

HIMATSINGKA SEIDE

Debt spikes amid stable performance

India Equity Research | Midcap Textiles

Himatsingka Seide (HSS) reported inline Q4FY18 with revenue declining 4% YoY (on a base of 30% growth). Commissioning of spinning unit saw EBITDA margin spurring ~550bps YoY (~430bps QoQ) with PBT jumping 25% YoY. However, PAT growth was restricted to mere 4% YoY due to higher tax. Key concern during the quarter was worsening working capital, which resulted in debt spiking to INR23bn (up INR9bn YoY). Though we factor in incremental revenue of ~USD65mn from the acquisition of new brands (Tommy Hilfiger, Cooper Fit and other brands), increased working capital intensity raises our net debt estimate by INR8bn for FY19. While we maintain our target EV/EBITDA multiple at 8.0x, we peg our revised TP at INR421 (INR459 earlier), factoring in higher net debt. We maintain 'BUY'.

Spinning unit commissioned, full benefits awaited

HSS reported 4% YoY fall in revenues (on a base of 30% YoY growth). The company reversed/capitalised all revenues/costs incurred towards the spinning unit before commissioning (i.e. before Feb'18) in Q4FY18. However, benefits of commissioning of the spinning plant were visible in the sharp ~550bps YoY (~430bps QoQ) spurt in EBITDA margin. It also led to 46%/22% QoQ jump in interest expenses and depreciation. As a result, PBT spurted 25% YoY. However, higher tax restricted PAT growth at 4% to INR503mn. Another highlight for FY18 was the improved performance of brands, which reported revenue of ~INR16bn (FY17: INR12bn).

Debt spikes on working capital blockage, payback limited in FY19

The push on branded sales drove inventory higher last year which continued in FY18 too with incremental rise of INR2bn. In addition, GST related blockage of ~INR3bn also impacted cash flows. As a result, debt spiked to INR23bn. Even after factoring in easing of working capital, given the acquisition of new brands along with capex for the spinning unit, we expect debt to marginally decline in FY19 as well.

Outlook and valuations: Working capital concerns; maintain 'BUY'

Though we factor in incremental revenue of ~USD65mn from the acquisition of new brands, rising intensity of working capital makes us increase our net debt estimate by INR8bn for FY19. While we maintain our target EV/EBITDA multiple at 8.0x, we peg our revised TP at INR421 (INR459 earlier), factoring in higher net debt. Maintain 'BUY'.

Financials (Consolidated)

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Revenues	5,634	5,843	(3.6)	5,956	(5.4)	22,491	27,214	30,133
EBITDA	1,240	968	28.1	1,167	6.2	4,486	6,152	7,392
Adj. Profit	503	456	10.4	501	0.4	2,016	2,564	3,272
Dil. EPS (INR)	5.1	4.6	10.4	5.1	0.4	20.5	26.0	33.2
Dil. P/E (x)						17.2	13.6	10.6
EV/EBITDA (x)						12.4	8.5	6.3
ROAE (%)						17.6	19.1	20.4

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: HMSD.BO, B: HSS IN)

CMP	: INR 354
Target Price	: INR 421
52-week range (INR)	: 444 / 290
Share in issue (mn)	: 98.5
M cap (INR bn/USD mn)	: 35 / 521
Avg. Daily Vol. BSE/NSE ('000)	: 179.5

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	47.6	47.6	57.2
MF's, FI's & BKs	12.3	12.3	12.5
FII's	10.0	10.0	7.5
Others	30.1	30.1	22.7
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(5.1)	(8.1)	(2.9)
3 months	(3.1)	0.7	3.8
12 months	11.7	1.7	(9.9)

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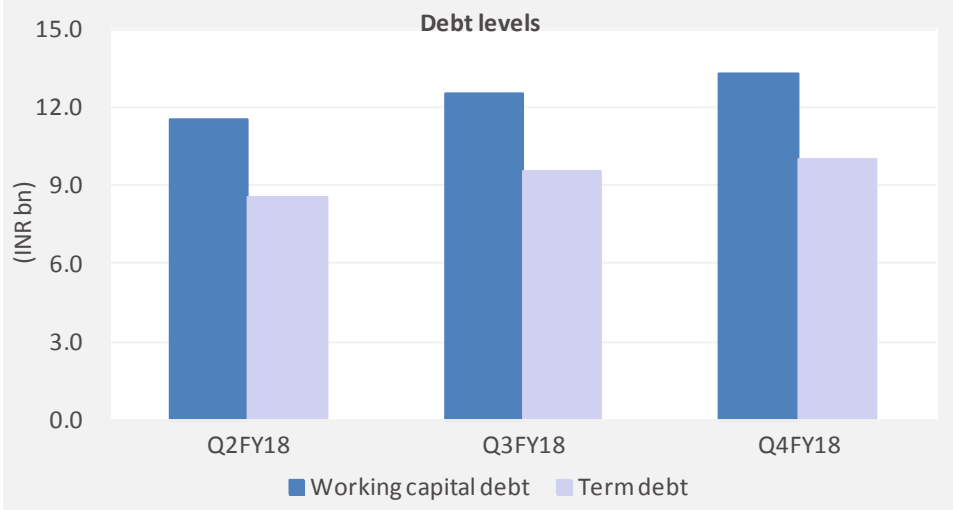
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Q4FY18 con-call highlights

- **Q4FY18 con-call highlights**
 - Factors that impacted standalone revenues:
 - Export turnover during trial production was capitalized and hence reduced: INR540mn
 - Realisation was impacted by INR80mn due to currency
 - FY18 capex was INR8.8bn, including capitalization of incentives like EPCG, TUFS etc. The quantum of this was ~INR2bn.
 - Other current liabilities included the contra entry for subsidy receivables like EPCG, TUFS, etc.
 - Share of non-branded private label programmes stands at ~30%. This will go down further as share of brands increases.
- **Yarn/spinning unit**
 - Not more than 10-20% will be sold outside
- **Brands**
 - Revenue accretion for new brands will be in the second half of the financial year with margins to be similar to the current consol margins and payback period of three years
 - The group does not produce any of the brands currently in-house and will ramp up through FY19
- **Towel unit**
 - Company expects this plant to commence in H1FY20
- **Debt**
 - Company expects net debt to go up further
 - Gross debt: INR23.3bn
 - Long term debt: INR13.3bn
 - Working capital debt: INR10.0
 - RoCE ex project: 17.7% (16.3%)
 - RoE ex project: 21.6% (18.6%)
- **Guidance:**
 - Bedding unit utilisation to be stable in H1FY19 and pick up in H2FY19
 - Expects inventory to be range bound. Most of the increase expected has happened
 - Focused on enhancing share of brands market share in the US
 - Also plans to extrapolate the brands in the European region

Chart 1: Debt has spiked due to higher working capital



Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	5,634	5,843	(3.6)	5,956	(5.4)	22,491	27,214	30,133
Staff costs	474	497	(4.6)	545	(13.0)	2,091	2,714	3,138
Direct costs	2,964	3,193	(7.2)	3,059	(3.1)	11,857	12,648	13,509
Other expenses	957	1,185	(19.2)	1,185	(19.2)	4,057	5,701	6,093
EBITDA	1,240	968	28.1	1,167	6.2	4,486	6,152	7,392
Depreciation	205	157	30.1	168	21.8	720	1,047	1,297
EBIT	1,035	810	27.7	999	3.6	3,766	5,105	6,095
Interest	319	229	39.3	218	46.0	1,038	1,650	1,560
Other income	72	47	54.5	(70)	(203.3)	176	296	251
Profit before tax	788	628	25.4	711	10.9	2,905	3,752	4,786
Tax	285	172	65.2	210	35.8	888	1,188	1,514
Minority interest								
Add: Exceptional items								
Reported net profit	503	456	10.4	501	0.4	2,016	2,564	3,272
Adjusted Profit	503	456	10.4	501	0.4	2,016	2,564	3,272
Diluted shares (mn)	98	98		98		98	98	98
Adjusted Diluted EPS	5.1	4.6	10.4	5.1	(100.0)	20.5	26.0	33.2
Diluted P/E (x)	-	-		-		17.2	13.6	10.6
EV/EBITDA (x)	-	-		-		12.4	8.5	6.3
ROAE (%)	-	-		-		17.6	19.1	20.4
As % of net revenues	-	-		-		1	1	1
Direct costs	52.6	54.6		51.4		52.7	46.5	44.8
Other expenses	17.0	20.3		19.9		18.0	20.9	20.2
EBITDA	22.0	16.6		19.6		19.9	22.6	24.5
Reported net profit	8.9	7.8		8.4		9.0	9.4	10.9
Tax rate	36.1	27.4		29.5		30.6	31.7	31.6

Change in Estimates

	FY19E			FY20E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	27,214	23,589	15.4	30,133	26,590	13.3	Revenues from acquisition of Tommy Hilfiger+ Other brands
EBITDA	6,152	6,290	(2.2)	7,392	6,828	8.3	Incremental EBITDA in FY20E from acquisition of Tommy Hilfiger+ Other brands
EBITDA Margin	22.6	26.7		24.5	25.7		
Adjusted PAT	2,564	2,810	(8.7)	3,272	3,246	0.8	Higher interest expense
Net Profit Margin	9.4	11.9		10.9	12.2		
Capex	6,566	4,890	34.3	826	1,180	(30.0)	

Company Description

Himatsingka Seide (HSS) is a vertically integrated home textile major, focusing on the manufacture, retailing and distribution of home textile products. Headquartered at Bengaluru, the company has a global footprint. In manufacturing, it operates amongst the largest capacities in the world and produces upholstery, drapery fabrics and bed-linen products. Spread across Asia, Europe and North America, its retail and wholesale distribution divisions carry some of the most prestigious brands in the home textile space and cater to private label programs of major retailers across these geographies.

Investment Theme

The cash-rich manufacturing and high-growth distribution businesses place HSS in a sweet spot for growth accompanied by an improving returns profile. High-end manufacturing facilities and extensive global reach have helped HSS create a niche for itself in the home textile space. The company is expected to benefit from economic recovery in the developed world along with higher utilisation at its manufacturing units

Key Risks

Any significant increase in raw material prices (similar to FY11 when there was a sharp increase in cotton prices) could adversely impact HSS's profitability.

HSS's two main businesses – manufacturing and distribution – are cyclical in nature. While manufacturing has to brace for vagaries of the commodity cycles, distribution has to withstand economic cycles which determines consumer sentiment and ultimate purchase decision.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
Employee (% of net rev)	9.2	9.3	10.0	10.4
Silk fabric sale(mn mts)	0.9	0.9	1.0	1.0
Bed Linen sets sold (mn)	4.8	6.8	7.4	8.4
Other exp (% net rev)	15.7	18.0	20.9	20.2
RM(% of net sales)	57.4	52.7	46.5	44.8
Depreciation rate (%)	4.5	3.8	4.1	4.4
Dividend per share	2.5	2.5	2.5	2.5
Capex (INR mn)	4,155	9,552	6,566	826
Inventory % of costs	61.5	83.5	65.0	60.0
Debtors % of revenues	9.2	15.5	10.0	9.0
OCA % of revenues	29.4	65.2	20.0	20.0
Loans & adv (% net rev)	33.5	23.7	15.0	15.0
Incremental debt	4,003	9,227	(1,875)	(5,339)

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	21,384	22,491	27,214	30,133
Materials costs	12,267	11,857	12,648	13,509
Gross profit	9,117	10,634	14,566	16,624
Employee costs	1,974	2,091	2,714	3,138
Other Expenses	3,366	4,057	5,701	6,093
EBITDA	3,777	4,486	6,152	7,392
Depreciation	580	720	1,047	1,297
EBIT	3,197	3,766	5,105	6,095
Less: Interest Expense	935	1,038	1,650	1,560
Add: Other income	131.91	176.3	296.14	250.55
Profit Before Tax	2,394	2,905	3,752	4,786
Less: Provision for Tax	573	888	1,188	1,514
Reported Profit	1,821	2,016	2,564	3,272
Adjusted Profit	1,821	2,016	2,564	3,272
Shares o /s (mn)	98	98	98	98
Adjusted Basic EPS	18.5	20.5	26.0	33.2
Diluted shares o/s (mn)	98	98	98	98
Adjusted Diluted EPS	18.5	20.5	26.0	33.2
Adjusted Cash EPS	26.7	30.3	40.7	51.6
Dividend per share (DPS)	2.5	2.5	2.5	2.5
Dividend Payout Ratio(%)	15.8	14.3	11.2	8.8

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	57.4	52.7	46.5	44.8
Staff costs	9.2	9.3	10.0	10.4
S G & A expenses	15.7	18.0	20.9	20.2
Operating expenses	82.3	80.1	77.4	75.5
Depreciation	2.7	3.2	3.8	4.3
EBITDA margins	17.7	19.9	22.6	24.5
Interest Expense	4.4	4.6	6.1	5.2
Net Profit margins	8.5	9.0	9.4	10.9

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	13.2	5.2	21.0	10.7
EBITDA	27.9	18.8	37.1	20.2
PBT	55.3	21.4	29.2	27.6
Adjusted Profit	45.4	10.7	27.2	27.6
EPS	45.4	10.7	27.2	27.6

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	492	492	492	492	
Reserves & Surplus	10,180	11,783	14,059	17,043	
Shareholders' funds	10,673	12,275	14,551	17,535	
Long term borrowings	7,398	12,165	11,000	4,639	
Short term borrowings	6,675	11,135	10,425	11,446	
Total Borrowings	14,073	23,300	21,425	16,086	
Long Term Liabilities	697	2,419	3,690	4,245	
Def. Tax Liability (net)	(365)	(235)	166	677	
Sources of funds	25,078	37,759	39,832	38,542	
Gross Block	13,976	24,312	27,200	31,576	
Net Block	8,776	18,393	20,234	23,313	
Capital work in progress	1,129	322	4,000	450	
Intangible Assets	3,939	3,961	3,961	3,961	
Total Fixed Assets	13,844	22,676	28,195	27,724	
Non current investments	2	67	67	67	
Cash and Equivalents	1,836	2,537	3,704	4,052	
Inventories	7,539	9,903	8,221	8,105	
Sundry Debtors	683	991	958	793	
Loans & Advances	2,483	1,521	1,437	1,322	
Other Current Assets	2,173	4,181	1,916	1,763	
Current Assets (ex cash)	12,878	16,596	12,532	11,984	
Trade payable	2,615	3,511	4,002	4,548	
Other Current Liab	867	605	664	737	
Total Current Liab	3,481	4,116	4,666	5,285	
Net Curr Assets-ex cash	9,396	12,480	7,866	6,700	
Uses of funds	25,078	37,759	39,832	38,542	
BVPS (INR)	108.4	124.7	147.8	178.1	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	1,821	2,016	2,564	3,272	
Add: Depreciation	580	720	1,047	1,297	
Interest (Net of Tax)	627	695	1,105	1,045	
Others	1,497	416	12,419	4,217	
Less: Changes in WC	2,668	1,362	5,885	1,721	
Operating cash flow	1,857	2,485	11,250	8,110	
Less: Capex	4,155	9,552	6,566	826	
Free Cash Flow	(2,299)	(7,067)	4,684	7,284	

Cash flow metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	1,857	2,485	11,250	8,110
Financing cash flow	2,955	7,901	(3,813)	(7,187)
Investing cash flow	(3,996)	(10,565)	(5,080)	(575)
Net cash Flow	816	(178)	2,357	348
Capex	(4,155)	(9,552)	(6,566)	(826)
Dividend paid	(178)	(288)	(288)	(288)

Profitability and efficiency ratios				
Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	15.2	13.1	15.1	18.2
ROAE (%)	18.6	17.6	19.1	20.4
Inventory Days	186	239	225	189
Debtors Days	11	14	13	11
Payable Days	68	94	108	116
Cash Conversion Cycle	129	158	129	84
Current Ratio	4.2	4.6	3.5	3.0
Gross Debt/EBITDA	3.7	5.2	3.5	2.2
Gross Debt/Equity	1.3	1.9	1.5	0.9
Adjusted Debt/Equity	1.3	1.9	1.5	0.9
Net Debt/Equity	1.1	1.7	1.2	0.7
Interest Coverage Ratio	3.4	3.6	3.1	3.9

Operating ratios				
Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	1.0	0.7	0.7	0.8
Fixed Asset Turnover	1.8	1.3	1.2	1.2
Equity Turnover	2.2	2.0	2.0	1.9

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	18.5	20.5	26.0	33.2
Y-o-Y growth (%)	45.4	10.7	27.2	27.6
Adjusted Cash EPS (INR)	26.7	30.3	40.7	51.6
Diluted P/E (x)	19.1	17.3	13.6	10.7
P/B (x)	3.3	2.8	2.4	2.0
EV / Sales (x)	2.2	2.5	1.9	1.6
EV / EBITDA (x)	12.5	12.4	8.5	6.3
Dividend Yield (%)	0.7	0.7	0.7	0.7

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Himatsingka Seide	521	13.6	10.7	8.5	6.3	19.1	20.4
Arvind	1,512	18.7	14.1	10.2	8.1	12.6	14.7
Welspun India	927	11.5	10.1	6.2	5.4	18.2	18.0
Median	-	13.6	10.7	8.5	6.3	18.2	18.0
AVERAGE	-	14.6	11.6	8.3	6.6	16.6	17.7

Source: Edelweiss research

Additional Data

Directors Data

D.K. Himatsingka	Executive Chairman	Shrikant Himatsingka	Managing Director & CEO
V Vasudevan	Executive Director	Dr. K.R.S. Murthy	Independent Director
Rajiv Khaitan	Independent Director	Sangeeta Kulkarni	Independent Director

Auditors - Deloitte Haskins & Sells

**as per last available data*

Holding – Top10

	Perc. Holding		Perc. Holding
Templeton Asset Management	3.32	Sundaram Asset Management	3.28
DSP Blackrock	3.15	Jupiter Inv Mgmt Group	1.93
Invesco	1.41	Dimensional Fund Advisors	1.17
Blackrock	0.32	Van ECK Associates Corporation	0.22
Wisdomtree Investments Inc	0.07	Principal Investment Group	0.03

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
31 Jan 2018	Vikram Himatsingka	Buy	746000	355.00
31 Jan 2018	Anuradha Himatsingka	Sell	746000	355.00
30 Jan 2018	Vikram Himatsingka	Sell	746000	355.00
30 Jan 2018	Anuradha Himatsingka	Buy	746000	355.00
07 Dec 2017	Merrill Lynch India Equities Fund (Mauritius) Ltd	Buy	1376602	332.00
07 Dec 2017	Leela Devi Himatsingka	Sell	1155350	332.00
17 Nov 2017	Kotak Mahindra Asset Management Co Ltd (Pms)	Buy	940000	333.00
17 Nov 2017	Birla Sun Life Asset Management Company Ltd A/C Pms	Sell	1076101	333.01
23 Jun 2017	Bihar Mercantile Union Ltd	Buy	2220000	350.00
23 Jun 2017	Ajoy Kumar Himatsingka	Sell	2360000	350.01

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
27 Jun 2017	AWDHAN TRADING COMPANY LTD	Buy	140000.00
27 Jun 2017	AJOY KUMAR HIMATSINGKA	Sell	2360000.00
27 Jun 2017	BIHAR MERCANTILE UNION LTD	Buy	2220000.00

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Midcap Textiles

Arvind, Himatsingka Seide, Trident Ltd, Welspun India

Recent Research

Date	Company	Title	Price (INR)	Recos
17-May-18	Welspun India	Industry headwinds mar FY18; <i>Result Update</i>	65	Buy
01-Feb-18	Arvind	Strong surge in brand margins; <i>Result Update</i>	406	Buy
09-Nov-17	Arvind	Brands strong, but textiles weak; demerger announced; <i>Result Update</i>	436	Buy

Distribution of Ratings / Market Cap

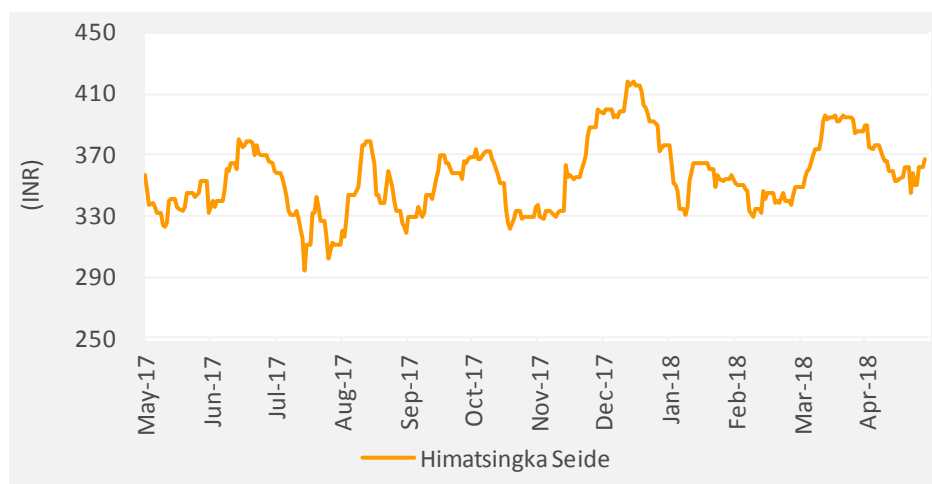
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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