

BUY
 TP: Rs 400 | ▲ 53%

HINDWARE HOME INNOVATION

| Building Materials

| 14 November 2024

Another dismal quarter; muted guidance for H2FY25

- Dull Q2 on weak performance across segments due to cost inflation pressure in a weak demand environment and sales force rationalisation
- Bathware revenue to be flat YoY in H2FY25; EBITDA margin to improve gradually over the next 18-24 months
- Maintain BUY; TP cut by 20% to Rs 400 on earnings downgrade post weak Q2 result

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Dismal quarter: HINDWARE’s Q2FY25 result came significantly below our estimates (Revenue: -10.1%; EBITDA: -51.1%) driven by weak performance across segments. The company’s revenue/EBITDA de-grew by 9.1%/60.1% YoY in Q2FY25. It posted net loss of Rs 148mn in Q2FY25 vs net profit of Rs 220mn in Q2FY24. Net debt has gone up from Rs 8.1bn in Mar’24 to Rs 8.6bn in Sep’24.

Key highlights: Bathware EBITDA was down by 46.5% YoY in Q2 driven by lower revenue (-9.1% YoY) as well as sharp margin contraction (-664bps YoY to 9.5%) on account of raw-material cost inflation in a weak demand environment and sales team restructuring. Plastic pipe volume grew by a meagre 1.0% YoY in Q2FY25 even on a small base and EBITDA margin was also sharply down (400bps YoY to 6.8%) due to impact of steep fall in PVC resin prices and resultant destocking of channel inventory. Consumer appliances revenue de-grew by 14.3% YoY on a weak base (-14.3% YoY in Q2FY24) and posted sharp operating loss in Q2FY25.

Outlook: HINDWARE expects bathware revenue to be flat on YoY basis in H2FY25 as demand conditions continue to remain weak in Q3FY25 (till date). The company expects its bathware/pipe margin to improve by 200/150bps in FY26 over FY24 due to cost savings from its restructuring exercise and operating leverage benefits. The company has approved a plan to raise equity of Rs 2.5bn through a rights issue at a price of Rs 220 per share to de-lever its balance sheet.

Maintain BUY; TP cut by 20% to Rs 400: HINDWARE has been reporting weak performance for the past three quarters and has provided weak guidance for H2FY25. However, we maintain our BUY rating on the stock due to its strong earnings prospects (EPS to grow at 53% CAGR over FY24-FY27E on a weak base) in anticipation of gradual improvement in its margin profile over the next two years. We have reduced our TP to Rs 400 (Rs 500 earlier) due to the downward revision of our EPS forecasts (-85.9%/-42.4%/-33.0% for FY25E/FY26E/FY27E) based on weak Q2 results. Our target P/E remains unchanged at 30x on Sep’26E (Jun’26 earlier). At CMP, the stock trades at a P/E of 30.4x/18.1x on FY26E/FY27E.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HINDWARE IN/Rs 261
Market cap	US\$ 223.6mn
Free float	49%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 554/Rs 257
Promoter/FPI/DII	51%/6%/7%

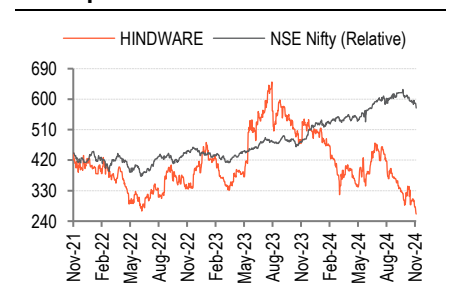
Source: NSE | Price as of 13 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,000	27,512	31,029
EBITDA (Rs mn)	2,383	2,012	2,704
Adj. net profit (Rs mn)	290	86	718
Adj. EPS (Rs)	4.0	1.0	8.6
Consensus EPS (Rs)	4.0	9.3	17.7
Adj. ROAE (%)	4.9	1.2	8.0
Adj. P/E (x)	65.1	254.5	30.4
EV/EBITDA (x)	6.3	5.6	4.6
Adj. EPS growth (%)	(49.5)	(74.4)	737.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance - Consolidated

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
Total operating income	6,298	6,932	(9.1)	5,999	5.0	12,297	13,162	(6.6)	7,003	(10.1)
Raw-Material expense	3,517	3,725	(5.6)	3,178	10.7	6,696	7,037	(4.8)		
Gross Profit	2,781	3,207	(13.3)	2,821	(1.4)	5,602	6,125	(8.5)		
Employee expense	1,077	1,053	2.3	1,079	(0.1)	2,156	2,098	2.8		
Energy costs	224	232	(3.6)	209	7.3	433	439	(1.4)		
Other expense	1,183	1,178	0.4	1,103	7.2	2,286	2,219	3.0		
EBITDA	297	744	(60.1)	430	(30.9)	727	1,370	(13)	607	(51.1)
D&A	309	295	4.8	307	0.5	616	577	6.7		
EBIT	(12)	449	NM	123	NM	111	792	(86.0)		
Interest cost	236	238	(0.9)	239	(1.6)	475	456	4.1		
Non-operating expense/(income)	(63)	(70)	(9.2)	(163)	(61.2)	(148)	(131)	13.0		
PBT	(184)	281	NM	46	NM	(216)	467	NM		
Tax	(39)	57	NM	2	NM	(37)	208	NM		
Reported PAT	(145)	225	NM	44	NM	(179)	259	NM		
Adjusted PAT	(148)	220	NM	(40)	NM	(188)	222	NM	101	NM
As % of net revenues			(bps)		(bps)			(bps)		
Gross margin	44.2	46.3	(211)	47.0	(286)	45.6	46.5	(99)		
Employee cost	17.1	15.2	191	18.0	(88)	17.5	15.9	160		
Other cost	18.8	17.0	179	18.4	39	18.6	16.9	173		
EBITDA margin	4.7	10.7	(602)	7.2	(245)	5.9	10.4	(449)		
Tax rate	21.1	20.1	100	4.6	1655	17.0	44.5	(2748)		
APAT margin	(2.4)	3.2	(552)	(0.7)	(168)	(1.5)	1.7	(322)		

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

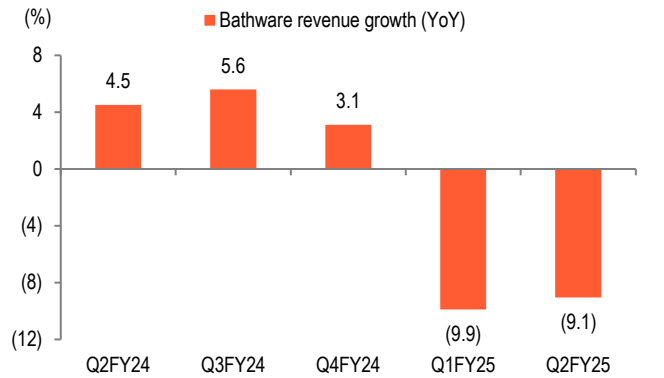
Segment performance	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Revenue (Rs mn)								
Bathware	3,602	3,961	(9.1)	3,262	10.4	6,864	7,581	(9.5)
Plastic Pipe	1,871	2,011	(7.0)	1,632	14.6	3,503	3,571	(1.9)
Consumer Products	825	963	(14.3)	1,105	(25.3)	1,931	2,013	(4.1)
Retail	10	69	(85.0)	(26)	(139.8)	(16)	176	(108.9)
EBITDA margin (%)			(bps)		(bps)			(bps)
Bathware	9.5	16.1	(664)	12.8	(329)	11.0	16.4	(538)
Plastic Pipe	6.8	10.8	(400)	6.7	11	6.7	9.0	(225)
Consumer Products	(8.7)	(2.8)	(592)	2.7	(1,144)	(2.2)	(0.6)	(153)
Retail	0.0	(3.9)	393	0.0	0	0.0	(10.3)	1,025

Source: Company, BOBCAPS Research

Earnings call highlights

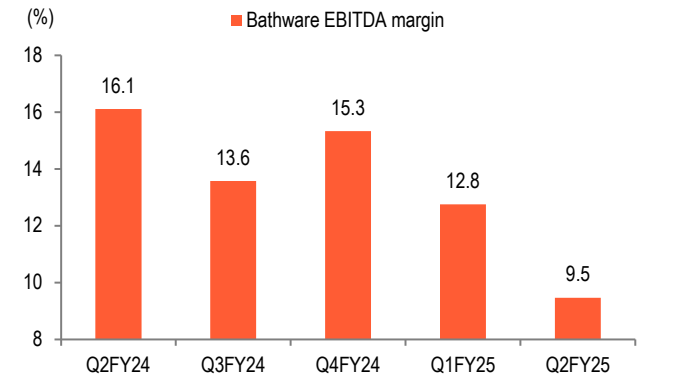
- **Bathware:** Revenue de-grew by 9.1% YoY in Q2FY25 due to the impact of weak demand environment as well as restructuring exercise (merger of sales team of sanitaryware and faucetware). EBITDA margin fell by 664bps YoY to 9.5% in Q2FY25 on account of increase in raw material prices, inferior product mix, and high discounts offered to dealers. Going ahead, the company expects flattish YoY growth in H2FY25. The company hiked faucetware prices by 1.5% in Oct'24 which would partially cover brass cost inflation. The Bathware division's EBITDA margin is expected to improve by 200bps in FY26 over FY24 due to the benefit of (a) reduction in sanitaryware operating cost in anticipation of improvement in throughput by 8-10%; (b) cost rationalisation due to warehouse consolidation and employee retrenchment; and (c) operating leverage benefit.
- **Plastic pipes:** Volumes grew by 1.0% YoY in Q2FY25 even on a small base. Segment EBITDA margin was down sharply by 400bps YoY to 6.8% in Q2FY25 due to significant fall in PVC resin prices and resultant destocking of channel inventory. CPVC accounted for 43% of the total sales in Q2FY25. Segment margin is expected to improve by 150bps in FY26 over FY24.
- **Consumer appliances:** Segment revenue de-grew by 14.3% YoY in Q2FY25 even on a weak base (-14.3% YoY in Q2FY24). Segment posted operating loss of Rs 72mn in Q2FY25 vs loss of Rs 27mn in Q2FY24. Going ahead, the company expects this segment to become profitable over the next two quarters. The company is aggressively exiting from low-margin product categories in its portfolio to improve the profitability of the segment.
- **Restructuring initiatives:** The company expects to complete warehouse consolidation of its sanitaryware, faucet and consumer appliances segments by the end of Q4FY25, along with having transport and warehouse management technologies in place. The sales teams of sanitaryware and faucet have been merged; and sales service teams of consumer appliance and sanitaryware have been merged. The benefit of restructuring initiatives is expected to be seen in the next two to three quarters.
- **Capex:** Greenfield plastic pipe plant (with 12,500 MTPA) in Roorkee, Uttarakhand, is expected to be operational by Q4FY25 (Q3FY25 earlier).
- **Net debt:** Net debt has gone up from Rs 8.07bn in Mar'24 to Rs 8.6bn in Sep'24. The company has approved the plan to raise equity of Rs 2.5bn through a rights issue (entitlement ratio is 119:758) at a price of Rs 220 per share mainly to de-lever its balance sheet.

Fig 3 – HINDWARE’s bathware revenue fell by 9.1% YoY in Q2FY25 due to impact of sales force restructuring



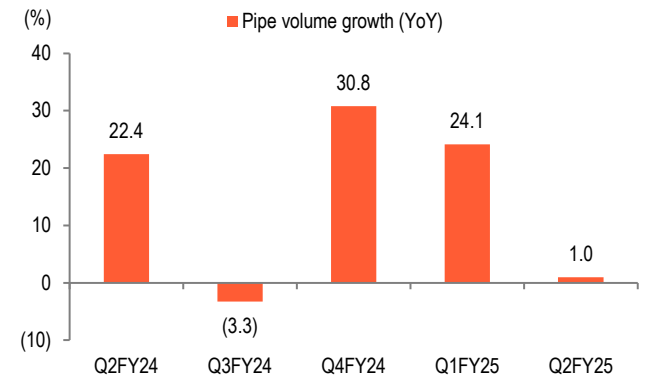
Source: Company, BOBCAPS Research

Fig 4 – Bathware EBITDA margin was down sharply in Q2FY25 on account of negative operating leverage



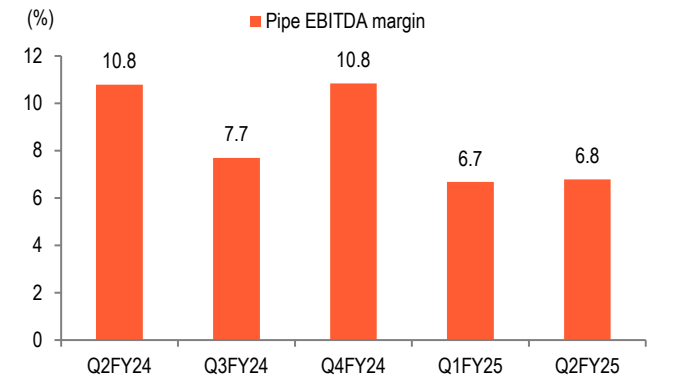
Source: Company, BOBCAPS Research

Fig 5 – Pipe volume saw a flat 1.0% YoY in Q2FY25 due to weak demand and sharp fall in PVC resin prices



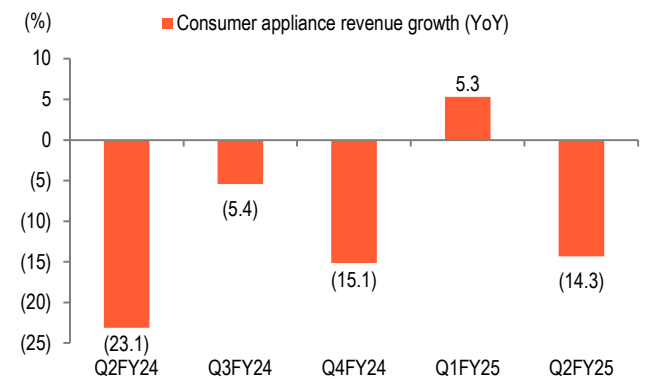
Source: Company, BOBCAPS Research

Fig 6 – However, pipe EBITDAM was flat QoQ in Q2FY25 due to inferior mix and intense competition



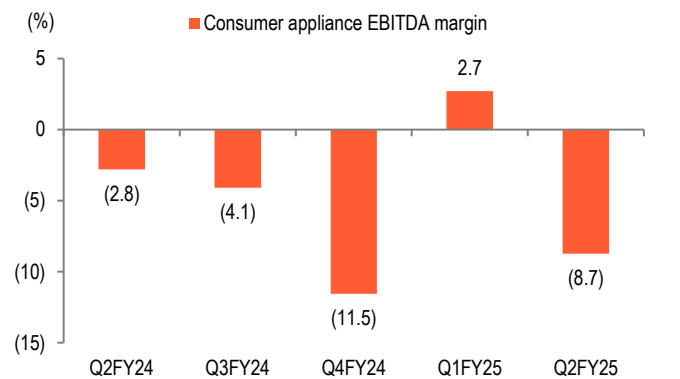
Source: Company, BOBCAPS Research

Fig 7 – Consumer appliance segment revenue de-grew by 14.3% YoY in Q2FY25 over a weak base



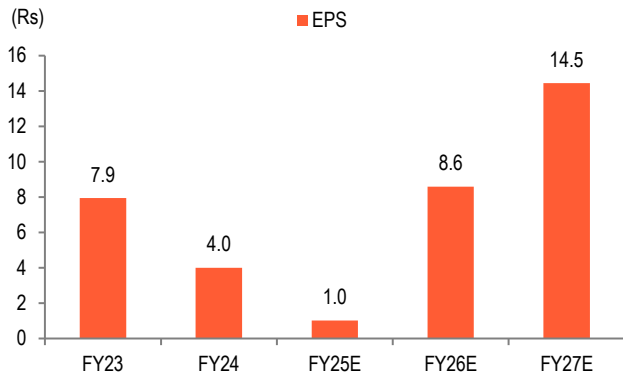
Source: Company, BOBCAPS Research

Fig 8 – Consumer appliance segment posted sharp operating loss in Q2FY25



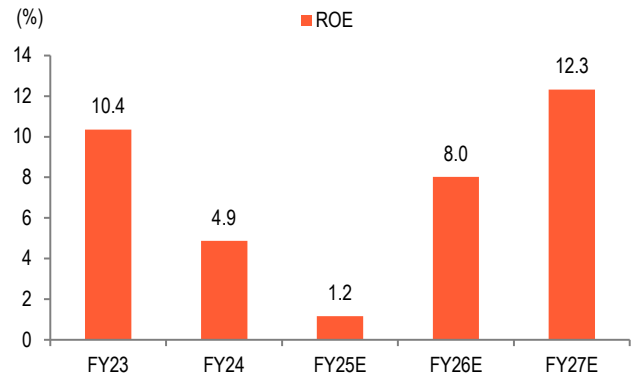
Source: Company, BOBCAPS Research

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



Source: Company, BOBCAPS Research

Fig 10 – ROE projected to improve gradually from 4.9% in FY24 to 12.3% in FY27E



Source: Company, BOBCAPS Research

Valuation methodology

HINDWARE has reported weak performances in the past three quarters and provided weak guidance for H2FY25. However, we maintain our BUY rating on the stock due to its strong earnings prospects (EPS to grow at 53% CAGR over FY24-FY27E on a weak base) in anticipation of gradual improvement in its margin profit over the next two years.

We have reduced our TP to Rs 400 (Rs 500 earlier) due to the downward revision of our EPS forecasts (-85.9%/-42.4%/-33.0% for FY25E/FY26E/FY27E based on weak Q2). Our target P/E remains unchanged at 30x on Sep'26E (Jun'26 earlier). At CMP, the stock trades at a P/E of 30.4x/18.1x on FY26E/FY27E.

Fig 11 – Revised estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Total operating income	27.5	31.0	35.0	29.2	33.0	37.1	(5.9)	(6.0)	(5.8)
EBITDA	2.0	2.7	3.4	2.6	3.3	3.9	(22.0)	(18.4)	(13.6)
EBITDA Margin (%)	7.3	8.7	9.7	8.8	10.0	10.6	(151)	(133)	(88)
Adjusted PAT	0.1	0.7	1.2	0.5	1.1	1.6	(83.7)	(33.3)	(22.5)
EPS (Rs)	1.0	8.6	14.5	7.3	14.9	21.6	(85.9)	(42.4)	(33.0)

Source: BOBCAPS Research

Fig 12 – Key assumptions

Particulars	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue-Mix (%)						
Bathware	51.9	53.3	56.4	54.8	53.5	52.2
Plastic Pipe	26.4	27.3	27.7	30.1	32.2	33.8
Consumer Product	18.8	17.4	15.1	15.0	14.3	14.0
Retail	2.9	2.0	0.8	(0.1)	-	-
Segment Revenue Growth (%)						
Bathware	38.6	28.8	3.2	(4.5)	10.0	10.0
Plastic Pipe	50.1	29.4	(1.3)	7.0	20.6	18.5
Consumer Product	(5.2)	16.2	(15.8)	(1.9)	7.3	10.0
Retail	14.7	(16.0)	(57.9)	(106.6)	(100.0)	-
EBITDA margin (%)						
Bathware	11.4	13.9	15.4	12.7	14.0	14.6
Plastic Pipe Segment	7.6	5.6	9.3	8.1	8.7	8.7
Consumer Products Segment	2.2	2.5	(4.4)	(3.7)	(2.0)	2.0

Source: Company, BOBCAPS Research

Key risks

- Sharp slowdown in real estate activity.
- 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	0.2	481	550	HOLD
Astral	ASTRA IN	5.5	1,730	2,000	HOLD
Century Plyboards	CPBI IN	2.0	750	725	HOLD
Cera Sanitaryware	CRS IN	1.0	6,765	8,500	BUY
Finolex Industries	FNXP IN	1.9	263	300	HOLD
Greenlam Industries	GRLM IN	0.8	519	530	HOLD
Greenpanel Industries	GREENP IN	0.5	342	365	HOLD
Greenply Industries	MTLM IN	0.5	316	380	HOLD
Hindware Home Innovation	HINDWARE IN	0.2	261	400	BUY
Kajaria Ceramics	KJC IN	2.2	1,142	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.6	442	650	BUY
Somany Ceramics	SOMC IN	0.3	655	850	BUY
Supreme Industries	SI IN	6.8	4,516	5,250	BUY

Source: BOBCAPS Research, NSE | Price as of 13 Nov 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	28,723	28,000	27,512	31,029	34,976
EBITDA	2,459	2,383	2,012	2,704	3,391
Depreciation	1,010	1,230	1,272	1,385	1,565
EBIT	1,449	1,152	740	1,319	1,826
Net interest inc./(exp.)	(771)	(951)	(906)	(742)	(662)
Other inc./(exp.)	356	372	418	392	392
Exceptional items	4	5	0	0	0
EBT	1,030	567	252	969	1,556
Income taxes	365	200	52	242	407
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(94)	(110)	(114)	(10)	60
Reported net profit	571	258	86	718	1,210
Adjustments	3	32	0	0	0
Adjusted net profit	574	290	86	718	1,210

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,972	3,120	3,065	3,457	3,897
Other current liabilities	4,234	4,026	4,026	4,026	4,026
Provisions	61	44	43	49	55
Debt funds	7,117	8,367	5,392	6,142	6,642
Other liabilities	2,812	2,580	2,580	2,580	2,580
Equity capital	145	145	167	167	167
Reserves & surplus	5,613	5,834	8,384	9,022	10,095
Shareholders' fund	5,830	6,067	8,640	9,278	10,351
Total liab. and equities	23,027	24,203	23,746	25,531	27,551
Cash and cash eq.	93	293	349	137	107
Accounts receivables	3,776	4,533	3,769	4,251	4,791
Inventories	6,838	5,894	5,441	6,166	7,042
Other current assets	1,268	1,404	1,379	1,556	1,753
Investments	880	1,035	1,035	1,035	1,035
Net fixed assets	9,078	9,134	9,862	10,477	10,912
CWIP	358	539	539	539	539
Intangible assets	46	55	55	55	55
Deferred tax assets, net	390	598	598	598	598
Other assets	301	718	718	718	718
Total assets	23,027	24,203	23,746	25,531	27,551

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	(3,203)	1,604	3,032	1,468	1,876
Capital expenditures	(2,491)	(1,873)	(2,000)	(2,000)	(2,000)
Change in investments	(6)	(156)	0	0	0
Other investing cash flows	352	366	418	392	392
Cash flow from investing	(2,145)	(1,663)	(1,582)	(1,608)	(1,608)
Equities issued/Others	0	0	23	0	0
Debt raised/repaid	5,685	1,250	(2,975)	750	500
Interest expenses	(771)	(951)	(906)	(742)	(662)
Dividends paid	(36)	(29)	(10)	(81)	(136)
Other financing cash flows	27	(11)	2,474	0	0
Cash flow from financing	4,905	260	(1,393)	(73)	(298)
Chg in cash & cash eq.	(444)	201	56	(213)	(30)
Closing cash & cash eq.	93	293	349	137	107

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	7.9	3.6	1.0	8.6	14.5
Adjusted EPS	7.9	4.0	1.0	8.6	14.5
Dividend per share	0.5	0.4	0.1	1.0	1.6
Book value per share	79.6	82.7	102.2	109.8	122.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	0.6	0.5	0.4	0.4	0.4
EV/EBITDA	7.2	6.3	5.6	4.6	3.9
Adjusted P/E	32.9	65.1	254.5	30.4	18.1
P/BV	3.3	3.2	2.6	2.4	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	55.7	51.1	34.1	74.1	77.7
Interest burden (PBT/EBIT)	71.1	49.2	34.0	73.5	85.2
EBIT margin (EBIT/Revenue)	5.0	4.1	2.7	4.3	5.2
Asset turnover (Rev./Avg TA)	124.7	115.7	115.9	121.5	127.0
Leverage (Avg TA/Avg Equity)	4.2	4.1	3.2	2.8	2.8
Adjusted ROAE	10.4	4.9	1.2	8.0	12.3

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	25.2	(2.5)	(1.7)	12.8	12.7
EBITDA	39.7	(3.1)	(15.6)	34.4	25.4
Adjusted EPS	(51.8)	(49.5)	(74.4)	737.0	68.4
Profitability & Return ratios (%)					
EBITDA margin	8.6	8.5	7.3	8.7	9.7
EBIT margin	5.0	4.1	2.7	4.3	5.2
Adjusted profit margin	2.0	1.0	0.3	2.3	3.5
Adjusted ROAE	10.4	4.9	1.2	8.0	12.3
ROCE	13.9	10.6	8.2	11.1	13.1

Working capital days (days)

	FY23A	FY24A	FY25E	FY26E	FY27E
Receivables	48	59	50	50	50
Inventory	87	77	72	73	73
Payables	38	41	41	41	41

Ratios (x)

	FY23A	FY24A	FY25E	FY26E	FY27E
Gross asset turnover	2.9	2.4	2.1	2.0	2.0
Current ratio	1.1	1.0	1.2	1.3	1.4
Net interest coverage ratio	1.9	1.2	0.8	1.8	2.8
Adjusted debt/equity	1.2	1.3	0.6	0.6	0.6

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%

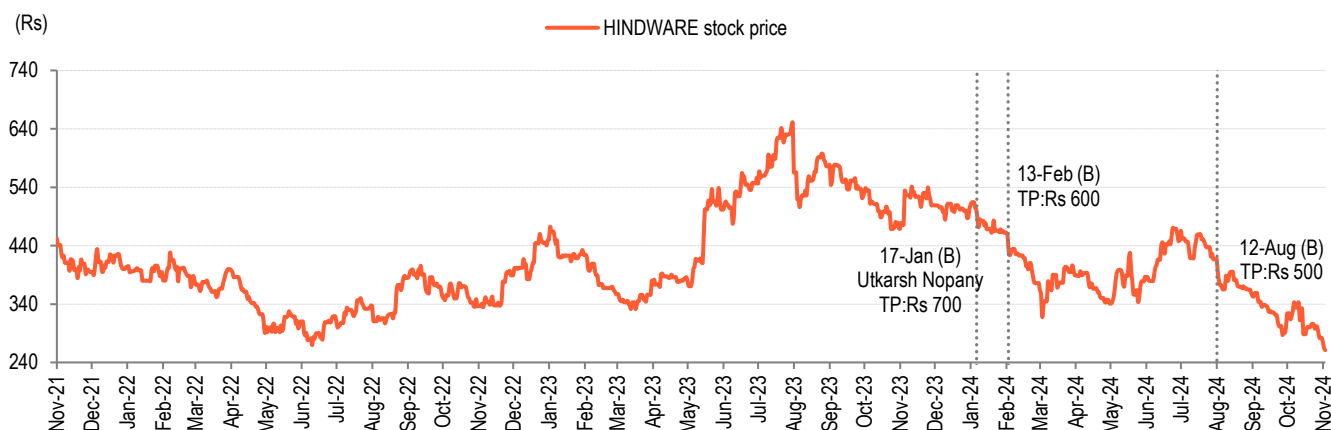
HOLD – Expected return from -6% to +15%

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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