

Hindusthan National Glass & Industries Ltd (HNG) is a leading India's container glass company with around 55% market share and an operational capacity of 11 furnaces and 44 production lines with fully-automated IS machines. The company houses one of the widest portfolios for container glass, ranging from 5 ml to 3200 ml across multi-coloured bottles (amber, flint and green) and has an installed TPD capacity in India (2,925 MT) and Germany (320 MT). The company further intends to expand its container glass capacity to 6,473 MTPD by FY'16E.

Investor's Rationale

HNG is the only player in the container glass industry with a pan India presence, with over 55% market share catering to the demand of container glass in processed food, soft drinks, liquor, pharmaceuticals, and cosmetics segments. With persistent efforts to maintain its dominant position in the market, the company is expanding its capacity by building Mega projects with total capacity of 650tpd each in Naidupeta, Andhra Pradesh and in Nashik, Maharashtra.

The company has embarked an ambitious ₹25bn expansion plans, under which it is planning to enhance its standalone capacity from 2,930 Million Tons per Day (MTPD) in H1FY'12 to over 4,230 MTPD. This expansion is an addition over its two additional facilities at Nasik (650 MTPD) and Naidupeta (650 MTPD) in order to meet the growing demand from South India.

Under the company's persistent efforts to reduce cost pressure and improve its margins, it has adopted several cost cutting strategies. Shifting its operational focus from Furnace Oil and LPG to Natural Gas in Bahadurgarh & Neemrana plants and purchasing its main raw materials Soda Ash from international markets as costs for the same is cheaper therein as compared with domestic markets, are noteworthy among all. Further, with more inclination towards technology, we believe the company's operational margins would stay afloat at ~16.2% for the coming two years.

In order to bank on the growing demand from the Cosmetics and personal care segment, where the realization is 50% higher than the HNG average realization, the company is in the process of setting up new capacity of 100tpd at Nashik to cater to the cosmetics segment.

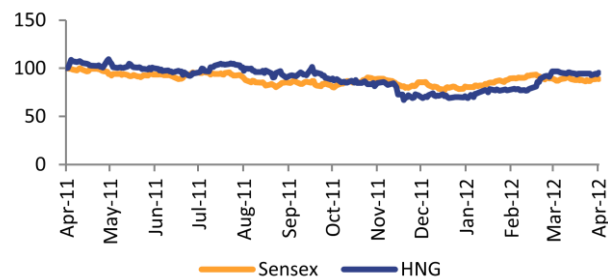
Market Data

Rating	BUY
CMP (₹)	192
Target (₹)	240
Potential Upside	~25%
Duration	Long Term
52 week H/L (₹)	235.6/121.5
All time High (₹)	298.0
Decline from 52WH (%)	18.5
Rise from 52WL (%)	58.0
Beta	0.3
Mkt. Cap (₹ bn)	16.8
Enterprise Value (₹ bn)	23.1

Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹bn)	13,599.0	15,434.1	19,116.0	24,470.4
Net Profit(₹bn)	1,551.9	864.2	887.8	1,345.3
Share Capital	174.7	174.7	174.7	174.7
EPS (₹)	17.8	9.9	10.2	15.4
P/E (x)	10.8	19.4	18.9	12.5
P/BV (x)	1.6	1.4	1.4	1.2
EV/EBITDA (x)	7.1	8.5	8.7	7.0
ROE (%)	14.9	7.4	7.1	9.9
ROCE (%)	13.5	9.0	8.3	10.2

One year Price Chart



Shareholding Pattern

	Dec'11	Sep'11	Diff.
Promoters	69.98	69.98	0.0
FII	7.28	7.28	0.0
DII	0.21	0.31	-0.1
Others	22.53	22.43	0.1



Company Profile

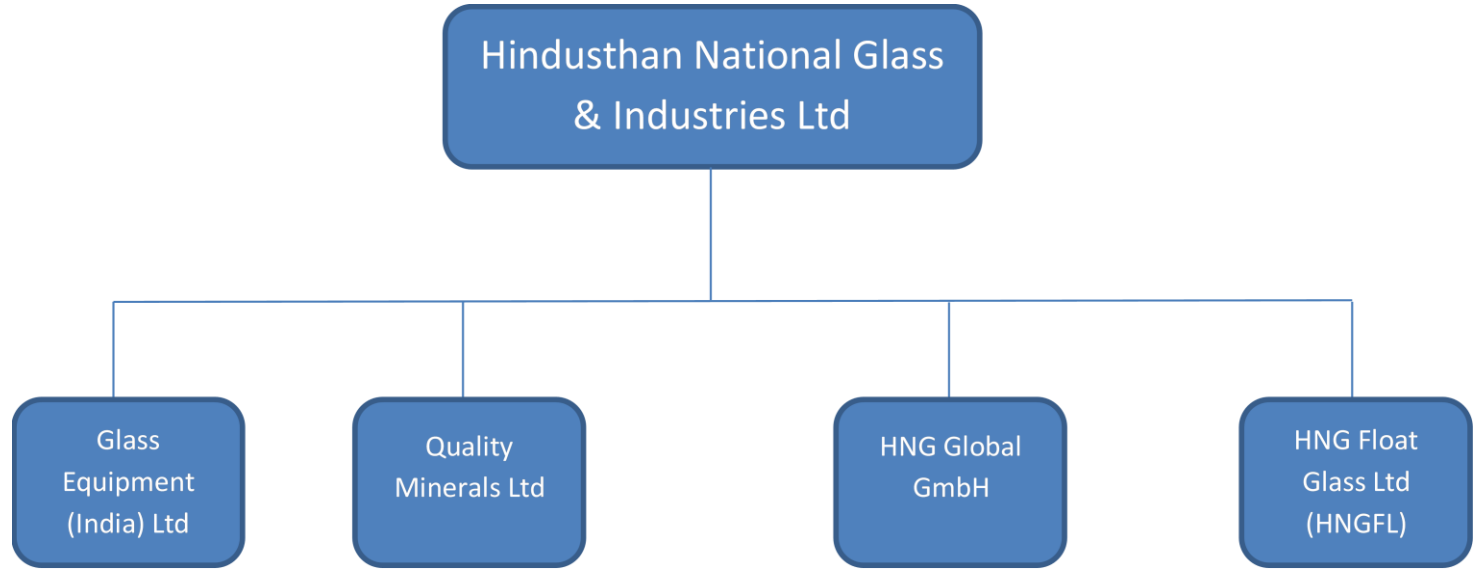
HNG is a leading India's container glass company with around 55% market share and having pan India presence. It is catering the demand of glass containers in the different segments such as processed food, liquor, soft drinks, pharmaceuticals, and cosmetics. Among these, liquor segment is contributing ~67% of the company's revenue.

HNG, incorporated in 1946 by the Somany family, is the key player in India's glass manufacturing industry. HNG is a leading India's container glass company with around 55% market share and having pan India presence. It has headquarters in Kolkata (West Bengal); with manufacturing facilities across six locations in Rishra, Nashik, Neemrana, Rishikesh, Bahadurgarh and Puducherry.

With an operational capacity of 11 furnaces and 44 production lines with fully-automated IS machines, HNG possesses one of the widest portfolios for container glass, ranging from 5 ml to 3200 ml across multi-coloured bottles (amber, flint and green). The company has an installed TPD capacity in India (2,925 MT) and Germany (320 MT) and has planned capacity expansion to ~6,765 TPD at Global level by FY17. It is catering the demand of glass containers in the different segments such as processed food, liquor, soft drinks, pharmaceuticals, and cosmetics. Among these, liquor segment is contributing ~67% of the company's revenue.

HNG has three subsidiaries – HNG Global GmbH in Germany, Quality Minerals Ltd and Glass Equipment (India) Ltd in India. Through the acquisition of 47.5% stake in HNG Float Glass Ltd, HNG entered into the real estate and auto glass segments.

Corporate Structure



In collaboration with global players, HNG introduced the narrow neck press and blow (NNPB) technology in 2007-08, first to introduce and commercialize this technology in India. NNPB is a revolutionary process that not only controls the distribution of glass inside the container, but also reduces the weight of glass by 33% without having any adverse effects on the performance of the glass containers. It invested a capital of ₹1bn to introduce this technology in India. On one hand, this technology enabled the company to reduce production costs and wastages; and on the other, it strengthened capacity utilization.



Largest Fish in Container Glass Industry

HNG is the only player in the container glass industry with a pan India presence, with over 55% market share. It has strategically located marketing offices in Delhi, Kolkata, Hyderabad, Mumbai, Bengaluru, and Chennai along with its strong distribution network of over 950 dealers.

HNG is the only player in the container glass industry with a pan India presence, with over 55% market share catering to the demand of container glass in processed food, soft drinks, liquor, pharmaceuticals, and cosmetics segments. The company has manufacturing facilities located across six locations, in the North (Bahadurgarh, Neemrana and Rishikesh), the West (Nashik), the East (Rishra), and in South manufacturing facility is at Puducherry. HNG to its credential carries the tag of largest producer of container glass, with virtually no major competitors, its competitors are largely regional plays – HSIL has capacities in Andhra Pradesh while Haldyn Glass and Piramal have their units in Gujarat. HNG is the only container glass manufacturer in East India. It's well spread units work to its advantage, as glass containers are usually transported only within a 500km radius. The pan India presence enables HNG to cater to user industries across geographies. The company also possess an operational capacity of 11 furnaces and 44 production lines with fully-automated IS machines. Besides this, HNG contains one of the widest portfolios for container glass, ranging from 5 ml to 3200 ml across multi-coloured bottles (amber, flint and green) and its products are sold in over 30 countries. Further, the company is expanding its capacity by building Mega projects with total capacity of 650tpd each in Naidupeta, Andhra Pradesh and in Nashik, Maharashtra.

HNG has strategically located marketing offices in Delhi, Kolkata, Hyderabad, Mumbai, Bengaluru, and Chennai along with its strong distribution network of over 950 dealers help HNG to cater the demand of its products across India. Moreover, HNG exports its products to 30 countries, which contribute 5% of its revenue. While Bangladesh, Kenya, Nepal, Yemen form the majority of it.

Monopolistic presence

Locations	Capacity (tpd)	Furnaces
Rishra	805	3
Bahadurgarh	780	3
Neemrana	180	1
Rishikesh	425	2
Nashik	370	1
Puducherry	370	1

Continuously improving its asset base

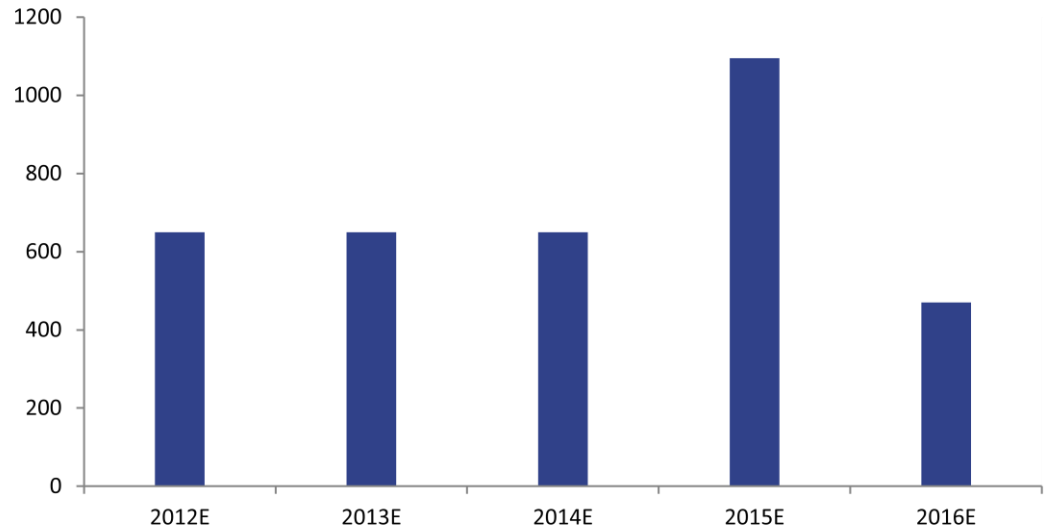
HNG has embarked an ambitious ₹25bn expansion plans, the company is planning to enhance its standalone capacity from 2,930 Million Tons per Day (MTPD) in H1FY'12 to over 4,230 MTPD. The expansion is likely to be aided by two additional facilities at Nasik (650 MTPD) and Naidupeta (650 MTPD). To meet demand from South India, HNG has been supplying some quantity (100tpd) from its Rishra (East India) unit. To cater to the high growth South India market and also release capacity at its Rishra unit, HNG is setting up a 650tpd capacity at Naidupeta. Furthermore, construction of a Greenfield glass manufacturing complex at Naidupeta in Nellore district of Andhra Pradesh is in progress and expected to be commissioned by Q2FY'13. Meanwhile,

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capacity expansion at Nashik to 650 TPD with a capital expenditure of ₹7,250 mn is expected to be commissioned by Q1FY'13. The current capacity utilization of the company is at 100% and the company expects the new plants at Naidupeta and Nashik also to run at full capacity once they are commissioned. In addition, through various rebuilds across facilities and setting up of a new facility in the eastern part of the country, the company plans to expand its capacity to 6,473 MTPD by FY'16E.

Capacity expansion plan of HNG (MTPD)



Maintaining margins

HNG has a conventional network for sourcing key inputs like silica sand, cullet, etc. It has recycled its material sourcing proficiency and established vendor base to reduce input costs, in addition the suppliers are located in close proximity in order to cut down the transportation costs. Further, the company procures one of its main raw materials Soda Ash from international markets as costs for the same is cheaper therein as compared with domestic markets. The company has also ventured into in-house sourcing of amber sand for Rishra unit, resulting into saving of nearly 40% towards sand cost. Further, it is planning to extend its mining operation for all plants. Power accounts for over 30% of total operating cost. HNG has shifted from Furnace Oil and LPG to Natural Gas in Bahadurgarh & Neemrana plants, further the company has a captive power plant of 1.2MW based on waste heat recovery in its Rishra plant to cut down the power cost. In addition, the company is installing large capacities with large furnaces, thereby reaping the benefits of economies of scale and leading to lower per unit cost of power. Additionally, implementation of new technologies in upcoming capacities / plant rebuilds is expected to result in lower personnel and variable costs, going forward.

HNG benefitted from the introduction of its cutting-edge Narrow Neck Press and Blow (NNPB) technology. The NNPB technology reduces the bottle weight by 15-35%, translating into lower raw material, energy & transportation costs, delivers superior glass strength and quality due to uniform glass distribution, thus resulting in better margins. The company is planning to extend this technology to all its plants going forward.

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Strengthening presence in European market through Agenda acquisition

In order to augment its growth, it acquired Agenda Glass of Germany which filed bankruptcy in February 2011. Through this acquisition, HNG has successfully marked its international presence in the container glass manufacturing segment. This will also add to HNG's technological strength and production processes, enabling the company to penetrate into European market, one of the largest markets for food and alco-bev industries. Within months of this acquisition, the company has been witnessing an improvement in capacity utilization (achieved efficiency of 76% in December 2011) in its state-of-art glass manufacturing plant which will enhance cost efficiencies. Agenda was acquired through an international bidding process by HNG Global GmbH, Germany (a 100% subsidiary of HNG) with a total investment of ~ Euro 50 million (~3.15bn).

Apart from Agenda, HNG Global GmbH, Germany has one of the most modern production facilities in Europe, with 320tpd capacity. It is located close to the regional raw material suppliers with easy and economic access to all key RM's. The plant is ideally located for deliveries throughout Germany and to adjacent European Countries. Germany is the largest market for Container Glass in Europe, with a share of ~ 20%.

End-user industry to augment growth

The Glass industry consists of four main segments - Container glasses, Specialty glass, Flat glass and Fiberglass. Container glass, which is the largest segment in the glass sector, comprises of glass packaging for consumer goods and pharmaceuticals. Next largest segment is the specialty glass, which is mainly used, in technical applications such as electronics and engineering. Flat glass segment comprises of float glass and rolled glass, which are mostly used in architectural and automotive applications.

The Indian Glass industry's growth has been driven primarily by India's growing automotive and construction sectors in which float glass is used. HNG is now fit to ride this growth with its new 650tpd plant at Halol in Gujarat which is strategically positioned near major auto manufacturers Tata Motors and General Motors.

Further, the container glass industry is benefiting from growing awareness on account of rising hygienic packaging demand, growing population, increasing per capita income of average Indians and low per capita glass consumption. Incidentally, the per capita glass consumption in India for container glass is 1.2 kg, which offers tremendous scope for rise as per capita glass consumption in US is 40kg and over 10kg in China.

HNG is a leading container glass manufacturer with 55% market share that caters the demand of container glass in processed food, soft drinks, liquor, pharmaceuticals, and cosmetics segments. The company generated more than 63% of its top line from Liquor and Beer manufacturers during FY2011. The company's management expected the contribution from these two segments to increase over 67% by FY2017E.

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Constant technology upgradation, product optimization and continuous innovation leading the growth of HNG.

HNG enjoys a marquee customer profile

HNG has a strong clientele across all its verticals as it provides container glass and tumblers to various industries viz. beer, liquor, pharmaceutical, food, dairy products, beverages, and aerated water. Its clientele include United Breweries, SAB Miller, Radico Khaitan, Bacardi, Pepsi, Coca-Cola, Nestle, Hindustan Unilever, Glaxo Smithkline, Dabur, Reckitt Benckiser, Pfizer, Cipla, Ranbaxy, Himalaya, Carlsberg India etc. This diversified customer base across industries mitigates the risk of downturn in any particular industry. Various foreign technological collaborations and acquisitions helped the company to maintain a strong reputation regarding quality and technology for their products and services. Further, it enables the company in getting export orders and serving clients across international markets.

Further, the company through its various plants has increased the capacity, which is likely to reap the benefits of an additional high profile clientele across the sector, powering its ability to earn high revenues in future.

Continuous technology upgradation leading the growth

HNG emphasized on constant technology upgradation to meet the international standards. It introduced Narrow Neck Press and Blow (NNPB) technology, first in India. NNPB technology reduces the bottle weight by 15-35% and delivers superior glass strength and quality as a result of uniform glass distribution. This ensures higher per tonne realisation, while reducing the per bottle cost for the customer (up to 33% lower weight, lower transport cost, less breakage). Through NNPB, HNG strives to remain competitive with other packing alternatives and continue to be the market leader in India. Further, it plans to implement this technology at all its plants in the next few years in order to increase production of light weighted bottles to enhance margins.

Meanwhile, HNG is sustaining its competitive advantage through product optimization and continuous innovation by making collaborations for technology with global partners. Some of these are with Sorg and Horn (Germany) for Furnace, HEYE International (Germany) & Siheppee (UK) for NNPB development technology & bottle handling machines etc.

Venturing into cosmetic segment

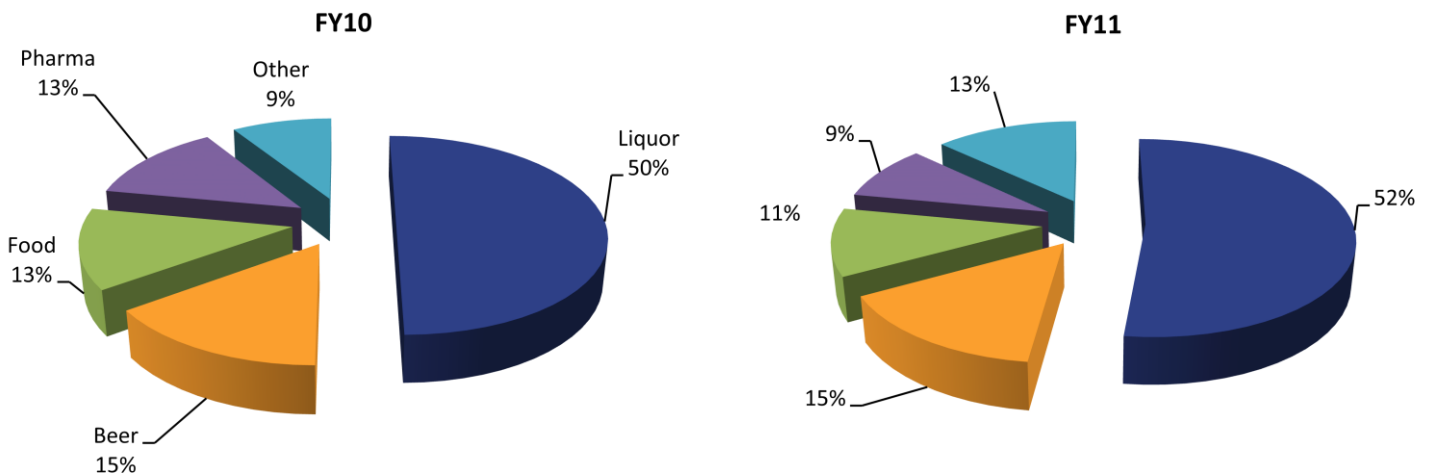
HNG operates with 370tpd capacity in Nashik, which mainly manufactures flint glass. It plans to rebuild the furnace during FY'13, which will enhance capacity by 25tpd. In addition, it is in the process of setting up new capacity of 100tpd to cater to the cosmetics segment. HNG has a small presence in toiletries and household products, which account for 4% of its volumes. Cosmetics and personal care container glass realization is 50% higher than the HNG average and 70% higher than liquor, HNG's largest segment. It is expected that cosmetics and personal care industry to grow volumes in teens, which provides an attractive opportunity. Entry into a high growth and higher margin segment will improve HNG's prospects post FY'12. Following the commissioning of the new unit, we expect the share of cosmetics, personal care and toiletries in HNG's topline to increase from 5% currently to 8% by FY'14.



Strong Product mix

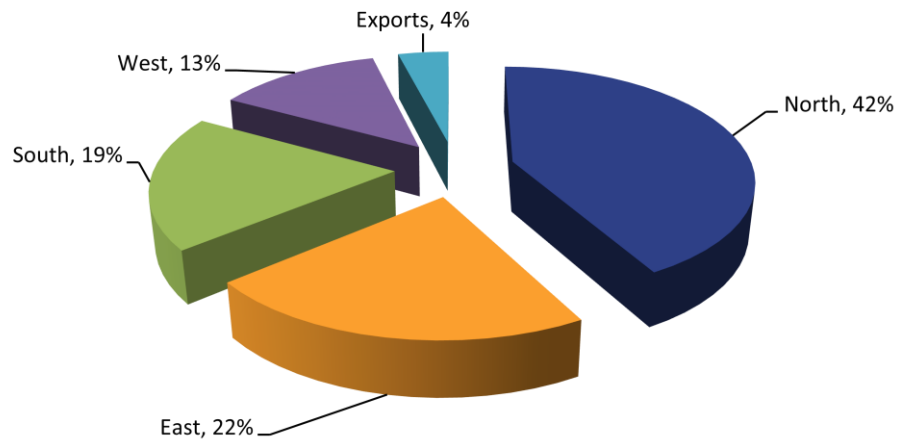
HNG has a presence across product segments. However, significant portion of its income come from the liquor and beer industries, which accounted for 67% of the company’s revenue in FY’11. The pharmaceuticals and food industries are the other major contributors, together accounting for 20% of the total revenue in FY’11. Food and beverages thus account for about 80% of its volumes. The pharmaceuticals segment accounts for 9% of its sales volumes, and personal care accounts for the balance 3%. HNG has consciously increased the proportion of higher realization soft drink bottle and cosmetic segment as both the segments present escalation prospective for the companies like HNG.

Sales Mix



Further the northern part of country is the primary market for the company, contributing over 42% to the revenue during FY’11, while the contribution from Eastern and Southern India stood at 22% and 19% during FY’11. Even though HNG’s products are available in over 30 foreign markets, export contributed merely 4% to the total revenues during FY’11.

Geographical Mix





Balance Sheet (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	174.7	174.7	174.7	174.7
Reserve and surplus	10,253.0	11,486.8	12,243.6	13,457.8
Net Worth	10,427.7	11,661.5	12,418.3	13,632.5
Loan funds	5,657.2	6,395.3	10,480.2	11,490.2
Deferred Tax Liability	696.9	711.8	711.8	711.8
Capital Employed	16,781.8	18,768.6	23,610.3	25,834.5
Total Fixed assets	11,437.5	13,845.5	15,613.5	17,965.5
Investment	1,470.7	1,775.4	1,775.4	1,775.4
Net Current Assets	3,873.7	3,147.8	6,221.4	6,093.6
Capital Deployed	16,781.8	18,768.6	23,610.3	25,834.5

Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	20.7	16.4	16.2	16.2
EBIT Margin (%)	16.7	10.9	10.2	10.7
NPM (%)	11.4	5.6	4.6	5.5
ROCE (%)	13.5	9.0	8.3	10.2
ROE (%)	14.9	7.4	7.1	9.9
EPS (₹)	17.8	9.9	10.2	15.4
CEPS(₹)	33.0	27.1	33.4	41.8
P/E (x)	10.8	19.4	18.9	12.5
BVPS	119.4	133.5	142.2	156.1
P/BVPS (x)	1.6	1.4	1.4	1.2
EV/Operating Income (x)	1.6	1.5	1.4	1.1
EV/EBITDA (x)	7.1	8.5	8.7	7.0

Profit & Loss Account (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Net Sales	13,599.0	15,434.1	19,116.0	24,470.4
Other income	345.5	179.5	141.3	167.2
Expenses	10,781.2	12,908.5	16,144.8	20,646.3
EBITDA	3,163.3	2,705.1	3,112.5	3,991.3
EBITDA Margin %	20.7	16.4	16.2	16.2
Depreciation	890.1	1,025.3	1,155.7	1,363.7
EBIT	2,273.2	1,679.8	1,956.8	2,627.6
Interest	471.7	510.6	902.8	974.8
Adjustments	28.9	28.6	29.2	28.8
Profit Before Tax	1,830.4	1,197.8	1,083.2	1,681.6
Tax	278.5	333.6	195.4	336.3
Net Profit	1,551.9	864.2	887.8	1,345.3
NPM %	11.4	5.6	4.6	5.5

Valuation and view

Hindusthan National Glass is well poised for continuous growth driven by its positioning as the largest container glass player with market share more than 60%. New capacity addition and continuous technological improvement will place it comfortably ahead of the competition. Over the last few quarters the company witnessed a reduction in margins, while this will improve in coming quarters on account of price hikes taken recently. Moreover, acquisition of Agenda in Germany will strengthen its presence in European market which is one of the largest markets for food and alco-bev industries. HNG is also attractively placed at P/E of ~ 12.5x FY13E given the long term prospects of the company. Considering the above aspects, we rate the stock as 'BUY' at the current market price of ₹192.



Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

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