



Company Name : **HIMATSINGKA SEIDE**

BSE Code : **514043**

Time Duration : **1 year**

CMP : **₹341 (as on 07 June, 2017)**

Target Price : **₹436**

Himatsingka Seide is a vertically integrated home textile company. It has manufacturing facility in India and in FY17 it laid out the plan for Rs.1300 crore capex for expanding capacity in sheeting, terry towels and yarn. This will help the company to achieve backward integration in ultra-fine count spinning and will create world's largest cotton spinning plant under one roof.

The company has retail and distribution business across North America, Europe and Asia. Company is also sharpening its focus on strong international brands where it is seeing good traction. Also with this, we believe sweating new capacity and backward integration can positively augment the bottom line. Also, we see that the company has been able to grow its ROE from 6.6% in FY12 to 17.1% in FY17. Hence, we recommend investor to BUY the stock with the potential upside of 28% from current levels.

### Capacity expansion

The company had almost doubled the sheeting capacity from 23 to 46 and it expects 60% of the new capacity to be utilized by FY18 which stands at 40% currently. The capacity was doubled and became operational in October 2016. With this facility becoming operational, we expect the revenues to fare better and margins to improve further. The company capex on this facility was around Rs 200 crore.

The company is incurring capex for backward integration of spinning capacity. This will add approx. 211,000 spindles and is expected to become operational by Q3FY18. The company management expects total capex of approx. Rs 600 crore for the same. This will help the company to meet ~50% of its requirement internally. The company also plans to expand the terry towel capacity once the spinning capacity becomes operational.

### Brand building

The company has a portfolio of about 12 brands and it plans to focus more on large international brands and exit small regional brands. Hence, the company plans to focus more on Calvin Klein, Kate Spade, Pimacott (new cotton platform), Italian brands and Barbara Barry. Due to this, the company saw more margin erosion in FY17 though the revenue growth was robust.

The company is focusing on building its brand portfolio under retail and it touched Rs.1200 crore revenue in FY17. Eventually, the company plans to have 5-6 bigger brands and focus on the same.

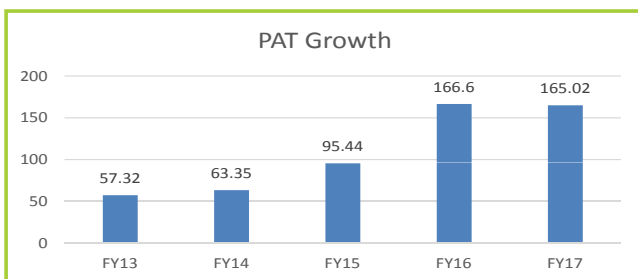
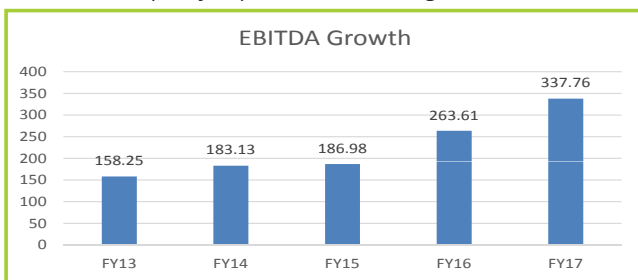
### Geographic focus

The company plans to focus on the European region and has created a subsidiary for the same. Himatsingka Europe Limited has given the responsibility and will be company's distribution vehicle. It will also have the Giuseppe Bellora subsidiary under it. The company expects to gain traction in continental Europe.

### Financial performance

The company reported strong revenue growth of 36.6% yoy in FY17 to Rs.1398 crore versus Rs.1023.8 crore. Its EBITDA from manufacturing activities, including other income, stood at Rs.351.7 crore versus Rs.284 crore in FY16, thereby witnessing a growth of 23.9% yoy. However, its EBITDA margin was marginally down to 25.2% due to higher raw material prices. Its global retail and distribution business stood at Rs.1825 crore versus Rs.1684.6 crore in FY16. The EBITDA came in range-bound at Rs.61 crore versus Rs.61.21 crore during the previous year. So, EBITDA margin from retail and distribution divisions came in at 3.3% versus 3.6% during the previous year.

We see that debt as of March 31, 2017 rose to Rs.1364 crore on the back of capacity expansion. Also, the growth in revenue led



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to higher demand for working capital needs.

## Valuation

The company is trading at TTM P/E of 18.02 with TTM EPS of Rs

17.96. Company has strong management and market positioning and hence attracts a premium. Considering its capacity expansion plans, geographic expansion and improving brand recognition, we recommend our investors to **BUY** this scrip with target price of Rs 436 over a period of a year.

### Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	1398.07	1020.66	948.41	983.69	714.47
Total Income	1439.99	1062.21	985.69	996.21	727.55
Total Expenditure	1088.23	780.05	795.29	844.08	606.02
PBIDT	351.76	282.16	190.40	152.14	121.53
PAT	176.85	177.98	109.34	58.84	42.34
Dividend %	50.00	50.00	40.00	30.00	20.00
Adj. EPS(Rs)	17.96	18.08	11.11	5.98	4.30

### Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201703	201612	Q on Q Var%	201603	Y on Y Var%
Net Sales	405.55	390.80	3.77	252.30	60.74
Total Expenditure	310.19	336.33	-7.77	182.41	70.05
PBIDT (Excl OI)	95.36	77.84	22.51	69.89	36.44
PAT	43.57	43.04	1.23	33.03	31.91
PBIDTM% (Excl OI)	23.51	18.79	25.12	27.70	-15.13
PBIDTM%	23.14	22.90	1.05	30.57	-24.30
PATM%	10.74	10.39	3.37	13.09	-17.95
Adj. EPS(Rs)	4.43	4.37	1.37	3.35	32.24

