

An almost washout with revenue falling by more than 72%; pain likely to ease gradually

**CMP: Rs 78**

**Rating: Unrated**

**Stock Info**

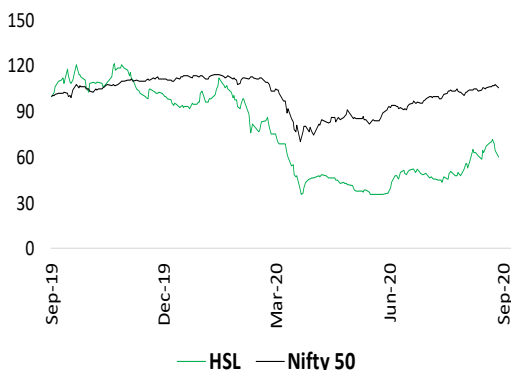
BSE	514043
NSE	HIMATSEIDE
Bloomberg	HSS IN
Reuters	HMSD.NS
Sector	Textile
Face Value (Rs)	5
Equity Capital (Rs Cr)	49.23
Mkt Cap (Rs Cr)	768
52w H/L (Rs)	165 / 43

**Shareholding Pattern %**

(As on June, 2020)

Promoters	47.6
FII	3.0
DII	15.5
Public & Others	34.0

Stock Performance (%)	3m	6m	12m
HSL	69.7	-19.9	-39.9
Nifty 50	18.9	2.3	5.5



**Himatsingka Seide Limited (HSL)** Q1FY21 earnings were hit bad due to the pandemic. The revenue stood at Rs 179 Cr (down 72.0% YoY/down 58.8% QoQ), EBITDA at Rs -85 Cr (down from Rs 138 Cr in Q1FY20/Rs 60 Cr in Q4FY20) and a Net Loss of Rs 140 Cr against a loss of Rs 69 Cr in Q4FY20/ profit of Rs 45 Cr in Q1FY20. The company attributes the deferment/delay of orders by its clients due to Covid-19.

**Key Highlights Q1FY21 and Covid-19 impact:**

**Capex completed for 25,000 tonne:** HSL's 25,000 tonnes per annum capacity capex is complete and minor works in the facility will be made ready as and when requirement comes.

**Cost cutting measures underway:** HSL has Rs 50-100 Cr of cost-cutting measures underway on annualized basis at EBITDA levels.

**Minor benefits of fallen energy and cotton prices:** HSL benefitted from fallen energy (coal prices) costs along with fall in some domestic/Indian cotton variety. Inventory levels to remain down for the rest of the year.

**Inventory came down:** The inventory levels came down significantly considering the fall in demand and deferment of orders by retailers.

**Massive impact of Covid-19:** HSL had to shut down all manufacturing and supply operations since the beginning of the lockdown throughout most of April 2020, and resumed it by the end of April 2020. The company's Q1FY21 has been majorly hit for the month of April & May 2020, and it saw ramping up of operations only by the month of June. The demand started growing from the month of June as per the management, and is picking up gradually, but still remains much lower than pre-Covid levels.

**Q2FY21 demand relatively better:** With the demand picking up, the company expects a better Q2FY21 attributing work from home culture and hygienic preference by masses. Hence, we expect a recovery in H2FY21 and sales picking up to near last year's 2<sup>nd</sup> half run-rates with slight change in revenue mix as terry towel production ramps up and demand picks up by then.

HSL has a gross debt of Rs 2,786 Cr and a net debt of Rs 2,542 Cr as of Jun 2020, coming down by around Rs 50 Cr in 1<sup>st</sup> quarter. HSL intends to bring it further in Q2 and substantially down by end of FY21. It has Cash & Cash Equivalents of Rs 244 Cr.

**Business focus shift for future due to the pandemic:** HSL plans of adding plants in Europe and Middle-East, acquiring new clients from these geographies and broadening its product offering.

**Business Outlook**

HSL was expected to capitalise on its capex completion carried over FY18, FY19 and some part by end of H1FY20. However, just as the commercial production could have been ramped up to its peak productivity by end of FY20, the coronavirus threat loomed over mankind and gulped over the big plans of the company. However, with the unlocking of economies across the globe, the management remains optimistic of leaving behind the worst and focussing on diversifying both its market as well as its product offerings. Hence, looking both into the company's internal capital positions and demand picking up gradually, we expect HSL will recover rapidly in terms of business, but large debts repayment and still much weak demand would eat any possibility of profits. A sustainable demand revival in overseas markets along with increasing use of e-commerce sales channels will help it achieve near pre-Covid levels by year end.

## Quarterly

Profit & Loss Statement (Consolidated) (Rs Cr)	Q1FY21	Q4FY20	Q1FY20	QoQ	YoY
Net Sales/Income from operations	179	435	640	-58.8%	-72.0%
<b>Expenditure</b>					
Consumption of Raw Materials	48	155	176	-68.8%	-72.4%
Purchase of Traded Goods	20	117	98	-82.8%	-79.5%
Increase/Decrease in Stocks	64	-92	25	-170.0%	153.6%
Employees Cost	53	72	71	-26.4%	-25.0%
Depreciation	38	38	27	-1.2%	41.8%
Other Expenses	78	123	131	-36.3%	-40.5%
<b>Total Expenses</b>	<b>302</b>	<b>413</b>	<b>528</b>	<b>-26.9%</b>	<b>-42.8%</b>
Other Income	4	37	5	-89.5%	-21.9%
<b>P/L Before Int., Excpt. Items &amp; Tax</b>	<b>-119</b>	<b>58</b>	<b>116</b>	<b>-304.6%</b>	<b>-202.4%</b>
<b>EBITDA</b>	<b>-85</b>	<b>60</b>	<b>138</b>	<b>-242.2%</b>	<b>-161.5%</b>
<b>EBITDA Margin (%)</b>	<b>-47.5%</b>	<b>13.8%</b>	<b>21.6%</b>	<b>-6125bps</b>	<b>-6909bps</b>
Interest	45	54	44	-15.3%	3.0%
Exceptional Items	0	-58	0	-100.0%	NA
<b>P/L Before Tax</b>	<b>-164</b>	<b>-53</b>	<b>72</b>	<b>207.5%</b>	<b>-327.5%</b>
Tax	-24	15	27	-257.6%	-189.5%
<b>Net Profit/(Loss) For the Period</b>	<b>-140</b>	<b>-69</b>	<b>45</b>	<b>103.7%</b>	<b>-409.9%</b>
<b>PAT Margin (%)</b>	<b>-78.3%</b>	<b>-15.8%</b>	<b>7.1%</b>	<b>-6250bps</b>	<b>-8541bps</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Key Concall Highlights

- Management accepted of substantial amount of orders held back due to Covid-19. Management expects the worst impact of Covid-19 to have passed during the lockdowns in most countries, and is witnessing revival in demand gradually.
- Majority of April and May 2020, production remained shut. However, by the last week of April, operations started marginally, with a thin May month followed by gradually ramping up of operations in June 2020.
- Despite the current uncertainty, Q2 demand faring much better relatively. Management expects the H2 FY21 to be good and reach near pre-Covid levels of run rate by end of FY21.
- The company has availed moratorium considering the uncertainty due to the lockdown. However, it is able to bring down its net debts with the capex cycle complete. It aims to gradually decrease its net debt levels by end of FY21.
- The Gross debt currently stands at Rs 2,786 Cr, of which term debt stood at Rs 1,758 Cr and Cash & Cash Equivalents stands at Rs 244 Cr.
- It wants to maintain reduced levels of inventories for the current year.
- HSL is focusing on adding plants in Europe & Middle East and acquire new clients from these geographies. It is also is looking to increase/broaden its product offering.
- HSL Management clarified that it has no exposure to any retailer filing Chapter-11 (Bankruptcy) in the US, e.g. JC Penny or any other.

## Key Financials

Consolidated Profit & Loss Account (Rs Cr)	FY17	FY18	FY19	FY20
<b>Income</b>				
<b>Revenue From Operations</b>	<b>2,036</b>	<b>2,103</b>	<b>2,460</b>	<b>2,358</b>
Other Operating Revenues	102	146	157	0
<b>Total Operating Revenues</b>	<b>2,138</b>	<b>2,249</b>	<b>2,618</b>	<b>2,358</b>
Other Income	13	18	37	62
<b>Total Revenue</b>	<b>2,152</b>	<b>2,267</b>	<b>2,654</b>	<b>2,420</b>
<b>Expenses</b>				
Cost Of Materials Consumed	847	788	790	690
Purchase Of Stock-In Trade	531	581	685	422
Changes In Inventories	-150	-184	-186	20
Employee Benefit Expenses	197	209	257	280
Finance Costs	94	104	163	195
Depreciation And Amortisation Expenses	58	72	109	126
Other Expenses	337	406	528	528
<b>Total Expenses</b>	<b>1912</b>	<b>1976</b>	<b>2346</b>	<b>2261</b>
<b>Earnings Before Exceptional Items And Tax</b>	<b>239</b>	<b>290</b>	<b>308</b>	<b>158</b>
<b>Exceptional Items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-73</b>
<b>Total Tax Expenses</b>	<b>57</b>	<b>89</b>	<b>111</b>	<b>72</b>
<b>Profit/Loss For The Period</b>	<b>182</b>	<b>202</b>	<b>197</b>	<b>13</b>
<b>Profit Margins (%)</b>	<b>8.5%</b>	<b>9.0%</b>	<b>7.5%</b>	<b>0.6%</b>
Basic EPS (Rs.)	19.0	20.0	20.0	1.4
Diluted EPS (Rs.)	19.0	20.0	20.0	1.4

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Consolidated Balance Sheet (Rs Cr)	FY17	FY18	FY19	FY20
<b>Equities And Liabilities</b>				
Equity Share Capital	49	49	49	49
Reserves and Surplus	1018	1178	1372	1311
<b>Total Shareholders Funds</b>	<b>1067</b>	<b>1228</b>	<b>1421</b>	<b>1360</b>
<b>Non-Current Liabilities</b>				
Long Term Borrowings	740	1217	1678	1734
Deferred Tax Liabilities [Net]	1	8	37	45
Other Long Term Liabilities	55	227	285	289
Long Term Provisions	15	15	20	20
<b>Total Non-Current Liabilities</b>	<b>810</b>	<b>1466</b>	<b>2020</b>	<b>2088</b>
<b>Current Liabilities</b>				
Short Term Borrowings	609	943	978	1033
Trade Payables	261	351	442	372
Other Current Liabilities	144	227	341	417
Short Term Provisions	2	4	2	3
<b>Total Current Liabilities</b>	<b>1016</b>	<b>1525</b>	<b>1764</b>	<b>1824</b>
<b>Total Capital And Liabilities</b>	<b>2893</b>	<b>4219</b>	<b>5205</b>	<b>5272</b>
<b>Assets</b>				
<b>Non-Current Assets</b>				
Tangible Assets	878	1839	1838	3046
Intangible Assets	52	45	101	111
Capital Work-In-Progress	113	32	634	173
Intangible Assets Under Development	0	0	0	0
<b>Fixed Assets</b>	<b>1043</b>	<b>1917</b>	<b>2573</b>	<b>3329</b>
Non-Current Investments	0	7	7	0
Deferred Tax Assets [Net]	37	31	20	17
Long Term Loans And Advances	1	1	1	1
Other Non-Current Assets	245	149	149	135
<b>Total Non-Current Assets</b>	<b>1668</b>	<b>2457</b>	<b>3192</b>	<b>153</b>
<b>Current Assets</b>				
Current Investments	0	119	117	29
Inventories	754	990	1176	1087
Trade Receivables	68	99	166	118
Cash And Cash Equivalents	184	135	251	181
Short Term Loans And Advances	2	1	1	1
Other Current Assets	217	418	302	374
<b>Total Current Assets</b>	<b>1225</b>	<b>1762</b>	<b>2013</b>	<b>1790</b>
<b>Total Assets</b>	<b>2893</b>	<b>4219</b>	<b>5205</b>	<b>5272</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Consolidated Cash Flow Statement	FY17	FY18	FY19	FY20
<b>Net Profit/Loss Before Extraordinary Items And Tax</b>	<b>176.84</b>	<b>214.98</b>	<b>308.04</b>	<b>158.38</b>
Net Cash Flow From Operating Activities	75.08	83.34	478.48	432.55
Net Cash Used In Investing Activities	-476.49	-606.91	-742.63	-203.04
Net Cash Used From Financing Activities	332.17	567.5	321.69	-347.66
<b>Net Inc/Dec In Cash And Cash Equivalents</b>	<b>-69.25</b>	<b>43.93</b>	<b>57.54</b>	<b>-118.15</b>
Cash And Cash Equivalents Begin of Year	100.42	31.28	109.88	167.1
Cash And Cash Equivalents End Of Year	31.17	75.2	167.1	47.08

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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