

Himatsingka Seide

Refer to important disclosures at the end of this report

About to bear fruit

CMP	Target Price
Rs 370 as of (April 6, 2018)	NA
Rating	Upside
NOT RATED	NA

Substantial margin boost

- Himatsingka Seide (HSS) is among the fastest growing Indian Home Textile companies with FY12-17 Revenue/EBITDA CAGR of 8.5%/21%. In our view, this would accelerate further, as HSS has commenced its Rs6.25bn integrated spinning plant in Feb' 18. It has the potential to improve HSS' EBITDA margin by upto 500bps.
- Promoted by Himatsingka family since 1985, HSS produces high-end Bed Linen products near Bangalore for US market using California grown cotton. 60% of HSS' revenue comes from top brands in US and Europe.
- The revenue drivers for the next 3-4 years are: 1) focus on European markets with the ramp up of the second Rs2.25bn Bed Linen plant (started in FY17) and 2) completion of the new Rs4.5bn terry towel plant by FY20.
- The HSS shares are trading at Bloomberg consensus 18.6x FY17 PER vs an average 15.4x for its peers in the Indian Home Textile sector.

Power of integration – Sustained margin improvement

HSS spent Rs6.25bn to build 211k spindle plant near its Bed Linen factory where 100% of its yarn will be used for captive consumption. It will yield two benefits: 1) quality control over yarn production and 2) raw material cost savings which could boost EBITDA margin by upto 500bps. The plant started operations in Feb'18.

Revenue boost from new markets and products

HSS' second Bed Linen plant (23m mtrs capacity) is currently operating at 50% utilization. As the US growth is moderate, HSS is trying to penetrate into the European markets. The management expects a breakthrough soon. HSS is also building a Terry Towel plant of 25k ton capacity. The company plans to sell the new products to new and existing clients. This plant would start operations in FY20.

Large capex being funded from debt and internal cash flows

80% of ongoing Rs13bn capex is funded by debt. HSS' D/E has increased to 1.6x from 1.1x in FY17. However, it would cool-off in the next 2-3 years as benefits from the new plants start coming in. Despite high debt, HSS' interest coverage is at a comfortable 3x.

Catalysts from improving margin and return profile

HSS has underperformed the BSE Mid Cap index by 15% in the last one year, as the company was undergoing a large capex phase. We expect this to reverse, as the benefits from the new plants start flowing in. FY17 PER of 18.6x is cheap given the fact that earnings have doubled during FY15-17 and ROE has improved to 18.6% from 12.3% over FY15-17.

Financial Snapshot (Consolidated)

(Rs mn)	FY13	FY14	FY15	FY16	FY17
Net Sales	16,894	20,282	19,432	18,896	21,384
EBITDA	1,601	1,892	2,025	2,983	3,806
EBITDA Margin (%)	9.5	9.3	10.4	15.8	17.8
APAT	577	671	955	1,263	1,821
EPS (Rs)	5.9	6.8	9.7	12.8	18.5
EPS (% chg)	72.4	16.4	42.2	32.3	44.1
ROE (%)	9.6	9.7	12.3	14.9	18.6
P/E (x)	63.1	54.2	38.1	28.8	20.0
EV/EBITDA (x)	27.0	23.4	21.6	15.2	12.7
P/BV (x)	5.7	4.9	4.5	4.1	3.4

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY18E/FY19E (%)	NA
Target Price change (%)	NA
Target Period (Months)	NA
Previous Reco	NA

Emkay vs Consensus

	EPS Estimates	
	FY18E	FY19E
Emkay	-	-
Consensus	-	-
Mean Consensus TP (12M)	-	-

Stock Details

Bloomberg Code	HSS IN
Face Value (Rs)	5
Shares outstanding (mn)	98
52 Week H/L	444 / 290
M Cap (Rs bn/USD bn)	36 / 0.56
Daily Avg Volume (nos.)	139,634
Daily Avg Turnover (US\$ mn)	0.8

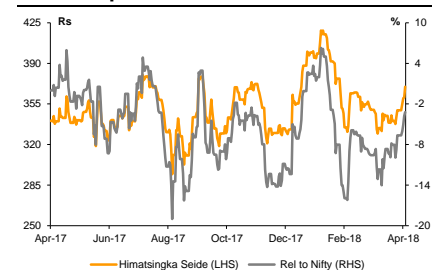
Shareholding Pattern Dec '17

Promoters	47.6%
FIIIs	10.1%
DIIIs	12.3%
Public and Others	30.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	(7)	11	3
Rel. to Nifty	7	(5)	7	(7)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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1.0 Himatsingka's positioning

Exhibit 1: HSS has a premium positioning in Bed Linen (visible in realisations) and has recorded the fastest earnings growth over FY10-17

Company	Revenue		EBITDA		PAT		EBITDA Margin (%)	RoCE (%)	Net D/E (x)	Installed Capacity		Realization
	FY17 (Rsm)	FY10-17 CAGR (%)	FY17 (Rsm)	FY10-17 CAGR (%)	FY17 (Rsm)	FY10-17 CAGR (%)	FY17	FY17	FY17	Bed Linen (m mtrs)	Terry Towels (tpa)	Bed Linen (Rs/mtr)
Trident	46,866	14.6	8,886	13.7	3,370	29.1	19.0	10.5	0.9	43	90,288	210
Welspun India	57,705	16.9	15,853	24.6	3,576	12.1	27.5	10.7	1.2	90	72,000	280
GHCL	28,105	10.7	7,075	15.7	3,801	25.0	25.2	23.2	1.1	36	-	280
Indo Count	21,528	27.8	4,215	45.1	2,322	-	19.6	28.6	0.3	90	-	320
Himatsingka	21,384	10.6	3,870	24.2	1,821	47.8	18.1	25.1	1.1	46	-	415

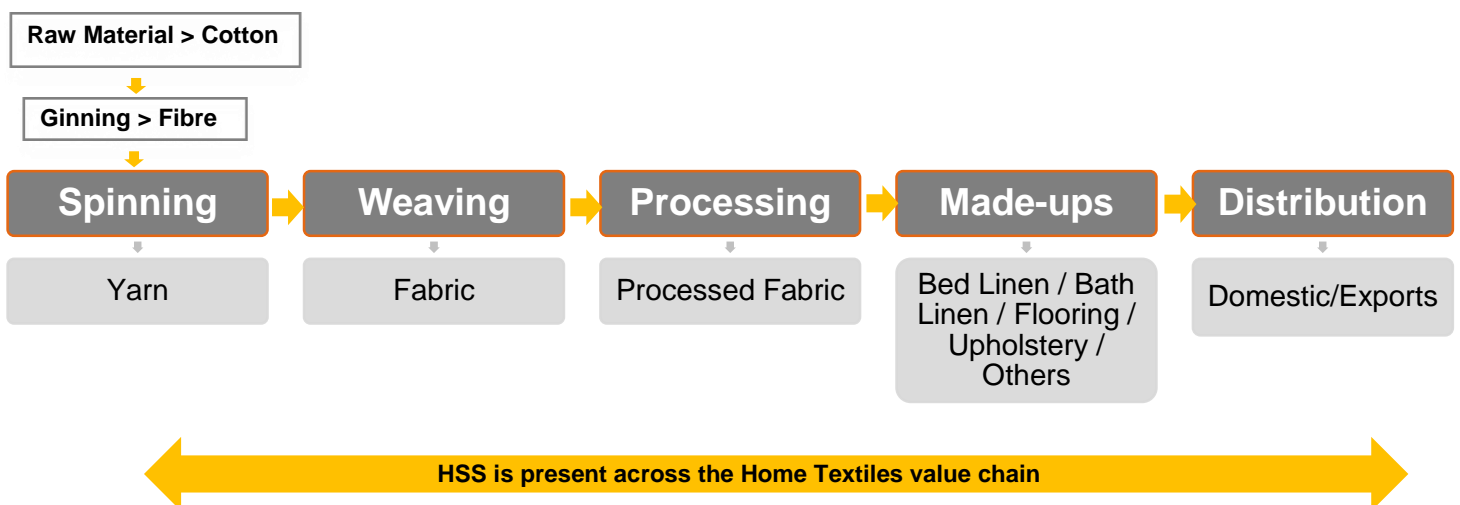
Source: Company, Emkay Research

Exhibit 2: HSS has a strong brand profile (licensed and owned), global presence and is undergoing capex to strengthen its positioning further

	Trident	Welspun India	GHCL	Indo Count	Himatsingka
Licensed Brands	Elle Décor	Wimbledon, Minions, Disney, Royal Ascot, Manchester City, FCB	NA	Sanderson, Harlequin, Scion	Calvin Klein Home, Barbara Barry, Espirit,
Own Brands	Indulgence, Nectarsoft, Classic, Organica, His & Her, Cuddlies, Everyday, Home Essentials	Spaces, Christy-England, Kingsley Home, Spun, Tilt	PerfectFit, Modal, EasySheet	Boutique Living, Revival, The Pure Collection	Pimacott, Homegrown, Organicott, Bellora Hospitality, Atmosphere
Manufacturing Locations	Sanghera & Dhaura (Punjab), Budhni (Madhya Pradesh)	Vapi & Anjar (Gujarat)	Madurai & Trichi (Tamil Nadu), Vapi (Gujarat)	Kolhapur (Maharashtra)	Hassan & Doddaballapur (Karnataka)
Design Studios	New York (USA), UK	Mumbai & Anjar (India), New York (USA)	New Jersey (USA)	New York (USA), Manchester (UK), Melbourne (Australia), India	Milan (Italy), New York (USA), Bangalore (India)
Geographical Presence	Home Textiles 33 countries, Yarn 36 countries	Presence in 50+ countries	USA, India	Indo Count exports to 54 countries	Retail and Distribution networks across 22 countries
Capex (Complete/Planned)	Capex of Rs27bn over FY14-16 for expansion in Terry Towels & Bed Linen segments and for backward integration (Yarn and Weaving),	Planned capex of Rs6bn likely to be installed and functional by H2FY19. Expansion of Towel capacity & new flooring solutions to be focus.	Rs1bn capex done in Bed Linen. Rs1bn capex planned in Yarn	Phase I (complete) Rs1.75bn Sheeting capacity from 68 to 90m mtrs. Phase II - (Lined Up) Rs3bn additional weaving capacity.	Phase I (complete) Rs2.25bn Sheeting capacity from 23m to 46m mtrs. Phase II (complete) Rs6.25bn Yarn capacity 211k spindles. Phase III (Lined Up) Rs4.5bn Towel capacity 25000 tpa

Source: Company, Emkay Research

Exhibit 3: HSS is present across the Home Textiles value chain



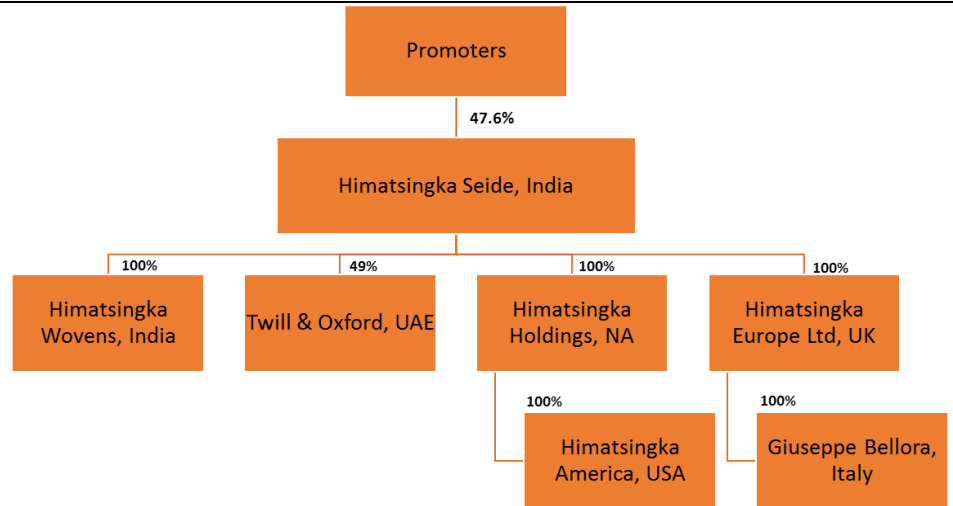
Source: Company, Emkay Research

2.0 Himatsingka Edge

2.1 Leading Home Textile Company

Founded by Mr. Dinesh Himatsingka (Executive Chairman) in 1985, HSS is a vertically integrated Home Textile major that designs, develops, manufactures, retails and distributes Bedding, Bath, Drapery & Upholstery products.

Exhibit 4: HSS' Organization structure



Source: Company, Emkay Research

2.2 Strong Portfolio of Brands

With over 10 brands (licensed and owned), HSS is focused on strengthening its intellectual property portfolio across key global markets viz. North America, Europe and Asia. Given its focus on the brand portfolio, the share of revenue from brands is on the rise. Revenue from brands increased by 50% from Rs8bn in FY16 to Rs12bn in FY17 and during 9MFY18 it has already achieved Rs11bn.

HSS' brand portfolio consists of the most respected fashion labels as well as technology driven brands that have led the industry. It includes iconic fashion brands like Calvin Klein Home and Kate Spade and famous luxury brands like Bellora and Atmosphere.

- Calvin Klein Home is among the largest luxury-bedding brands distributed through department stores and Home Textile distribution companies. They represent the highest quality for value in the industry.
- Founded in 1883, the Bellora brand epitomizes heritage and tradition. Atmosphere, a global luxury Home Textile brand, offers an exclusive collection of Luxury Drapery, Upholstery, Bed Linen and Accessories.
- HSS' brands like Pimacott, Organicott and HomeGrown Cotton are now equipped with the DNA-tagged technology. These brands use tagged-quality cotton imported from US.

Exhibit 5: Brands (owned & licensed)



Source: Company, Emkay Research

30 year old group; Started in 1985

Brand business growing fast

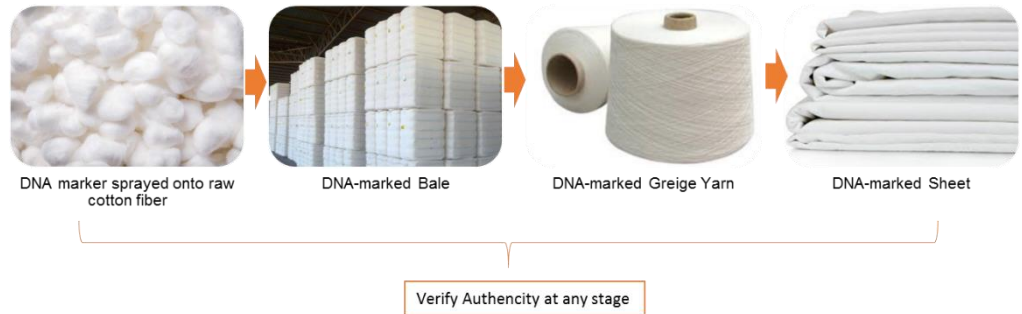
Serving iconic brands like Calvin Klein, Barbara Barry, Bellora

2.3 Global Leader in Cotton Track & Trace Technology

HSS is the pioneer in the DNA-based tagging technology, which ensures complete 'Track and Trace' capability across the cotton value chain that ensures purity at all stages of the supply chain. Developed by Applied DNA Sciences (ADNAS), this DNA technology is exclusive to HSS.

HSS' brands like Pimacott, Organicott and HomeGrown Cotton are now equipped with the DNA-tagged technology. Pimacott brand uses quality cotton imported from California, grown by family-owned farms and DNA tagged during ginning, which allows tagged cotton to be traced from source to finished product and can guarantee that consumers are getting pure Pima cotton.

Exhibit 6: DNA tagged - Fiber to Finished Goods



Source: Company, Emkay Research

2.4 Robust Retail and Distribution network

North America - HSS through Himatsingka America has exclusive licenses for sourcing, marketing and distribution of luxury Home Textile brands - Calvin Klein Home, Barbara Barry and Bellora Hospitality.

Europe - HSS has an extensive Retail & Distribution network and operates through Guiseppe Bellora S.p.A. It has 16 exclusive Bellora stores, multi-brand outlets and luxury departmental stores in Italy and other parts of Western Europe.

Asia - HSS operates through Himatsingka Wovens. Atmosphere has 6 exclusive stores, with 5 located in India across 5 cities and 1 store in Dubai.

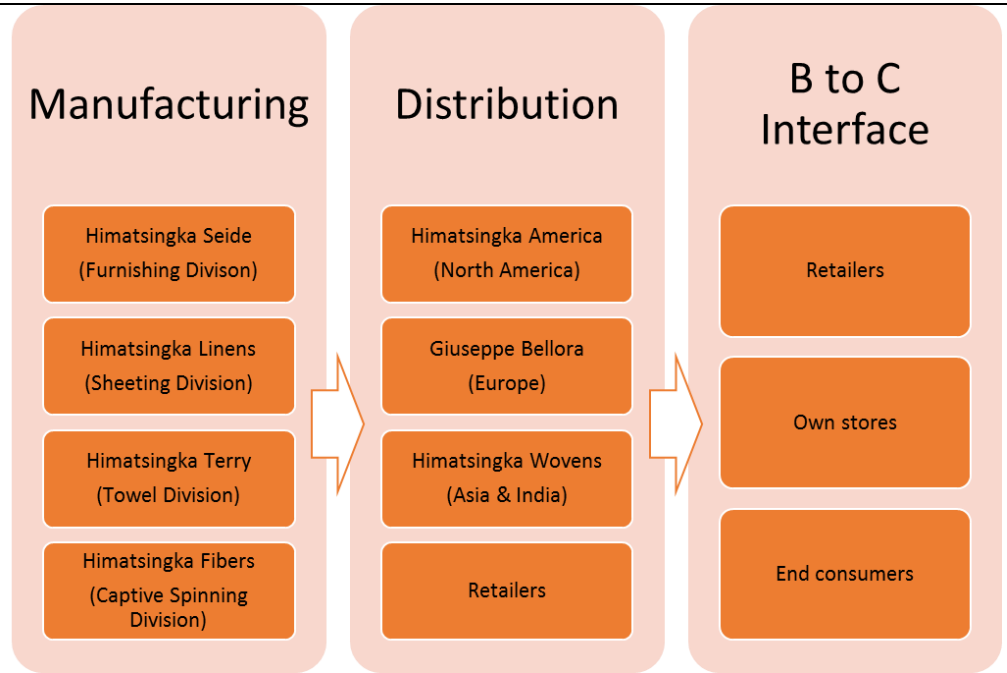
HSS' Retail & Distribution network caters to 8,000 points of sale globally, including 200 shop-in-shops of its licensed brands in major departmental stores and 25 exclusive retail stores.

Exhibit 7: Clientele



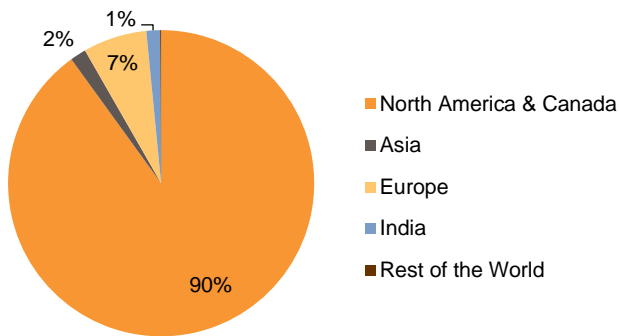
Source: Company, Emkay Research

Exhibit 8: HSS' Business Model



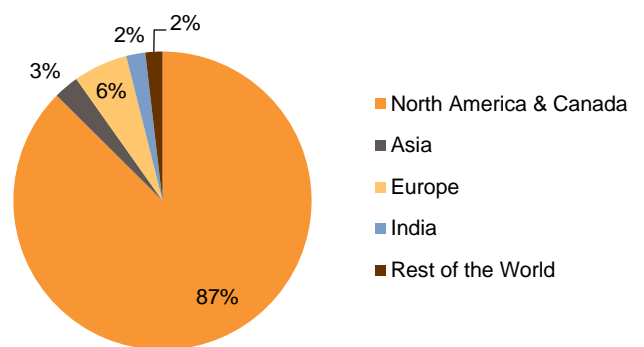
Source: Company, Emkay Research

Exhibit 9: HSS' Geographical revenue mix (FY16)



Source: Company, Emkay Research

Exhibit 10: HSS' Geographical revenue mix (FY17)



Source: Company, Emkay Research

3.0 Power of Integration -> Margin boost for HSS

3.1 New spindle plant commenced

HSS spent Rs6.25bn to build a spindle plant of 211k capacity adjacent to its Bed Linen factory for partial integration (50% of Bed Linen capacity). 100% of the yarn from this plant will be used for captive consumption. The plant started operations in Feb'18 and should benefit HSS through:

- Quality control over yarn production.
- Raw material cost savings, which would boost EBITDA margin by upto 500bps, as HSS would enjoy 25% cost savings through manufacturing of yarn captively.

3.2 World-class manufacturing capabilities

HSS is among the largest manufacturers of Bedding, Drapery and Upholstery products globally. HSS is undergoing Rs13bn capex in strengthening and augmenting its manufacturing capacities and has positioned its manufacturing assets to be among the top 5 in their respective verticals. This fortifies HSS' ability to be a reliable global player in the Home Textile space.

Bed Linen facility – Hassan, Karnataka

HSS is among the largest producers of Bed Linen products in India. The 46m mtrs facility is vertically integrated and has doubled its capacity (from 23mn mtrs in Oct'16) with a capex of Rs2.25bn. HSS offers complete Bed Linen range, including Sheet sets, Pillowcases, Duvets etc.

Ultra-fine-count Cotton Yarn facility – Hassan, Karnataka

In Feb'18, HSS has commenced commercial operations of its ultra-fine-count yarn manufacturing facility with a capacity of 211k spindles (world's largest under one roof). It is integrated with Bed Linen plant and will cater to 50% of the total Bed Linen capacity.

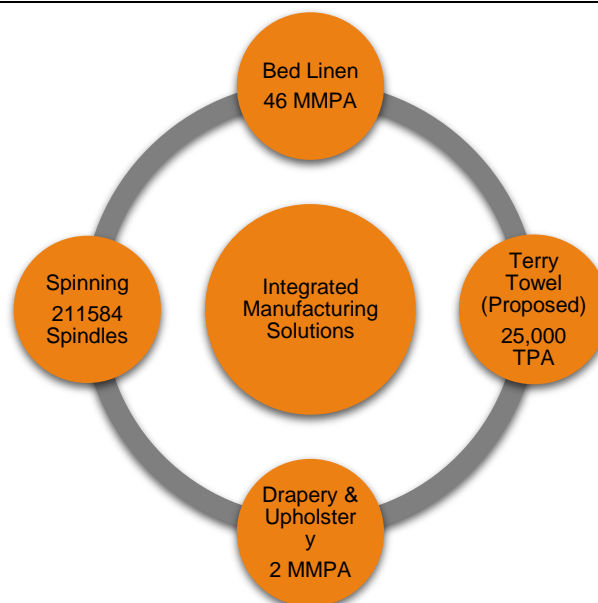
Drapery & Upholstery facility – Doddaballapur, Karnataka

The vertically integrated Drapery and Upholstery manufacturing facility has an annual capacity of 2m mtrs.

Terry Towel facility (Proposed) – Hassan, Karnataka

HSS is planning to set up a manufacturing facility exclusively for Terry Towels in Hassan, Karnataka. The construction of this new facility will start next year and will have an installed capacity of 25,000 tpa.

Exhibit 11: Integrated Manufacturing Facilities



Source: Company, Emkay Research

One of the largest spindle facilities in India

Capex outlay of Rs13bn

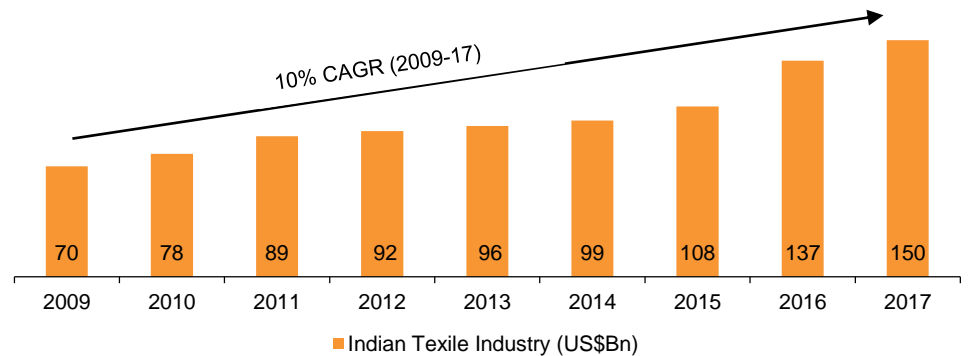
4.0 Steady state growth in Indian Textile industry

4.1 Current market size of US\$150bn

10% CAGR in last 8 years

India's textile industry size is US\$150bn (as of July'17) and has grown at 10% CAGR during 2009-17. Textiles industry contribute 14% to India's industrial production and 4% to its GDP. The Textiles industry is one of the largest sources of employment generation in the country, employing over 45m people.

Exhibit 12: Indian Textiles industry has registered strong growth over the years



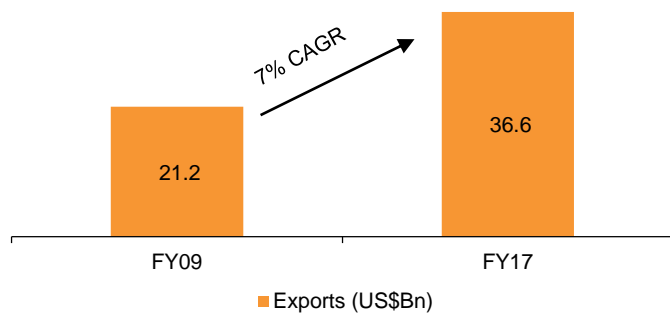
Source: IBEF, Emkay Research

4.2 Export sales is major driver

Exports contribute 25% to total sales

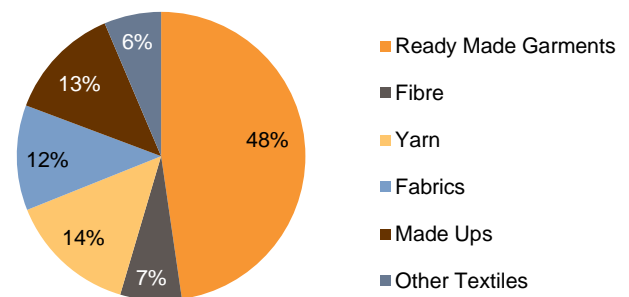
Exports have been a key component of growth in India's textiles and apparel sector. Exports stood at US\$36.6bn in FY17 and have grown at 7% CAGR over FY09-17. India's textile exports totalled US\$27.9bn during 9MFY18. Out of these exports, Readymade Garments has a share of 47.7% (US\$17.5bn); Fibre's share is at 6.9% (US\$2.5bn), Yarn's at 14.4% (US\$5.3bn), Fabric's at 11.8% (US\$4.3bn) and Made Ups (Home textile) at 12.9% (US\$4.7bn). The textiles industry accounts for 15% of India's total exports.

Exhibit 13: Textile exports growing steadily



Source: IBEF, Emkay Research

Exhibit 14: Exports Mix (FY17)



Source: IBEF, Emkay Research

Indian players have competitive advantage over Asian peers

India has a strong competitive advantage in textiles relative to key global peers. The capacity built over the years has led to low cost of production per unit. The sector has also witnessed increased outsourcing over the years, as Indian textile players have moved up the value chain from being just converters to vendor partners of global retail giants. In the coming years, Africa and Latin America could turn out to be key export markets for Indian textiles companies.

Exhibit 15: India's advantage over China & Pakistan

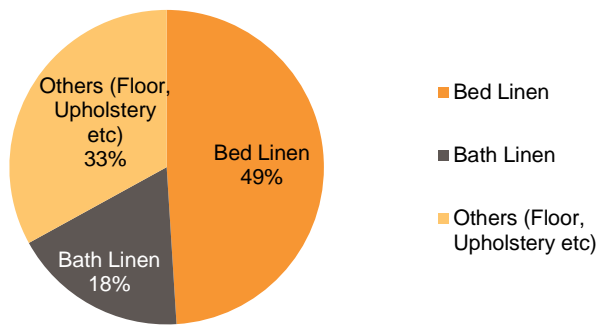
India	China	Pakistan
World's largest cotton producer	Major importer of cotton and yarn	Cotton importer
25% surplus available for exports as cotton/yarn	Losing export competitiveness	Energy issues
Competitive costs	Wage inflation	Geopolitical issues
Favorable government policies	Increasing power costs	Compliance issues
Better environmental and labor law compliance	Increasing costs for environmental compliance	
Huge domestic market potential	Focus on domestic consumption	

Source: Company, Emkay Research

4.3 Domestic Home Textile demand to grow steadily

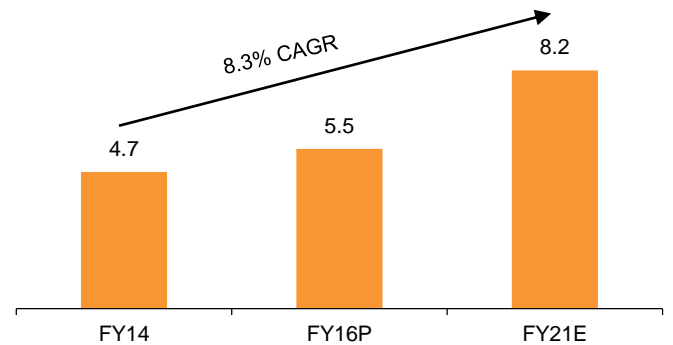
- Home Textile comprises products such as Bed Sheets, Pillow Cases, Blankets, Terry Towels, Upholstery, Table Clothes, Carpets and Rugs. Superior product quality makes companies in India leaders in US. Indian Home Textile products have gained significant market share in the global Home Textiles market in the last few years. However, India still accounts for only 7% of the global Home Textile trade, leaving a lot of headroom for growth, which will be driven by market share gains.
- Growth in Domestic Home Textile would be supported by favourable demographics, increasing household income, rising population and growth in end use sectors like Housing, Hospitality, Healthcare etc. India's Home Textile industry is expected to grow at a CAGR of 8.3% during 2014-21E, from US\$4.7bn in 2014 to US\$8.2bn in 2021.

Exhibit 16: Indian Home Textile Industry Mix (%)



Source: IBEF, Emkay Research

Exhibit 17: Indian Home Textile Industry (US\$bn)



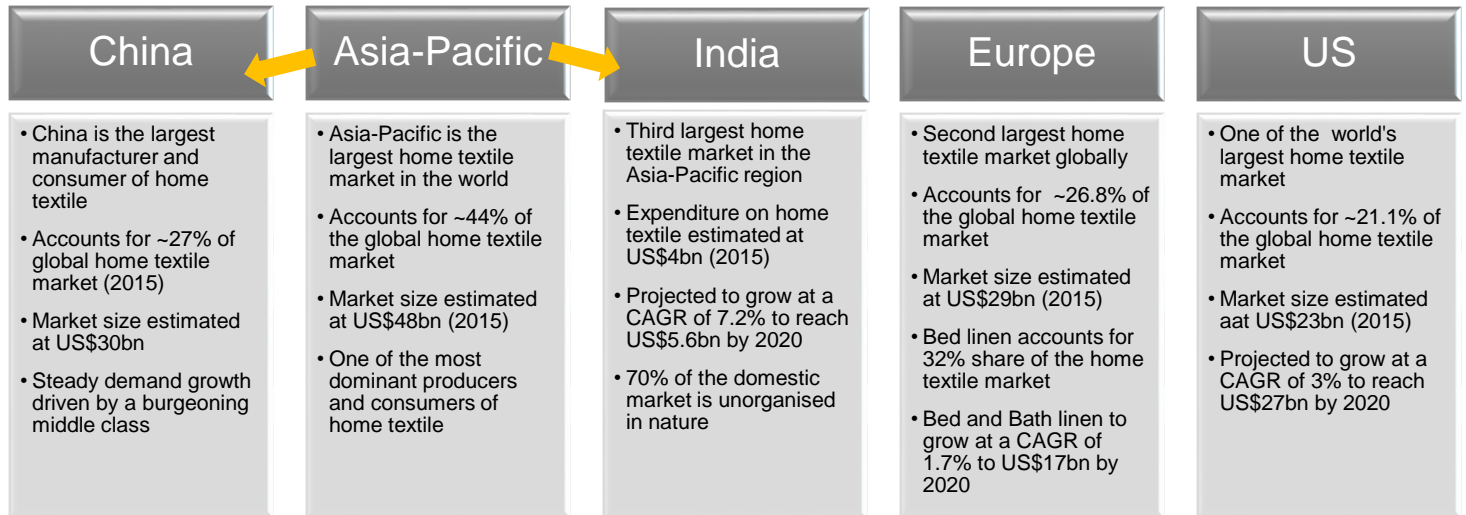
Source: IBEF, Emkay Research

5.0 Global Home Textiles

The global Home Textile market was estimated at US\$110bn in 2015 and it is expected to reach US\$130bn by 2020, growing at a CAGR of 3.5%.

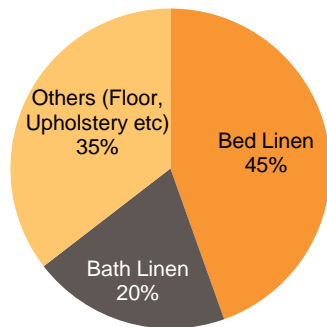
- Bed Linen & Bed Spread is the largest application segment in Home Textiles, representing 45% in 2015. This segment is expected to grow at a highest CAGR of 4.4% to reach US\$60bn by 2020.
- Bed and Bath Linen together constitute 65% of the total Home Textile market. Bed and Bath Linen are expected to reach US\$87bn by 2020, translating into a growth of 4.1%.

Exhibit 18: Asia-Pacific is the largest Home Textile market in the world followed by Europe and US



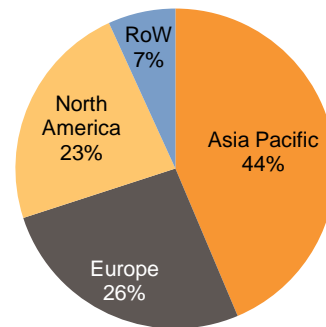
Source: Fibre2Fashion, Industry, Emkay Research

Exhibit 19: Global Home Textile market composition



Source: Industry, Emkay Research

Exhibit 20: Region wise share in Global Home Textile trade



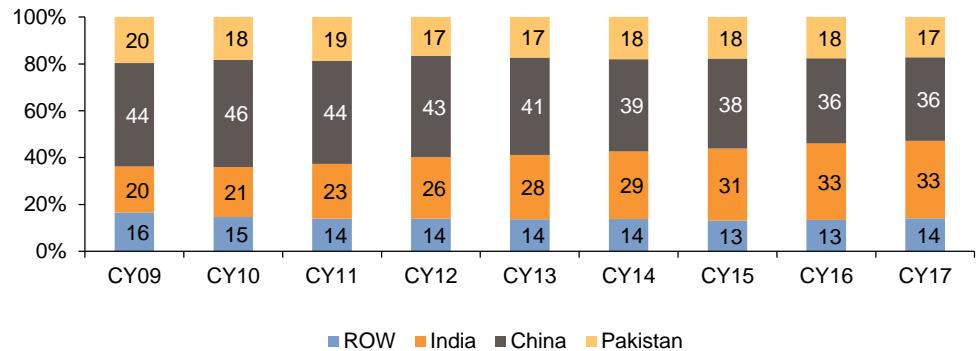
Source: Industry, Emkay Research

5.1 India's share in US Home Textile imports continues to rise

India is well poised to gain from the long-term growth prospects in the Global Home Textiles market, as it leverages the twin benefits of lower cost of production and significant share of global installed capacity.

- US has increased its sourcing of Cotton Made Ups (Bed and Bath Linen) from India over the years, making it one of the largest supplier of home textiles to US. For HSS, US continues to be the largest market with a revenue contribution of over 80%.
- India, China and Pakistan account for 86% of the Cotton Made-Ups exports to US worth US\$7.22bn in CY17. India enjoys a dominant position with a market share of 50% in Bed Sheets and 39% in Terry Towels in total US imports as of CY17 (Source: Otexa).

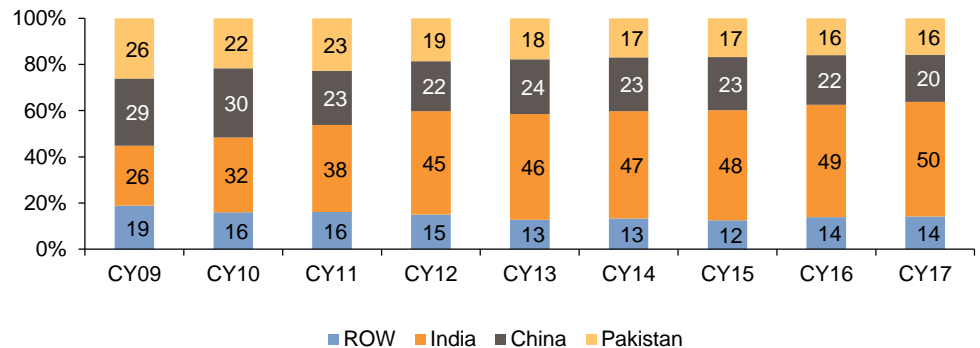
Exhibit 21: Asia dominates Cotton Made-Ups exports to US, India's share increasing steadily



Source: Otexa, Emkay Research

- India has gained market share in Bed Sheets in US imports from 26% in CY09 to 50% in CY17, while China's share fell from 29% to 20% and Pakistan's from 26% to 16%.

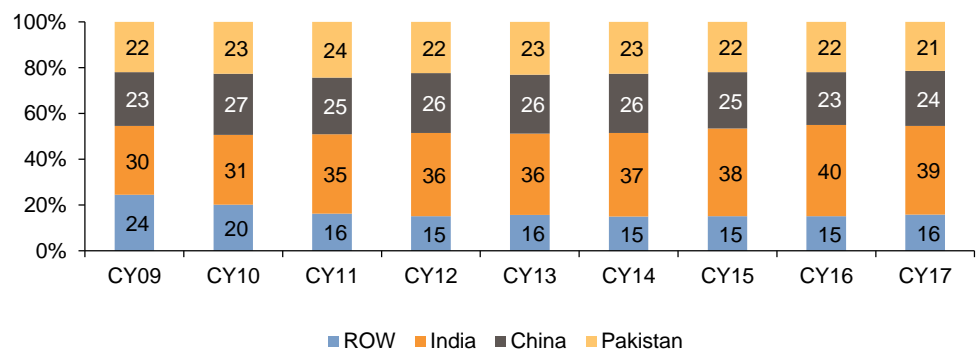
Exhibit 22: India gained market share steadily in US Bed Linen imports and now has 50% of the pie



Source: Otexa, Emkay Research

- In Terry Towels, India's market share in US imports increased from 30% in CY09 to 39% in CY17 while Pakistan's share is down from 22% to 21% and that of China remained flat at 24%. However, India lost market share in CY17 vs CY16 (39% vs 40%).

Exhibit 23: India's market share in US Terry Towel imports rose from 30% in CY09 to 39% in CY17

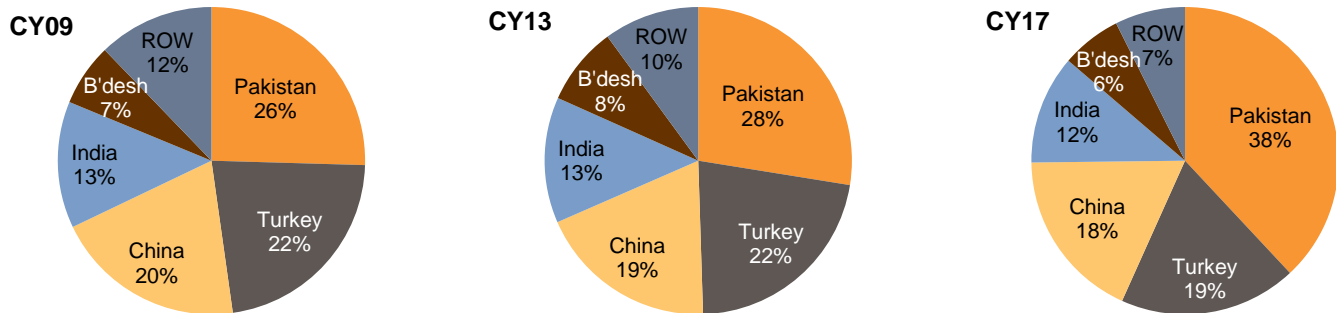


Source: Otexa, Emkay Research

5.2 Pakistan dominates EU Home Textile imports

- EU's Home Textile imports dominated by Pakistan (38% share in CY17). Turkey and China's share is 19% and 18%, respectively. India stands fourth with a 12% share. EU and Turkey are linked by a Customs Union Agreement and EU is by far Turkey's No.1 import and export partner and exports from Turkey to EU are exempt from import duties.

Exhibit 24: Pakistan's share has increased significantly in EU Home Textile imports led by tariff benefits not available to India



Source: European Commission, Emkay Research

- Pakistan is a major beneficiary of the trading opportunities offered by EU Generalised Scheme of Preferences (mostly zero duties on two-thirds of all product categories). EU is Pakistan's most important trading partner, taking 24% of Pakistan's total exports.
- EU also works closely with Bangladesh under the framework of EU-Bangladesh Co-operation Agreement and the latter enjoys duty-free and quota-free access to EU for all exports (except arms and ammunition). EU absorbs 47% of Bangladesh's exports, of which 90% constitutes Clothing.
- Similarly, China enjoys a large share of exports to Japan and Australia, as a result of free trade pacts with them. Vietnam has signed favourable trade agreements with US and EU. Even India's Ministry of Textiles is pushing the Commerce Ministry to pursue the proposed FTA with EU to boost India's textile trade with that region.

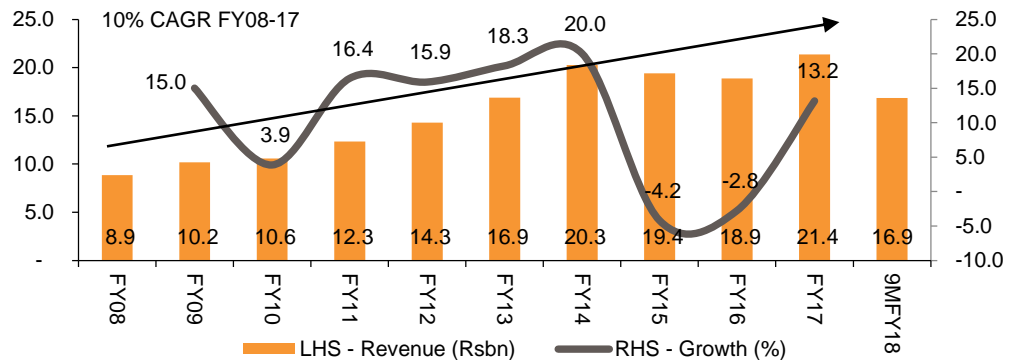
6.0 Financial analysis

6.1 Revenue CAGR of 10% (FY08-17) with improving revenue mix

HSS' revenue grew at 10% CAGR over FY08-17, driven by increased revenue from Bed Linen. The share of revenue derived from brands will continue to rise given HSS' focus on its brand portfolio.

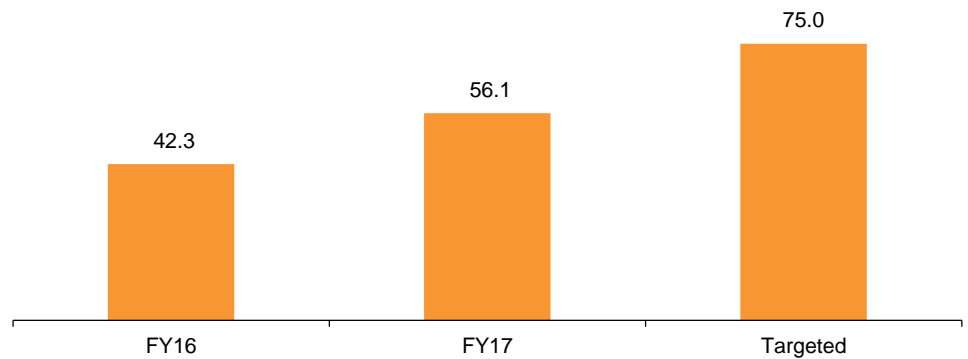
During FY17, revenue from brands stood at Rs12bn (56% of total revenue). HSS is targeting 75% revenue from brands and is striving to enhance the visibility and market share of its iconic labels, both owned and licensed. Calvin Klein Home, Kate Spade, Bellora and Atmosphere, among other brands in its portfolio, have strong brand recall.

Exhibit 25: Revenue & Growth trend



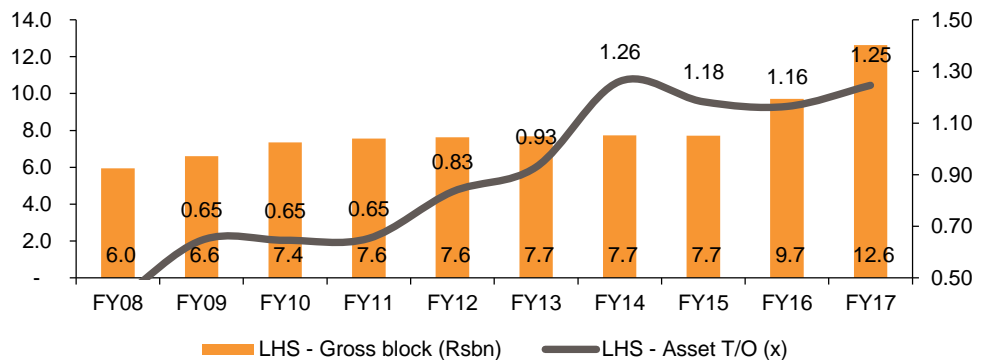
Source: Company, Emkay Research

Exhibit 26: Contribution of Branded Revenue (%)



Source: Company, Emkay Research

Exhibit 27: Manufacturing Asset T/O (x) – HSS is focused on sweating assets and increasing RoCE



Source: Company, Emkay Research

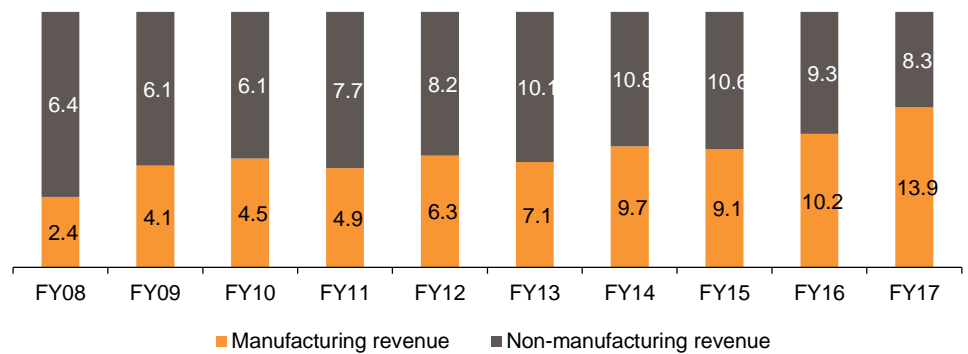
Revenue dominated by Bed Linen sales

Brand sales contribute 56% to total revenue

6.2 Increasing manufacturing revenue share expanded margins

HSS' revenue mix has changed in favor of manufacturing revenue on account of captive production of Bed Linen. Non-manufacturing revenue comprises outsourcing revenue of HSS' subsidiaries. Manufacturing revenue has increased at 21% CAGR over FY08-17 from Rs2.4bn to Rs13.9bn. Moreover, manufacturing margins have also expanded from 10% to 17% over FY12-17, boosting the consolidated EBITDA margin.

Exhibit 28: Revenue mix (Rs bn)

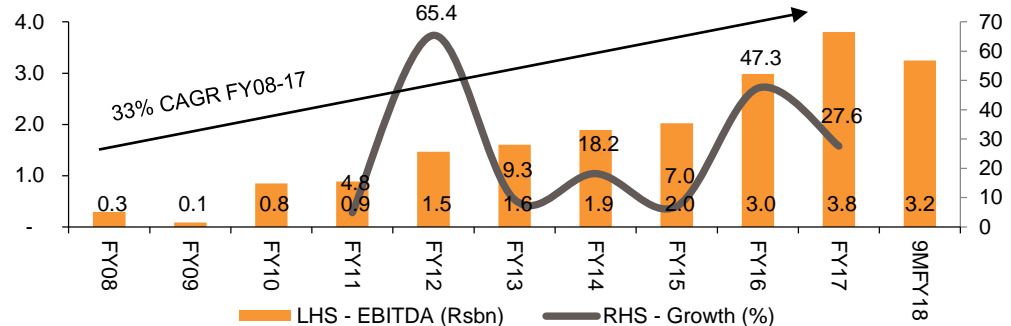


Source: Company, Emkay Research

6.3 EBITDA CAGR of 33% (FY08-17) with improving margin profile

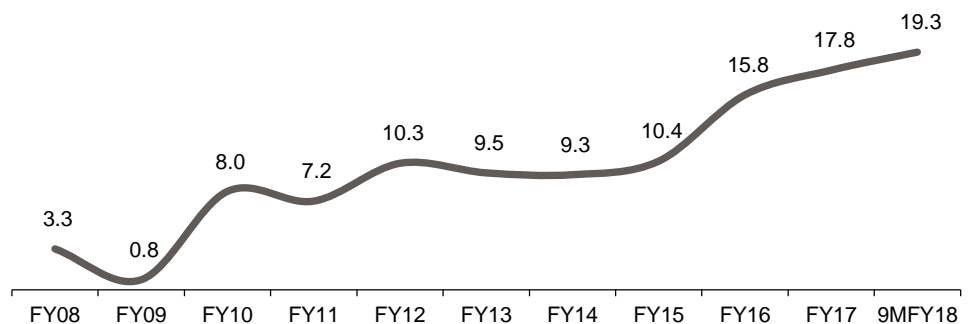
HSS has posted EBITDA CAGR of 33% over FY08-17 on the back of significantly improved margin profile. Improvement in revenue mix with (1) rising contribution of revenue from brands (2) operating leverage playing out with HSS' focus on sweating the assets optimally and (3) enhanced share of manufacturing, the company's EBITDA margins have expanded to 19% currently from 9-10% till a few years back. With yarn integration completed in Q4FY18, EBITDA margin is likely to expand further by up to 500bps.

Exhibit 29: EBITDA (Rsbn) & growth trend



Source: Company, Emkay Research

Exhibit 30: EBITDA margin (%)



Source: Company, Emkay Research

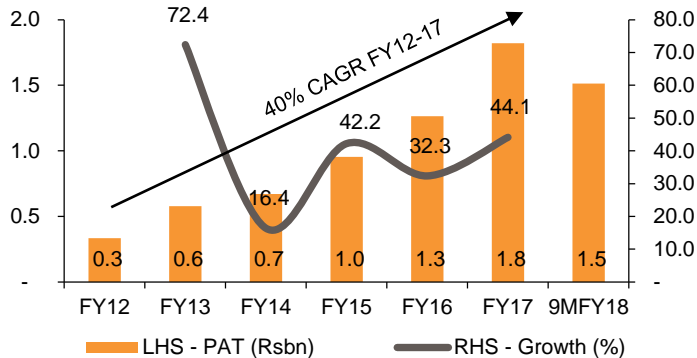
Improving revenue mix

Significant margin expansion in last 3-4 years

6.4 PAT CAGR of 40% (FY12-17)

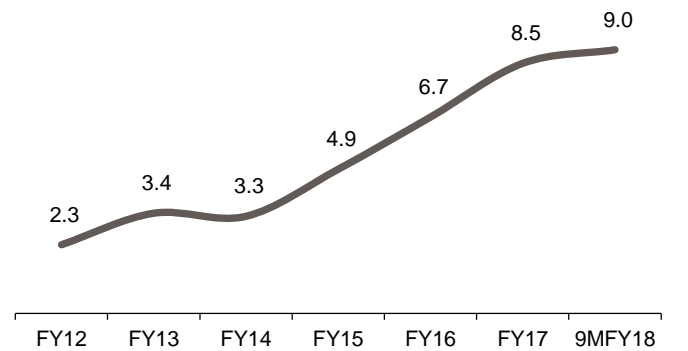
Net profit has grown at 40% CAGR over FY12-17 and PAT margin has improved to 8.5% in FY17 from 2.3% in FY12.

Exhibit 31: PAT & growth trend (%)



Source: Company, Emkay Research

Exhibit 32: PAT margin (%)



Source: Company, Emkay Research

6.5 Cash flow and Working capital

Exhibit 33: Cash flow

Cash flow (Rsbn)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
EBITDA	0.8	0.9	1.5	1.6	1.9	2.0	3.0	3.8
Accounts receivables	0.1	0.2	-0.1	0.1	0.5	-0.4	-0.1	-0.1
Inventory	-0.4	0.1	-0.4	0.2	-2.3	0.8	-0.3	-1.7
Working capital	-1.8	-0.0	0.3	-0.0	0.3	-0.4	-0.1	0.1
Residual cash flow	-1.3	1.2	1.3	1.9	0.4	2.1	2.5	2.2
Interest	-0.5	-0.5	-0.5	-0.7	-0.8	-0.9	-1.0	-1.0
TAX	-0.0	-0.0	-0.1	0.0	-0.1	0.0	-0.3	-0.6
Operating cash flow	-1.8	0.6	0.6	1.3	-0.6	1.3	1.2	0.6
Fixed assets	-0.3	0.0	0.0	-0.1	-0.5	-0.3	-1.7	-3.6
Investments	0.6	0.1	0.1	0.1	0.2	0.2	-0.3	0.5
Free cash flow	-2.1	0.6	0.6	1.2	-1.0	1.0	-0.5	-3.0
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend payments	-0.0	-0.0	-0.0	-0.1	-0.1	-0.2	-0.2	-0.3
Others/exceptional items	0.1	-0.3	-0.2	-1.2	-0.1	-0.5	-0.6	-0.4
Net change in cash flow	-1.5	0.5	0.5	0.1	-1.0	0.5	-1.6	-3.2
Net debt beg	-6.3	-7.8	-7.3	-6.8	-6.7	-7.8	-7.3	-8.8
Net debt end	-7.8	-7.3	-6.8	-6.7	-7.8	-7.3	-8.8	-12.0

Source: Company, Emkay Research

Exhibit 34: Working capital (days)

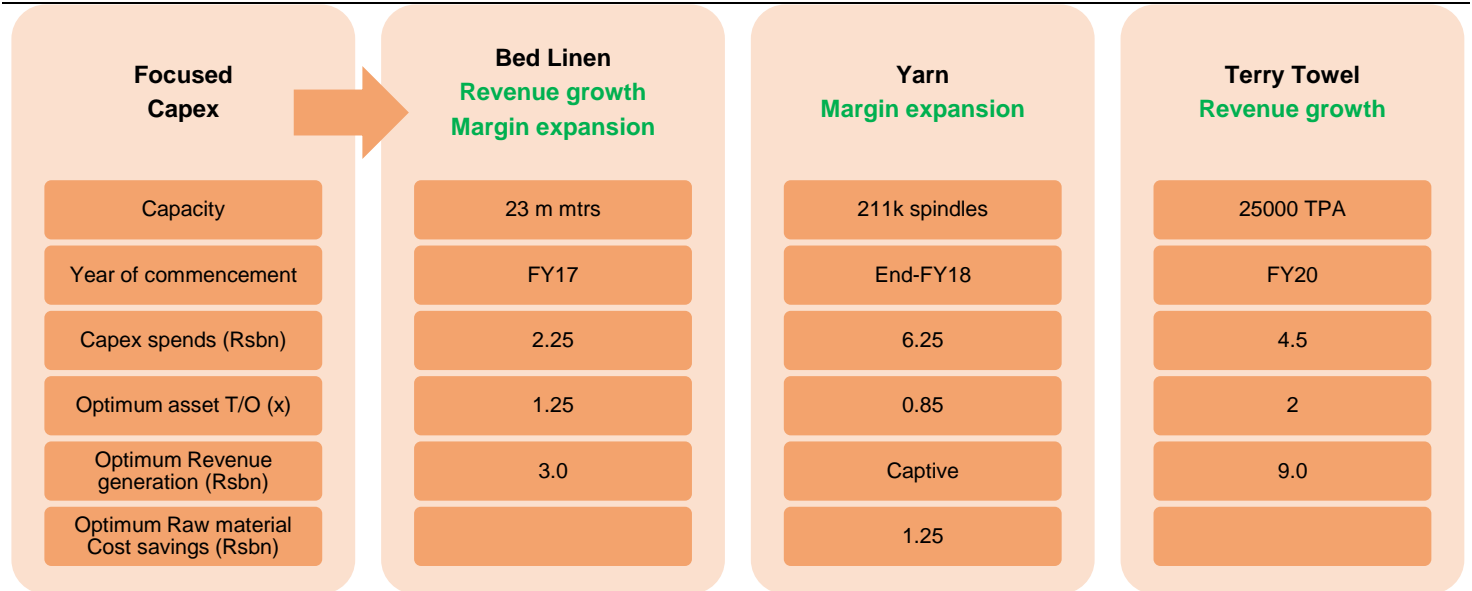
Working capital days	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Inventory	135	114	109	88	115	104	113	129
Debtor	32	21	21	15	2	10	12	12
Loans & advances	34	14	22	21	23	29	27	41
Other current assets	0	8	0	0	8	7	12	23
Current liabilities	75	63	58	53	60	56	45	56
Provision	10	1	9	6	6	10	9	5
Working capital days	116	92	85	65	82	84	109	144

Source: Company, Emkay Research

6.6 Focused capex of Rs13bn across verticals

HSS' capex programme of Rs13bn has been divided in three phases and focused on improving revenue and enhancing its margin profile by up to 500bps. Bed Linen capex of Rs2.25bn (completed in FY17) would generate Rs3bn of manufacturing revenue at optimum utilization. This new facility is operating at 50% capacity utilization currently. It would lead to reduction in outsourcing volume as well as margin expansion as its utilization improves. Yarn capex of Rs6.25bn (completed in Q4FY18) is aimed at pruning the RM cost and would entail cost saving of Rs1.25bn. The spinning plant is already running at optimum utilization since its commercialization. The capex in Terry Towel is targeted mainly at bolstering the revenue growth.

Exhibit 35: Focused capex of Rs13bn aimed at increasing revenue and significantly enhancing margin profile (>500bps) through integration



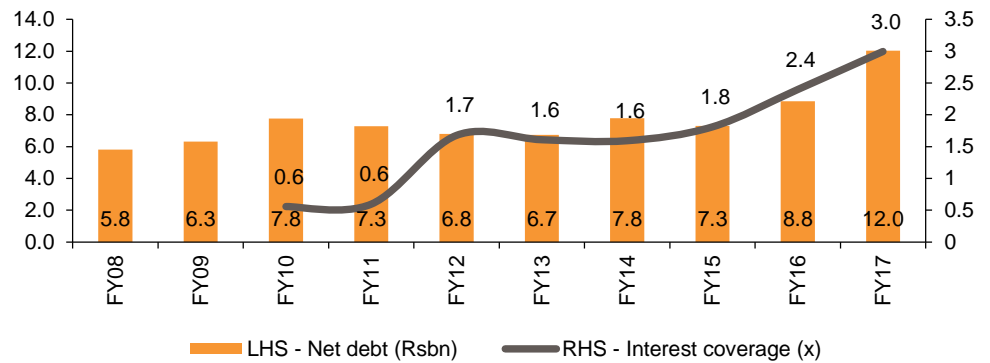
Source: Company, Emkay Research

6.6 Debt profile & Return ratios

Comfortable debt servicing ability

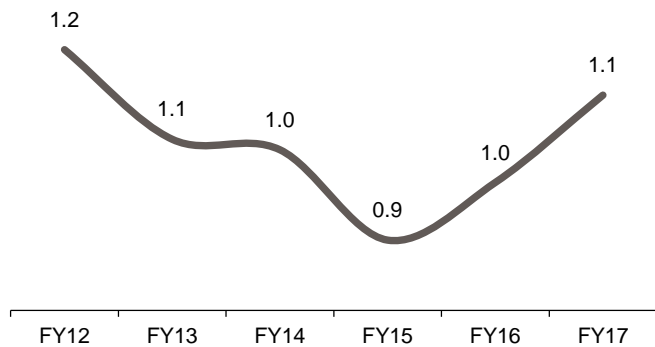
80% of ongoing Rs13bn capex is funded by debt. HSS' D/E has increased to 1.6x from 1.1x in FY17. However, it would cool-off in the next 2-3 years, as benefits from the new plants start coming in. Despite high debt, HSS' interest coverage is at a comfortable 3x.

Exhibit 36: Net Debt & Interest Coverage



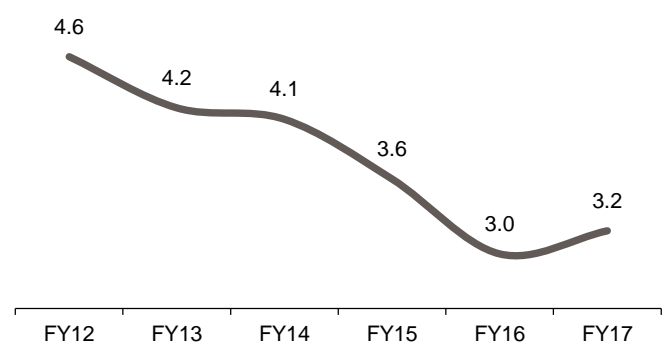
Source: Company, Emkay Research

Exhibit 37: D/E (x)



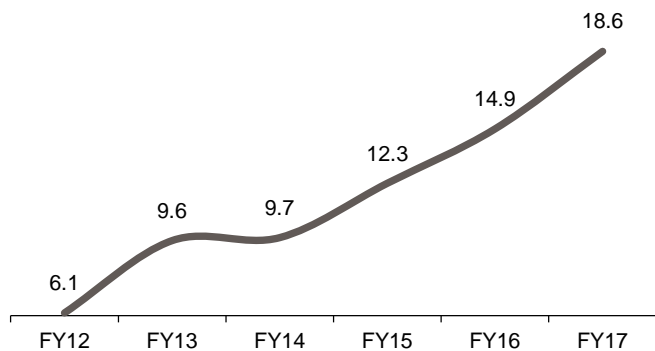
Source: Company, Emkay Research

Exhibit 38: Net Debt/EBITDA (x)



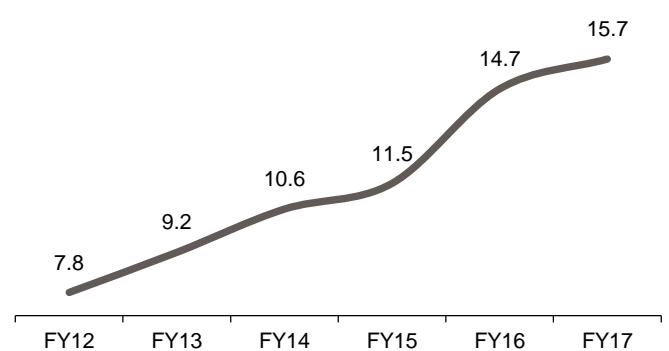
Source: Company, Emkay Research

Exhibit 39: ROE (%)



Source: Company, Emkay Research

Exhibit 40: ROCE (%)



Source: Company, Emkay Research

7.0 Valuations

HSS should command a significant premium over its peers due to superior earnings growth and return profile (as per Bloomberg consensus estimates). Even on trailing basis, HSS' stock appears cheap on PER and EV/EBITDA multiples. We expect significant re-rating for the stock, as investors take note of significant margin and return profile improvement during FY19-20E.

Exhibit 41: Peer Valuations (Bloomberg consensus)

Company	M Cap (US\$m)	Revenue CAGR (%)	EBITDA CAGR (%)	PAT CAGR (%)	EBITDA Margin (%)		EPS (Rs)		P/E (x)		EV/EBITDA (x)		RoE (%)		PEG (x)
		FY17-20E	FY17-20E	FY17-20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY20E
Trident	472	8.1	6.2	14.3	17.6	18.0	9.2	11.4	7.4	6.0	6.3	5.6	15.0	15.4	0.4
Welspun India	904	6.8	-2.5	18.8	20.7	20.9	5.2	6.0	11.3	9.8	6.5	5.9	18.5	17.2	0.5
GHCL	390	9.2	5.5	2.5	22.1	22.7	37.2	41.6	7.4	6.6	5.0	4.6	19.6	18.5	2.5
Indo Count	250	2.8	-5.4	-3.6	14.9	15.3	9.7	11.1	10.1	8.9	6.9	6.3	17.4	17.1	-2.1
Himatsingka	528	9.2	21.1	22.8	24.7	24.7	29.3	34.3	12.5	10.7	8.6	7.8	19.9	20.0	0.4

Source: Bloomberg, Emkay Research

8.0 Management Profile and Corporate Information

Exhibit 42: Key Management Personnel

Name	Designation	Qualification	Profile/Contribution
Mr. D K Himatsingka (Founder)	Executive Chairman	Bachelor of Arts (Calcutta University) with Honors in Economics	HSS has grown from strength to strength under his leadership. His visionary emphasis in style and designing of fabrics has led him to be known as an innovative producer of silk fabrics in the industry circles.
Mr. Shrikant Himatsingka	MD & CEO	Leonard Stern School of Business, USA	He has been instrumental in taking forward the various growth initiatives.
Mr. V Vasudevan	Executive Director	The Institute of Chemical Technology, Bombay, 1978	He started his career as a Management Trainee in Madura Coats. He then pursued his career in Spintex, Mahavir Spinning Mills, Coats West African, Arvind Polycot, Grasim Industries and Raymonds and has extensive experience across the textile value chain and joined Himatsingka in 2013
Mr. K.P. Rangaraj	CFO	1986 - Bachelor's degree in Science, (Mathematics) from Madras University 1987 - Cost & Works Accountancy 1989 - Chartered Accountancy	Joined in July'17. He has over 25 years of post-qualification work experience across sectors. He was recently serving as the President – Finance & CFO, TVS Srichakra Ltd (TVS Group Company).

Source: Company, Emkay Research

Exhibit 43: Corporate Information

Bankers, Auditors & Credit rating

Bankers	Abu Dhabi Commercial Bank, Axis Bank Ltd, Canara Bank, EXIM Bank, IndusInd Bank Ltd, Kotak Mahindra Bank Ltd, HSBC Bank
Statutory Auditors	BSR & Co. LLP
Internal Auditors	Grant Thornton India LLP
Credit Rating	Long term debt & NCD - CRISIL A/ Stable Short Term Debt - CRISIL A1

Source: Company, Emkay Research

9.0 Key Business Risks & Mitigation

Exhibit 44: Key Business Risks & Mitigation

	Risk	Mitigation
Market Concentration	High market concentration in North America ~80%	HSS's sees potential to increase non-US revenue to ~40% in next couple of years with focus on European region through FY20
Pricing Power	Product category has low pricing power across geographies	HSS is working towards Increasing pricing power through enhancing brand portfolio
Foreign Exchange	Revenue subject to foreign exchange volatility	Risk management policy in place, however, volatile movement in underlining currencies is a concern
Raw Materials	Cotton is a key raw material and therefore there is an underlying exposure to volatility in global raw cotton prices	Enhanced integration levels by foraying into spinning will help absorb some volatility. However, global raw cotton price movements will continue to have an impact on profitability.
Working capital	High working capital requirements	Working capital intensity to reduce with increasing integration

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16	FY17
Net Sales	16,894	20,282	19,432	18,896	21,384
Expenditure	15,293	18,389	17,407	15,913	17,578
EBITDA	1,601	1,892	2,025	2,983	3,806
Depreciation	522	544	446	665	580
EBIT	1,080	1,348	1,579	2,318	3,226
Other Income	113	171	209	187	132
Interest expenses	672	847	873	953	964
PBT	521	672	915	1,552	2,394
Tax	(12)	89	(30)	289	573
Extraordinary Items	(29)	34	(35)	4	(71)
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	548	705	919	1,267	1,751
Adjusted PAT	577	671	955	1,263	1,821

Balance Sheet

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16	FY17
Equity share capital	492	492	492	492	492
Reserves & surplus	5,864	6,958	7,557	8,405	10,180
Net worth	6,356	7,450	8,049	8,897	10,673
Minority Interest	(200)	(332)	0	0	0
Loan Funds	7,030	8,047	7,562	10,070	14,073
Net deferred tax liability	65	155	128	(687)	(365)
Total Liabilities	13,251	15,321	15,739	18,280	24,380
Net block	9,894	10,436	10,583	10,115	12,588
Investment	33	2	2	476	83
Current Assets	5,988	8,518	8,258	10,249	14,666
Cash & bank balance	290	266	264	1,221	2,036
Other Current Assets	0	484	373	1,767	3,354
Current liabilities & Provision	2,724	3,745	3,566	2,997	4,086
Net current assets	3,264	4,774	4,691	7,252	10,580
Misc. exp	0	0	0	0	0
Total Assets	13,251	15,321	15,739	18,280	24,381

Cash Flow

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16	FY17
PBT (Ex-Other income) (NI+Dep)	408	501	706	1,365	2,262
Other Non-Cash items	0	0	0	0	0
Chg in working cap	274	(1,443)	53	(2,418)	(2,191)
Operating Cashflow	1,887	360	2,108	277	1,042
Capital expenditure	(1,202)	(1,134)	(947)	(172)	(3,746)
Free Cash Flow	686	(775)	1,161	105	(2,704)
Investments	3	31	1	(475)	394
Other Investing Cash Flow	(6)	495	159	(176)	252
Investing Cashflow	(1,092)	(438)	(579)	(636)	(2,968)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	46	1,017	(485)	2,508	4,003
Dividend paid (incl tax)	(59)	(116)	(173)	(239)	(297)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	(684)	54	(1,531)	1,316	2,742
Net chg in cash	111	(24)	(2)	957	815
Opening cash position	179	290	266	264	1,221
Closing cash position	290	266	264	1,221	2,036

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY13	FY14	FY15	FY16	FY17
EBITDA Margin	9.5	9.3	10.4	15.8	17.8
EBIT Margin	6.4	6.6	8.1	12.3	15.1
Effective Tax Rate	(2.3)	13.3	(3.3)	18.6	23.9
Net Margin	3.2	2.9	4.9	6.7	8.5
ROCE	9.2	10.6	11.5	14.7	15.7
ROE	9.6	9.7	12.3	14.9	18.6
RoIC	8.5	9.7	10.5	14.9	17.3

Per Share Data (Rs)	FY13	FY14	FY15	FY16	FY17
EPS	5.9	6.8	9.7	12.8	18.5
CEPS	11.2	12.3	14.2	19.6	24.4
BVPS	64.6	75.7	81.8	90.4	108.4
DPS	0.6	1.2	1.8	2.4	3.0

Valuations (x)	FY13	FY14	FY15	FY16	FY17
PER	63.1	54.2	38.1	28.8	20.0
P/CEPS	32.4	29.3	25.4	18.5	14.8
P/BV	5.7	4.9	4.5	4.1	3.4
EV / Sales	2.6	2.2	2.2	2.4	2.3
EV / EBITDA	27.0	23.4	21.6	15.2	12.7
Dividend Yield (%)	0.2	0.3	0.5	0.7	0.8

Gearing Ratio (x)	FY13	FY14	FY15	FY16	FY17
Net Debt/ Equity	1.1	1.0	0.9	1.0	1.1
Net Debt/EBIDTA	4.2	4.1	3.6	3.0	3.2
Working Cap Cycle (days)	64.3	81.1	83.2	116.5	145.8

Growth (%)	FY13	FY14	FY15	FY16	FY17
Revenue	18.3	20.0	(4.2)	(2.8)	13.2
EBITDA	9.3	18.2	7.0	47.3	27.6
EBIT	18.7	24.9	17.1	46.8	39.1
PAT	66.2	28.7	30.4	37.8	38.2

Quarterly (Rs mn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Revenue	5,476	5,843	5,115	5,785	5,956
EBITDA	926	968	1,085	995	1,167
EBITDA Margin (%)	16.9	16.6	21.2	17.2	19.6
PAT	451	456	506	506	501
EPS (Rs)	4.6	4.6	5.1	5.1	5.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Promoters	57.2	57.2	57.2	57.2	47.6
FIs	7.5	6.6	7.5	7.5	10.1
DIs	9.3	11.6	12.1	12.5	12.3
Public and Others	26.0	24.6	23.2	22.7	30.1

Source: Capitaline

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date:

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