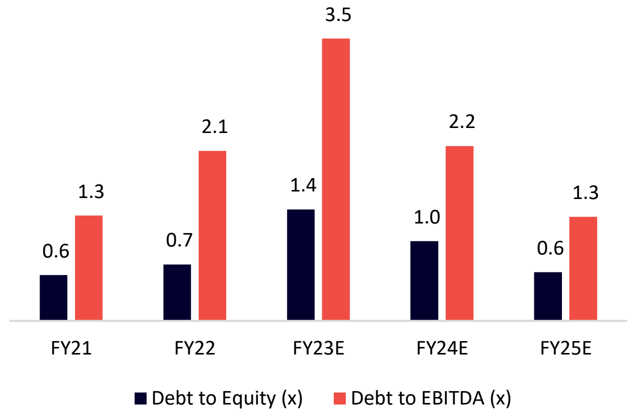


Exhibit 42: Better cash flow generation, working capital management, and debt repayment to lower debt/equity and debt/EBITDA to 0.6x and 1.3x by FY25E



Source: Nuvama Wealth Research
Note: Debt number include lease liabilities

Exhibit 43: Working Capital days at comfortable levels

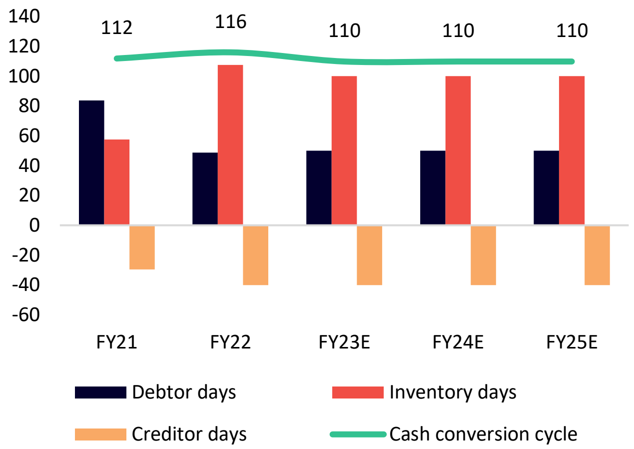
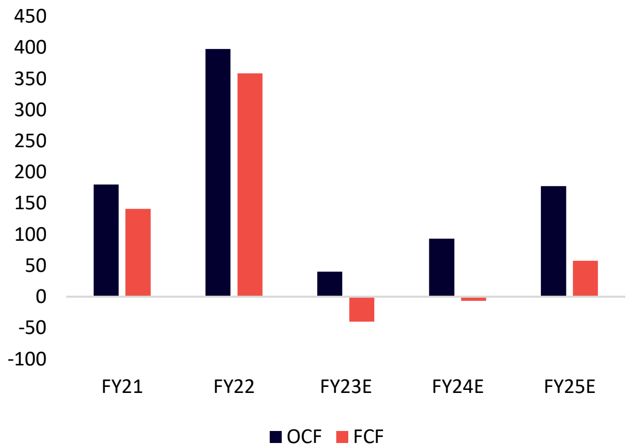


Exhibit 44: Strong revenue and profit growth to drive Operating Cash Flow (OCF)



Source: Nuvama Wealth Research

V. Peer Comparison

Although HINDWARE has three key business areas, with distinct business dynamics, we compared its valuation and business to that of other listed companies in the same segment. We compared its bathware performance to that of Cera Sanitaryware, Roca India (unlisted), and Jaquar as these companies are among the top five in the domestic sanitaryware and faucet market. We compared its performance to that of Astral, Apollo Pipes, and Prince Pipes & Fittings as these players derive a lion's share of their income from the pipes segment. HINDWARE is the fastest-growing entity in plastic pipes and fittings and aims to be among the top five. Due to its concentration in the kitchen appliance market, we have limited our comparison to listed players like Butterfly Gandhimathi and Stovekraft, as well as unlisted companies like Elica India, Faber India, and Sunflame. Kitchen appliances currently account for 55–60% of its consumer appliance sales of HINDWARE.

Bathware Sector (Sanitaryware + Faucet)

Exhibit 45: Revenue of Key players in sanitaryware and Faucet Players in Domestic Market (FY22)

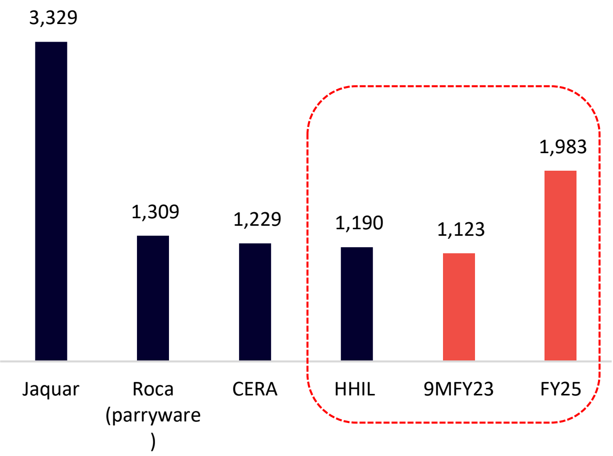
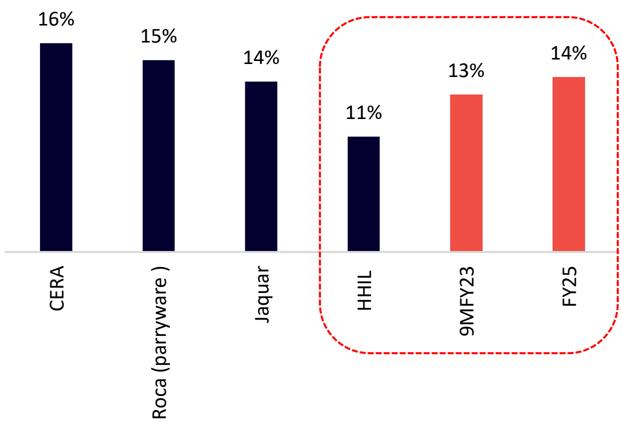


Exhibit 46: EBITDA margin comparison among Bathware players (FY22)



Source: Nuvama Wealth Research

Exhibit 47: Market share of sanitaryware players

Indian sanitaryware and faucet industry (FY22)			
Sanitaryware market in India	**INR 50bn**	**Faucetware market in India**	**INR 100bn**
Growth %	6-7%	Growth %	8-10%
Organised market	70%	Organised market	~60%
Organised market Share		Organised market Share	
HINDWARE	23%	HINDWARE	6%
CERA	22%	CERA	8%

	HINDWARE	CERA
Installed Capacity - Sanitaryware	4.2mn Units	3.3mn Units
Installed Capacity - Faucets	3.7mn Units	2.8mn Units
Revenue (INR Cr)	1,190	1,243
Revenue Share	Sanitaryware 35% Faucet 17%	Sanitaryware 52% Faucet 33%
Retail Touchpoint	20,000	17,000
Brand stores/Galleries	350	157
After sales service network	650	364

Source: Industry, Nuvama Wealth Research

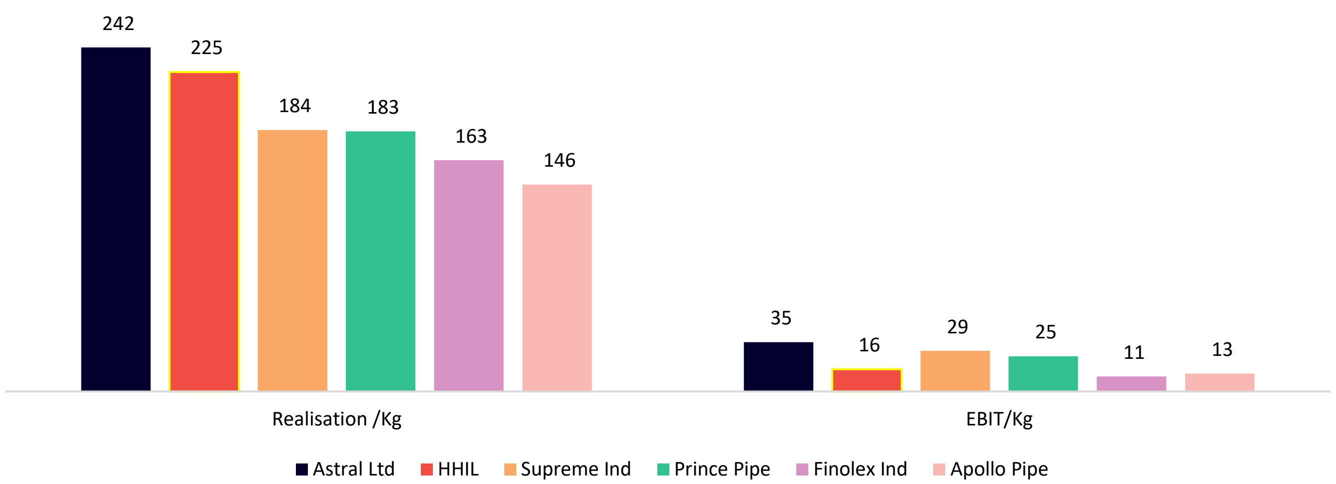
Exhibit 48: Pipes & Fitting Business

Comparative Analysis of Key Players						
Particulars	**Supreme Industries**	**Finolex Industries**	**Ashirvad Pipes***	**Astral Pipes**	**Prince Pipes**	**HHIL**
Sales Volume in MT	3,93,908	2,36,895	1,49,532	1,42,400	1,39,034	26,600
Utilization (%)	77%	64%	75%	52%	46%	76%
FY22 Pipes Revenues (INR Cr)	5,046	3,853	4,504	3,366	2,546	606
FY17-22 Pipes Revenue CAGR	12%	12%	18%	16%	16%	67%
% of revenues from Plastic pipes & fittings	65%	76%	100%	76%	100%	26%
Mkt. share in organized industry	18%	10%	10%	9%	6%	1%
No. of Distributors	4,053	900	1,500	2,535	1,500	270
Irrigation: Residential Mix	#25%:75%	63%:37%	10%:90%	10%:90%	31%:69%	0%:100%
Advertisement & Sales Promotion (as % of sales)	1-2%	1-2%	2-4%	2-4%	1-3%	4-6%
ROCE (3 yr Avg)	31%	29%	34%	27%	26%	17%
Pipe EBIT margins %	16%	6%	15%	15%	14%	7%
Debt To Equity	0.00	0.07	0.04	0.04	0.12	0.27
Foreign Partner for supply of CPVC resin/ Compound	Kaneka Corporation	Multiple Sources	Lubrizol	Sekisui	Lubrizol	Sekisui

Source: Industry, Nuvama Wealth Research

HINDWARE earns a higher realisation per kg than its competitors (except Astral) due to better product quality and predominantly a non-agri business mix. Rising overhead costs is reducing profitability. As the scale increases, the benefits of operating leverage should kick in, driving its margin profile.

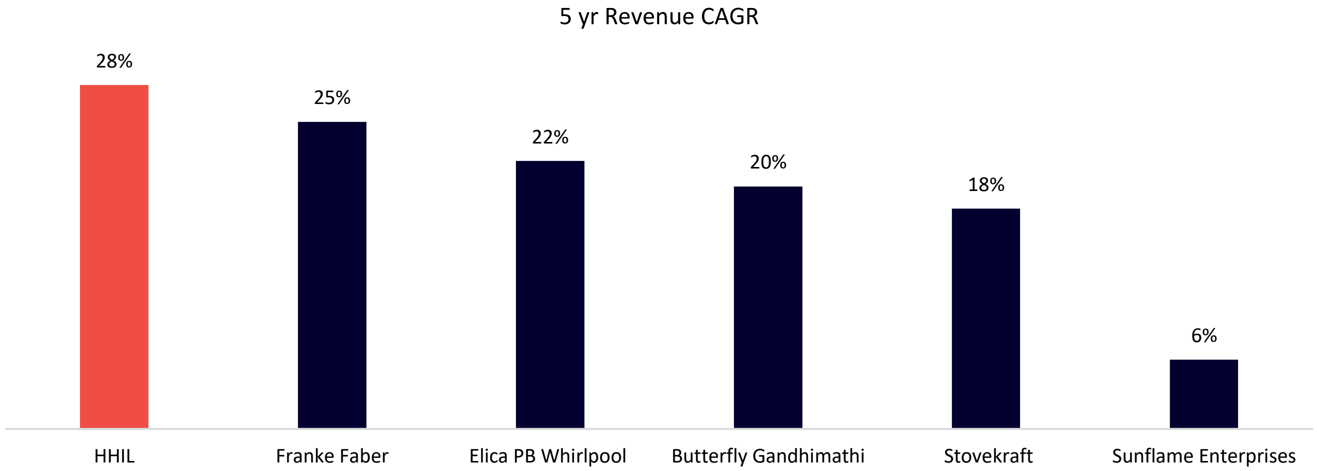
Exhibit 49: HINDWARE enjoys higher realisation compared to other established players



Source: Nuvama Wealth Research

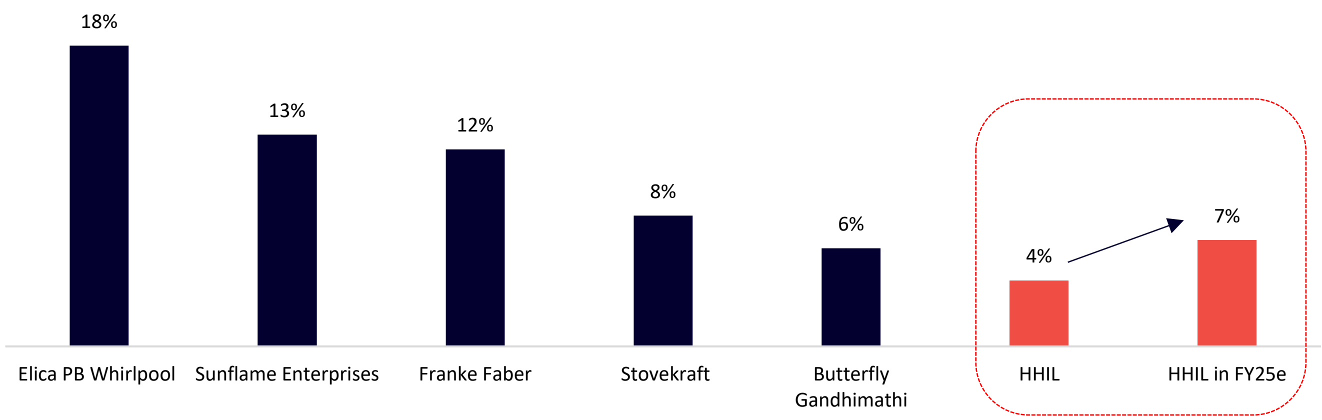
Consumer Appliance Business

Exhibit 50: HHIL is the fastest growing consumer durable company in its product categories



Source: Nuvama Wealth Research

Exhibit 51: EBITDA Margin % (FY22)



Source: Nuvama Wealth Research

Outlook and Valuation

With a leading presence in the sanitaryware segment and strong interest in allied businesses (which includes faucetware, pipes, and consumer appliances), we expect HINDWARE to gain traction in coming years. A well-balanced product portfolio with a wide range of price points, a strong distribution network, and expanding brand awareness in Tier II and III cities bode well for accelerating the earnings growth momentum. We expect 18%/36%/30% CAGR in consolidated revenue/EBITDA/adjusted PAT over FY22–25e due to strong growth across all segments, aided by a healthy industry outlook and the management's ambitious growth strategy. With the integration of building goods, cost reductions, and benefits of scale, we expect a 391bp improvement in EBITDA margin over FY22–25 to 11.5%. We are optimistic about growth in consumer appliances as we see increased penetration of such appliances in Indian households. HINDWARE's prospects appear bright given the management's focus on growth. The stock trades at 11.6x FY25E EPS at the CMP — a considerable discount to its peers. Given its high brand recall, healthy growth forecast, and improving Balance Sheet, valuations appear appealing. We initiate coverage with a 'BUY' rating and a two-year TP of INR546, valuing the stock at 18x P/E on a FY25E EPS of INR30.

Exhibit 52: Valuation comparison with its listed peers

Companies	CMP	Mcap (in Cr)	P/E (x)				EV/EBITDA (x)				CAGR FY22-25E (%)		ROE (%) FY25E
			FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	Revenue	PAT	
Cera Sanitaryware	6,439	8,374	55	42	35	31	33	27	22	20	17	22	18
Astral	1,336	35,887	74	78	53	43	48	48	36	31	17	20	23
Finolex Industries	172	10,672	10	35	18	16	9	29	13	12	2	-15	14
Supreme Industries	2,514	31,935	33	40	30	27	26	29	22	20	10	8	24
Prince Pipes and Fittings	555	6,136	25	89	24	19	15	36	15	13	9	8	19
TTK Prestige	714	9,897	32	39	30	25	21	26	20	17	11	9	17
V-Guard Industries	254	10,967	48	51	36	30	31	32	22	19	16	18	20
Hindware Home Innovation	348	2,516	25	40	19	11	16	12	9	7	18	30	27
Peer Set Average			40	54	32.4	27	26	32	22	19	12	10	19
Peer Set Median			33	42	30	27	26	29	22	19	11	9	19

Source: Bloomberg, Nuvama Wealth Research

Key Risks

Undercutting by unorganised players

As HINDWARE's focus is on mid and premium quality products, largely targeted at first-time users in Tier II and III cities, it faces greater competition from unorganised players rather than higher-priced products. Unorganised players have resorted to undercutting to mitigate losses from the implementation of the e-way bill. This has resulted in a slower industry transition to organised from the unorganised segment.

Slowdown in the real estate sector

The building material industry derives its demand from the real estate sector. Hence, any slowdown in the latter will also impact ceramic companies like HINDWARE.

Susceptibility to volatility in raw material prices

The volatility in fuel prices (primarily natural gas) and other key raw materials (various types of clay, brass, and chrome plating) directly impacts its cost of production.

Exhibit 53: HINDWARE is trading below average 1yr forward P/E multiple

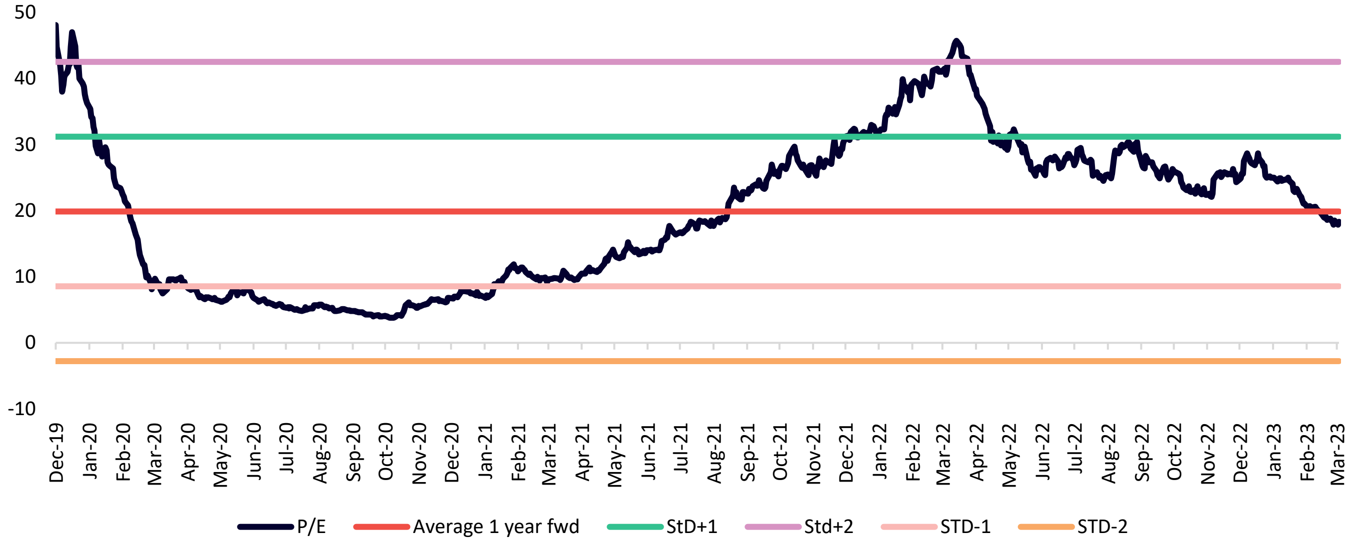
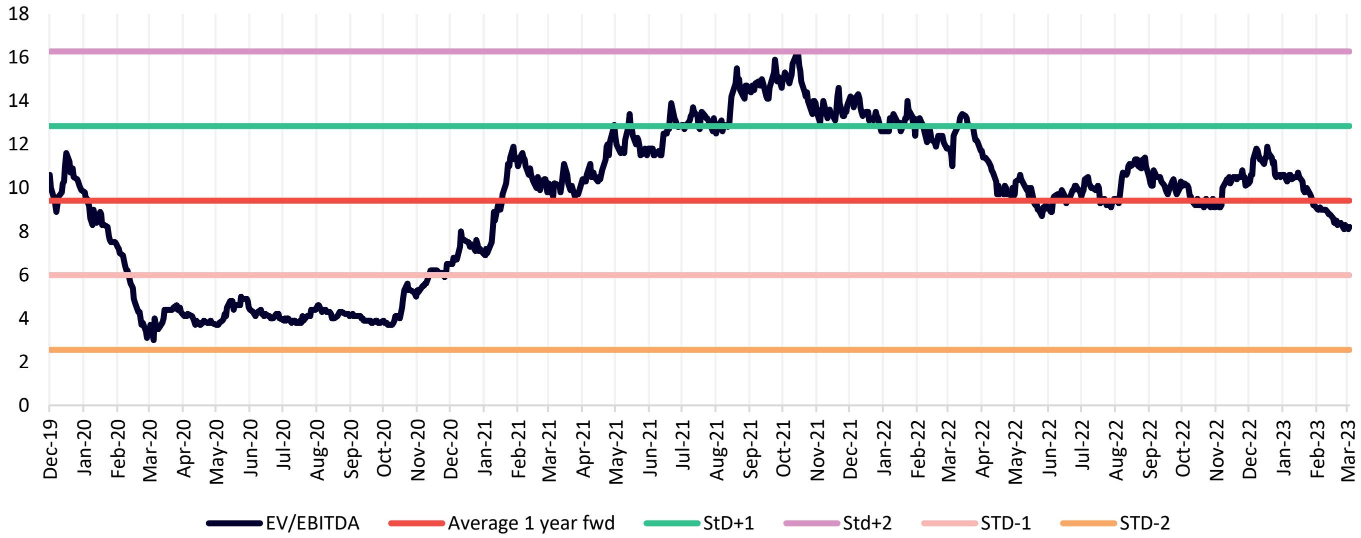


Exhibit 54: HINDWARE is trading below average 1yr forward EV/EBITDA multiple



Management Profile

Name	Designation	Profile
Mr. Sandip Somany	*Chairman and Non-Executive Director*	He holds a Graduate degree and a diploma in Ceramic Manufacturing technology from the US. He has over 37 years of experience in the ceramics and glass industry. He is the Chairman of the Indian Council of Sanitaryware Manufacturers (INCOSAMA). He has served as the President of the PHD Chamber of Commerce and Industry (PHDCCI) and the President of the International Chamber of Commerce – (headquartered in Paris) India Chapter. He was also the Past-President of FICCI.
Mr. Sudhanshu Pokhariyal	*CEO – Bathware, HIndware Limited*	He has over 25 years' experience in FMCG and building products. He has earlier worked with companies such as Asian Paints, Coca-Cola, SC Johnson and Raymond.
Mr. Rajesh Pajnoo	*CEO - Pipes, Hindware Limited*	He has over 28 years of experience including 20+ years in the plastic and PVC industry and has worked on various leadership roles and establishing businesses/ brands from inception. He has previously worked at Kisan Mouldings Limited as COO.
Mr. Sandeep Sikka	*Group CFO*	He has over 27 years of experience in varied aspects like raising growth capital, cost optimization and business planning & control. He has previously worked at Usha International as Group CFO and at Jindal Stainless Limited.
Mr. Naveen Malik	*CFO – HHIL*	He is a Chartered Accountant, Law Graduate and holds a degree in Aviation management from IIM Ahmedabad. He has over 27 years of experience in Project Finance & implementation, Investor Relations, Taxation and Insurance and has earlier worked with Godrej and GMR Group.

Company Overview

HHIL is a newly created entity that was demerged from HSIL Limited and renamed Hindware Home Innovation Limited (HHIL) to align with its brand Hindware, to ensure greater recall value, and as part of their well-planned growth strategy. HHIL is involved in the manufacturing, branding, marketing, sales, distribution, trading, and service of consumer appliances and building products under the brand names 'Hindware', 'Moonbow', 'TRUFLO', and furniture retail business under the brand name 'Evok'. The company has three business verticals, each with its own CEO (Bathware Products, Pipes & Fittings, and Consumer Appliances). The company has distinct distribution channels for all business segments and is focusing on Omni channel presence to increase market reach. Hintastica Private Limited (HPL) is a 50:50 partnership between Hintastica and Groupe Atlantic, a global leader in heating solutions.

Exhibit 55: HHIL Business Structure

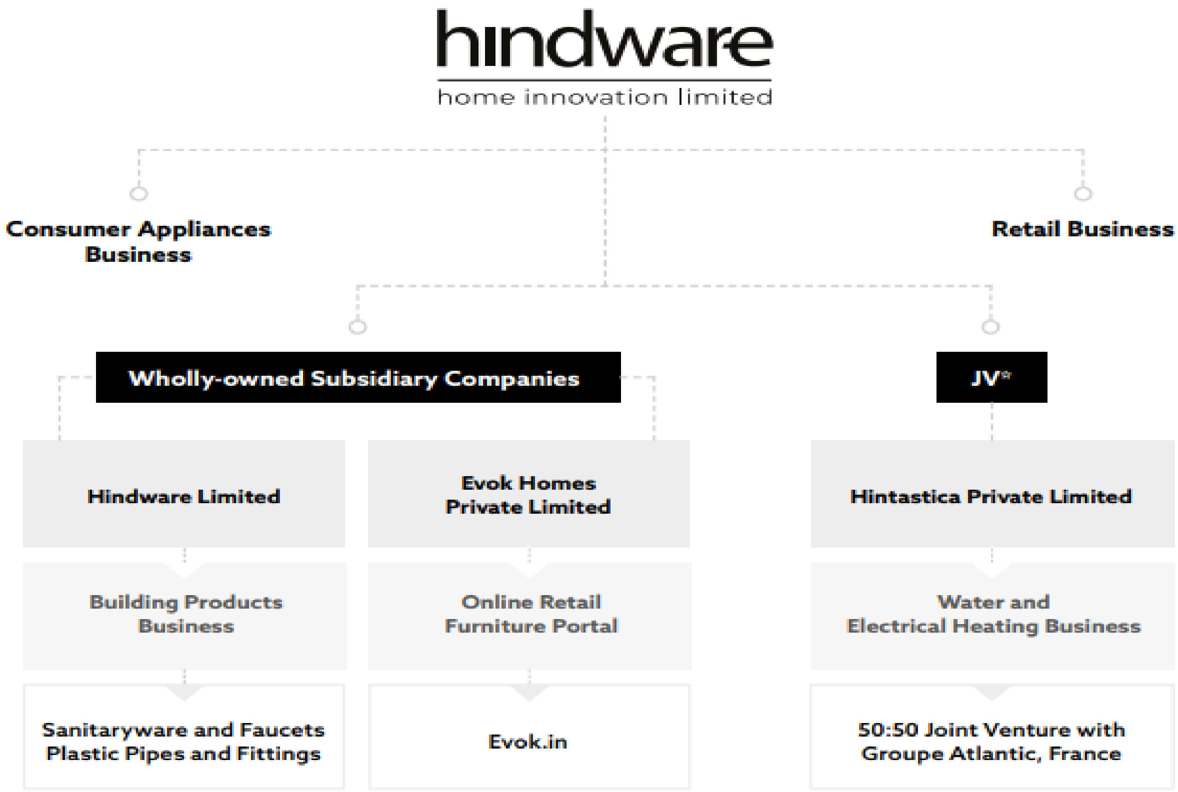
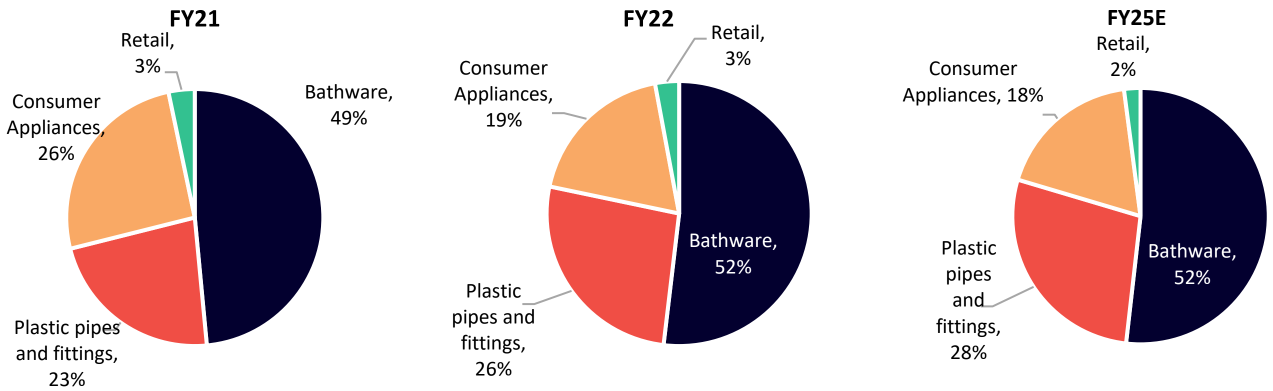


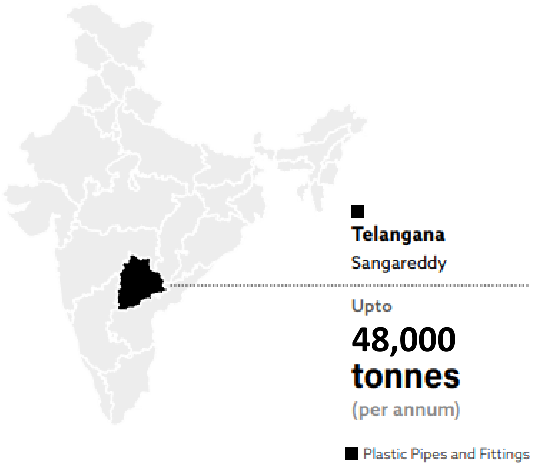
Exhibit 56: Segmental Revenue



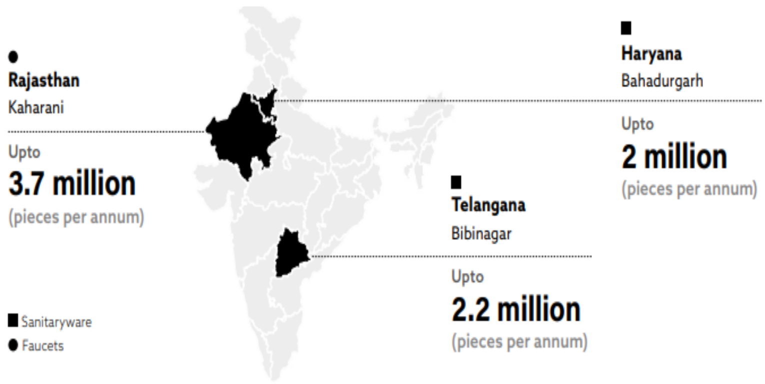
A compelling Play in Building Material Space

Manufacturing Facilities

Plastic Pipes & fittings



Bathware



Financials

Income Statement (INR cr)

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Income from operations	1,775	2,294	2,804	3,288	3,809
Direct costs	1,194	1,565	1,579	1,823	2,080
Employee costs	181	231	404	445	489
Other expenses	257	323	589	690	800
EBITDA	143	175	232	329	439
Depreciation and amortization	39	39	93	104	116
EBIT	104	135	139	226	324
Interest expenses	29	20	73	64	51
Other income	18	29	28	28	28
Profit before tax	92	144	94	190	301
Provision for tax	38	42	25	48	76
Core profit	55	103	69	142	225
Extraordinary items	-	101	-	-	-
Profit after tax	55	203	69	142	225
Minority interest	-	-	-	-	-
Share from JV / Associate	-	- 2	- 6	- 6	- 6
Adjusted net profit	55	202	63	136	219
Equity share outstanding (Cr)	7	7	7	7	7
EPS (INR) basic	8	28	9	19	30
Diluted shares (mn)	7	7	7	7	7
EPS (INR) fully diluted	8	28	9	19	30
Dividend per share	0	0	1	1	1
Dividend payout (%)	4	2	7	5	4

Common size metrics - as % of net revenues

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Operating expenses	91.9	92.4	91.7	90.0	88.5
Depreciation	2.2	1.7	3.3	3.2	3.0
Interest expenditure	1.7	0.9	2.6	1.9	1.3
EBITDA margins	8.1	7.6	8.3	10.0	11.5
Net profit margins	3.1	8.8	2.2	4.1	5.8

Growth metrics (%)

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Revenues	10.0	29.2	22.2	17.3	15.8
EBITDA	62.3	22.1	32.8	41.9	33.4
PBT	178.7	56.2	-34.6	100.9	58.8
Net profit	136.6	267.6	-68.8	116.1	61.3
EPS	136.6	267.6	-68.8	116.1	61.3

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	570	698	908
Shareholders' funds	330	526	584	713	922
Secured Loans	189	219	469	469	319
Unsecured Loans	-	142	342	242	242
Borrowings	189	362	812	712	562
Minority interest	-	-	-	-	-
Other liabilities	-	-	-	-	-
Sources of funds	519	888	1,396	1,424	1,484
Gross block	265	878	977	1,097	1,217
Depreciation	108	135	228	332	447
Net block	157	743	749	765	769
Capital work-in-progress	11	59	40	20	20
Total fixed assets	168	802	789	785	789
Unrealized profit	-	-	-	-	-
Investments	26	114	114	114	114
Inventories	280	675	768	901	1,043
Sundry debtors	408	306	384	450	522
Cash and equivalents	8	27	432	319	217
Loans and advances	101	154	154	154	154
Other current assets	-	-	-	-	-
Total current assets	797	1,162	1,739	1,824	1,937
Sundry creditors and others	415	1,206	1,263	1,316	1,373
Provisions and others	19	8	8	8	8
Total CL & provisions	433	1,214	1,271	1,324	1,381
Net current assets	363	- 53	468	500	555
Net deferred tax	37	38	38	38	38
Other Assets	- 74	- 13	- 13	- 13	- 13
Misc expenditure	-	-	-	-	-
Uses of funds	519	888	1,396	1,424	1,484
Book value per share (INR)	46	73	81	99	128

Cash flow statement (INR cr)

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Net profit	55	101	63	136	219
Add: Depreciation	39	39	93	104	116
Add: Misc expenses written off	- 21	- 60	-	-	-
Add: Deferred tax	6	- 2	-	-	-
Add: Others	-	-	-	-	-
Gross cash flow	79	78	156	240	335
Less: Changes in W. C.	- 101	- 435	115	146	157
Operating cash flow	180	513	41	94	178
Less: Capex	39	39	80	100	120
Free cash flow	141	474	-39	-6	58

A compelling Play in Building Material Space

Ratios

Year to March	FY21	FY22	FY23E	FY24E	FY25E
RoAE (%)	18.2	23.5	11.3	20.9	26.8
RoACE (%)	19.9	20.3	12.6	16.4	22.8
Debtors (days)	84	49	50	50	50
Current ratio	1.8	1.0	1.4	1.4	1.4
Debt/equity	0.6	0.7	1.4	1.0	0.6
Inventory (days)	58	107	100	100	100
Payable (days)	30	40	40	40	40
Cash conversion cycle (days)	112	116	110	110	110
Debt/EBITDA	1.3	2.1	3.5	2.2	1.3
Adjusted Debt/equity	0.6	0.6	0.6	0.6	0.4

Valuation parameters

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Diluted EPS (INR)	7.6	13.9	8.7	18.8	30.3
Y-o-Y growth (%)	136.6	83.8	-37.6	116.1	61.3
CEPS (INR)	13	19	22	33	46
Diluted P/E (x)	45.9	25.0	40.0	18.5	11.5
Price/BV (x)	7.6	4.8	4.3	3.5	2.7
EV/Sales (x)	2	1	1	1	1
EV/EBITDA (x)	19	16	12	9	6.5
Diluted Shares O/S (Cr)	7	7	7	7	7
Basic EPS (INR)	7.6	13.9	8.7	18.8	30.3
Basic P/E (x)	45.9	25.0	40.0	18.5	11.5
Dividend yield (%)	0.1	0.1	0.1	0.2	0.3

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