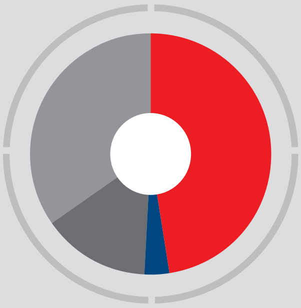
Himatsingka Seide Ltd.

CMP: Rs 272	Rating: BUY	Target: Rs 340

Company Information

BSE Code	514043
NSE Code	HIMATSEIDE
Bloomberg Code	HSS IN
ISIN	INE049A01027
Market Cap (Rs. Cr)	2660
Outstanding shares(Cr)	9.845
52-wk Hi/Lo (Rs.)	279/76.5
Avg. daily volume (1yr. on NSE)	477550
Face Value(Rs.)	5.0
Book Value (Rs)	164.28

Shareholding Pattern as on 30th June 2021



Company overview

Himatsingka Seide ltd. (HSL) is one of the leading vertically integrated home textiles players with diversified product portfolio spanning across made-up bedding products, drapery & upholstery fabrics and towels. The company operates four manufacturing facilities and has the world's largest spinning facility under one roof. The company's installed capacities include 211,584 spindles, 61 million meters bed linen processing capacity and 25,000 mtpa terry towel plant. The company has strong brand portfolio including Calvin Klein, Tommy Hilfiger, Kate Spade, Bellora, Pimacott, Organicott, Homegrown, Atmosphere, etc., which contribute more than 80% of revenue. Further, export is major contributor of HSL's revenue and US accounts nearly 90% of its overall revenue.

Investment Rationale

Integrated business model

HSL is a vertically integrated global textile company, which designs, develops, manufactures and distributes home textile products. Of the total yarn produced, company consumed 85% of yarn for captive consumption to produce downstream products, which enable the company to have better control on supply chain systems and generate sustainable margins. In past few months, the cotton prices have gone up steeply and in order to pass on the high cotton prices, the cotton yarn manufacturers have increased the yarn prices more than cotton prices and that has impacted the margins of non integrated textile players. Cotton is the key raw material for HSL and constitutes between 50-60% of costs. The company works closely with farmers and uses a mix of both Indian as well as American cotton. It is the largest consumer of Pima cotton (primarily grown in the US) in the world. HSL has more than 2 lakh spindles capacity so the company has captive yarn manufacturing capacity and thus not affected from high yarn prices. The spinning facility takes care of 35-40% of the company's yarn requirement for manufacturing of home textile products. Thus, the vertically integrated business model help HSL to absorb the volatility in raw material prices; however, the risk of global raw cotton price volatility remains and is likely to impact short-term profitability. In addition, the company will accrue export benefits with a retrospective effect once the government announces new rates under Remission of Duties and Taxes on Export Products (RoDTEP) scheme. Further, management has raised its EBITDA margin guidance from 18-22% to 20-22% given the stability in export incentives and integrated operations.

The company has a diversified portfolio of 15+ home textile brands, including owned and licensed brands and has presence in 32 countries across the world. These brands help the company to meet a diversified range of customer preferences across geographies, product categories and price points.

Strong brand portfolio

HSL has the ability to design, develop, manufacture and warehouse the entire range of home textile products given the required product line-up, infrastructure and servicing capabilities the company has. The company has a diversified portfolio of 15+ home textile brands, including owned and licensed brands and has presence in 32 countries across the world. These brands help the company to meet a diversified range of customer preferences across geographies, product categories and price points. HSL's brand portfolio includes iconic brands like Calvin Klein Home, Tommy Hilfiger Kate Spade, Bellora, Atmosphere, etc. In FY20, the company enhanced its reach with the acquisition of the global rights for the Calvin Klein Home brand. Further, in FY21, the company did an alliance with Disney for the distribution of soft home products in the Europe, Middle East and Africa. This agreement will provide the company the access to Middle East and increase its credibility in EU thereby enhancing its brand portfolio further. Company derives nearly 80% revenue from branded segment and US accounts nearly 90% of its topline. Further, company has a wide distribution network with global reach at 12,000 points of sale and has offices in London, New York, Milan and Bangalore. The company has some of the largest retailers as its clients such as Bed Bath & Beyond, Macys, Walmart, Costco, etc. Thus, these initiatives are in line with the company's strategy of strengthening its global brand presence over the next few years.

HSL 3 year Price Chart

No major capex to help in reducing leverage

HSL has completed its calibrated expansion cycle in FY20 after incurring a capex of Rs 2500 crore over the past 3 years. The incremental capacity in terry towel and bed sheet will cater the growing demand in the international market over the next 2 to 3 years. Thus, the company does not expect to any major capex over the next two to three years. However, due to COVID disruption, company has not been able to ramp up its incremental capacity. With restoring normalcy, company is largely focusing on improving the utilization of its expanded capacities. Better utilization coupled with sound working capital management policies will enable the company to improve free cash flows, which will be used to reduce the overall debt level. Company will only do maintenance capex and will enhance the utilization in its terry towel and bed sheet capacity through de-bottlenecking initiatives. The de-bottlenecking is likely to be implemented in a phase-wise manner over the upcoming 12-14 months and will be forming part of the annual organic capex spends of Rs 60-80 crore. It is expected that the said announcement will provide visibility to growth and sustenance of favorable demand scenario going forward. Thus, no major capex in next 2-3 years will help the company in reducing its balance sheet leverage, which will result in savings in interest cost by nearly 25% over FY21-23. A strong improvement in the profitability and reduction in debt would help in improving the return ratios to double digit in FY23.

Strong export demand to boost textile companies' earnings growth

The US has been one of the leading markets for Indian textiles and apparel products. US is the biggest and most crucial geography for Indian home textile players due to the country being the largest consumer market in the world, sheer size of its economy, the large proportion of organized retail in the country, and homogeneity in consumer tastes. India has a strong presence in the home textiles category in the US with around 39% share in the US' total imports. US and Europe witnessed a post pandemic recovery in the home textile sector, with structural uptick in demand owing to work from home/hygiene attributing more relevance to bed sheets/towels use. Home textile manufacturers have been operating at higher capacity as orders continue to galore. The retail demand in US has recovered rapidly post COVID on the back of massive stimulus package provided by the US government, which eventually boosted the disposable income significantly. Further, reopening of the economy (including retail outlets) and regaining of lost employment by the broader population has enhanced this effect even more. The National Retail Federation (NRF) reported an increase of 5.5% in retail spending in 2020, which is highest in the decade. The strong momentum in spending so far in 2021, it has been expected that the growth in US retail spending in 2021 could be in between 10.5-13.5%. The US is witnessing around 14% increase in home improvement spends in CY21. Further, the pandemic saw large-box retailers gain share amid retail consolidation in the US, and therefore, Indian textile players exporting to the US will be vastly benefitted. As per CRISIL, the demand for home textiles to grow by 20-22% in FY22 after a modest de-growth of 7-8% in FY21 on account of extended stay at home period from Q2FY21 and re-opening of retail stores in key export markets. Thus, sudden surge in demand for textile products will underpin the earnings growth of Indian textile manufacturers going ahead and Himatsingka being the leading integrated textile players will be benefited from surge in export demand.

Key Risks

- Any volatility in key raw material prices such as cotton prices can affect the profitability of the company.
- Any further disruption on account of COVID in US markets could have negative implications on its revenue growth.

Valuation

HSL is one of the leading vertical integrated textile player in India having strong presence in export markets. US accounts nearly 90% of its topline and recent surge in demand for home textile products from US and Europe will definitely boost HSL's revenue growth going ahead. Further, China+1 strategy the big advantage for Indian textile companies, as the global manufacturers are moving away from China to diversify and shift manufacturing to other competitive nations. So, these macro factors will help HSL to sustain its growth in long run. In addition, its integrated operations aid in maintaining stable margins amid volatility in raw material prices especially in cotton and yarn prices. In order to meet the growing export demand for home textiles, company has expanded its terry towel and bed sheet capacity. Hence, once the demand will start reviving company will get the benefit of operating leverage and as the company has done its capex program there will be no further major capex in next 2-3 years, which will aid HSL to reduce its debt. Reduction in debt in coming years will help the company to improve its earnings growth and return ratios going ahead. Thus, we hold our Positive view on Himatsingka and recommend our investors to BUY the scrip with target of Rs 340 from 12 months investment perspective. At CMP, the scrip is valued at EV/EBITDA multiple of 7.2x on FY23E Bloomberg consensus EBITDA estimates of Rs 694.9 crore.

Particulars (in Rs Cr)	FY20	FY21	FY22E	FY23E
Revenue	2,197.5	2,120.0	3,132.3	3,655.0
Growth (%)	-10.7%	-3.5%	47.7%	16.7%
EBITDA	417.8	301.6	577.3	694.9
EBITDA Margin (%)	19.0%	14.2%	18.4%	9.0%
Net profit	13.1	(52.8)	214.1	301.6
Net Profit Margin (%)	0.6%	-2.5%	6.8%	4.0%
EPS (Rs)	1.3	(5.4)	20.4	29.1

Source: Bloomberg consensus

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