

## Himatsingka Seide Ltd

BSE: 514043 | Sector: Textile

11<sup>th</sup> October 2017

vScore : 60 | Gain% : **25.79%**

**Buy Date:** 11-Oct-2017 | **Buy Price :** Rs.349.00

**Exit Date:** 09-Jan-2018 | **Exit Price :** Rs.439.0

### BUSINESS BACKGROUND

The Himatsingka Group focuses on the manufacturing, retailing and distribution of Home Textile products. Himatsingka Group is integrated from manufacturing in India to retail and distribution networks across North America, Europe and Asia. The Company's retail and distribution networks cater to over 8000 points of sale including 200 shop-in-shops of its licensed brands in major departmental stores and 25 exclusive retail stores. An integrated model and supply chain expertise enables the Group to service retail and distribution networks across 22 countries.

### INVESTMENT HIGHLIGHTS

**Q1FY18 results:** In Q1FY18, revenue of the company has registered growth of 11.37% YoY to Rs 535 cr. The company registered EBITDA of Rs 109 cr in Q1FY18 vs Rs 90 cr in Q1FY17. EBITDA margin stood at 20.96% in Q1FY18 as against 19.18% in Q1FY17. PAT of the company registered growth of 11.64% YoY to Rs 51 cr. PAT margin stood at 9.46% in Q1FY18 vs 9.44% Q1FY17. (All figures are on consolidated basis)

#### Segment Highlights:

The company manufactures mainly bed linen, drapery & upholstery and silk & blended yarn.

### KEY DATA

|               |    |             |
|---------------|----|-------------|
| FACE VALUE    | Rs | 5           |
| DIVID YIELD % |    | 0.71%       |
| 52 WK HI/LOW  |    | 400/231     |
| NSE CODE      |    | HIMATSEIDE  |
| MARKET CAP    |    | Rs. 3478 Cr |

### SHAREHOLDING PATTERN

|                    |   |        |
|--------------------|---|--------|
| PROMOTERS          | - | 55.96% |
| BANKS, MFs & DIIIs | - | 12.12% |
| FIIIs              | - | 7.45%  |
| Others             | - | 24.47% |

### KEY FUNDAMENTALS

| Year Ending    | FY17A | FY18E | FY19E |
|----------------|-------|-------|-------|
| Rev Gr%        | 13    | 10    | 12    |
| Net Profit Gr% | 46    | 12    | 23    |
| ROE%           | 18.6  | 17.5  | 18.1  |
| ROCE %         | 15.2  | 16.1  | 19.5  |
| EPS (Rs)       | 18.5  | 20.7  | 25.3  |
| P/E (x)        | 18.3  | 16.3  | 13.3  |

**Anti Dumping on TDI, fuels the growth of the company:****Industry outlook:**

World textile and apparel (T&A) export market was worth USD 745 bn in FY15 and is expected to reach to USD 1600 Bn by FY25E, with a CAGR of 7.9%. Over the years, India has gradually increased its share in the global textile exports from 3.6% in 2005 to 5.7% in 2016. Textile exports witnessed a growth (CAGR) of 6.9% over the period of FY06 - FY17. India has been able to achieve this due to its competitive advantage and capacity built over years. The government is also supporting Indian textile companies by many export oriented schemes to give benefit over export cost.

For Himatsingka, United States continued to be the largest market in FY17, with a revenue contribution of more than 80%.The US imported \$2.6 billion worth cotton based bedding products primarily from India, China and Pakistan, in FY16. This contributed to 87% of the total cotton based bedding products imports. United States has increased its sourcing of cotton sheets, pillow cases, bedspreads and quilts from India, over the years, making India the largest supplier of cotton bedding products to the U.S. Total imports of these products from India stood at USD 470 million in FY08. This has grown to approximately USD 1 billion in FY16 (38% of the imports), which translates to a CAGR of 9.9% over the same period. At the same time China import to US declined by 4.1% over which India got benefitted on account of cost competitiveness and increasing efficiencies. The company is enhancing its market share in continental of Europe and North America on account of positive growth of the economies over there and branded portfolio of the company.

**Capex plans of the company drives future growth :**

The company has announced total capex of Rs 1280 crores, which comprised of three projects. Out of which sheeting project was commissioned in Oct FY16 which is stable now. The spinning capex is underway and it would be operational by Q3FY18. Under spinning facility project, it has plans to add 211584 spindles by FY18. Also, the company has plans to add 25000 MT capacity of terry towel which will commence in FY18. The company is going to add cream in revenue on account of capex over next two years. Backward integration in business would also aid to improve operating margin of the company.

**Financial performance:**

The revenue of the company grew at CAGR of 5% to Rs 2138 crores. EBITDA of the company grown at five year CAGR of 21.5% to Rs 391 crores. The company also improves EBITDA margin from 9.99% in FY13 to 18.41% in FY17. PAT of the company grown at five year CAGR of 40.67% to Rs 182 crores in FY17. The company also shows improvement in PAT margin from 3.13% in FY13 to 8.52% in FY17. Debt to equity stood at 1.13x on account of fund raised for capex. The company shoes capital efficiencies by sweating group assets and also exhibit the same in ROCE and ROE which has shown improvement over last five years from 8.8%/9.5% in FY13 to 15.2%/18.6% in FY17.

## Business Outlook and Valuation :

At the moment at current price of **349** the stock is trading at (TTM) P/E of 18.3x. Going ahead we expect revenue growth of 10% for FY18 and 12% FY19. Hence our expectations for revenue for FY18 and FY19 are INR 2352 Cr and INR 2634 Cr respectively.

We expect company to maintain EBITDA margin around 19-23% for next two years. Going ahead we expect PAT margins of 8-9% for next two years. Our PAT expectations for FY18 and FY19 are INR 204 Cr, INR 250 Cr respectively. Our EPS expectations for FY18 and FY19 are INR 20.7 Cr and INR 25.3 Cr respectively.

We believe Himatsingka Seide Ltd. at (TTM) PE of 18.3x with ROCE around 16-20% with superior margins is attractively valued. For FY18 EPS expectations of 20.7 we expect target price of **425/share** with a stop loss at 310.

## FINANCIALS:

| For the Year Ended March (INR)  | FY16A | FY17A | FY18E | FY19E |
|---------------------------------|-------|-------|-------|-------|
| <b>Net Sales (Cr)</b>           | 1891  | 2138  | 2352  | 2634  |
| <b>EBIDTA (Cr)</b>              | 295   | 378   | 460   | 591   |
| <b>EBIDTA %</b>                 | 15.6  | 17.7  | 19.5  | 22.4  |
| <b>Profit Before Tax (Cr)</b>   | 154   | 239   | 283   | 357   |
| <b>Interest (Cr)</b>            | 93    | 94    | 121   | 152   |
| <b>Depreciation (Cr)</b>        | 67    | 58    | 74    | 94    |
| <b>Tax (Cr)</b>                 | 29    | 57    | 79    | 107   |
| <b>Profit After Tax (Cr)</b>    | 125   | 182   | 204   | 250   |
| <b>PAT%</b>                     | 6.6   | 8.5   | 8.6   | 9.4   |
| <b>Diluted EPS (INR)</b>        | 12.7  | 18.5  | 20.7  | 25.3  |
| <b>Shareholder's Funds (Cr)</b> | 890   | 1067  | 1261  | 1500  |
| <b>Borrowings (Cr)</b>          | 1006  | 1407  | 1266  | 1203  |
| <b>Gross Block (Cr)</b>         | 1771  | 2056  | 2079  | 2104  |

## Key Risks and Concerns:

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- Any global major slowdown can affect the company's performance.
- Sharp rise in export from China can hurt Indian textile industry.
- Policy changes by government can affect the company.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

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Source: Niveza Research Desk