

## Himatsingka Seide

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,284	HSS IN
	REUTERS CODE
S&P CNX: 2,810	HMSD.BO

16 December 2005

Neutral

Previous Recommendation: Neutral

Rs138

Equity Shares (m)	97.4
52-Week Range (Rs)	169/88
1,6,12 Rel.Per. (%)	-10/14/1
M.Cap (Rs. b)	13.5
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
3/05A	1,498	446	4.6	-13.8	30.6	4.6	15.5	14.2	8.2	21.7
3/06E	1,775	532	5.5	19.2	25.6	2.3	11.9	9.4	5.4	14.3
3/07E	2,772	642	6.6	20.6	21.2	2.2	10.5	9.0	4.6	12.4

Equity shares of Rs5 paid-up

### Has raised US\$60m through GDR issue

Himatsingka Seide (HSS) has raised US\$60m (Rs2.7b) through a GDR issue at US\$2.862/GDR (Rs130/share). The issue has led to an equity dilution of 27.4%, resulting in equity capital increasing from Rs382m to Rs487m. The management proposes to utilize these funds for an overseas acquisition and to fund its future capex plans. Several brand acquisitions in the EU and the US are being considered, which would allow HSS to forward integrate into branding and retailing.

### Equity dilution of 27.4% to lower EPS

The GDR issue has led to an equity dilution of 27.4%, resulting in its equity capital increasing from Rs382m to Rs487m. In the event of a successful acquisition by the company, we believe this equity dilution would be earnings accretive as margins would expand further.

#### REVISED EPS (RS)

	FY06	FY07	FY08
Diluted EPS	5.5	6.6	12.4
Old EPS	7.0	8.4	15.7
% Change	-27	-27	-27

Source: Company/Motilal Oswal Securities

### Any acquisition to lead to re-rating

HSS has been catering to the premium home textile market in the developed countries. Any acquisition of a brand would allow it to forward integrate into branding and retailing and allow it to maximize margins. Hence, we believe that HSS is likely to be re-rated in the event of a successful acquisition.

### Expansion plans

HSS is currently implementing a Rs4b bed-linen project, which will have a capacity of around 20m meters and is located at Hassan SEZ, Karnataka. The company expects the bedlinen project to contribute around Rs4b in revenues by FY08 and enjoy all the benefits of a SEZ unit. The construction activity is likely to begin by September 2005 and the project is scheduled to be completed by September 2006. The project is being financed through internal accruals and term loans under the TUF scheme.

### Guidance of 72% sales CAGR over FY05-08

HSS has issued an aggressive sales guidance of Rs7b by FY08, a CAGR (FY05-08) of 72%. It expects the bedlinen project to contribute around Rs4.8b in revenues by FY08 and enjoy all the benefits of a SEZ unit. We believe this could lead to a substantial re-rating of the stock over the medium-to-long term as low growth has been one of the biggest concerns for the company.

### Valuation and view

HSS stands out as a unique cash-rich textile company with one of the most robust knowledge-based business models in India. It is on the verge of a major re-rating once the management implements its four-pronged growth strategy. Given the management's strong credentials, we strongly believe that the company would be able to achieve its growth plans and evolve into an international niche brand in the high-end home textile segment. The stock trades at 25.6x FY06E and 21.2x FY07E earnings. We have a **Neutral** rating on the stock.

## 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 is now planning to make a fresh foray into the cotton/silk bed linen segment, expand product offering, 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 very 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. Each client accounts for around 7-8% of its turnover. Some of its client relationships go back 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.

#### COMPARATIVE VALUATIONS

		HIMATSIKKA	VARDHMAN	GOKALDAS
P/E (x)	FY06E	25.6	11.4	19.4
	FY07E	21.2	10.4	14.5
P/BV (x)	FY06E	2.3	1.9	2.8
	FY07E	2.2	1.7	2.4
EV/Sales (x)	FY06E	5.4	1.3	1.2
	FY07E	4.6	1.1	1.0
EV/EBITDA (x)	FY06E	14.3	7.6	13.4
	FY07E	12.4	6.8	10.8

#### SHAREHOLDING PATTERN (%)

	SEP.05	JUN.05	SEP.04
Promoters	61.2	61.2	61.2
Domestic Institutions	5.0	6.7	8.1
FII's/FDI's	11.0	12.8	11.4
Others	22.8	19.3	19.4

### Recent developments

- It is now planning to make a fresh foray into the cotton/silk bed linen segment.

### Valuation and view

- HSS has successfully raised US\$60m through GDR
- HSS has issued an aggressive guidance of Rs7b topline by FY08, a CAGR (FY05-FY08) of 72%.
- It expects the bed-linen project to contribute around Rs4.8b in revenues by FY08 and enjoy all the benefits of a SEZ unit.
- The stock trades at 25.6x FY06E and 21.2x FY07E earnings. We have a **Neutral** rating on the stock.

### Sector view

- Exports from China are likely to be severely constrained due to safeguard measures 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.

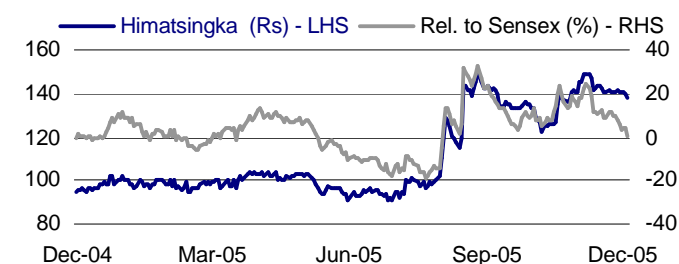
#### EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	6.6	-	-
FY08	12.8	-	-

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
138	125	-9.4	Neutral

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
<b>Net Sales</b>	<b>1,356</b>	<b>1,498</b>	<b>1,775</b>	<b>2,772</b>	<b>6,139</b>
YoY Growth (%)	8.0	10.5	18.5	56.1	215
Total Expenditure	786	933	1,102	1,733	4,329
<b>EBIDT</b>	<b>570</b>	<b>565</b>	<b>673</b>	<b>1,039</b>	<b>1,810</b>
Change (%)	3.3	-0.9	19.2	54.4	74.1
% of Net sales	42.0	37.7	37.9	37.5	29.5
Depreciation	147	134	159	342	429
<b>EBIT</b>	<b>422</b>	<b>430</b>	<b>514</b>	<b>698</b>	<b>1,381</b>
Int. & Finance Charges	1	12	11	54	60
Other Income	137	60	88	70	65
<b>Profit before Tax</b>	<b>558</b>	<b>479</b>	<b>591</b>	<b>713</b>	<b>1,386</b>
Tax	40	32	59	71	139
Effective Rate (%)	7.2	6.8	10.0	35.0	36.0
<b>Profit after Tax</b>	<b>518</b>	<b>446</b>	<b>532</b>	<b>642</b>	<b>1,248</b>
<b>Adj. Profit after Tax</b>	<b>518</b>	<b>446</b>	<b>532</b>	<b>642</b>	<b>1,248</b>
Change (%)	22.6	-13.8	19.2	20.6	94.3

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Share Capital	191	191	487	487	487
Reserves	2,587	2,804	5,438	5,803	6,721
<b>Net Worth</b>	<b>2,778</b>	<b>2,995</b>	<b>5,926</b>	<b>6,290</b>	<b>7,208</b>
Loans	138	420	420	2,170	1,720
Deferred Tax Liability	40	42	57	75	130
<b>Capital Employed</b>	<b>2,955</b>	<b>3,457</b>	<b>6,402</b>	<b>8,535</b>	<b>9,058</b>
Gross Fixed Assets	2,046	2,146	2,546	5,996	6,396
Capital WIP	0	0	0	0	2
<b>Gross Block</b>	<b>2,046</b>	<b>2,146</b>	<b>2,546</b>	<b>5,996</b>	<b>6,396</b>
Less: Depreciation	963	1,097	1,256	1,598	2,027
<b>Net Fixed Assets</b>	<b>1,084</b>	<b>1,049</b>	<b>1,290</b>	<b>4,398</b>	<b>4,372</b>
Investments	1,183	1,550	1,600	1,000	1,000
<b>Curr. Assets, Loans &amp; Advances</b>					
Inventory	359	422	498	783	1,542
Sundry Debtors	217	246	292	456	841
Cash & Bank Balances	117	249	2,806	1,925	1,297
Others	371	371	400	520	651
<b>Current Liab. &amp; Prov.</b>	<b>374</b>	<b>429</b>	<b>484</b>	<b>548</b>	<b>644</b>
Sundry Creditors	67	62	62	63	64
Other Liabilities	12	14	16	17	19
Current Liabilities	80	76	78	80	83
Provisions	295	354	407	468	561
<b>Net Current Assets</b>	<b>689</b>	<b>858</b>	<b>3,512</b>	<b>3,136</b>	<b>3,686</b>
<b>Application of Funds</b>	<b>2,956</b>	<b>3,457</b>	<b>6,402</b>	<b>8,535</b>	<b>9,058</b>

E: MOST Estimates

RATIO					
Y/E MARCH	2004	2005	2006E	2007E	2008E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>5.3</b>	<b>4.6</b>	<b>5.5</b>	<b>6.6</b>	<b>12.8</b>
Cash EPS	7	6	7	10	17
Book Value per Share	29	31	61	65	74
DPS	10.0	11.0	2.0	2.5	3.0
Payout (Incl. Div. Tax) %	42.7	52.2	41.7	43.2	0.3
<b>Valuation (x)</b>					
P/E		30.6	25.6	21.2	10.9
Cash PE		23.5	19.7	13.9	8.1
EV/EBITDA		21.7	14.3	12.4	7.2
EV/Sales		8.2	5.4	4.6	2.1
Price to Book Value		4.6	2.3	2.2	1.9
Dividend Yield (%)		7.9	1.4	1.8	2.1
<b>Profitability Ratios (%)</b>					
RoE	19.7	15.5	11.9	10.5	18.5
RoCE	18.9	14.2	9.4	9.0	16.0
<b>Turnover Ratios</b>					
Debtors (Days)	59	60	60	60	50
Inventory (Days)	167	165	165	165	130
Creditors (Days)	65	65	65	65	65
Working Capital (Days)	160	160	160	160	115
Asset Turnover (x)	0.5	0.4	0.3	0.3	0.7
Fixed Asset Turnover (x)	0.7	0.7	0.7	0.5	1.0
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.0	0.1	0.1	0.3	0.2

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
<b>OP/(Loss) before Tax</b>	<b>558</b>	<b>479</b>	<b>591</b>	<b>713</b>	<b>1,386</b>
Add: Depreciation & Amort.	147	134	159	342	429
Add: Interest Paid	1	12	11	54	60
Less: Direct Taxes Paid	32	30	44	54	83
Less: (Inc)/Dec in Wkg. Capital	-128	-37	-97	-505	-1,178
<b>CF from Op. Activity</b>	<b>408</b>	<b>486</b>	<b>521</b>	<b>426</b>	<b>489</b>
<b>CF after EO Items</b>	<b>408</b>	<b>486</b>	<b>521</b>	<b>426</b>	<b>489</b>
(Inc)/Dec in Fixed Assets & CW	-116	-100	-400	-3,450	-398
(Pur)/Sale of Invest.	-360	-363	-60	600	0
<b>CF from Inv. Activity</b>	<b>-32</b>	<b>-102</b>	<b>-395</b>	<b>-3,450</b>	<b>-402</b>
Inc / (Dec) in Debt	138	282	0	1,750	-450
Interest Paid	1	12	11	54	60
Dividends Paid	216	237	222	278	330
<b>CF from Fin. Activity</b>	<b>-327</b>	<b>-251</b>	<b>2,431</b>	<b>2,143</b>	<b>-714</b>
<b>Inc / (Dec) in Cash</b>	<b>49</b>	<b>132</b>	<b>2,557</b>	<b>-881</b>	<b>-628</b>
Add: Opening Balance	68	117	249	2,806	1,925
<b>Closing Balance</b>	<b>117</b>	<b>249</b>	<b>2,806</b>	<b>1,925</b>	<b>1,297</b>

E: MOST Estimates



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**Disclosure of Interest Statement**

**Himatsingka Seide**

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

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