

BUY
 TP: Rs 500 | ▲ 27%

HINDWARE HOME INNOVATION

| Building Materials

| 12 August 2024

Dismal quarter on muted demand and sales force rationalisation

- Dull Q1 on weak bathware performance due to muted demand environment and impact of sales force rationalisation
- EBITDA guided to grow at 20%+ CAGR over FY24-FY27E on demand recovery with healthy margin from H2FY25
- Maintain BUY; TP down by 17% to Rs 500 on sharp earnings downgrade post weak Q1 result

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Dismal quarter: HINDWARE’s Q1FY25 result was significantly lower than our estimates (Revenue/EBITDA: -7%/-28%) due to the impact of the bathware segment’s weak performance. Overall, the company’s revenue/EBITDA degrew by 3.7%/31.2% YoY in Q1. The share of loss from associates rose from Rs 22mn in Q1FY24 to Rs 38.9mn in Q1FY25. HINDWARE had a loss of Rs 40mn in Q1FY25.

Key highlights: Bathware EBITDA was down by 31.4% YoY in Q1 driven by lower revenue (-9.9% YoY on muted demand and rationalisation of sales force by 25%) as well as sharp margin contraction (-399bps YoY to 12.8%). It appears that HINDWARE lost market share in Q1 due to the impact of sales force rationalisation. Despite higher volumes (+24.1% YoY), Pipe EBITDA grew by only 4.8% YoY in Q1 driven by weak realisation (-15.7%) and inferior mix. Consumer appliances EBITDA grew sharply by 114% YoY in Q1 on a low base. Net debt has gone up from Rs 8.5bn in Mar’24 to Rs 9.5bn in Jun’24.

Outlook: HINDWARE targets to grow its revenue by 15-20% CAGR and EBITDA by 20%+ CAGR over FY24-FY27E. Bathware inventories at the dealer level are quite high at present due to weak secondary demand (which is expected to improve from H2FY25). The company aims to grow its pipe volume by 16-18% (15-17% earlier) with low double-digit EBITDA margin in FY25. It raised capex guidance to Rs 1.7bn-1.8bn (from Rs 1.2bn-1.4bn) for FY25. The company plans to raise equity of Rs 2.05bn through a rights issue to deleverage its balance sheet.

Maintain BUY; TP cut by 17% to Rs 500: We maintain our BUY rating on the stock due to its strong earnings prospects (EBITDA/EPS to grow at 18%/76% CAGR over FY24-FY27E) and improvement in return ratio profile (ROE to improve from 4.8% in FY24 to 19.1% in FY27E). We have reduced our TP to Rs 500 (Rs 600 earlier) due to the downward revision of our EPS forecasts (-41.0%/-25.5% for FY25E/FY26E based on weak Q1). Our target P/E remains unchanged at 30x on Jun’26E. At CMP, the stock trades at 39.9x on 1Y forward P/E vs 5Y average of 47.7x.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HINDWARE IN/Rs 394
Market cap	US\$ 339.1mn
Free float	49%
3M ADV	US\$ 1.3mn
52wk high/low	Rs 615/Rs 315
Promoter/FPI/DII	51%/6%/7%

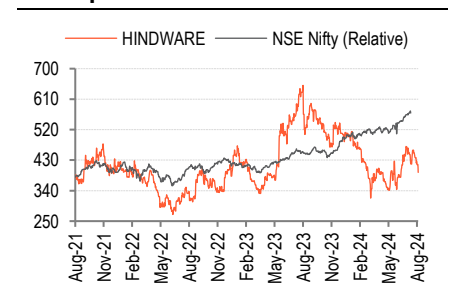
Source: NSE | Price as of 12 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,000	29,231	33,008
EBITDA (Rs mn)	2,377	2,580	3,314
Adj. net profit (Rs mn)	286	527	1,077
Adj. EPS (Rs)	4.0	7.3	14.9
Consensus EPS (Rs)	4.0	13.2	20.3
Adj. ROAE (%)	4.8	8.4	15.4
Adj. P/E (x)	99.6	54.0	26.4
EV/EBITDA (x)	10.3	8.1	6.2
Adj. EPS growth (%)	(50.2)	84.2	104.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Total operating income	5,999	6,230	(3.7)	7,724	(22.3)
Raw-Material expense	3,178	3,312	(4.0)	4,350	(26.9)
Gross Profit	2,821	2,918	(3.3)	3,374	(16.4)
Employee expense	1,079	1,045	3.3	1,112	(3.0)
Energy costs	209	206	1.1	264	(21.1)
Other expense	1,103	1,042	5.9	1,246	(11.4)
EBITDA	430	625	(31.2)	752	(42.8)
D&A	307	283	8.7	307	0.1
EBIT	123	343	(64.2)	445	(72.4)
Interest cost	239	218	9.6	243	(1.5)
Non-operating expense/(income)	(85)	(61)	38.2	(127)	(33.5)
PBT	(32)	186	NM	330	NM
Tax	2	151	(98.6)	77	(97.3)
Reported PAT	(34)	34	NM	253	NM
Adjusted PAT	(40)	3	NM	21	NM
As % of net revenues			(bps)		(bps)
Gross margin	47.0	46.8	18	43.7	334
Employee cost	18.0	16.8	122	14.4	359
Other cost	18.4	16.7	167	16.1	226
EBITDA margin	7.2	10.0	-287	9.7	-257
Tax rate	(6.6)	81.5	NM	23.3	NM
APAT margin	(0.7)	0.0	-71	0.3	-95

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

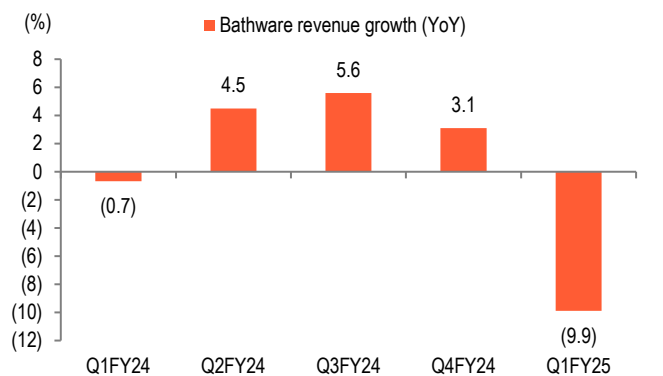
Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue (Rs mn)					
Bathware	3,262	3,620	(9.9)	4,207	(22.5)
Plastic Pipe	1,632	1,560	4.6	2,435	(33.0)
Consumer Products	1,105	1,049	5.3	1,082	2.1
EBITDA margin (%)			(bps)		(bps)
Bathware	12.8	16.7	(399)	15.3	(258)
Plastic Pipe	6.7	6.7	1	10.8	(416)
Consumer Products	2.7	1.3	138	(11.5)	1426

Source: Company, BOBCAPS Research

Earnings call highlights

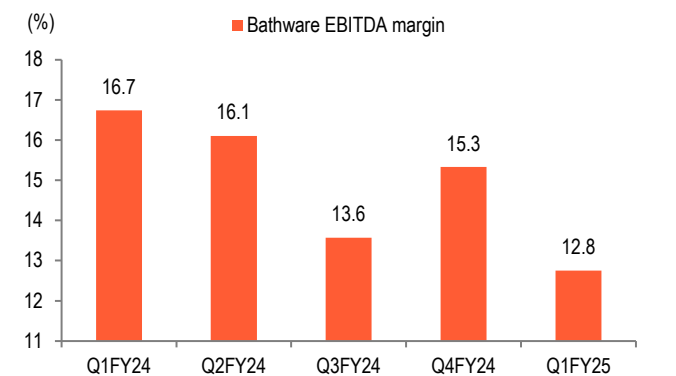
- Bathware:** Revenue degrew by 9.9% YoY in Q1FY25 due to the impact of weak demand environment as well as rationalisation of sales force by 25% (as the sales operations of sanitaryware and faucetware have been merged). EBITDA margin fell by 399bps YoY to 12.8% in Q1FY25 mainly on account of negative operating leverage. The share of premium product sales has gone down from 53% in Q1FY24 to 47% in Q1FY25. The share of imported sanitaryware products fell to 3% in Q1FY25. Going ahead, the bathware industry is expected to grow at 8-10% from H2FY25 and the company aims to outpace industry growth by 1.25x-1.5x. The company expects its bathware margin to improve by 100bps in future due to the impact of rationalisation of its sale force by 25% in Q1FY25.
- Plastic pipes:** Volumes grew sharply by 24.1% YoY in Q1FY25. However, segment EBITDA margin was relatively flat at 6.7% in Q1FY25 due to lower share of CPVC sales (-700 bps YoY to 33% in Q1FY25) and rise in competitive intensity in the sector. Going ahead, the company expects pipe volume to grow at 16-18% (15-17% earlier) with low double-digit EBITDA margin in FY25.
- Consumer appliances:** Revenue grew by 5.3% YoY in Q1FY25 on a weak base (-18.7%). EBITDA margin improved by 138bps YoY to 2.7% in Q1FY25. Going ahead, the company may further rationalise non-core products in this segment.
- Guidance:** The company aims to grow its revenue at 15-18% CAGR and EBITDA at 20%+ CAGR over the next three years (FY24-FY27E).
- Capex:** The company plans to spend Rs 1.7bn-1.8bn (vs Rs 1.2bn-1.4bn) in FY25 to put up a greenfield plastic pipe plant in Roorkee by Q3FY25 and debottleneck its plastic pipe capacity at the existing site in Hyderabad.
- Net debt:** Net debt rose from Rs 8.52bn in Mar'24 to Rs 9.52bn in Jun'24 due to higher capex outlay. Going ahead, the company aims to reduce net working capital by 10% over the next two to three quarters, which would help improve its liquidity position. Also, the company plans to raise equity of Rs 2.05bn through a rights issue mainly to deleverage its balance sheet.

Fig 3 – HINDWARE’s bathware revenue degrew by 9.9% YoY in Q1FY25 due to impact of sales force restructuring



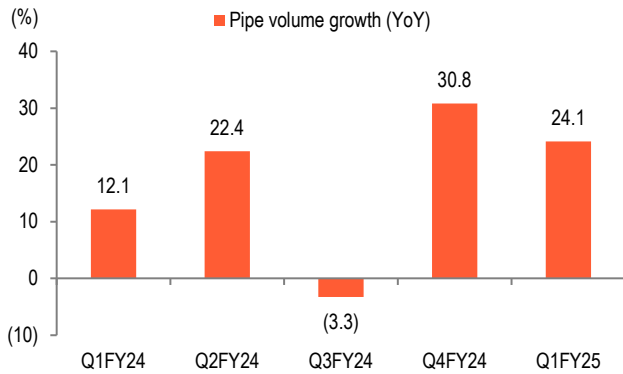
Source: Company, BOBCAPS Research

Fig 4 – Bathware EBITDA margin was down sharply in Q1FY25 on account of negative operating leverage



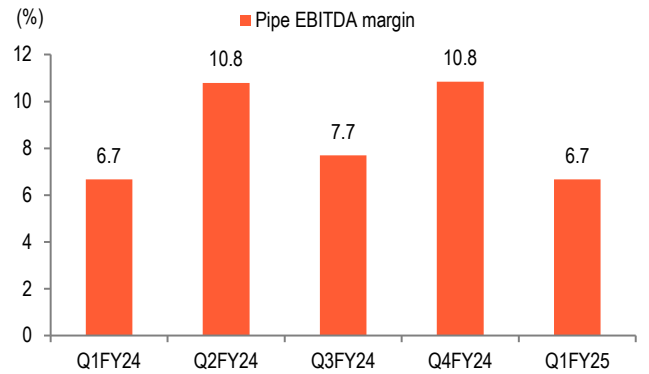
Source: Company, BOBCAPS Research

Fig 5 – Pipe volume grew sharply by 24.1% YoY in Q1FY25



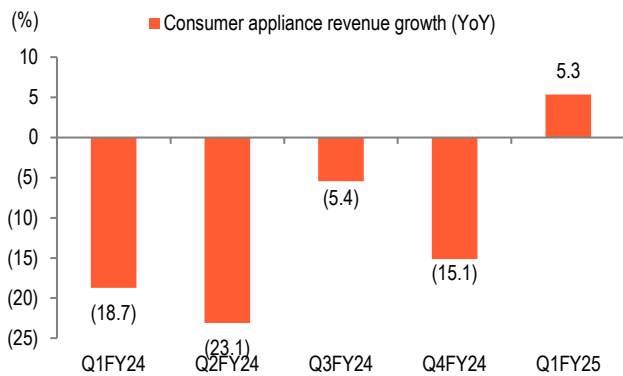
Source: Company, BOBCAPS Research

Fig 6 – However, pipe EBITDAM was flat in Q1FY25 due to inferior product mix and intense competition



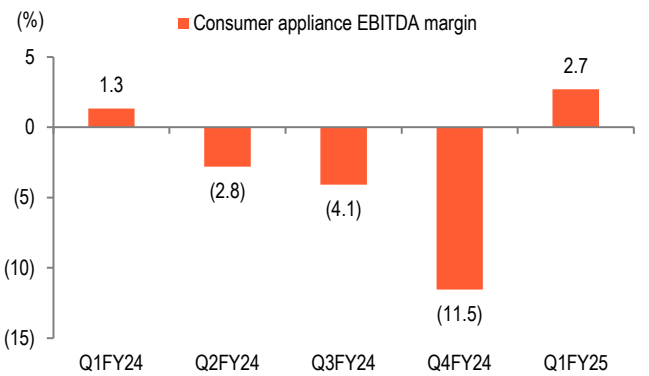
Source: Company, BOBCAPS Research

Fig 7 – Consumer appliance revenue grew by 5.3% YoY in Q1FY25 over a weak base



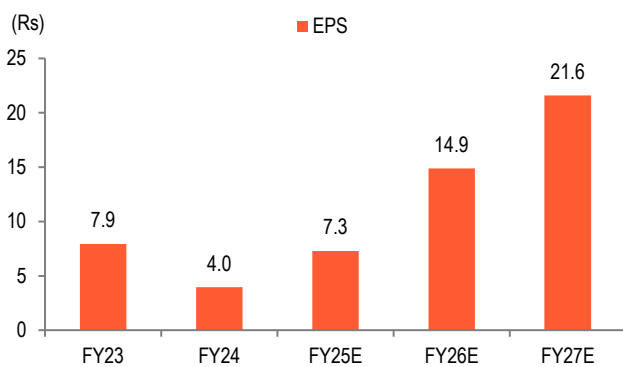
Source: Company, BOBCAPS Research

Fig 8 – Consumer segment EBITDAM improved by 138bps YoY to 2.7% in Q1FY25



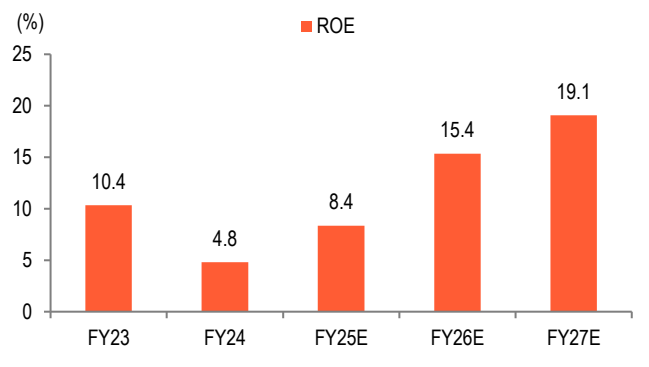
Source: Company, BOBCAPS Research

Fig 9 – HINDWARE’s EPS forecast to grow sharply over FY24-FY27E



Source: Company, BOBCAPS Research

Fig 10 – ROE projected to improve from 4.8% in FY24 to 19.1% in FY27E



Source: Company, BOBCAPS Research

Valuation methodology

We maintain our BUY rating on the stock due to its strong earnings prospects (EBITDA/EPS to grow at 18%/76% CAGR over FY24-FY27E) and improvement in return ratio profile (ROE to improve from 4.8% in FY24 to 19.1% in FY27E).

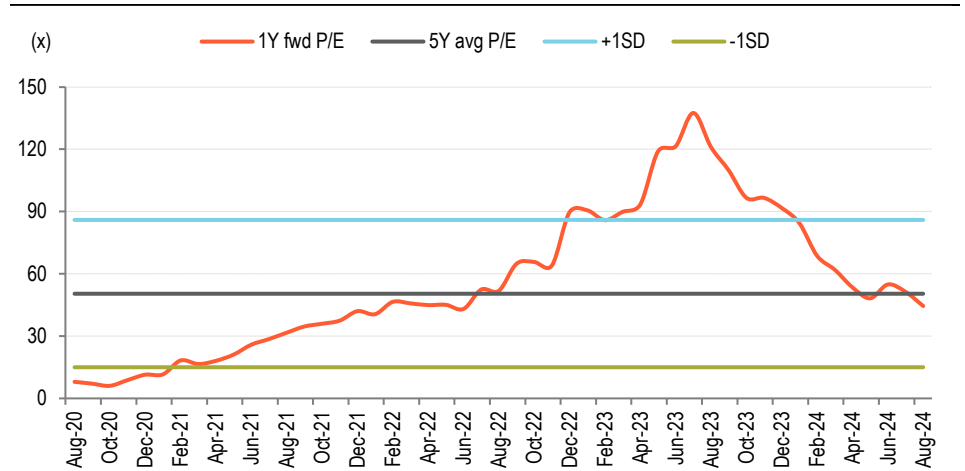
We have reduced our TP to Rs 500 (Rs 600 earlier) due to the downward revision of our EPS forecasts (-41.0%/-25.5% for FY25E/FY26E based on weak Q1 result). Our target P/E remains unchanged at 30x on Jun'26 estimates. At CMP, the stock trades at 39.9x on 1Y forward P/E vs 5Y average of 47.7x. We have introduced FY27 estimates.

Fig 11 – Revised estimates

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total operating income	29.2	33.0	30.7	34.7	(4.7)	(4.8)
EBITDA	2.6	3.3	3.3	4.1	(22.2)	(19.3)
EBITDA Margin (%)	8.8	10.0	10.8	11.8	(198bps)	(180bps)
Adjusted PAT	0.5	1.1	0.9	1.4	(41.0)	(25.5)
EPS (Rs)	7.3	14.9	12.4	20.0	(41.0)	(25.5)

Source: BOBCAPS Research

Fig 12 – Trading at 39.9x on 1Y forward P/E vs historical average of 47.7x



Source: Bloomberg, BOBCAPS Research

Fig 13 – Key assumptions

Particulars	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue Mix (%)						
Bathware	51.9	53.3	56.4	56.3	55.4	54.1
Plastic Pipe	26.4	27.3	27.7	28.0	29.3	30.9
Consumer Product	18.8	17.4	15.1	15.7	15.3	15.0
Retail	2.9	2.0	0.8	-	-	-
Segment Revenue Growth (%)						
Bathware	38.6	28.8	3.2	4.2	11.0	10.0
Plastic Pipe	50.1	29.4	(1.3)	5.5	18.5	18.5
Consumer Product	(5.2)	16.2	(15.7)	8.8	10.0	10.0
Retail	14.7	(16.0)	(57.9)	-	-	-
EBITDA margin (%)						
Bathware	11.4	13.9	15.4	14.0	15.3	15.5
Plastic Pipe Segment	7.6	5.6	9.3	8.1	8.7	9.7
Consumer Products Segment	2.2	2.5	(4.4)	2.2	3.3	3.3
Retail	7.4	3.3	(92.8)	-	-	-

Source: Company, BOBCAPS Research

Key risks

- Market share loss in bathware and plastic pipes would be a key downside risk to our estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	581	650	HOLD
Astral	ASTRA IN	6.2	1,938	2,200	HOLD
Century Plyboards	CPBI IN	1.9	723	725	HOLD
Cera Sanitaryware	CRS IN	1.6	10,297	7,700	HOLD
Finolex Industries	FNXP IN	2.1	289	325	HOLD
Greenlam Industries	GRLM IN	0.9	573	560	HOLD
Greenpanel Industries	GREENP IN	0.5	353	365	HOLD
Greenply Industries	MTLM IN	0.6	378	400	HOLD
Hindware Home Innovation	HINDWARE IN	0.3	394	500	BUY
Kajaria Ceramics	KJC IN	2.7	1,415	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.8	597	750	BUY
Somany Ceramics	SOMC IN	0.3	715	900	BUY
Supreme Industries	SI IN	7.7	5,112	5,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 12 Aug 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	28,723	28,000	29,231	33,008	37,126
EBITDA	2,459	2,377	2,580	3,314	3,925
Depreciation	1,010	1,230	1,281	1,365	1,408
EBIT	1,449	1,147	1,299	1,949	2,516
Net interest inc./(exp.)	(771)	(951)	(917)	(837)	(757)
Other inc./(exp.)	356	372	494	494	494
Exceptional items	4	0	0	0	0
EBT	1,030	567	876	1,607	2,254
Income taxes	365	200	191	362	525
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(94)	(110)	(159)	(168)	(168)
Reported net profit	571	258	527	1,077	1,561
Adjustments	3	28	0	0	0
Adjusted net profit	574	286	527	1,077	1,561

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,972	3,120	3,257	3,678	4,136
Other current liabilities	4,234	4,026	4,026	4,026	4,026
Provisions	61	44	46	52	58
Debt funds	7,117	8,367	7,392	6,892	6,392
Other liabilities	2,812	2,580	2,580	2,580	2,580
Equity capital	145	145	145	145	145
Reserves & surplus	5,613	5,834	6,301	7,257	8,643
Shareholders' fund	5,830	6,067	6,535	7,491	8,876
Total liab. and equities	23,027	24,203	23,835	24,718	26,069
Cash and cash eq.	93	293	(248)	(1,512)	(2,480)
Accounts receivables	3,776	4,533	4,004	4,522	5,086
Inventories	6,838	5,894	5,815	6,620	7,578
Other current assets	1,268	1,404	1,465	1,655	1,861
Investments	880	1,035	1,035	1,035	1,035
Net fixed assets	6,527	7,012	7,730	8,365	8,957
CWIP	358	539	539	539	539
Intangible assets	2,597	2,178	2,178	2,178	2,178
Deferred tax assets, net	390	598	598	598	598
Other assets	301	718	718	718	718
Total assets	23,027	24,203	23,835	24,718	26,069

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	(3,208)	1,581	2,916	1,700	1,969
Capital expenditures	(2,491)	(1,875)	(2,000)	(2,000)	(2,000)
Change in investments	(6)	(156)	0	0	0
Other investing cash flows	352	372	494	494	494
Cash flow from investing	(2,145)	(1,659)	(1,506)	(1,506)	(1,506)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	5,685	1,250	(975)	(500)	(500)
Interest expenses	(771)	(951)	(917)	(837)	(757)
Dividends paid	(36)	(29)	(59)	(121)	(175)
Other financing cash flows	27	(11)	0	0	0
Cash flow from financing	4,905	260	(1,951)	(1,458)	(1,432)
Chg in cash & cash eq.	(448)	182	(541)	(1,264)	(969)
Closing cash & cash eq.	321	2,314	7,684	5,264	7,461

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	7.9	3.6	7.3	14.9	21.6
Adjusted EPS	7.9	4.0	7.3	14.9	21.6
Dividend per share	0.5	0.4	0.8	1.7	2.4
Book value per share	79.6	82.7	89.2	102.4	121.5

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	0.9	0.9	0.7	0.6	0.6
EV/EBITDA	11.1	10.3	8.1	6.2	5.2
Adjusted P/E	49.6	99.6	54.0	26.4	18.2
P/BV	4.9	4.8	4.4	3.8	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	55.7	50.4	60.1	67.0	69.3
Interest burden (PBT/EBIT)	71.1	49.5	67.5	82.4	89.6
EBIT margin (EBIT/Revenue)	5.0	4.1	4.4	5.9	6.8
Asset turnover (Rev./Avg TA)	124.7	115.7	122.6	133.5	142.4
Leverage (Avg TA/Avg Equity)	4.2	4.1	3.8	3.5	3.2
Adjusted ROAE	10.4	4.8	8.4	15.4	19.1

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	25.2	(2.5)	4.4	12.9	12.5
EBITDA	39.7	(3.3)	8.5	28.4	18.4
Adjusted EPS	(51.8)	(50.2)	84.2	104.4	45.0
Profitability & Return ratios (%)					
EBITDA margin	8.6	8.5	8.8	10.0	10.6
EBIT margin	5.0	4.1	4.4	5.9	6.8
Adjusted profit margin	2.0	1.0	1.8	3.3	4.2
Adjusted ROAE	10.4	4.8	8.4	15.4	19.1
ROCE	13.9	10.5	12.9	17.0	19.7
Working capital days (days)					
Receivables	48	59	50	50	50
Inventory	87	77	73	73	74
Payables	38	41	41	41	41
Ratios (x)					
Gross asset turnover	3.8	2.9	2.5	2.4	2.4
Current ratio	1.1	1.0	0.9	0.9	0.9
Net interest coverage ratio	1.9	1.2	1.4	2.3	3.3
Adjusted debt/equity	1.2	1.3	1.2	1.1	1.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

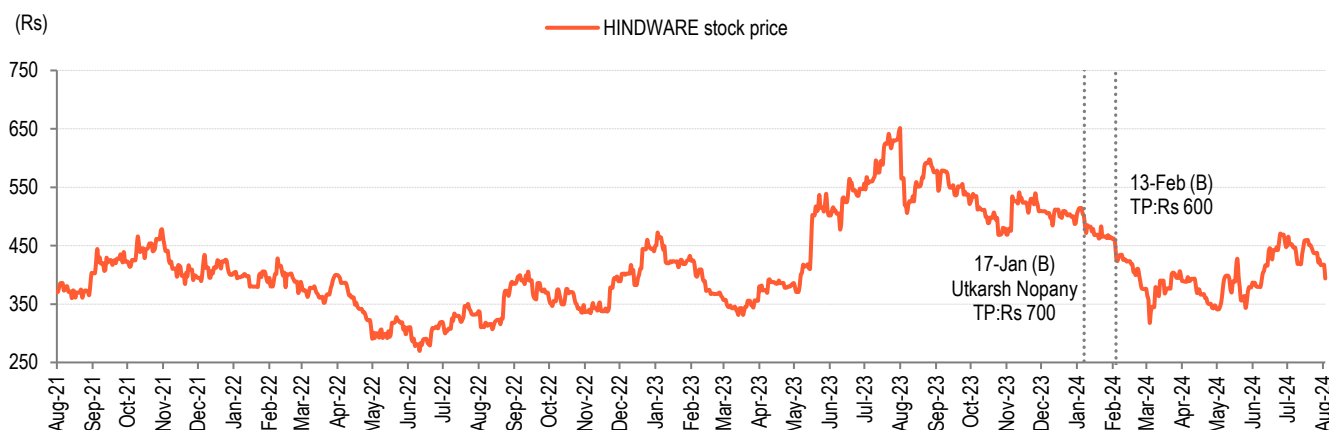
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): HINDWARE HOME INNOVATION (HINDWARE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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