

Q3FY24 Result Update

Hindware Home Innovation

Muted demand impacts performance; optimistic for Q4

- Revenue fell 3% YoY and 1% QoQ to INR693cr in Q3FY24 owing to lower-than-expected sales from the building products segment.
- Revenue from building products, which include faucets, sanitary ware, and pipes, rose 4% QoQ (flat YoY) to INR576cr (est. INR590cr).
- Revenue from pipes and fittings (P&F) fell 12% YoY and 13.5% QoQ to INR174cr (est. INR207cr). On a YoY basis, realisation/volume fell 9%/3%.
- The pipes and fittings (P&F) segment reported an EBITDA margin of 7.7% in Q3FY24 as compared to 10.8% QoQ and 0.9% YoY.
- Revenue from sanitary ware grew 5.6% YoY to INR402cr (5% lower than our estimate). EBITDA margin contracted by 71bp YoY to 13.6% due to weak demand and higher (~INR7cr) advertising spends during the ICC Cricket World Cup in Q3FY24.
- Revenue from consumer products fell 5.5% YoY to INR112cr (est. INR80cr) owing to a weak demand environment.
- Overall EBITDA rose 2% YoY to INR51cr, with a 33bp expansion in EBITDA margin to 7.3%. EBITDA margin contracted 296bp QoQ due to lower pipe margin and an operating loss in the consumer appliance business.
- PAT fell 42% YoY to INR5cr (est. INR17cr). The miss can be attributed to a lower-than-expected operating performance.
- Net debt stood at INR934cr versus INR863cr QoQ.

Weak demand affects growth in sanitary ware, hurting margin

The bath ware division (which consist of sanitary ware and faucets as the tile business is small) contributes the lion's share of revenue (58% in Q3FY24 versus 53% YoY). Segmental revenue grew 6% YoY due to a challenging market-led slowdown characterised by subdued demand across key markets. The management expects the growth momentum to improve from Q4FY24. Despite a muted 9MFY24 and many organised tiles and pipe players foraying into the bath ware space, it maintained its medium to long term revenue growth guidance at 1.25–1.5x that of the industry. It expects strong demand for its products in FY25 and FY26, following record real estate project launches in FY24. EBITDA margin fell 71bp YoY to 13.6% due to weak demand and higher (~INR7cr) advertising spends during the ICC Cricket World Cup in Q3FY24. It expects a recovery in EBITDA margin to 16% in coming quarters and a 50–100bp improvement in FY25.

Lower realisation and volume weighs on P&F performance

Revenue fell 12% YoY and 13.5% QoQ to INR174cr (est. INR207cr) as realisation declined by ~9% on lower PVC prices and volume (down 3%). EBITDA margin fell sharply (309bp) QoQ to 7.7% on lower realisation. It launched composite (plastic and metal) faucets and pipes in Q3FY24. It plans to launch an underground drainage pipe in Q1 and DWC pipe and fire sprinkler systems in Q3FY25. In P&F, there are broadly 11 product categories, of which HINDWARE have a presence in four. It is foraying into three new categories in FY25 which can boost volume growth. HINDWARE is investing INR180cr in a greenfield plant in Roorkee. This new plant, with an initial manufacturing capacity of 12,500mt, is expected to turn operational by Q3FY25. Capex will be funded via internal accruals and borrowings. At an incremental capex of INR50–60cr, capacity can be increased by 2.5–3x. As it is operating at industry-high operating levels, it has added one machine at its Hyderabad plant, with a capacity of 6,000mt, which turned operational in December 2023. With this addition, overall capacity will rise to 54,000mtpa. It is planning to add one more line with a similar capacity in Q4FY24.

Subdued demand in consumer appliances

Revenue fell 23% YoY and 8% QoQ to INR96cr. Growth was subdued due to a benign demand environment and inflationary concerns. HINDWARE maintained its leading position in the kitchen appliances segment despite rising inflation and heightened competition. It is actively expanding its kitchen appliance portfolio by leveraging strengths and streamlining its product offerings to boost margin.

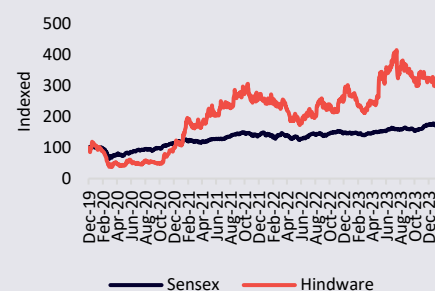
Valuation and view

Demand-side headwinds, higher ad spends, and adverse operating leverage impacted its Q3FY24 performance. Unexpectedly, all three key segments reported a poor operational performance. Like its peers, HINDWARE is facing temporary challenges. We expect strong growth in the coming quarters due to seasonality, product launches, and capacity expansion. We are optimistic about its medium to long-term growth prospects given its: i) robust positioning in bath ware, ii) greater presence in P&F and consumer appliances, iii) comprehensive product portfolio, iv) strong brand recall, and v) a wide and expanding distribution reach. Due to lower-than-expected earnings in 9MFY24, we trim our FY24/FY25 PAT estimate by 45%/35%. We introduced our FY26 estimates. Despite a lower-than-expected performance, we maintain 'BUY' as we roll forward our valuation to 22x (average EPS for FY25E and FY26E) with a revised TP of INR543.

Year to March	Q3FY24	Q3FY23	% Change	Q2FY24	% Change	FY23	FY24E	FY25E	FY26E
Revenues (INR Cr)	693	713	-3%	700	-1%	2,873	2,903	3,387	3,966
EBITDA (INR Cr)	51	50	2%	72	-30%	246	281	374	495
Net Profit (INR Cr)	5	8	-42%	20	-77%	58	72	136	221
P/E (x)						54	43	23	14
EV/EBITDA (x)						16	14	11	8
RoACE (%)						12	11	15	20
RoAE (%)						10	12	19	25

CMP: INR430
Rating: BUY
Target Price: INR543
Upside: 26%
 Date: February 13, 2023

Bloomberg:	SHILL:IN
52-week range (INR):	325 /664
M-cap (INR cr):	3,112
Promoter holding (%)	51.32



Nikhil Shetty
 nikhil.shetty@nuvama.com

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Q3FY24 Result Highlights

(INR Cr)	Q3FY24	Q3FY23	YoY(%)	Q2FY24	QoQ(%)	9MFY24	9MFY23	YoY(%)
Net Revenues	693	713	-3%	700	-1%	2,027	2,105	-4%
Cost of Goods Sold	375	405	-7%	377	0%	1,090	1,199	-9%
Gross Profit	318	307	4%	324	-2%	937	906	3%
Employee Expenses	106	104	2%	106	0%	318	305	4%
Other expenses	161	154	5%	146	11%	436	437	0%
Operating Expenses	642	663	-3%	628	2%	1,845	1,942	-5%
EBITDA	51	50	2%	72	-30%	183	164	11%
Depreciation	31	25	25%	30	3%	91	73	25%
EBIT	19	25	-21%	41	-53%	92	91	0%
Interest expenses	24	22	7%	24	-3%	70	54	30%
Other income	11	11	0%	8	32%	27	27	-1%
PBT	6	13	-52%	25	-75%	48	65	-25%
Tax	0	4	-91%	4	-93%	19	27	-31%
Reported PAT	6	10	-37%	21	-71%	30	38	-21%
Share of Profit from JV and Associates	-2	-2		-1	-	-5	-3	
Adj PAT after EoI	5	8	-42%	20	-77%	25	35	-28%
Equity Capital	14	14	-	14	-	14	14	0%
No of Shares	7	7	-	7	-	7	7	0%
EPS	1	1	-	3	-	3	5	-28%
Gross Profit Margin	45.9%	43.1%	277 bps	46.2%	-37 bps	46.2%	43.1%	319 bps
EBITDA Margin	7.3%	7.0%	33 bps	10.3%	-296 bps	9.0%	7.8%	123 bps
PAT Margin	0.7%	1.1%	-44 bps	2.8%	-216 bps	1.2%	1.7%	-43 bps

Source: Company, Nuvama Wealth Research

Revised Estimates

(INR cr)	FY24E			FY25E		
	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	3,185	2,903	-8.9	3,738	3,387	-9.4
Gross Profit	1,397	1,273		1,661	1,505	
Gross margin (%)	44	44		44.4	44	
EBITDA	351	281	-19.9	464	374	-19.3
EBITDA margin (%)	11.0	9.7		12.4	11	
PBT	186	108	-42.1	292	194	-33.6
PBT margin	6	4		7.8	6	
Net profit	130	72	-44.9	209	136	-34.8
Adj EPS (Rs)	18	10	-44.9	29	19	-34.8

Source: Company, Nuvama Wealth Research

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Segment Wise Revenue Performance

Revenue Break-down (INR in Cr)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Consumer appliances	121	129	125	119	128	105	96	112
YoY Growth		91%	12%	-9%	6%	-19%	-23%	-5%
Retail	15	14	14	15	13	11	7	5
YoY Growth		48%	-34%	-29%	-12%	-24%	-50%	-68%
Building products	550	535	576	578	627	518	597	576
YoY Growth		102%	19%	16%	14%	-3%	4%	0%
(i) Sanitaryware & Faucets (Bathware)	345	364	379	380	408	362	396	402
YoY Growth		104%	16%	12%	18%	-1%	5%	6%
(ii) Plastic Pipes & Fittings (TruFlo)	205	171	197	198	219	156	201	174
YoY Growth		97%	25%	27%	7%	-9%	2%	-12%

Revenue Contribution	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Consumer appliances	17.6%	19.0%	17.5%	16.7%	16.6%	16.6%	13.8%	16.2%
Retail	2.2%	2.1%	1.9%	2.2%	1.7%	1.7%	1.0%	0.7%
Building products	80.2%	78.9%	80.6%	81.1%	81.7%	81.7%	85.3%	83.1%
(i) Sanitaryware & Faucets (Bathware)	50.3%	53.7%	53.0%	53.4%	53.2%	57.1%	56.6%	58.0%
(ii) Plastic Pipes & Fittings (TruFlo)	29.9%	25.2%	27.5%	27.8%	28.5%	24.6%	28.7%	25.1%

EBIT Margin %	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Consumer appliances	-0.5%	1.8%	5.7%	0.9%	-0.2%	-2.7%	-7.2%	-8.1%
Retail	8.6%	0.9%	-1.5%	-5.2%	-5.5%	-6.7%	-50.7%	-51.0%
Building products	10.4%	8.0%	5.7%	6.2%	10.0%	9.2%	10.1%	7.3%
(i) Sanitaryware & Faucets (Bathware)	11.3%	9.6%	8.7%	10.4%	11.2%	12.1%	11.6%	8.9%
(ii) Plastic Pipes & Fittings (TruFlo)	8.8%	4.7%	-0.1%	-1.9%	7.9%	2.3%	7.3%	3.6%

EBIT Contribution	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Consumer appliances	-1.1%	5.1%	18.0%	3.1%	-0.5%	-6.4%	-13.9%	-29.8%
Retail	2.2%	0.3%	-0.5%	-2.2%	-1.2%	-1.6%	-6.9%	-8.2%
Building products	98.9%	94.7%	82.5%	99.2%	101.6%	108.0%	120.8%	138.1%
(i) Sanitaryware & Faucets (Bathware)	67.6%	77.6%	82.7%	109.8%	73.9%	99.8%	91.7%	117.7%
(ii) Plastic Pipes & Fittings (TruFlo)	31.2%	17.7%	-0.3%	-10.5%	27.7%	8.2%	29.2%	20.3%

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Financial Charts

Exhibit 1: Consol. revenue CAGR of 11% over FY23-FY26E aided by strong growth in bathware and Pipe segments

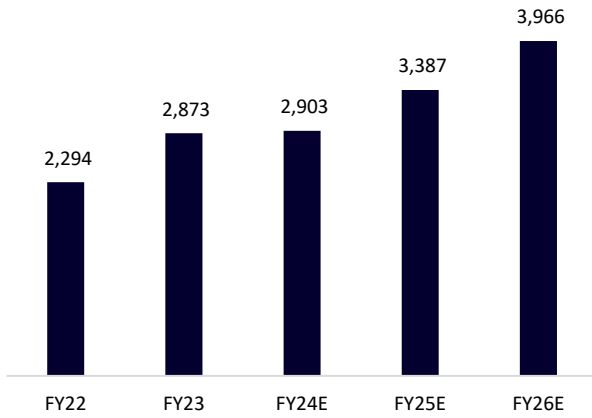


Exhibit 2: Inventory loss in Pipe segment to impacted EBITDA margin in FY23, however recovers in FY24

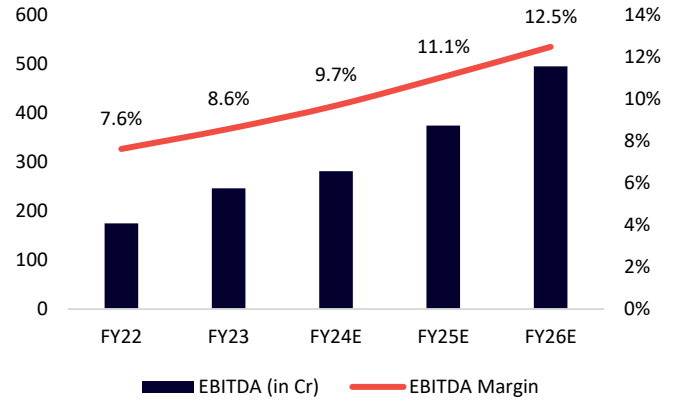


Exhibit 3: Bathware dominates the revenue mix with ~50% share

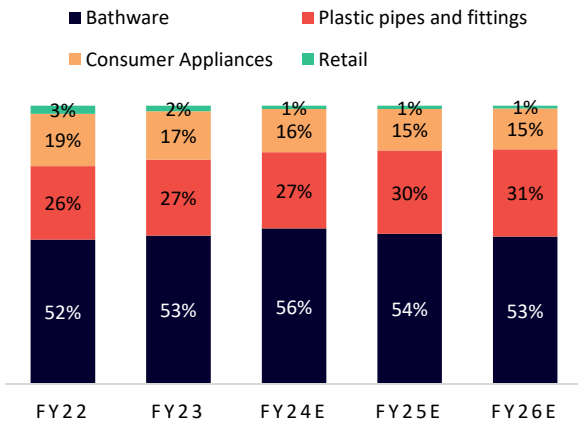


Exhibit 4: EBITDA of Plastic Pipes & Fittings to grow faster with scale

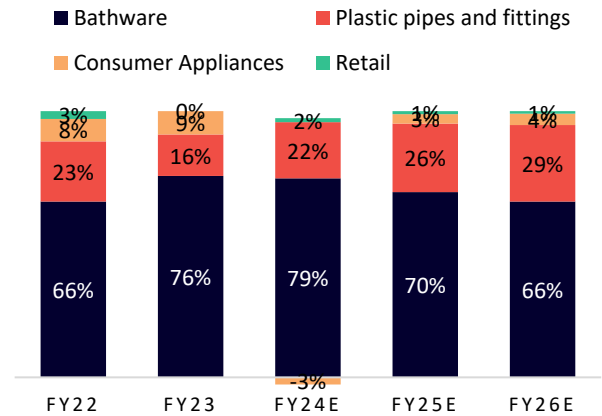


Exhibit 5: APAT CAGR likely at 57% over FY23-FY26E

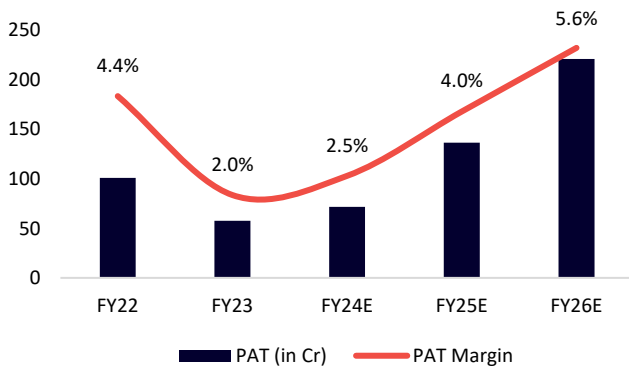
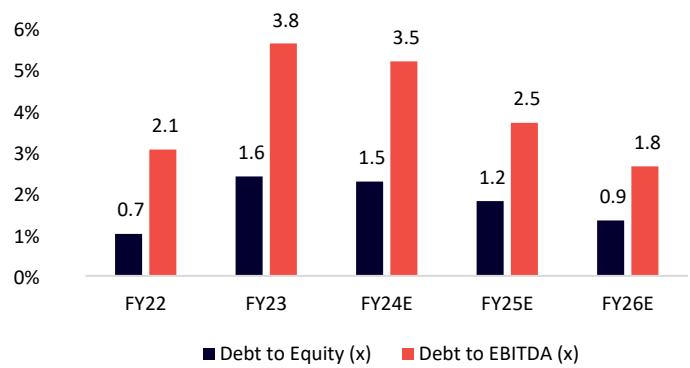


Exhibit 6: Better cash flow generation, working capital management, and debt repayment to reduce debt/equity and debt/EBITDA level



Source: Company, Nuvama Wealth Research

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Previous Outlook

Q2FY24: From being a manufacturer of just one product, HINDWARE has grown significantly to gain market leadership in sanitary ware and is a major faucet ware player. We are optimistic about its medium to longterm growth prospects given its: i) strong positioning in bath ware, ii) greater presence in pipes and fittings and consumer appliances, iii) comprehensive product portfolio, iv) strong brand recall, and v) wide and expanding distribution reach. With a constant focus on product innovation, a timely ramp up in pipe capacity, and a positive demand outlook, it is expected to deliver strong overall growth. However, due to lower-than-expected numbers in H1FY24, we trim our FY24/FY25 PAT estimate by 17%/14%. We maintain 'BUY' with a revised TP of INR637 (earlier: INR672).

Q1FY24: From being a manufacturer of just one product, HINDWARE has grown significantly to gain market leadership in sanitary ware and being a major faucet ware player. Given its strong positioning in bath ware, a greater presence in P&F and consumer appliances, 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. With a constant focus on product innovation, a timely ramp up in pipe capacity, and a positive demand outlook, it is expected to deliver strong overall growth. Due to lower-than-expected numbers in Q1FY24, we trim our FY24/FY25 PAT estimate by 4%/7%. With a positive sentiment around the stock and an unchanged growth guidance for FY24 (despite a slow start), we raise our target multiple to 20x (from 18x) FY25E EPS and maintain 'BUY' with a revised TP of INR672 (earlier: INR653).



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Financials

Income Statement		(INR cr)				
Year to March	FY22	FY23	FY24E	FY25E	FY26E	
Income from operations	2,294	2,873	2,903	3,387	3,966	
Direct costs	1,565	1,637	1,629	1,882	2,182	
Employee costs	231	402	443	487	536	
Other expenses	323	587	550	643	754	
Total operating expenses	2,119	2,627	2,622	3,012	3,471	
EBITDA	175	246	281	374	495	
Depreciation and amortisation	39	101	119	130	143	
EBIT	135	145	162	244	352	
Interest expenses	20	77	89	84	80	
Other income	29	35	35	35	35	
Profit before tax	144	103	108	194	307	
Provision for tax	42	37	27	49	77	
Core profit	103	66	81	145	230	
Share from associates	- 2	- 9	- 9	- 9	- 9	
Profit after tax	101	58	72	136	221	
Extraordinary items	101	-	-	-	-	
Adjusted net profit	202	58	72	136	221	
Minority Interest	-	-	-	-	-	
Profit attributable to Parent's shareholders	202	58	72	136	221	
Equity shares outstanding (cr)	7.2	7.2	7.2	7.2	7.2	
EPS (INR) basic	13.9	8.0	9.9	18.8	30.5	
Diluted shares (Cr)	7.2	7.2	7.2	7.2	7.2	
EPS (INR) fully diluted	13.9	8.0	9.9	18.8	30.5	
Dividend per share	0.5	0.5	0.9	1.2	1.2	

Common size metrics - as % of net revenues

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating expenses	92.4	91.4	90.3	88.9	87.5
Depreciation	1.7	3.5	4.1	3.9	3.6
Interest expenditure	0.9	2.7	3.1	2.5	2.0
EBITDA margins	7.6	8.6	9.7	11.1	12.5
Net profit margins	8.8	2.0	2.5	4.0	5.6

Growth metrics (%)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	29	25	1	17	17
EBITDA	22	41	14	33	32
PBT	56	-29	5	80	58
Net profit	87	-35	21	80	58
EPS	84	-43	24	90	62

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Balance Sheet						(INR cr)
As on 31st March	FY22	FY23	FY24E	FY25E	FY26E	
Equity share capital	14	14	14	14	14	
Preference Share Capital	-	-	-	-	-	
Reserves & surplus	512	561	625	752	963	
Shareholders funds	526	576	640	766	978	
Borrowings (including lease)	362	939	989	939	889	
Minority interest	-	7	7	7	7	
Sources of funds	888	1,522	1,636	1,712	1,873	
Gross block	878	1,148	1,244	1,374	1,494	
Depreciation	135	236	355	486	629	
Net block	743	912	889	888	866	
Capital work in progress	59	36	20	20	20	
Total fixed assets	802	948	909	908	886	
Unrealised profit	-	-	-	-	-	
Investments	114	97	97	97	97	
Inventories	675	684	756	881	1,032	
Sundry debtors	306	378	398	464	543	
Cash and equivalents	27	9	97	28	37	
Loans and advances	154	127	127	127	127	
Other current assets	-	-	-	-	-	
Total current assets	1,162	1,197	1,377	1,500	1,740	
Sundry creditors and others	1,206	721	747	793	849	
Provisions	8	6	6	6	6	
Total CL & provisions	1,214	727	753	799	855	
Net current assets	- 53	471	624	701	885	
Net Deferred tax	38	36	36	36	36	
Misc expenditure	- 13	- 30	- 30	- 30	- 30	
Uses of funds	888	1,522	1,636	1,712	1,873	
Book value per share (INR)	73	80	88	106	135	

Cash flow statement

Year to March	FY22	FY23	FY24E	FY25E	FY26E	
Net profit	101	58	72	136	221	
Add: Depreciation	39	101	119	130	143	
Add: Misc expenses written off	-60	17	0	0	0	
Add: Deferred tax	-2	2	0	0	0	
Add: Others	0	0	0	0	0	
Gross cash flow	78	178	191	267	364	
Less: Changes in W. C.	-435	541	66	146	175	
Operating cash flow	513	-363	125	121	189	
Less: Capex	39	248	80	130	120	
Free cash flow	474	-611	45	-9	69	

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Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
RoAE (%)	24	10.4	12	19	25.3
RoACE (%)	20	12.5	11	15	20.0
Debtors (days)	49	48	50	50	50
Current ratio	1	2	2	2	2
Debt/equity	0.7	1.6	1.5	1.2	0.9
Inventory (days)	107	87	95	95	95
Payable (days)	40	32	35	35	35
Cash conversion cycle (days)	116	103	110	110	110
Debt/EBITDA	2	4	4	3	2
Adjusted Debt/equity	1	2	1	1	1

Valuation parameters

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Diluted EPS (INR)	14	8	10	19	31
Y-o-Y growth (%)	84	-43	24	90	62
CEPS (INR)	19	22	26	37	50
Diluted P/E (x)	31	54	43.4	22.8	14.1
Price/BV (x)	6	5	5	4	3
EV/Sales (x)	2	1	1	1	1
EV/EBITDA (x)	20	16	14	11	8.0
Diluted Shares O/S (Cr)	7	7	7	7	7
Basic EPS (INR)	14	8	10	19	31
Basic P/E (x)	31	54	43	23	14
Dividend yield (%)	0	0	0	0	0

Nuvama Wealth and Investment Limited, Eight Floor 801 to 804, Inspire BKC G Block, BKC Main Road, Bandra Kurla Complex,
Bandra East, Mumbai-400051

Sandeep Raina

Head of Research – Professional Client Group
sandeep.raina@nuvama.com

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