

APRIL 18, 2019

## Stock Details

Market cap (Rs mn)	:	22744
52-wk Hi/Lo (Rs)	:	400 / 161
Face Value (Rs)	:	5
3M Avg. daily vol (nos)	:	173,484
Shares o/s (mn)	:	98

Source: Bloomberg

## Financial Summary - Consolidated

Y/E Mar (Rs mn)	FY19E	FY20E	FY21E
Revenue	26,036	28,515	31,163
Growth (%)	15.8	9.5	9.3
EBITDA	5,664	6,552	7,336
EBITDA margin (%)	21.8	23.0	23.5
PAT	1,947	2,387	2,964
EPS	19.8	24.2	30.1
EPS Growth (%)	(3.4)	22.6	24.2
Book value (Rs/share)	141.6	162.4	188.2
Dividend per share (Rs)	2.8	3.5	4.3
ROE (%)	14.9	15.9	17.2
ROCE (%)	12.2	12.4	13.9
P/E (x)	11.7	9.5	7.7
P/BV (x)	1.6	1.4	1.2
EV/EBITDA (x)	8.4	7.2	6.0

Source: Company, Kotak Securities - PCG

## Shareholding Pattern (%)

(%)	Mar-19	Dec-18	Jun-18
Promoters	47.6	47.6	47.6
FII	7.1	9.2	11.4
DII	13.6	13.6	12.1
Others	31.8	29.7	28.9

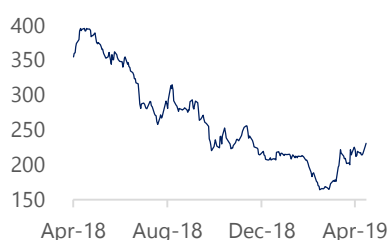
Source: Bloomberg, BSE

## Price Performance (%)

(%)	1M	3M	6M
Himat Singka	6.4	9.1	(5.9)
Nifty	3.2	8.2	11.4

Source: Bloomberg

## Price chart (Rs)



Source: Bloomberg

# HIMAT SINGKA SEIDE LTD (HSL)

**PRICE Rs.231**
**TARGET Rs.290**
**BUY**

Himatsingka Seide Ltd (HSL) is a vertically integrated home textile player with manufacturing facilities in India and has retail and distribution businesses in North America, Europe and Asia. The company has adopted integrated business model with presence from farm to store. This results into cost efficiency and delivering quality products to its customers. HSL is focused on building a strong brand portfolio through owned and licensed brands contributing 75-80% of its revenue. It has license to manufacture, source and distribute home textiles brands such as Calvin Klein Home, Tommy Hilfiger Home, Barbara Barry, etc in major geographies such as North America, Europe, etc. Going forward, the company intends to add more brands as part of its long term growth strategy and enhancing its market share in branded home textiles segment. HSL is at the final stage of its capex with deleveraging going to be the core focus of the company. We expect company's sales, EBITDA and PAT to grow at a CAGR of 11.5%, 17.8% and 13.7% respectively with 360bps improvement in EBITDA margins in FY18-21E. We initiate coverage on the stock with BUY rating and target price of Rs 290, valued at 12x FY20E EPS.

## Investment Rationale

- Integrated business model results in cost efficiency and delivering quality products.** HSL is vertically integrated home textiles player which designs, develops, manufactures, distributes and retails products for its global clientele. This helps the company to be cost efficient player and enables it to meet constantly changing consumer preferences without affecting quality. It has fully integrated facility with sheeting and processing capacity of 61 mn meters per annum (MMPA), ultra-fine cotton yarn manufacturing facility with capacity of 211,584 spindles, and also setting up terry towel facility with capacity of 25,000 tonnes per annum. Due to these benefits, the company has been able to scale up own sourcing from ~50% in FY16 to ~75% in FY19E.
- Focus on building strong portfolio of brands to increase market share.** HSL is focused on building a strong brand portfolio through owned and licensed brands contributing 75-80% of its revenue. With over 12 brands, the company has amongst the largest portfolio of home textiles brands with an annual revenue of over Rs 20 bn. These brands are sold through retail and distribution networks across North America, Europe and Asia. In beginning of FY19, it acquired exclusive license rights to Tommy Hilfiger Home brand (for North America), The Copper Fit Brand and other brands with consolidated annual revenue of approx USD 60-65 mn. Recently, it acquired exclusive licensing rights to home textiles brand 'Royal Velvet' for North America which has strong growth potential. Going forward, the company intends to add more brands as part of its long term growth strategy and enhancing its market share in branded home textiles segment.

**Pankaj Kumar**

pankajr.kumar@kotak.com

+91 22 6218 6434

- ❑ **DNA tagged cotton track and trace technology gives competitive edge.** HSL has emerged as a global leader in track and trace capabilities with regard to the cotton value chain. Tracking system monitors raw material from the farm to the store. Based on this, the company built exclusive cotton brands, namely, Pimacott, HomeGrown Cotton and Organicott. This will help it in catering to the client with products equipped with DNA-based tagging technology and gives HSL edge over most of its peers.
- ❑ **Focus on deleveraging with reduced working capital.** HSL is at the final stage of its Rs 13 bn capex planned since FY16. As the capex cycle is near its end, deleveraging would be the core focus of the company. Further, the company's strategy to consolidate home textiles portfolio and sweating new capacities of Terry towel would help it in achieving operating leverage and improving operating cash flows. We expect the company's net debt to equity to improve from 1.7x in FY19E to 1.1x in FY21E.

### Financial Outlook

Going forward, top priority of the company is to consolidate its home textiles portfolio as well as sweating its new capacities in terry towel and bed linen. In addition, based on improved cash flows, the company will target to reduce its debt by reducing working capital. It will also look out for new strategic opportunities in terms of additions of brands.

We expect company's sales, EBITDA and PAT to grow at a CAGR of 11.5%, 17.8% and 13.7%, respectively with 360bps improvement in EBITDA margins in FY18-21E. This is based on 1) increased contribution from integration of new brands and licenses added by the company, 2) contribution from increased sheeting capacity, 3) revenue from towel facility, 4) contribution from all geographies and 5) benefits from recent incentives by the government for made-ups exports.

### Valuation

Based on FY19E/FY20E/21E EPS of Rs 19.8/Rs 24.2/Rs 30.1, the stock is trading at PE of 11.7x/9.5x/7.7, respectively. We initiate coverage on the stock with BUY rating and target price of Rs 290. We have valued the stock at 12x FY20E EPS of Rs 24.2, which is close to its last five years average forward PE of 11.6x.

### Risks and concerns

- ❑ Raw material price volatility
- ❑ Aggressive expansion
- ❑ Forex volatility risk
- ❑ Change in government policies towards exports benefits

## COMPANY BACKGROUND

Himatsingka Seide, founded in 1985, is a vertically integrated home textile player. It manufactures, retails and distributes bedding, bath, drapery, upholstery and lifestyle accessory products. In terms of operations, the company's business is divided into manufacturing and retail & distribution. The company has manufacturing facilities in India and has retail and distribution businesses in North America, Europe and Asia.

The company was earlier present only in manufacturing of silk and silk blended fabrics for drapery and upholstery segment. In 2003, it launched luxury home furnishing brand 'Atmosphere' in India. Further in 2005, it commenced construction of the vertically integrated greenfield bed linen manufacturing facility at Hassan, Karnataka. In 2007, HSL moved one step further, by acquiring Giuseppe Bellora S.p.A (Italy). It is amongst the most prestigious bed linen brands in Europe and retails through 17 exclusive Bellora stores, multi-brand outlets and luxury departmental stores in Italy and other parts of Western Europe. HSL also acquired two companies in North America, Divatex Home Fashions, Inc and DWI Holdings, Inc which got merged with Himatsingka America. Based on acquisitions made by the company over the years, it presently holds licenses for leading brands such as Calvin Klein Home, Tommy Hilfiger Home, Barbara Barry, Royal Velvet, etc.

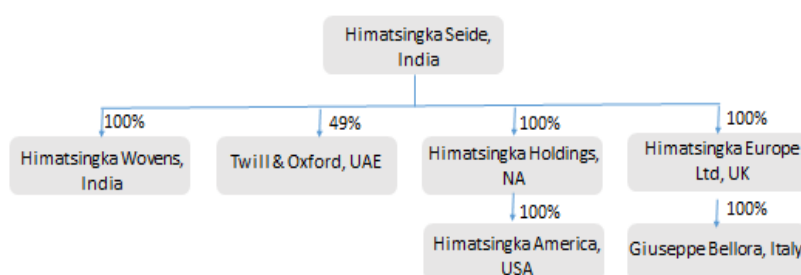
### Manufacturing Business

HSL's manufacturing facility is located in Bangalore and Hasan, Karnataka. It has sheeting and processing capacity of 61 mn meters per annum (MMPA) in bedding, which is fully integrated with recently completed ultra-fine cotton yarn manufacturing facility having capacity of 211,584 spindles. In Drapery and Upholstery business, it has vertically integrated facility with yarn preparation, yarn dyeing, weaving and finishing capabilities. The facility has an annual capacity of 2 MMPA with 110 weaving machines. The company is setting up terry towel facility in Hasan with annual capacity of 25,000 tonnes per annum (TPA) which will be operational by H1FY20.

### Retail & Distribution

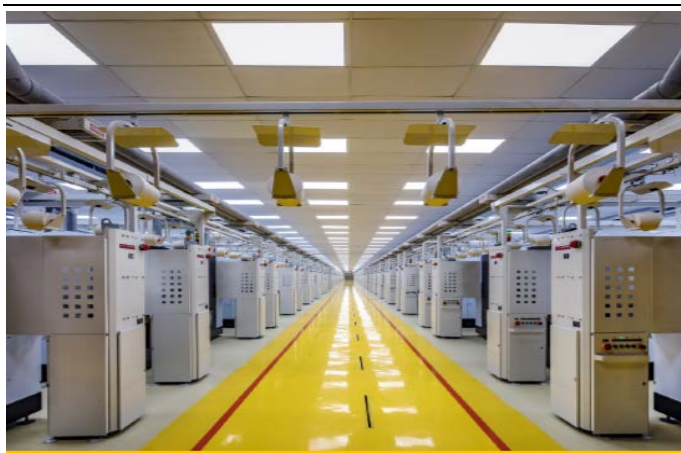
HSL has retail and distribution networks across North America, Europe and Asia. The company through its subsidiary, Himatsingka Holdings NA and Himatsingka USA operates in North America and owns distribution license of brands such as Calvin Klein Home, Tommy Hilfiger Home, Barbara Barry, etc. In Europe, HSL has extensive retail and distribution networks and operates through its division Guiseppe Bellora S.p.A. Bellora. It is amongst the most recognized Italian luxury-bedding brand in Italy and has presence in other parts of Europe. With over 12 brands, the company has amongst the largest portfolio of home textiles brands with an annual revenue of over Rs 20 bn.

### HSL Group Structure



Source: Company PPT, Giuseppe Bellora now got merged with Himatsingka America

### Spinning unit



Source: Company

### Weaving unit



Source: Company

### Processing unit



Source: Company

### Warehousing unit



Source: Company

### Management Profile

Name	Designation	Background
D K Himatsingka	Promoter & Executive Chairman	He is the founder of the company and the company has grown under his able leadership. He pioneered luxury Home Textile manufacturing in India.
Shrikant Himatsingka	Managing Director & CEO	He is Alumni of Leonard Stern School of Business, USA. He has been instrumental in taking forward the various growth initiatives of the group
Vasudevan V	Executive Director	He graduated from The Institute of Chemical Technology from Bombay. He heads Manufacturing Operations of the Company
Rajiv Khaitan	Independent Director	He is a partner of the law firm, Messers Khaitan & Co. LLP, Advocates, Notaries, Patent & Trade Mark Attorneys
K R S Murthy	Independent Director	Doctorate in Business Administration from the Harvard Business School and his Masters in Management from Sloan School, MIT. Former Director, Indian Institute of Management, Bangalore and former Chairman, Board of Information Technology Education Standards, BITES
Pradeep Bhargava	Independent Director	He is BE in Electronics and Communications from IIS and MBA from IIM Ahmedabad. He has long experience in both state and private enterprises in fields ranging from consumer, industrial and energy sectors
Sangeeta Kulkarni	Independent Director	She is the Co-founder & CEO of Brickwork India, a global leader in Remote Executive Assistance services. She holds a Master's degree in HR and is an alumna of Boston University and Northwestern University, USA.
K.P.Rangaraj	Chief Financial Officer	He is a CA and holds Bachelor's degree in Science (Maths) from Madras University. He has 25 years' experience across sectors like FMCG, Manufacturing, Telecom, Infra, etc.
Ashok Sharma	Company Secretary	He is Senior VP Finance, CFO (Strategic Finance) and is also company secretary of the company

Source: Company

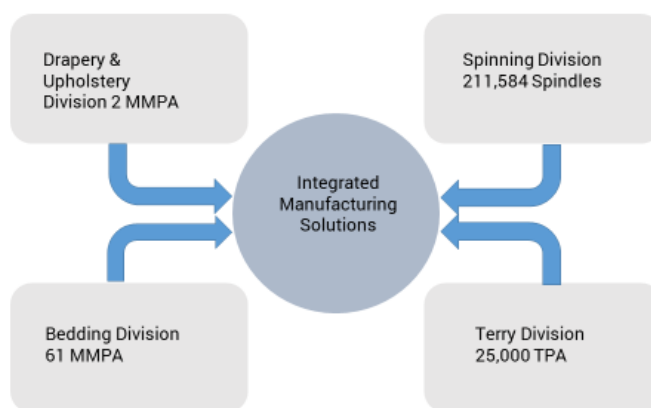


## INVESTMENT RATIONALE

### Integrated business model results in cost efficiency and delivering quality products

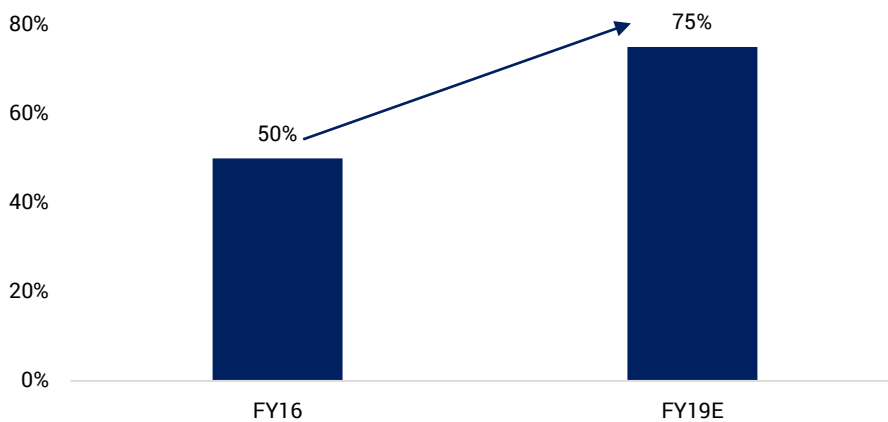
HSL is vertically integrated home textiles player which designs, develops, manufactures, distributes and retails products for its global clientele. This helps company to be cost efficient player and enables it to meet constantly changing consumer preferences without affecting quality. It has fully integrated facility at Hasan, Karnataka with sheeting and processing capacity of 61 mn meters per annum (MMPA). The company went backward by setting up ultra-fine cotton yarn manufacturing facility with capacity of 211,584 spindles (got operational last year). As per company, it is world’s largest spinning plant under one roof. The company is meeting half of its yarn requirement internally which helped it in delivering high quality products, quality raw material and improving margins despite challenges related to reduction in incentives/duty benefits post GST. The company is further adding terry towel facility with capacity of 25,000 tonnes per annum which will expand its product basket. Due to these benefits, the company has been able to scale up own sourcing from ~50% in FY16 to ~75% in FY19E.

### Integrated Manufacturing Solutions



Source: Company

### Own sourcing

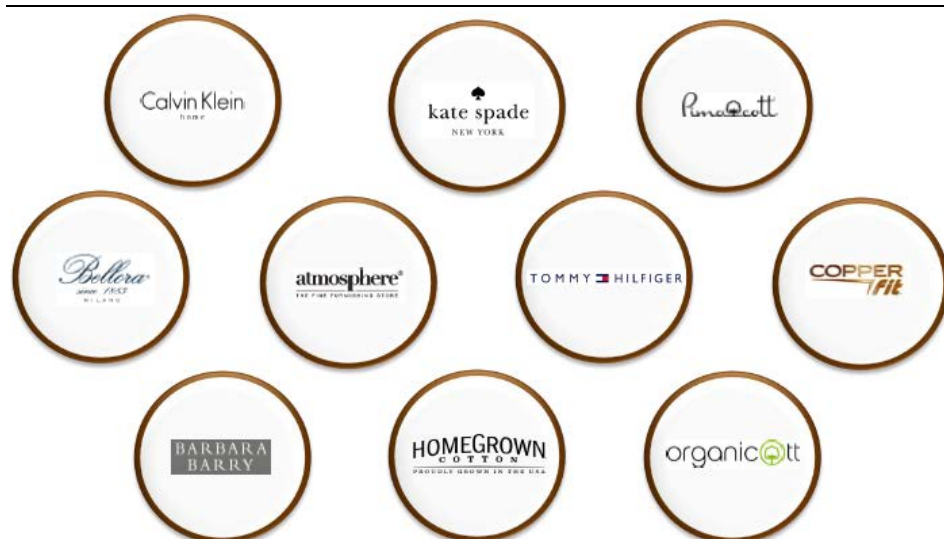


Source: Company, Kotak Securities - Private Client Research

### Focus on building strong portfolio of brands

HSL is focused on building a strong brand portfolio through owned and licensed brands. It began its journey in brand business in 2003 through its own brand 'Atmosphere' in India. Later, it ventured in global brand business with the acquisition of licenses and distribution rights for global brands like, Calvin Cline Home. Currently, it has over 12 licensed or own brands, and hence operates amongst the largest brand portfolios in home textile space. In Q1FY19, 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 now 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 portfolio saw robust growth during FY16-18. It saw robust growth from brands and total revenues from its brand portfolio, was Rs. 16.1 bn, contributing 75-80% of its revenue and is expected to contribute higher in the coming years.

### Strong Brand Portfolio



Source: Company

### Acquisition of new licenses to enhance market share of branded segment

HSL is focused on enhancing its market share in branded home textiles segment. In order to meet this objective, HSL's subsidiary Himatsingka America Inc. has acquired the home portfolio of Global Brands Group Holding Limited. The acquired home portfolio includes the exclusive license rights to Tommy Hilfiger Home brand, The Copper Fit Brand and other brands for North America. This brand portfolio is estimated to contribute annual revenues of approximately between USD 60-65 mn on a consolidated basis. The company is in process of integrating operations and is expected to be concluded by end of FY19E. As per management, the revenue distribution between quarters is non-linear with more revenue will be back ended to the second half of the fiscal. The company expects EBITDA margins from this portfolio to be in-line with the current consolidated EBITDA margin profiles, once the integration process is completed. As per management, the payback period for the brand will be less than three years. Recently, it acquired exclusive licensing rights to home textiles brand 'Royal Velvet' for North America which has strong growth potential. Going forward, the company intends to add more brands as part of its long term growth strategy.

### DNA tagged cotton track and trace technology gives competitive edge

HSL has emerged as a global leader in track and trace capabilities with regard to the cotton value chain. In order to ensure quality and authenticity of its products, the company adopted DNA tagged cotton track and trace technology for supima cotton based products. This tracking system monitors raw material from farm to store. HSL is using technologies exclusively licensed from Applied DNA Sciences. The company is working with ginneries in Texas, Arkansas and California on tagging cotton. The company branded these tagged cotton under 'Pimacott'. The company added more brands using DNA tagging for other variants of cotton. Based on this, the company built exclusive cotton brands, namely, Pimacott, HomeGrown Cotton and Organicott. This helps it in catering to the client with products equipped with DNA-based tagging technology and gives HSL edge over most of its peers.

#### DNA Tagging

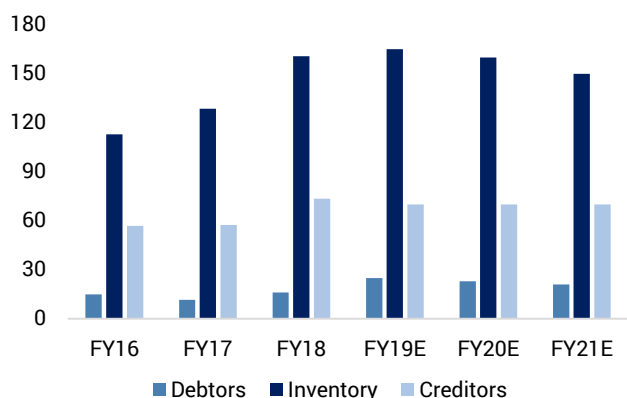


Source: Company

### Focus on deleveraging with reduced working capital

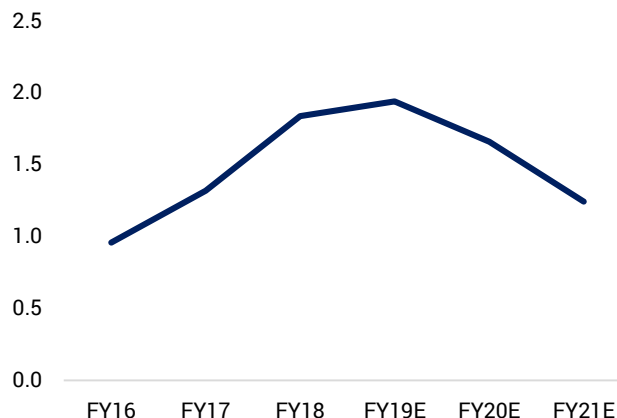
HSL is at the final stage of its Rs 13 bn capex planned since FY16. The company has already doubled its sheeting capacity and backward integrated by setting cotton spinning facility. It is currently setting up towel facility which is expected to be commissioned in H1FY20. Higher capex, acquisition of new licenses and higher working capital resulted in increased debt. The D/E ratio of the company increased from Rs 0.8 to 1.6x in the last three years (FY16-18). The company presently has Rs 16.8 bn of term loan and Rs 10 bn of working capital. The working capital increased on account of increased inventory for new capex, inventory built-up for cotton due to seasonal procurement, etc. Since the capex cycle is near its end, deleveraging would be core focus for future. Further, the company's strategy to consolidate home textiles portfolio and sweating new capacities of Terry towel would help in achieving operating leverage and improve operating cash flows. We expect company's net debt to equity to improve from 1.7x in FY19E to 1.1x in FY21E.

**Working capital (days)**



Source: Company, Kotak Securities - Private Client Research

**Net D/E (x)**



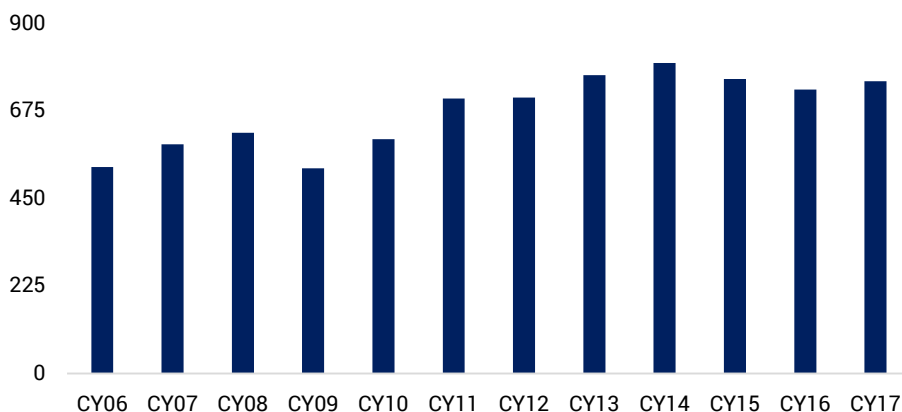
Source: Company, Kotak Securities - Private Client Research

**Industry**

**Indian textiles exports are expected to grow at double digit**

The global Textile and Apparel trade was at USD 751 bn (in 2017) and grew at CAGR of 4.1% (in 2006-2017). It is estimated to grow in the band of 4.5% – 5% going forward and likely to touch approximately USD 1 trn by 2020. (Source: World Trade Statistical Review 2016, WTO). As per the current rankings, India is the 20th largest exporter with 1.7% share and 11th largest importer with 2.5% share of merchandise trade in the world.

**Global textile market**

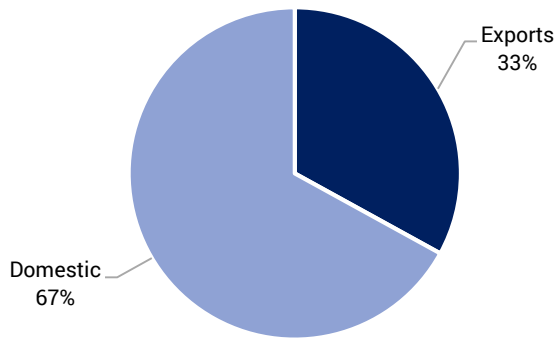


Source: Industry, International Trade Statistics 2017, WTO

The size of Indian textiles and garment market was at USD 150 bn (in 2017) and is expected to grow at double digit (CAGR of 10.4% in 2016-21) to touch USD 223 bn by 2021. Of the total market size, 37% is exports and 63% is domestic. The industry contributes 4% of the Indian GDP and 14% of India’s industrial production. The size of Indian textiles and apparel exports was at USD 37.7 bn in FY18 and had grown at a CAGR of 6.9% in FY06-18. Indian textiles and apparels exports is expected to grow to USD 82 bn by FY21E, (27.9% CAGR in FY18-21E) (source: IBEF). This growth will be driven by India’s strengths and advantages particularly in cotton based textile products among other textile categories.

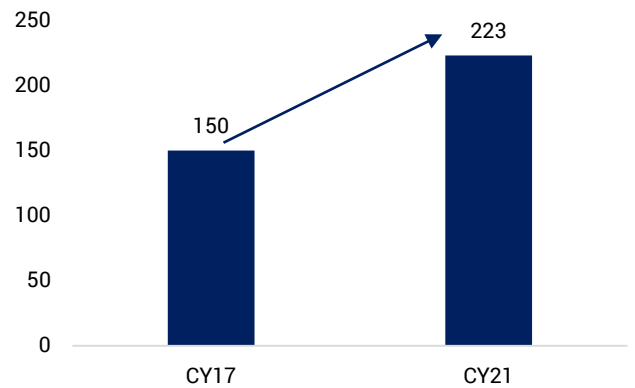


**Indian textiles sector: Domestic Vs exports**



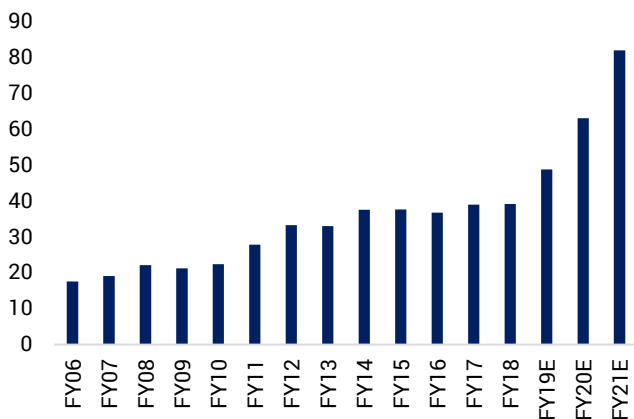
Source: IBEF

**Indian Textiles and garments market to grow 10.4% CAGR**



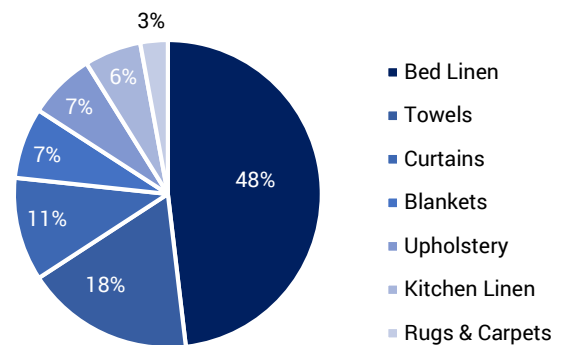
Source: IBEF

**Indian textiles exports**



Source: IBEF, Industry data

**Domestic home textile market: Categorywise market breakup**

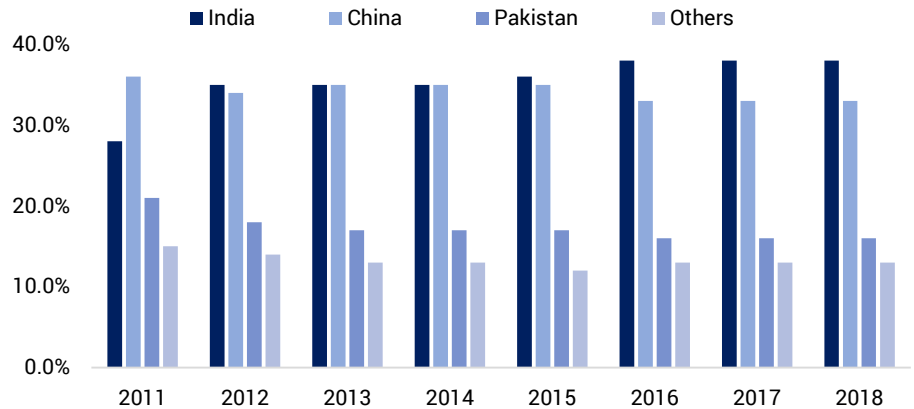


Source; Industry

**India gaining market share in cotton based home textiles in US**

Global home textiles market is estimated in the range of USD 117 bn (in 2017) and is expected to reach USD 130 bn by 2023 with US and Europe as major markets in terms of importing made-ups. US home textiles (cotton) is estimated in the range of USD 33 bn with organized market contributing 99% of total. The market is dominated by large specialty store chains, department store chains and big box discount chains. The sourcing of cotton based bedding products for the US market is predominantly from India, China and Pakistan with India gaining market share from China and Pakistan in the past 6 years. India's share of imports of the above products has grown from 28% in 2011 to 38% in 2018 in cotton based bedding segment. This is on account of rise in labour cost in China, China's internal consumption witnessing sharp surge led by urbanization, increased government support to textiles sector in India, availability of raw materials and labour in India, quality products offerings by Indian players, etc.

**US Imports (USD Million): Cotton based bedding products, India's share is increasing**



Source: OTEXA, Department of Commerce, United States of America

**Government cleared scheme to rebate central, state embedded taxes is positive**

Recently, the central government has approved a scheme for rebate of all state and central embedded levies for apparel and made-up textile segments. This is important as incentives (of 4%) for apparel and made-ups under the Merchandise Exports from India Scheme (MEIS) were not WTO compatible anymore. Rates under the Remission of State Levies (RoSL) have been revised upwards for apparel and made-ups sector. Earlier maximum RoSL available for made-up sector was 2.2% which has now been revised upwards to 5%. In addition, rebate will also be available for central levies upto 3.2%. This will take the overall rebate to 8.2% from earlier 2.2% and thus would compensate for discontinuation of incentive under MEIS. Hence, the net positive impact of this revised incentive scheme will be to the tune of 2% and will positively impact margins of home textiles exporters in FY20E. This will help exporters in overcoming any challenges related to forex variation or raw material in FY20E.

## RISKS & CONCERNS

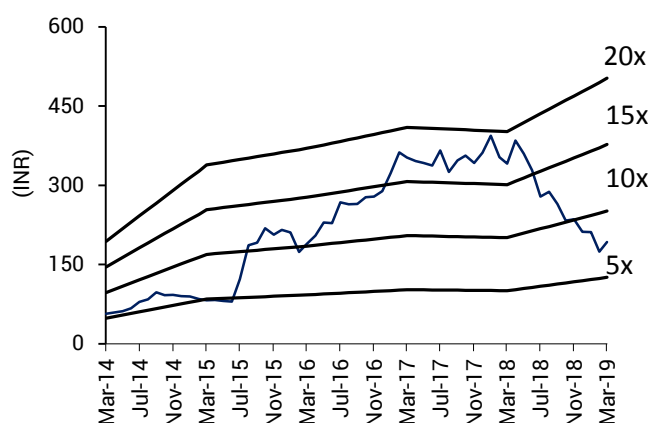
- **Raw material price volatility:** HSL operates in fixed price make-to-order contract and major volatility in the raw material prices may impact its margins. Cotton prices had increased post hike in MSPs by the government. However, it witnessed some softness in recent times on account of new arrival in the market.
- **Aggressive expansion:** HSL is present in capital intensive business of home textiles. In the past three year the company doubled sheeting capacity, went backward with yarn manufacturing and is now expanding into terry towel business with total capex of Rs 13 bn. This has resulted in increased debt. Any delay in scale up of operation from new capex would negatively impact its returns ratios.
- **Forex volatility risk:** Over 95% of the business of HSL is contributed by exports. Any major volatility in the currency would negatively impact the profitability in exports business. The company fully hedges its exports sales but any steep volatility in the currency impacts near term margins and earnings.
- **Change in government policies towards exports benefits:** Central and state government give exports benefits to home textiles exporters which support their competitiveness in the global market. Any major change in structure of exports benefits may impact competitiveness and margin of the company.

## OUTLOOK & VALUATION

Going forward, top priority of the company is to consolidate its home textiles portfolio as well as sweating its new capacities in terry towel and bed linen. In addition, based on improved cash flows, the company will target to reduce its debt by reducing working capital. It will also look out for new strategic opportunities in terms of additions of brands.

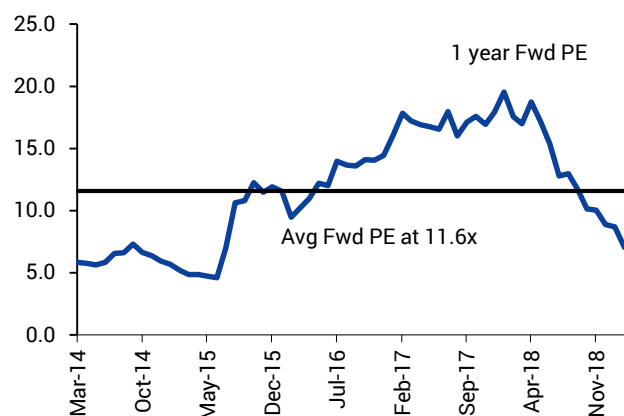
We expect company's sales, EBITDA and PAT to grow at a CAGR of 11.5%, 17.8% and 13.7%, respectively with 360bps improvement in EBITDA margins in FY18-21E. This is based on 1) increased contribution from integration of new brands and licenses added by the company, 2) contribution from increased sheeting capacity, 3) revenue from towel facility, 4) contribution from all geographies and 5) benefits from recent incentives by the government for made-ups exports. We believe that the cash flows of the company would improve from FY20E onwards on no major capex, benefits from operating leverage and company's focus on working capital reduction. This would also result in reduction in debt and higher earning's growth from FY20E onwards. Based on FY19E/FY20E/21E EPS of Rs 19.8/Rs 24.2/ Rs 30.1, the stock is trading at PE of 11.7x/9.5x/7.7, respectively. We initiate coverage on the stock with BUY rating and target price of Rs 290. We have valued the stock at 12x FY20E EPS of Rs 24.2, which is close to its last five years average forward PE of 11.6x.

### Forward PE band (x)



Source: Company, Capitaline, Kotak Securities - Private Client Research

### Average forward PE at 11.6x



Source: Company, Capitaline, Kotak Securities - Private Client Research

### Peer Comparison (Forward basis)

Comparative	CMP (Rs)	FY13-18 Sales CAGR (%)	FY13-18 PAT CAGR (%)	FY20E P/E (x)	FY20E EV/EBITDA (x)	FY18 EBITDA Margin (%)	FY18 RoE (%)	FY18 RoCE (%)	Net D/E (x)
Himatsingka Siede	231	6	29	9.5	7.2	19.9	17.6	12.8	1.7
Indocount	50	9	26	10.3	6.7	8.7	13.9	9.5	0.9
Welspun India*	60	11	11	10.6	6.1	18.6	15.9	10.2	1.2
Trident*	67	4	6	7.8	4.8	17.9	9.3	7.2	0.4

Source: Kotak Securities - Private Client Research, \*Bloomberg

### Peer Comparison

Capacity	HSL*	Trident	Indo Count	Welspun India
Yarn Spinning (Lakh Spindles)	2.12	5.55	0.8	1.7
Sheeting	61	43.2	90	90
Terry Towels (tonnes p.a.)*	25000*	90000	NA	72000

Source: Company, Industry, \* terry towel under expansion

## FINANCIAL PROJECTION

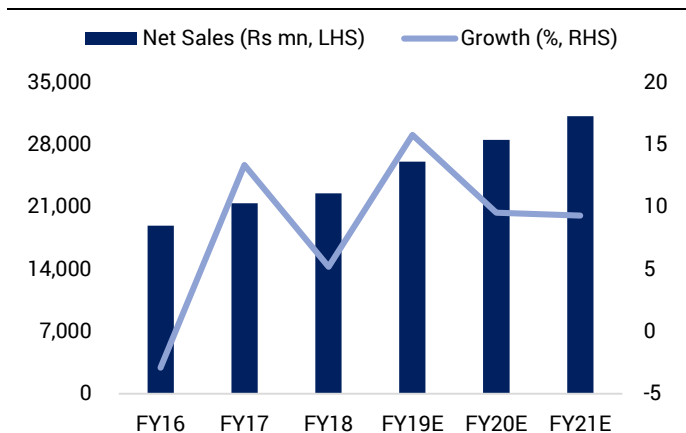
### Strong financial performance in FY13-18

In the past 5 years (FY13-18), HSL's sales and PAT grew by 6% and 29%, respectively with EBITDA margins improving from 9.1% to 19.9%, RoCE improving from 9.2% to 12.8%. The net debt to equity has also increased from 1x to 1.6x in FY13-18 as the company has undergone through major capex of Rs 13 bn which resulted in sheeting capacity increasing from 23 MMPA to 61 MMPA with backward integration in terms of yarn production. The revenue growth was slower despite increased capacity due to company's focus on increasing inhouse supply for retail and distribution business. The increased inhouse consumption and backward integration benefits has resulted in improved margins which more than doubled in the last five years despite reduced duty incentives post GST.

### Expect 11.5% Sales CAGR in FY18-21E

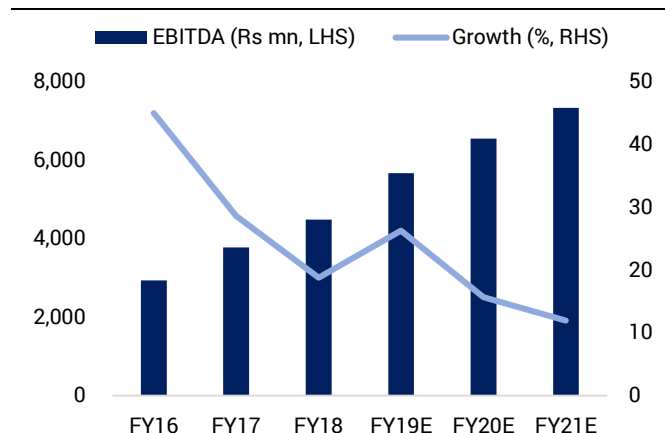
We expect revenue of HSL to grow at a CAGR of 11.5% in FY18-21E led 1) increased contribution from integration of new brands and licenses added by the company, 2) contribution from increased sheeting capacity, 3) revenue from towel facility, 4) contribution from all geographies. The increase in processing capacity from 46 MMPA to 61 MMPA in Q3FY19 would support the company in growing its business from existing as well as new segments and geographies. Besides this, towel facility which is expected to be completed in H1FY20 will also contribute to its revenue growth.

#### Net sales and growth trend



Source: Company, Kotak Securities - Private Client Research

#### EBITDA and Growth



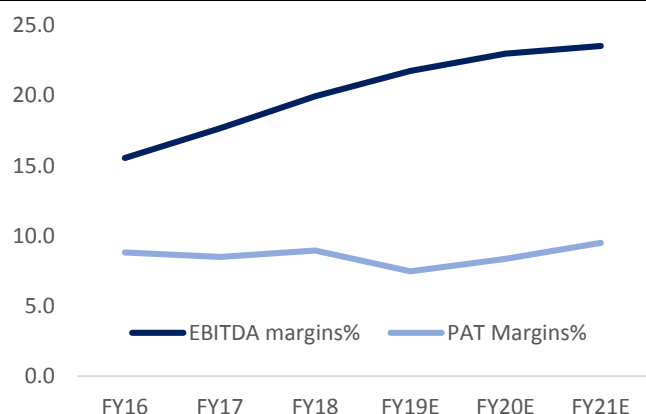
Source: Company, Kotak Securities - Private Client Research

### Expect 13.8% PAT CAGR in FY18-21E

We expect PAT to grow at a CAGR of 13.8% in FY18-21E driven by 1) 360 bps improvement in EBITDA margins in FY18-21E on increased benefits from integration, 2) reduction in debt resulting in lower interest expenses in FY21E. We expect over 20% PAT growth in FY20E and FY21E. We expect company to reduce its debt in FY20E and FY21E by Rs 0.5 bn and 3.5 bn respectively led by reduction in working capital. We expect returns ratios to improve from FY20E onwards led by better margins and increased asset turnover.

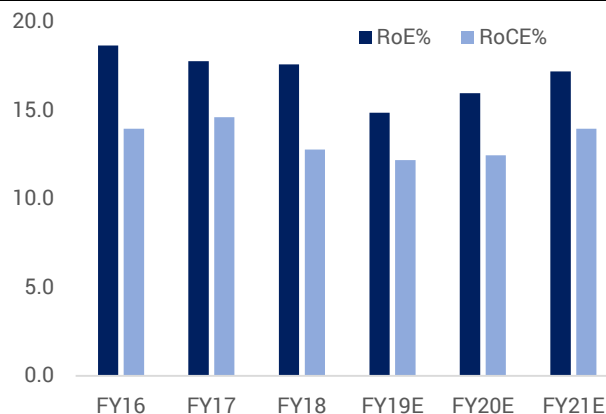


### EBITDA margins and PAT margins (%)



Source: Company, Kotak Securities - Private Client Research

### ROE and RoCE (%)



Source: Company, Kotak Securities - Private Client Research

### Q3FY19 results highlights

In Q3FY19, HSL's sales grew at 13.9% to Rs 6.8 bn while PAT grew by 2.1% yoy due to higher depreciation, interest and taxes. EBITDA margin (including other income) grew by 420 bps yoy to 22.8% on account of backward integration benefits as spinning plant operated at full capacity. Depreciation increased on account of capitalization of new capex, which also resulted in increased debt and interest expenses. In addition, higher working capital also resulted in increased debt and interest expenses. In 9MFY19, the company reported 14.3% yoy growth in revenue, 31.2% yoy growth in EBITDA on improved margins at Rs 22.4% while PAT declined by 1.9% on higher depreciation, interest and taxes.

### Quarterly results

Year to March (INR Mn.)	Q3FY19	Q3FY18	% Chg	Q2FY19	% Chg	9MFY19	9MFY18	% Chg
<b>Net Revenues</b>	<b>6,782</b>	<b>5,956</b>	<b>13.9</b>	<b>6,660</b>	<b>1.8</b>	<b>19,268</b>	<b>16,856</b>	<b>14.3</b>
Raw Materials Cost	3,077	3,059	0.6	3,454	(10.9)	9,366	8,893	5.3
Gross Profit	3,706	2,897	27.9	3,205	15.6	9,902	7,963	24.3
Employee Expenses	632	545	16.0	709	(10.9)	1,892	1,617	17.0
Other Expenses	1,394	1,185	17.6	1,284	8.5	3,962	3,100	27.8
Operating Expenses	5,102	4,789	6.5	5,448	(6.3)	15,220	13,610	11.8
<b>EBITDA</b>	<b>1,681</b>	<b>1,167</b>	<b>44.0</b>	<b>1,212</b>	<b>38.7</b>	<b>4,048</b>	<b>3,247</b>	<b>24.7</b>
EBITDA margin	24.8%	19.6%		18.2%		21.0%	19.3%	
EBITDA (including OI)	1,511	1,097	37.7	1,541	(2.0)	4,395	3,351	31.2
EBITDA margin (Incl OI)	22.8%	18.6%		22.1%		22.4%	19.8%	
Depreciation	274	168	62.9	263	4.3	799.5	514.7	55.3
Other income	(170)	(70)	143.8	329	(151.6)	347.3	104.3	233.0
Net finance expense	410	218	88.0	407	0.9	1,182.3	719.5	64.3
<b>Profit before tax</b>	<b>827</b>	<b>711</b>	<b>16.3</b>	<b>872</b>	<b>(5.2)</b>	<b>2,413</b>	<b>2,117</b>	<b>14.0</b>
Provision for taxes	315	210	50.2	315	-	928.5	603.6	53.8
<b>Reported net profit</b>	<b>512</b>	<b>501</b>	<b>2.1</b>	<b>557</b>	<b>(8.2)</b>	<b>1,485</b>	<b>1,513</b>	<b>(1.9)</b>
<b>As % of net revenues</b>								
COGS	45.4	51.4		51.9		48.6	52.8	
Employee cost	9.3	9.1		10.6		9.8	9.6	
Other Expenses	20.5	19.9		19.3		20.6	18.4	
Operating expenses	75.2	80.4		81.8		79.0	80.7	
Reported net profit	7.5	8.4		8.4		7.7	9.0	
Tax rate (% of PBT)	38.1	29.5		36.1		38.5	28.5	

Source: Company

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Revenues</b>	<b>22,491</b>	<b>26,036</b>	<b>28,515</b>	<b>31,163</b>
% change yoy	5.2	15.8	9.5	9.3
<b>EBITDA</b>	<b>4,486</b>	<b>5,664</b>	<b>6,552</b>	<b>7,336</b>
% change yoy	18.8	26.3	15.7	12.0
Depreciation	719	1076	1383	1504
<b>EBIT</b>	<b>3,766</b>	<b>4,588</b>	<b>5,169</b>	<b>5,832</b>
Other Income	176	176	176	176
Interest	1,038	1,649	1,782	1,649
<b>Profit Before Tax</b>	<b>2,905</b>	<b>3,115</b>	<b>3,563</b>	<b>4,359</b>
% change yoy	21.4	7.2	14.4	22.3
Tax	888	1,168	1,176	1,395
as % of EBT	30.6	37.5	33.0	32.0
<b>PAT</b>	<b>2,016</b>	<b>1,947</b>	<b>2,387</b>	<b>2,964</b>
% change yoy	10.7	(3.4)	22.6	24.2
Shares outstanding (mn)	98.5	98.5	98.5	98.5
<b>EPS (Rs)</b>	<b>20.5</b>	<b>19.8</b>	<b>24.2</b>	<b>30.1</b>
DPS (Rs)	2.5	2.8	3.5	4.3
CEPS (Rs)	27.8	30.7	38.3	45.4
BVPS (Rs)	124.7	141.6	162.4	188.2

Source: Company, Kotak Securities – Private Client Research

### Cash Flow Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Pre-Tax Profit	2,905	3,115	3,563	4,359
Depreciation	719	1,076	1,383	1,504
Change in WC	(3,289)	(2,579)	(692)	(262)
Other operating activities	1,917	(1,168)	(1,176)	(1,395)
<b>Operating Cash Flow</b>	<b>2,252</b>	<b>445</b>	<b>3,078</b>	<b>4,206</b>
Capex	(9,552)	(3,000)	(2,000)	(1,000)
<b>Free Cash Flow</b>	<b>(7,300)</b>	<b>(2,555)</b>	<b>1,078</b>	<b>3,206</b>
Change in Investments	(1,255)	(1,000)	-	-
<b>Investment cash flow</b>	<b>(10,806)</b>	<b>(4,000)</b>	<b>(2,000)</b>	<b>(1,000)</b>
Equity Raised	-	-	-	-
Debt Raised	8,479	4,500	(500)	(3,500)
Dividend & others	(414)	(278)	(341)	(423)
<b>CF from Financing</b>	<b>8,065</b>	<b>4,222</b>	<b>(841)</b>	<b>(3,923)</b>
Change in Cash	(489)	667	237	(717)
Opening Cash	1,836	1,347	2,014	2,251
<b>Closing Cash</b>	<b>1,347</b>	<b>2,014</b>	<b>2,251</b>	<b>1,534</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Paid - Up Equity Capital	492	492	492	492
Reserves	11,783	13,452	15,498	18,038
Net worth	12,275	13,944	15,990	18,531
Borrowings	22,552	27,052	26,552	23,052
Other net liabilities	910	910	910	910
<b>Total Liabilities</b>	<b>35,738</b>	<b>41,906</b>	<b>43,452</b>	<b>42,493</b>
Net block	16,210	16,133	18,072	18,068
Capital work in progress	322	2,322	1,000	500
Total fixed assets	16,532	18,455	19,072	18,568
Goodwill	6,144	6,144	6,144	6,144
Investments	1,256	2,256	2,256	2,256
Inventories	9,903	11,770	12,500	12,807
Sundry debtors	991	1,783	1,797	1,793
Cash and Bank balance	1,347	2,014	2,251	1,534
Loans and advances & Others	4,194	4,613	5,074	5,582
Total current assets	16,435	20,180	21,622	21,715
Sundry creditors and others	4,527	4,993	5,469	5,976
Provisions	338	371	409	449
Total CL & provisions	4,865	5,365	5,877	6,426
Net current assets	11,570	14,815	15,744	15,289
Net Deferred tax	235	235	235	235
<b>Total Assets</b>	<b>35,738</b>	<b>41,906</b>	<b>43,452</b>	<b>42,493</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Profitability Ratios</b>				
EBITDA margin (%)	19.9	21.8	23.0	23.5
EBIT margin (%)	16.7	17.6	18.1	18.7
Net profit margin (%)	9.0	7.5	8.4	9.5
Adjusted EPS growth (%)	10.7	(3.4)	22.6	24.2
<b>Balance Sheet Ratios</b>				
Receivables (days)	16	25	23	21
Inventory (days)	161	165	160	150
Loans & Advances	68	65	65	65
Payable (days)	73	70	70	70
Cash Conversion Cycle	171	185	178	166
Asset Turnover	0.7	0.6	0.7	0.8
Net Debt/ Equity	1.6	1.7	1.4	1.1
<b>Return Ratios</b>				
RoCE (%)	12.8	12.2	12.4	13.9
RoE (%)	17.6	14.9	15.9	17.2
<b>Valuation Ratios</b>				
P/E (x)	11.3	11.7	9.5	7.7
P/BV (x)	1.9	1.6	1.4	1.2
EV/EBITDA (x)	9.8	8.4	7.2	6.0
EV/Sales (x)	2.0	1.8	1.6	1.4

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

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<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
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### FUNDAMENTAL RESEARCH TEAM

<b>Rusmik Oza</b> Head of Research rusmik.oza@kotak.com +91 22 6218 6441	<b>Arun Agarwal</b> Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	<b>Amit Agarwal</b> Transportation, Paints, FMCG agarwal.amit@kotak.com +91 22 6218 6439	<b>Cyndrella Carvalho</b> Pharmaceuticals cyndrella.carvalho@kotak.com +91 22 6218 6426	<b>Ledo Padinjarathala, CFA</b> Research Associate ledo.padinjarathala@kotak.com +91 22 6218 7021
<b>Sanjeev Zarbade</b> Cap. Goods & Cons. Durables sanjeev.zarbade@kotak.com +91 22 6218 6424	<b>Ruchir Khare</b> Cap. Goods & Cons. Durables ruchir.khare@kotak.com +91 22 6218 6431	<b>Jatin Damania</b> Metals & Mining, Midcap jatin.damania@kotak.com +91 22 6218 6440	<b>Krishna Nain</b> M&A, Corporate actions krishna.nain@kotak.com +91 22 6218 7907	<b>K. Kathirvelu</b> Support Executive k.kathirvelu@kotak.com +91 22 6218 6427
<b>Teena Virmani</b> Construction, Cement, Buildg Mat teena.virmani@kotak.com +91 22 6218 6432	<b>Sumit Pokharna</b> Oil and Gas, Information Tech sumit.pokharna@kotak.com +91 22 6218 6438	<b>Pankaj Kumar</b> Midcap pankajr.kumar@kotak.com +91 22 6218 6434	<b>Deval Shah</b> Research Associate deval.shah@kotak.com +91 22 6218 6423	

### TECHNICAL RESEARCH TEAM

<b>Shrikant Chouhan</b> shrikant.chouhan@kotak.com +91 22 6218 5408	<b>Amol Athawale</b> amol.athawale@kotak.com +91 20 6620 3350	<b>Faisal Shaikh, FRM, CFTe</b> Research Associate faisalf.shaikh@kotak.com +91 22 62185499	<b>Siddhesh Jain</b> Research Associate siddhesh.jain@kotak.com +91 22 62185498
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### DERIVATIVES RESEARCH TEAM

<b>Sahaj Agrawal</b> sahaj.agrawal@kotak.com +91 79 6607 2231	<b>Malay Gandhi</b> malay.gandhi@kotak.com +91 22 6218 6420	<b>Prashanth Lalu</b> prashanth.lalu@kotak.com +91 22 6218 5497	<b>Prasenjit Biswas, CMT, CFTe</b> prasenjit.biswas@kotak.com +91 33 6625 9810
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