

Covid victim HSL gets hit bad; pain likely to continue for subsequent quarter

CMP: Rs 60

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)	591
52w H/L (Rs)	174 / 43

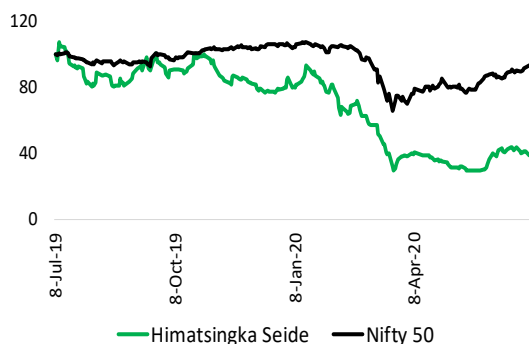
Shareholding Pattern %

(As on March, 2020)

Promoters	47.6
FII	3.7
DII	16.5
Public & Others	32.3

Stock Performance (%)

	3m	6m	12m
HSL	-3.2	-52.1	-3.6
Nifty 50	22.4	-10.3	-6.9



Himatsingka Seide Limited (HSL) came out with Q4FY20 earnings which were as expected lower than Q4FY19. The revenue stood at Rs 435 Cr (down 37.1% YoY/down 34.7% QoQ), EBITDA at Rs 60 Cr (down 56.8% YoY/ down 47.7% QoQ) and a Net Loss of Rs 69 Cr against a profit of Rs 48 Cr in Q4FY19/Rs 3 Cr in Q3FY20. The company attributes the deferment of orders by its clients right from the 2nd week of March due to Covid-19, hitting its business by around Rs 200 Cr due to orders deferred. For the full year FY20, revenue fell by 9.9% to Rs 2,358 Cr, EBITDA fell by 23.1% to Rs 418 Cr against Rs 543 Cr last year and Profits slipped to Rs 13 Cr against 197 Cr last year. The company had to cut its dividend for the year to Rs 0.50 per equity share of Rs 5 face value.

Key Highlights Q4FY20, FY20 and Covid-19 impact:

Terry Towel Facility commercial operation started since 3 Oct 2019: HSL's 25,000 tonnes per annum capacity terry towel facility is up and running for commercial production.

Completion of restructuring of Italian operations: HSL completed the restructuring of its Italian operations during FY20 with a consolidated impact of approximately Rs 35 Cr for the year.

Inventory still high: HSL attributes the pandemic for a still high inventory level, and stated of around Rs 160 Cr fall wound have been there had there been no pandemic.

Exceptional Gain of Rs 58 Cr: HSL attributes Rs 43 Cr of inventory provisioning adjustment due to current economic conditions.

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. Covid-19 had an impact of around Rs 200 Cr to its topline in Q4FY20, and is expected to take an even bigger hit in Q1FY21 due to nation-wide lockdown.

Q2 orderbook at 75% of pre-covid levels: With the demand picking up, the company expects a strong Q2FY21 considering the overall negativity and a near washout in Q1FY21. Hence, we cannot deny a recovery in H2FY21 and sales picking up to near last year's 2nd half run-rates.

HSL has a gross debt of Rs 2,814 Cr currently and the management decided to avail moratorium considering weak business environment to conserve capital. It has Cash & Cash Equivalents of Rs 225 Cr and has to repay Rs 155 Cr of debt during the year after the moratorium ends.

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. The company will now have to bear revenue losses, increased interest payments off its doubled debts, see its reserves getting depleted further and strain its capital positions and debt servicing abilities. Hence, looking both into the company's internal capital positions and an improving macroeconomic scenario, we expect HSL to 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 no further resurgence of the pandemic will have to be must ingredients for its faster recovery.

Quarterly (Consolidated) (Rs Cr)

Profit & Loss Statement	Q4FY20	Q3FY20	Q4FY19	QoQ	YoY
Net Sales/Income from operations	435	666	691	-34.7%	-37.1%
Expenditure					
Consumption of Raw Materials	155	173	226	-10.3%	-31.3%
Purchase of Traded Goods	117	86	104	35.6%	12.4%
Increase/Decrease in Stocks	-92	74	23	-225.2%	-499.7%
Employees Cost	72	71	68	1.3%	6.3%
Depreciation	38	35	29	9.8%	33.2%
Other Expenses	123	147	132	-16.7%	-6.8%
Total Expenses	413	586	581	-29.5%	-28.9%
Other Income	37	10	2	258.0%	1857.4%
P/L Before Int., Excpt. Items & Tax	58	90	112	-35.1%	-47.8%
EBITDA	60	114	139	-47.7%	-56.8%
EBITDA Margin (%)	13.8%	17.2%	20.1%	-343bps	-629bps
Interest	54	50	45	6.2%	19.2%
Exceptional Items	-58	-34	0	71.0%	NA
P/L Before Tax	-53	5	67	-1105.3%	-180.2%
Tax	15	3	18	504.7%	-16.3%
Net Profit/(Loss) For the Period	-69	3	48	-2576.3%	-242.3%
PAT Margin (%)	-15.8%	0.4%	7.0%	-1626bps	-2284bps

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

Key Concall Highlights

- Management accepted of substantial amount of orders held back from 2nd week of March due to Covid-19, impacting the topline by around Rs 200 Cr. Management expects the damage of Covid-19 to be confined to Q4 and Q1 quarters due to the lockdown.
- Majority of April 2020 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 orderbook stands at around 75% of pre Covid-19 levels. Management expects the Q2 FY21 to be robust compared to a devastated Q1FY21.
- The company has availed moratorium considering the uncertainty due to the lockdown. It has to pay Rs 155 Cr of debt to be repaid during the year FY21.
- The Italian facility's restructuring has been completed.
- The Gross debt currently stands at Rs 2,814 Cr and Cash & Cash Equivalents stands at Rs 225 Cr.
- Revenue from brands stood at 85% of total revenue.
- Rs 58 Cr of exceptional items included Rs 43 Cr of inventories adjustment due to rupee depreciation.
- Management expects Q2 to be robust considering the environment.
- It wants to reduce its inventories and says Rs 160 Cr would have been reduced had there been no pandemic.

Key Financials

Consolidated Profit & Loss Account (Rs Cr)	FY17	FY18	FY19	FY20
Income				
Revenue From Operations	2,036	2,103	2,460	2,358
Other Operating Revenues	102	146	157	0
Total Operating Revenues	2,138	2,249	2,618	2,358
Other Income	13	18	37	62
Total Revenue	2,152	2,267	2,654	2,420
Expenses				
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
Total Expenses	1912	1976	2346	2261
Earnings Before Exceptional Items And Tax	239	290	308	158
Exceptional Items	0	0	0	-73
Total Tax Expenses	57	89	111	72
Profit/Loss For The Period	182	202	197	13
Profit Margins (%)	8.5%	9.0%	7.5%	0.6%
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
Equities And Liabilities				
Equity Share Capital	49	49	49	49
Reserves and Surplus	1018	1178	1372	1311
Total Shareholders Funds	1067	1228	1421	1360
Non-Current Liabilities				
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
Total Non-Current Liabilities	810	1466	2020	2088
Current Liabilities				
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
Total Current Liabilities	1016	1525	1764	1824
Total Capital And Liabilities	2893	4219	5205	5272
Assets				
Non-Current Assets				
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
Fixed Assets	1043	1917	2573	3329
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
Total Non-Current Assets	1668	2457	3192	153
Current Assets				
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
Total Current Assets	1225	1762	2013	1790
Total Assets	2893	4219	5205	5272

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

Consolidated Cash Flow Statement	FY17	FY18	FY19	FY20
Net Profit/Loss Before Extraordinary Items And Tax	176.84	214.98	308.04	158.38
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
Net Inc/Dec In Cash And Cash Equivalents	-69.25	43.93	57.54	-118.15
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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