



Company Background

The Himatsingka Group (Himatsingka Seide and its subsidiaries, herein referred to as 'The Group') is a vertically integrated home textile major that designs, develops, manufactures, retails and distributes Bedding, Bath, Drapery & Upholstery, Ultra-Fine, Cotton Yarn, Terry Towel, and Bed Linen products.

The Group is amongst the largest manufacturers of Bedding, Drapery & Upholstery and Ultra-Fine count Cotton Yarn. In addition, the manufacturing portfolio is soon going to be augmented by the setting up of a Manufacturing Portfolio.

These facilities are state-of-the-art and serve as benchmarks for manufacturing capabilities and practices. The Group has positioned its manufacturing assets to be among the top 5 in their respective verticals.

This ensures the Group's ability to be a reliable global force in the home textile space. 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 Rationale

- 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 utilization at its manufacturing units

Product Matrix	Unit	Capacity FY17	Capacity Addition FY18	Total Capacity
Sheeting	Mn. Meters / Annum	46	0	46
Yarn	Spindles	Nil	211584	211584
Terry Towels	MT / Annum	Nil	25000	25000
Drapery & Upholstery	Mn. Meters / Annum	2	0	2

Q2FY18 Con-call Highlights

- Total basket of benefits reduced. Expecting benefits from the Government of Karnataka from Q4FY18 once the spinning unit is commissioned.
- Macro data from the US remains stable. Company is present in e-commerce sales across various brands. In e-commerce, companies look for flexibility of supply chain in a vendor (Order sizes, repackaging, return etc.)
- Europe: HSS is looking at mid to high range category. \$ Growth will be driven by exports primarily.

Q2FY18 Result Analysis

- Commenced trial production at the spinning facility; planning to commence full production by Q3FY18 end.
- Looking to expand market share in Europe.
- Will commence towel capacity construction in H2FY18.
- Looking at MoU with Himatsingka Energy for energy requirements. Q2FY18 reflected stability in operations with consolidated revenue improving 10% YoY to INR5.8bn and was aided by higher share of captive manufacturing
- Other income includes forex translation of INR93mn. Balance INR45mn is income from current investments.
- EBITDA margin impact is due to GST and product mix. Major impact was related to elimination of GST benefits. In Q2FY18, transition provisions impacted margins. This is restricted to Q2FY18.
- Retail & distribution o Total revenue from brands was marginally above INR7bn for H1FY18. o First half has seen robust performance. FY17 total revenue from brand was at INR12bn.
- Utilization level has been stable and we expects growth to resume from FY19.

Retail and Distribution

The Group's Retail and Distribution networks cater to over 7,000 points of sale, globally. Armed with a strong portfolio of brands (both licensed and owned), The Group is focused on strengthening its intellectual property portfolio across key global markets.

The Brand portfolio consists of the most respected fashion labels as well as technology driven brands that have led the industry.

The Group has been the leader in the branded cotton, Track and Trace space. The share of revenue derived from the brands will continue to rise, given the Group's focus on its brand portfolio.

During FY17, revenues from brands crossed Rs. 1,000 crores and stood at approximately, Rs. 1,200 crores.

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
- 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 behavior and appetite for spending.

Valuation Summary (Rs. Mn.)	FY16A	FY17A	FY18E	FY19E
Net Revenue	18,896	21,384	22,391	23,870
EBIDTA	2,954	3,777	4,572	6,275
ECDTA (%)	15.6	17.7	20.6	26.3
EBIT	2,289	3,177	4,700	72
PAT	1,253	1,821	146	2,898
EPS (Rs.)	12.7	18.5	18.8	29.4
RoE (%)	14.8	18.6	16.1	21.4
RoCE (%)	14.3	15.2	15.8	21.5

***Source: Company Data, Consensus Estimates**

Valuation

The company is on course to ramp up its new bed sheet unit, driven by pruning outsourcing to ~25-30% from 50% earlier, which along with commissioning of spinning is expected to drive 26% PAT CAGR over FY17-19E.

We recommend to **BUY**. The company over the past 5 year has traded between 22x to 32x depending on its cyclical recovery. At current market prices it trades at 14xFY19E. We assign the lowest band at 22x FY19E, we get a target price of Rs.630, which is return of 56%.

Price	Value	Date	CAGR	Percentage	Years
All time High	443.80	09-Jan-2018	Since Inception -NSE	11.02	23.01
All time Low	10.28	23-Dec-1997	Jan-13	58.25	5.00
52 Week High	443.80	09-Jan-2018	Details Recommendation		
52 Week Low	290.05	11-Aug-2017	Recommendation	Buy	
Latest Close	402.00	16-Jan-2018	Closing Price	402.00	
Average Closing CY 2017	349.33	16-Jan-2018	Range	360-424	
EMA			Expected Target Price	630.00	
Short Term	384.50	16-Jan-2018	Expected Return	56.72%	
Medium Term	364.90	16-Jan-2018	Stop Loss	337.00	
Long Term	343.39	16-Jan-2018	Expected Risk	-16.17%	
			Minimum Holding Period	9 months	

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Disclosures Appendix

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