

## Himatsingka Seide

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,212	HSS IN
	REUTERS CODE
S&P CNX: 4,124	HMSD.BO

29 January 2007

Neutral

Previous Recommendation: Neutral

Rs135

Equity Shares (m)	97.4
52-Week Range (Rs)	172/82
1,6,12 Rel.Per. (%)	6/2/-48
M.Cap (Rs. b)	13.1
M.Cap (US\$ b)	0.3

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/06A	1,623	486	5.0	9.1	27.0	2.3	11.2	8.6	5.8	17.8
3/07E	2,100	578	5.9	18.8	22.7	2.2	9.9	8.0	5.9	20.7
3/08E	5,186	896	9.2	55.0	14.6	2.0	14.3	12.8	2.5	10.3

Consolidated numbers

- Himatsingka's results were below expectations with EBITDA margins declining by 174bp to 30.6% v/s 32.3% in 3QFY06. The key reasons for the sharp decline in EBITDA margins were higher staff costs and extraordinary cost of Rs9m relating to the bed-linen division. During 3QFY07, staff cost increased to 13.6% of revenues in 3QFY07 v/s 10.4% of revenues in 3QFY06.
- Revenues increased by 13.5% YoY to Rs463m, driven primarily by 22.4% YoY growth in fabric revenues. Fabric volumes increased 14% YoY, while realizations increased 7.2% YoY to Rs952/meter.
- PAT was boosted by high other income of Rs68.3m, which registered growth of 25.5% YoY to Rs150m v/s our estimate of Rs147m. Almost 95% of the other income comprised interest income earned on cash holdings of Rs3.5b lying in the company's books.
- Himatsingka's 100% owned retail subsidiary reported robust 52% YoY growth in revenues and PAT of Rs8m. Over the next one year, the company plans to open international stores in countries such as Dubai, Hong Kong, Malaysia and Singapore to establish its 'Atmosphere' brand in the international market.
- During 4QFY07, the company entered into a definitive agreement to acquire 70% in Giuseppe Bellora SpA, Italy. The transaction is likely to be completed by February 2007. Himatsingka has emerged as a unique cash-rich textile company with one of the most robust business models in India and is all set to re-position itself as an international niche brand in the high-end home textiles segment. The stock trades at a PER of 22.7x FY07E and 14.6x FY08E earnings. We maintain **Neutral**.

### QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>342</b>	<b>381</b>	<b>408</b>	<b>379</b>	<b>378</b>	<b>470</b>	<b>463</b>	<b>504</b>	<b>1,509</b>	<b>1,815</b>
Change (%)	9.8	9.9	4.0	14.9	10.5	23.5	13.5	33.1	8.4	20.3
Total Expenditure	209	233	276	273	252	311	321	351	991	1,235
<b>EBITDA</b>	<b>132</b>	<b>147</b>	<b>132</b>	<b>106</b>	<b>126</b>	<b>159</b>	<b>142</b>	<b>153</b>	<b>518</b>	<b>580</b>
Change (%)	0.6	-3.9	-13.9	-12.2	-4.9	7.8	7.4	44.4	-6.0	12.0
As % of Sales	38.7	38.7	32.3	28.0	33.3	33.8	30.6	30.4	34.3	31.9
Depreciation	35	36	35	32	35	37	37	40	138	150
Interest	5	4	1	1	1	1	2	12	11	16
Other Income	32	29	25	57	62	69	68	11	143	210
<b>PBT</b>	<b>124</b>	<b>136</b>	<b>121</b>	<b>130</b>	<b>151</b>	<b>190</b>	<b>171</b>	<b>112</b>	<b>512</b>	<b>624</b>
Tax	11.5	4.0	1.1	12.1	7.0	27.0	20.8	11.0	28.6	65.9
Effective Tax Rate (%)	9.3	2.9	0.9	9.2	4.6	14.2	12.2	9.8	5.6	10.6
<b>Reported PAT</b>	<b>113</b>	<b>132</b>	<b>119</b>	<b>118</b>	<b>144</b>	<b>163</b>	<b>150</b>	<b>101</b>	<b>483</b>	<b>558</b>
<b>Adj. PAT</b>	<b>113</b>	<b>132</b>	<b>119</b>	<b>118</b>	<b>144</b>	<b>163</b>	<b>150</b>	<b>101</b>	<b>483</b>	<b>558</b>
Change (%)	11.4	24.0	1.8	-9.3	27.8	22.7	25.5	-14.6	9.1	15.5

E: MOSSt Estimates; Standalone

### EBITDA margins decline sharply in 3QFY07

3QFY07 results were below expectations with EBITDA margins declining by 174bp to 30.6% v/s 32.3% in 3QFY06. The key reasons for the sharp decline in EBITDA margins were a jump in staff costs and extraordinary cost of Rs9m relating to the bed-linen division. In 3QFY07, staff costs increased to 13.6% of revenues v/s 10.4% in 3QFY06.

During 3QFY07, EBIT margins declined by 226bp YoY to 33.8% in the fabric division and by 501bp YoY to 6.1% in the yarns segment.

#### SEGMENTAL RESULTS (RS M)

PARTICULARS	3QFY06	3QFY07	% CHG.
Fabrics	322	395	22
Yarns	91	89	-3
Less: Inter segment	8	21	153
<b>Total</b>	<b>406</b>	<b>463</b>	<b>14</b>
<b>EBIT</b>			
Fabrics	116	134	15
Yarns	10	5	-47
<b>Total</b>	<b>127</b>	<b>139</b>	<b>10</b>
<b>EBIT (%)</b>			
Fabrics	36	34	
Yarns	11	6	
<b>Total</b>	<b>31</b>	<b>30</b>	

Source: Company/ Motilal Oswal Securities

### Fabric division posts strong realization gains

Revenues during 3QFY07 increased by 13.5% YoY to Rs463m, driven primarily by 22.4% YoY growth in fabric revenues. Fabric volumes increased 14% YoY, while realizations increased by 7.2% YoY to Rs952/meter.

#### FABRIC DIVISION PERFORMANCE

PARTICULARS	3QFY06	3QFY07	% CHG.
Qty ('000 meters)	363	414	14.0
Value (Rs m)	323	395	22.4
Realisation (Rs/meter)	888	952	7.2

Source: Company

### Other income props PAT

PAT was boosted by a high other income of Rs68.3m, registering a growth of 25.5% YoY to Rs150m v/s our

estimate of Rs147m. Nearly 95% of other income comprised interest income earned on cash holdings of Rs3.5b lying in the company's books. Going forward, as the company's free cash gets utilized for organic capex and acquisitions, we expect other income to decline sharply.

### Bed-linen project delayed

Himatsingka's Rs4b bed-linen project, which was scheduled for commissioning in November 2006, is delayed to February 2007. The company expects to begin trial production by February 2007 and commercial production thereafter. The company expects to start full commercial production for 10m meters by June 2007 and the other 10m meters by October-November 2007. Hence, it expects to produce close to 8m-10m meters in FY08 and around 17m-18m meters by FY09. It expects to enjoy realizations in the range of US\$4-US\$5/meter. Once the project is fully operational, the company can potentially record revenues of close to Rs3.5-Rs4b from its bed-linen project.

### Robust growth in the retail business

The company operates retail operations under the brand Atmosphere, through its 100%-owned subsidiary, Himatsingka Woven Ltd.. Himatsingka's retail subsidiary reported robust 52% YoY growth in revenues and PAT of Rs8m, during 3QFY07. Management expects to close FY07 with around 17-20 stores in India. Over the next one year, the company plans to open international stores in countries such as Dubai, Hong Kong, Malaysia and Singapore to establish its Atmosphere brand in the international market.

#### HIMATSINGKA WOVEN: 3QFY07 RESULTS (RS M)

	3QFY06	3QFY07	% CHG.
Net Sales	45.5	69.1	52
Total Expenditure	42	59.5	42
EBITDA	3.5	9.6	174
% of Sales	7.7	13.9	81
Depreciation	2.9	2.6	-10
Other Income	1.6	1.2	-25
PBT	2.2	8.2	273
Tax	0.1	0.1	
PAT	2.1	8.1	286

Source: Company/ Motilal Oswal Securities

### Strategic acquisition of Bellora positive

During 4QFY07, the company entered into a definitive agreement to acquire 70% stake in Giuseppe Bellora SpA, Italy the transaction is likely to be completed by February 2007. As the acquisition is incomplete, management has not shared any financial details with regard to the acquisition cost or the company's financials. Bellora had revenues of close to Euros 29m in FY06, it owned nearly 17 exclusive retail stores across the EU (mostly in Italy) and had a presence in 350 different retail points across the EU. Almost 90% of the company's revenue in FY06 was derived from the home textiles segment.

Management has indicated that it is also close to finalizing another acquisition of a retail/brand company based in the US and will provide details on the same by March 2007.

The management has indicated that they would be able to finance both these acquisitions with the help of the proceeds from its GDR issue of Rs2.7b in December 2005. In our opinion, with these acquisitions of global home textile brands, the company is slated to emerge as one of the key players in the high-end home textile market. It would also enable the company to leverage on its key strengths with respect to design capabilities and low cost manufacturing base.

### Valuations

Himatsingka has emerged as a unique cash rich textile company with one of the most robust business models in India and is all set to re-position itself as an international niche brand in the high-end home textiles segment. The stock trades at a PER of 22.7x FY07E and 14.6x FY08E earnings. We maintain **Neutral**.

## Himatsingka Seide: an investment profile

### Company description

Himatsingka Seide is the largest producer of silk and blended-silk fabrics and yarns in India and currently exports its entire production primarily to North America and Europe. It now plans to make a fresh foray into the cotton/silk bed linen segment, expand product offerings, further push its retail initiative and is also scouting for acquisitions in the global market. Once implemented, these initiatives have the potential to increase the company's sales to Rs7b by FY08.

### Key investment arguments

- Himatsingka can be credited as being the only Indian textile company to build a sound business based on design-led competencies.
- The company has a sound financial position, with almost zero long-term debt and liquid cash of around Rs1.4b.
- Its top five customers account for 30% of turnover. Some of its client relationships date back to 15 years.

### Key investment risk

- The company has not been able to effectively grow its topline in the past. As a result, its topline has been almost stagnant since FY01.

### Recent developments

- It now plans to make a fresh foray into the cotton/silk bed linen segment.
- HSS has successfully raised US\$60m through a GDR issue.
- Has acquired a 70% stake in Bellora.

### Valuation and view

- HSS has issued aggressive guidance of Rs7b topline to be achieved by FY08, a CAGR (FY05-FY08) of 72%.
- The stock trades at a PER of 22.7x FY07E and 14.6x FY08E earnings. We maintain **Neutral**.

### Sector view

- Exports from China are likely to be severely constrained due to safeguarding measures adopted by the US and EU.
- India registered robust export growth rates to the US and EU in the post-quota era.
- Global buyers are focusing on building vendor partners that have high product development skills.
- The concern of industry overcapacity causing waves of deflation in prices is overblown.

#### COMPARATIVE VALUATIONS

		HIMATSINGKA	GOKALDAS	RAYMOND
P/E (x)	FY07E	22.7	14.8	13.6
	FY08E	14.6	11.8	11.3
P/BV (x)	FY07E	2.2	2.6	1.7
	FY08E	2.0	2.2	1.6
EV/Sales (x)	FY07E	5.9	1.1	1.3
	FY08E	2.5	0.9	1.2
EV/EBITDA (x)	FY07E	20.7	9.5	8.7
	FY08E	10.3	7.9	7.2

#### SHAREHOLDING PATTERN (%)

	DEC.06	SEP06	DEC.05
Promoter	50.4	50.2	48.3
Domestic Inst	12.4	12.5	1.5
Foreign	5.5	15.8	26.9
Others	21.7	21.5	23.4

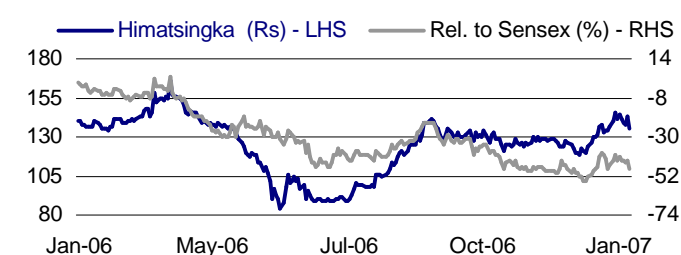
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VIATION (%)
FY07	5.9	6.1	-2.6
FY08	9.2	8.8	4.0

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
135	-	-	Neutral

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
<b>Net Sales</b>	<b>1,497</b>	<b>1,623</b>	<b>2,100</b>	<b>5,186</b>	<b>6,355</b>
YoY Growth (%)	10.4	8.4	29.3	117.0	22.5
Total Expenditure	933	1,093	1,404	4,147	5,676
<b>EBIDT</b>	<b>564</b>	<b>530</b>	<b>600</b>	<b>1,265</b>	<b>1,553</b>
Change (%)	-10	-6.0	13.0	111.0	22.8
% of Net sales	37.7	32.7	28.6	24.4	24.4
Depreciation	134	150	150	371	404
<b>EBIT</b>	<b>430</b>	<b>380</b>	<b>450</b>	<b>894</b>	<b>1,149</b>
Int. & Finance Charges	12	11	16	60	64
Other Income	60	148	210	175	175
<b>Profit before Tax</b>	<b>478</b>	<b>517</b>	<b>644</b>	<b>1,009</b>	<b>1,260</b>
Tax	32	31	66	113	151
Effective Rate (%)	6.8	5.9	10.2	11.2	12.0
<b>Profit after Tax</b>	<b>446</b>	<b>486</b>	<b>578</b>	<b>896</b>	<b>1,109</b>
<b>Adj. Profit after Tax</b>	<b>446</b>	<b>486</b>	<b>578</b>	<b>896</b>	<b>1,109</b>
Change (%)	-13.9	9.1	18.8	55.0	23.8

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	191	487	487	487	487
Reserves	2,804	5,214	5,514	6,081	6,860
<b>Net Worth</b>	<b>2,995</b>	<b>5,701</b>	<b>6,002</b>	<b>6,568</b>	<b>7,347</b>
Loans	420	398	2,170	1,720	1,270
Deferred Tax Liability	42	26	43	88	148
<b>Capital Employed</b>	<b>3,457</b>	<b>6,125</b>	<b>8,214</b>	<b>8,375</b>	<b>8,765</b>
Gross Fixed Assets	2,146	2,272	5,722	6,122	6,523
Gross Block	2,146	2,272	5,722	6,122	6,523
Less: Depreciation	1,097	1,238	1,387	1,758	2,163
<b>Net Fixed Assets</b>	<b>1,049</b>	<b>1,250</b>	<b>4,335</b>	<b>4,366</b>	<b>4,363</b>
Investments	1,550	1,155	1,000	1,000	1,000
<b>Curr. Assets, Loans &amp; Adv.</b>					
Inventory	426	513	635	1,477	2,022
Sundry Debtors	240	308	345	710	871
Cash & Bank Balances	249	2,936	1,882	762	391
Others	371	379	493	617	771
<b>Current Liab. &amp; Prov.</b>	<b>429</b>	<b>426</b>	<b>475</b>	<b>556</b>	<b>653</b>
Sundry Creditors	62	67	63	64	65
Other Liabilities	14	20	22	25	27
Current Liabilities	76	87	85	89	92
Provisions	354	339	389	467	561
<b>Net Current Assets</b>	<b>856</b>	<b>3,710</b>	<b>2,880</b>	<b>3,010</b>	<b>3,401</b>
Misc. Expenditures	0	9	0	0	1
<b>Application of Funds</b>	<b>3,455</b>	<b>6,125</b>	<b>8,214</b>	<b>8,375</b>	<b>8,765</b>

E: MOST Estimates

RATIO					
Y/E MARCH	2005	2006	2007E	2008E	2009E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>4.6</b>	<b>5.0</b>	<b>5.9</b>	<b>9.2</b>	<b>11.4</b>
Cash EPS	6	7	7	13	16
Book Value per Share	31	59	62	67	75
DPS	11.0	2.5	2.5	3.0	3.0
Payout (Incl. Div. Tax) %	52.2	57.1	48.0	0.4	0.3
<b>Valuation (x)</b>					
P/E		27.0	22.7	14.6	11.8
Cash PE		20.6	18.0	10.4	8.7
EV/EBITDA		17.8	20.7	10.3	8.4
EV/Sales		5.8	5.9	2.5	2.0
Price to Book Value		2.3	2.2	2.0	1.8
Dividend Yield (%)		1.9	1.9	2.2	2.2
<b>Profitability Ratios (%)</b>					
RoE	15.4	11.2	9.9	14.3	15.9
RoCE	14.2	8.6	8.0	12.8	15.1
<b>Turnover Ratios</b>					
Debtors (Days)	59	69	60	50	50
Inventory (Days)	167	171	165	130	130
Creditors (Days)	54	48	65	65	65
Working Capital (Days)	171	192	160	115	115
Asset Turnover (x)	0.4	0.3	0.3	0.6	0.7
Fixed Asset Turnover (x)	0.7	0.7	0.4	0.8	1.0
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.1	0.1	0.4	0.3	0.2

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
<b>OP/(Loss) before Tax</b>	<b>478</b>	<b>517</b>	<b>644</b>	<b>1,009</b>	<b>1,260</b>
Add: Depreciation & Amort.	134	150	150	371	404
Add: Interest Paid	12	11	16	60	64
Less: Direct Taxes Paid	30	23	49	68	91
Less: (Inc)/Dec in Wkg. Capita	-35	-167	-224	-1,250	-762
<b>CF from Op. Activity</b>	<b>487</b>	<b>320</b>	<b>310</b>	<b>-113</b>	<b>636</b>
<b>CF after EO Items</b>	<b>487</b>	<b>320</b>	<b>310</b>	<b>-113</b>	<b>636</b>
(Inc)/Dec in Fixed Assets & CV	-100	90	-3,666	-398	-400
(Pur)/Sale of Invest.	-363	385	155	0	0
<b>CF from Inv. Activity</b>	<b>-102</b>	<b>-337</b>	<b>-3,234</b>	<b>-402</b>	<b>-402</b>
Inc / (Dec) in Debt	282	-23	1,773	-450	-450
Interest Paid	12	11	16	60	64
Dividends Paid	237	278	278	330	330
<b>CF from Fin. Activity</b>	<b>-253</b>	<b>2,704</b>	<b>1,870</b>	<b>-605</b>	<b>-605</b>
<b>Inc / ( Dec) in Cash</b>	<b>132</b>	<b>2,687</b>	<b>-1,054</b>	<b>-1,120</b>	<b>-371</b>
Add: Opening Balance	117	249	2,936	1,882	762
<b>Closing Balance</b>	<b>249</b>	<b>2,936</b>	<b>1,882</b>	<b>762</b>	<b>391</b>



For more copies or other information, contact

**Institutional:** Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

**Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021**

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**Disclosure of Interest Statement**

**Himatsingka Seide**

- |   |    |
|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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