



Quick Insight

Himatsingka Seide Ltd.



Himatsingka

Industry Textiles

CMP ₹68.8

M Cap (₹ mn) ₹6,774

Buy Range ₹68-70

Target ₹115

Recommendation Accumulate on dips

Highlights

- Integrated business model results in cost efficiency and delivery of quality products
- Increasing contribution of branded products to topline
- Focus on debt reduction
- Likely increase in capacity utilisation to help topline
- Q4FY20 impacted due to Covid-19 disruption, numbers to bounce back in H2FY21E

Himatsingka Seide Ltd.

Background

Established in 1985, Himatsingka Seide Ltd, is a vertically integrated home textile player which manufactures, retails and distributes bedding, bath, drapery, upholstery and lifestyle accessory products. Company operates through two divisions – manufacturing (one of India's leading manufacturers of bed linen products (bed sheets in particular), upholstery and drapery fabrics), retail and distribution (caters to diverse requirements of varied clientele across North America, Europe, and Asia through branding activities and private label programmes).

Licensed Brands	Owned Brands
Calvin Klein Home	Pimacott
Barbara Berry	Homegrown
Tommy Hilfiger Home	Organicott
Kate Spade	Atmosphere
Copper Fit	Bellora
Royal Velvet	

Key Focus Areas:

- Increase in Capacity utilisation from bedding and bathing divisions
- Increasing contribution of branded products to topline
- Continuing to build its global brand portfolio
- Focus on deleveraging and improving capital efficiency metrics
- Enhancing its digital presence across product categories

Investment Argument

- **Integrated business model results in cost efficiency and delivery of quality products** – Company is vertically integrated home textiles player which designs, develops, manufactures, distributes and retails its products and enables it to meet constantly changing consumer preferences without affecting quality thus making it a preferred and cost efficient player.

Company set up ultra-fine cotton yarn manufacturing facility with capacity of 211,584 spindles in FY19 thus sourcing more than half of its yarn requirement internally thereby helping it in delivering high quality products and improving margins. Due to these benefits, the company has been able to scale up its own sourcing from ~50% in FY16 to ~75% in FY19. Also, company's EBITDA margins improved from ~15.6% in FY16 to ~20% in FY19.

- **Increasing contribution of branded products to topline** – Company began its journey in brand business in 2003 through its own brand 'Atmosphere' in India and later, it ventured in global brand business with the acquisition of licenses and distribution rights for global brands like, Calvin Cline Home. In FY19, the company's step down subsidiary Himatsingka America Inc acquired home portfolio of Global Brands Group Holding, which has exclusive licence rights for brands like Tommy Hilfiger Home, Copper Fit, etc. Further, the company has (in FY18) taken up global license rights to the Calvin Klein Home Brand and hence will be targeting at worldwide markets to take this brand. Based on all these efforts, its brand's portfolio saw robust growth during FY16-FY18 and total revenues from its brand portfolio stood at `16,100mn, contributing 75-80% of its revenue and is expected to contribute higher in the coming years.

Nifty	11,200
Sensex	38,025
Key Stock Data	
CMP	₹68.8
Market Cap (₹ mn)	₹6,774
52W High/Low	₹166.0/43.0
Shares o/s (mn)	98
Shareholding pattern (%) June'20	
Promoters	47.6
FII	4.2
DII	16.3
Public & Others	31.9

Particular	₹ mn	
	FY19	FY20
Total Income	26,543	24,196
EBITDA	5,799	4,793
PAT	1,968	133
EPS	19.9	1.4
P/E	3.44	50.9
EV/ EBITDA (x)	5.7	7.5
RoE (%)	13.9%	1.0%
Net Debt/Equity	1.7	1.8
Net Debt/EBITDA	4.4	5.9

Source: Company Data, Way2Wealth Inst Equity

7th August 2020

- **Focus on debt reduction** – Over last 3-4 years, company undertook large capital expenditure of ₹13,000 mn that involved the setting up of one brownfield (to augment the capacity of its bedding division from 23 MMPA to 61 MMPA) and two greenfield projects at its manufacturing campus in Hassan, Karnataka. Under greenfield expansion, company went backward integration to set up cotton spinning plant with an installed capacity of 2,11,584 spindles (commissioned during FY18) and also set up terry towel production facilities with an installed capacity of 25,000 TPA (commissioned in FY20). This higher capex of ~₹13,000 mn, acquisition of new licenses and higher working capital resulted in increased debt, thereby higher D/E ratio which increased from 0.8x in FY16 to 1.6x in FY19. However with the end of capex cycle company's focus is now on deleveraging and sweating of assets which would help in improving operating cash flows.

Also, management indicated it would reduce debt by ₹2,000-2,500 mn per annum as it has no major capex and focus is on sweating of the assets and targets to keep working capital requirement under control.

- **Likely increase in capacity utilisation to help topline** – In FY17, company expanded its bed sheet manufacturing capacity from 23 mmpa (million metres per annum) to 46 mmpa and then carried debottlenecking of bed sheet manufacturing facility (completed in FY19) which resulted in an increase in capacity to the tune of 15 mmpa. Utilisation levels in respect of both (i.e. original and new capacity) have been lower in Q4FY20 due to lockdown restrictions led by Covid-19 disruption. However, management is confident of achieving higher utilisation rates as it stated company's order book is strong and improving QoQ basis which will thereby help achieve higher topline and operating leverage. On the terry towel front (commenced operation in FY20), management is hopeful of achieving 60-70% utilisation in FY21E.

- **Q4FY20 impacted due to Covid-19 disruption, numbers to bounce back in H2FY21E** – For Q4FY20, Himatsingka Seide Ltd registered 32% YoY degrowth in total income to ₹4714mn on the back of lockdown restrictions due to Covid-19 disruption coupled with lower capacity utilisation levels. Topline performance has been severely impacted on account of COVID-19 as its outbound shipments and operations at manufacturing and distribution facilities were impacted beginning the second week of March, 2020 which impacted company's consolidated revenues by approximately ₹2000 mn for Q4 FY20.

On a QoQ basis, total income from operations fell 30% while EBITDA degrew 23% however EBITDA margins expanded by 204 bps from 18.5% in Q3FY20.

During the quarter, company was able to hold EBITDA margins at ~20%, however EBITDA degrew ~31%YoY to ₹966mn in Q4FY20.

For FY20, company registered ~9% YoY degrowth in total income to ₹24,196mn while EBITDA fell 17% YoY to ₹4793mn and PAT to ₹133mn.

During FY20, company calibrated capex program with the commissioning of its greenfield terry towel facility in October,2019 and also completed restructuring of its Italian operations and the same has had a consolidated impact of approximately ₹350 mn for the year.

- **Key Risks** – Raw material price volatility, forex volatility, 2nd or 3rd Covid-19 wave and continued slowdown in textile sector.

View

Despite lockdown restrictions led by Covid-19 disruption, Himatsingka Seide Ltd. managed to maintain EBITDA margins and also witnessed growth in its ecommerce and branded portfolio business. We believe company's exports (to countries such as USA and Europe) which comprise of ~80-90% of overall revenues to face slowdown led by Covid-19 disruption (in near term) and major growth to come from bedding, terry towel category coupled with ecommerce channel. Company has successfully increased branded products contribution to overall revenues over last 2-3 years and has aspirations to achieve strong growth from this and newly set terry towel facility. Higher debt exposure, working capital inefficiency and uncertainty surrounding Covid-19 situation in the near term, remains a concern, however we view the stock as **"Accumulate on dips"** with target range of ₹115.

Financials

(₹mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	FY20	FY19	YoY (%)
Total Income	4,714	6,927	-32.0%	24,196	26,543	-8.8%
EBITDA	966	1,404	-31.2%	4,793	5,799	-17.4%
EBITDA Margin (%)	20.5%	20.3%	22bps	19.8%	21.8%	-204bps
EBIT	582	1,116	-47.8%	3,531	4,712	-25.1%
EBIT Margin	12.3%	16.1%	-376 bps	14.6%	17.8%	-316bps
PBT	47	667	-93.0%	1,584	3,080	-48.6%
PBT Margin	1.0%	9.6%	-863 bps	6.5%	11.6%	-506bps
PAT	-688.4	483.7	NA	132.5	1,968	-93.3%
Profit Margin (%)	-14.6%	7.0%	NA	0.5%	7.4%	NA

Technical View

Stock has been in a protracted down trend since early January, 2018 and fell sharply from its all-time high of around 425. In that pessimism, stock hit a fresh 52-week low of around 43 during late March, 2020. Subsequently, stock witnessed decent pullback towards 70 mark however selling pressure once again resumed as a result stock corrected towards 55.55. If we meticulously look at weekly chart, the recent swing low of 55.55 precisely formed near its weekly 20-MA. The said indicator played a role of sheet anchor as we saw decent rally in past few weeks and stock eventually surpassed its weekly swing high of 70. Hence, we are seeing a formation of 'Higher Top Higher Bottom' formation on weekly chart. On a higher degree chart (i.e. Quarterly chart), last quarter candle resembles a formation of 'Doji' Candle. The formation of such candle after prolonged down move indicate exhaustion of sell-off and currently stock is trading above its candle high of 70. Momentum indicator on higher time frames are quite oversold hence possibility of sharp bounce can't be rule out. Combining the above technical evidences, we expect stock to rally towards 115 over a medium term. Stop loss should be placed below its mid July, 2020 swing low of 55.55. Accumulation should be done in a range of 70 to 68.



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Name of the Security	Himatsingka Seide Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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