

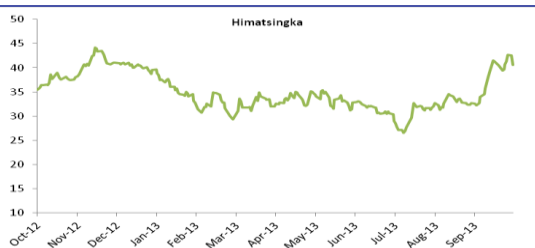
Himatsingka Seide Ltd. (HSL)

Recommendation	BUY
CMP	Rs. 42
Target Price	Rs. 54
Sector	Textile

Stock Details

BSE Code	514043
NSE Code	HIMATSEIDE
Bloomberg Code	HSS IN
Market Cap (Rs cr)	413
Free Float (%)	44.2%
52- wk HI/Lo (Rs)	46/26
Avg. volume BSE (Quarterly)	23622
Face Value (Rs)	5
Dividend (FY 13)	20%
Shares o/s (Cr)	9.8

Relative Performance	1Mth	3Mth	1Yr
Himatsingka	24.6%	33.8%	14.2%
Sensex	8.0%	6.8%	12.3%



Shareholding Pattern	30 th Sept 13'
Foreign Promoter Holding	1.3%
Indian Promoters Holding	55.8%
Institutional (Incl. FII)	12.3%
Corporate Bodies	4.6%
Public & others	26.1%

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Good Quarter...momentum to continue; Maintain BUY

Himatsingka Seide Ltd (HSL) has reported a good quarter where Net sales increased by 17.5% YoY to Rs 539.4 cr led by 11% volume growth and balance currency impact. However, with the high Other expenses as a % of sales, EBITDA margin declined by 80bps YoY to 10% in Q2FY14. On account of absence of derivative loss/exceptional item (net Rs. 7.3 cr in Q2FY13), PAT grew by 57.2% YoY to Rs 18.1 cr.

Strong Revenue growth however, high Other expenses impacted EBITDA margin:

Net sales increased by 17.5% YoY to Rs. 539.4 cr and by 15.1% QoQ. It was mainly driven by increase in revenue across segments: European business (+26.2% YoY), North America business (+13.7% YoY), manufacturing business (+35.1% YoY) and Atmosphere business (+9.9% YoY). Despite strong revenue growth, EBITDA was merely up by 7% YoY and by 10.4% QoQ to Rs. 54.8 cr. Other expense was up by 45.6% YoY and by 52.6% QoQ due to an additional increase in forex translation and selling & administrative expenses during the quarter put pressure on operating profit. Other expenses accounts for 17.7% in Q2FY14 as against 14.3% in Q2FY13 as a % of sales. Thus, EBITDA margin declined by 80bps YoY to 10% in Q2FY14 and by 40bps QoQ. However, with the decline in raw-material cost as a % of sales and jump in net revenue, Gross margin improved by 380bps YoY to 35.1% in Q2FY14 and by 270bps QoQ.

Marginal reduction in loss and increased revenue YoY in Europe business:

Distribution revenues in Europe through "Bellora" brand increased by 13.2% YoY to Euro 3.6mn and by 21.2% QoQ. EBITDA margin stood at negative 14.2% in Q2FY14 as against negative 16% in Q2FY13 and negative 11.4% in Q4FY13. The entity continues to face the negative impact of slowdown in Europe, resulting in losses for the past couple of years. HSL took some initiatives to negate the impact of slowdown in Europe. Firstly, the company expanded its reach to North America, China, GCC (Gulf Cooperation Council) region and also to Russia by appointing new distributors. Secondly, the company kept its costs under control. Thirdly, Bellora will be used as a sourcing hub for 'Made in Italy' products for the US markets. With the series of strategies implemented, management sounds confident of turning Bellora EBITDA positive in next three years.

Absence of derivative loss/exceptional item during Q2FY14 led PAT escalated by 57.2% YoY:

On account of absence of derivative loss/exceptional item, net profit grew by 57.2% YoY to Rs 18.1 cr compared to 5.9% YoY growth in Profit before derivative loss/exceptional (Rs 23.3 cr in Q2FY14). Excluding net impact of derivative loss/exceptional of Rs. 7.3 cr in Q2FY13, PAT was down by 3.7% YoY.

Valuation & Recommendation

At CMP of Rs. 42, the stock is trading at a PE of 6.9x FY14E and 4.6x FY15E. The management has given revenue guidance of ~20% growth. Further, lower capex and reducing debt level would keep interest costs and depreciation charges under check, thereby leading to a rise in profitability. **We continue to maintain our target price of Rs. 54 per share (FY14E) and BUY rating.**

Year	Net Sales	Growth %	EBIDTA	EBIDTAM (%)	PAT	PATM (%)	EPS (Rs.)	P/E(x)	P/BV(x)	ROE
FY12	1428.7	15.9%	144.7	10.1%	33.1	2.3%	3.4	12.2	0.7	6.2%
FY13	1689.4	18.3%	157.9	9.3%	57.3	3.4%	5.8	7.8	0.6	8.8%
FY14E	2014.4	19.2%	202.1	10.0%	65.6	3.3%	6.7	6.9	0.6	9.0%
FY15E	2329.4	15.6%	233.7	10.0%	95.0	4.1%	9.6	4.5	0.5	12.3%

Himatsingka Seide Ltd. (HSL)

Other Financial Highlights:

- ✍ The revenue from Calvein Klien Home, Barbara Berry and other private label lines in North America was marginally down by 0.1% YoY to USD 72.1mn in Q2FY14 and up by 2.1% QoQ. These businesses are operated through Divatex and DWI Holdings. EBITDA margin stood at 6.5% in Q2FY14 as against 5.8% in Q2FY13 and 4.6% in Q1FY14.
- ✍ Manufacturing revenues for the Drapery/Upholstery and Bedding division was up by 35.1% YoY to Rs. 251.2 cr and by 17.4% QoQ. EBITDA margin stood at 11.8% in Q2FY14 as against 12.9% in Q2FY13 and 17.5% in Q1FY14.
- ✍ The revenue from the Atmosphere brand sold in India, Middle East and South East Asia declined by 9.9% YoY and by 33.7% QoQ to Rs. 14.1 cr. EBITDA margin stood at 5.8% in Q2FY14 as against 6% in Q2FY13 and 1.9% in Q1FY14.

Q2FY14: Consolidated Result

Particulars	Rs. in cr				
	Q2FY14	Q2FY13	YoY%	Q1FY14	QoQ(%)
Net Sales	539.4	459.1	17.5%	468.4	15.1%
Other Operating Income	10.4	13.5		9.3	
Total Income	549.8	472.7	16.3%	477.7	15.1%
Raw Material Consumed	201.7	89.9	124.4%	173.3	16.4%
Stock Adjustment	-104.2	36.4		-42.5	
Purchases of stock in trade	252.4	189.3	33.3%	185.8	35.8%
Employee Expenses	49.5	40.3	23.0%	48.9	1.3%
Other Expenses	95.6	65.7	45.6%	62.7	52.6%
TOTAL EXPENDITURE	495.0	421.5	17.4%	428.1	15.6%
EBITDA	54.8	51.2	7.0%	49.6	10.4%
Interest	19.1	16.6	15.0%	19.3	-1.1%
Other Income	1.6	1.0	59.2%	1.0	62.5%
EBDT	37.2	35.5	4.7%	31.2	19.2%
Depreciation	13.9	13.5	2.8%	13.1	6.2%
PBT before forex & exceptional item	23.3	22.0	5.9%	18.2	28.5%
Forex	0.0	9.4		0.0	
Exceptional Gain/Loss	0.0	2.1		0.0	
PBT	23.3	14.8	58.0%	18.2	28.5%
Tax	6.6	4.3		3.0	
Reported Profit After Tax	16.8	10.4	60.4%	15.1	10.7%
Minority Interest	-1.3	-1.0		-1.4	
Adjusted Profit After Extra-ordinary item	18.1	11.5	57.2%	16.5	9.1%
EPS (Unit Curr.)	1.8	1.2		1.7	
Equity	49.2	49.2		49.2	
			BPS		BPS
EBITDA(%)	10.0%	10.8%	-80	10.4%	-40
PBT(%)	4.3%	3.2%	110	3.6%	70
PAT(%)	3.1%	2.3%	80	2.6%	50

Source: Company & Nirmal Bang Research

Himatsingka Seide Ltd. (HSL)

Consolidated Financials

Profitability (Rs. In Cr)	FY12	FY13	FY14E	FY15E
Y/E - March				
Revenues - Net	1428.7	1689.4	2014.4	2329.4
% change	15.9%	18.3%	19.2%	15.6%
EBITDA	144.7	157.9	202.1	233.7
% change	66.2%	9.1%	28.0%	15.6%
Interest	52.8	65.3	78.4	71.0
Other Income	2.9	9.0	5.0	6.0
EBDT	94.8	101.6	128.7	168.7
Depreciation	55.6	52.2	53.7	55.7
Extraordinary/Exceptional	5.5	2.4	0.0	0.0
PBT	44.8	51.7	75.0	113.0
Tax	10.8	-1.2	15.0	22.6
PAT before Minorit Interest	33.9	52.9	60.0	90.4
Minority Interest	0.9	-4.4	-5.6	-4.6
PAT	33.1	57.3	65.6	95.0
Shares o/s (No. in Cr.)*	9.8	9.8	9.8	9.8
EPS	3.4	5.8	6.7	9.6
Cash EPS	9.1	10.7	11.6	14.8
DPS (Rs.)	0.5	1.0	1.0	1.0
Quarterly (Rs. In Cr)	Dec.12	Mar.13	June.13	Sept.13
Revenue including OI	440.0	394.3	477.7	549.8
EBITDA	43.5	33.9	49.6	54.8
Interest	16.9	15.4	19.3	19.1
EBDT	26.6	18.5	30.3	35.6
Dep	13.6	11.5	13.1	13.9
Other Inc.	2.7	4.5	1.0	1.6
Exceptional	0.0	-1.2	0.0	0.0
PBT	15.7	10.2	18.2	23.3
Tax	4.3	-12.0	3.0	6.6
PAT from ordinary activities	11.4	22.2	15.1	16.8
Minority Interest	-1.7	-0.2	-1.4	-1.3
PAT	13.0	22.5	16.5	18.1
EPS (Rs.)	1.3	2.3	1.7	1.8
Operational Ratio	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	10.1%	9.3%	10.0%	10.0%
PAT margin (%)	2.3%	3.4%	3.3%	4.1%
PAT Growth (%)	-299.5%	73.4%	14.5%	44.7%
Price Earnings (x)	12.2	7.8	6.9	4.6
Book Value (Rs.)	57.7	64.6	70.2	78.9
ROCE (%)	7.3%	8.8%	11.5%	13.7%
RONW (%)	6.2%	8.8%	9.0%	12.3%
Debt Equity Ratio	1.2	1.1	0.9	0.7
Price / Book Value (x)	0.7	0.6	0.6	0.5
EV / Sales	0.8	0.6	0.5	0.4
EV / EBITDA	7.4	6.5	4.9	3.9

Balance Sheet (Rs. In Cr)	FY12	FY13	FY14E	FY15E
Share Capital	49.2	49.2	49.2	49.2
Reserves & Surplus	519.2	586.4	642.1	727.3
Net Worth	568.5	635.6	691.4	776.5
Total Loans	700.1	704.4	629.4	579.4
Minority Interest	0.3	-20.0	-25.6	-30.3
Net Deferred Tax Assets	11.2	6.5	6.5	6.5
Total Liabilities	1280.1	1326.5	1301.7	1332.2
Net Fixed Assets	487.2	456.8	424.0	383.3
Investments	13.0	3.3	3.3	3.3
CWIP	8.9	6.0	0.0	0.0
Goodwill	431.3	532.6	532.6	532.6
Inventories	427.0	407.5	469.2	542.6
Sundry Debtors	81.7	67.2	80.0	92.6
Cash & Bank	8.4	29.0	24.7	46.4
Loans & Advances	85.3	95.1	110.4	127.7
C A L&A	602.5	598.8	684.4	809.2
CL & P	262.8	271.0	342.7	396.3
Working Capital	339.7	327.8	341.7	412.9
Total Assets	1280.1	1326.5	1301.7	1332.2
Cash Flow (Rs. In Cr)	FY12	FY13	FY14E	FY15E
Operating				
Profit Before Tax	44.8	51.7	75.0	113.0
Direct Taxes paid	-6.7	-3.6	-15.0	-22.6
Depreciation	55.6	52.2	53.7	55.7
Change in WC	-18.3	32.7	-18.1	-49.6
Interest Expenses	52.8	65.3	78.4	71.0
Other Operating Activities	-10.0	-2.2	-5.0	-6.0
CF from Operation	118.1	196.1	169.0	161.5
Investment				
Capex	-18.9	-17.3	-15.0	-15.0
Other Investment	34.8	-79.7	0.0	0.0
Interest Received	0.1	0.6	5.0	6.0
Total Investment	15.9	-96.4	-10.0	-9.0
Free Cash Flow	134.0	99.7	159.0	152.5
Financing				
Proceeds of borrowing	86.6	94.1	0.0	0.0
Repayment of borrowings	-168.8	-108.8	-75.0	-50.0
Subsidy / Subvention received	22.8	16.3	14.5	14.5
Dividend (incl. tax) paid	-2.1	-5.0	-9.8	-9.8
Proposed share issue exp.	0.0	0.0	0.0	0.0
Interest Expenses	-71.4	-79.7	-92.9	-85.5
Other items	0.0	-0.8	0.0	0.0
Cash Flow from Financing Activities	-132.8	-83.8	-163.2	-130.9
Net Cash Flow	1.2	15.9	-4.2	21.7
Beginning Cash Flow	10.0	8.4	29.0	24.7
Add: Deposits in Banks	-2.8	4.7	0.0	0.0
Add: Foreign Currency in Hand	0.0	0.0	0.0	0.0
Cash as reported in Balance Sheet	8.4	29.0	24.7	46.4

Source: Company & Nirmal Bang Research

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