Himatsingka Seide Limited

October 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	0.00	CARE BBB+; Stable/CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to Himatsingka Seide Limited (HSL) factors in the strong experience of the promoters in the home textile segment, the healthy market position with global reach and integrated operations, and the strong relationships with leading global retailers.

CARE Ratings Limited (CARE Ratings) further factors in the healthy operating performance of the company, albeit moderation in FY23 (FY refers to the period from April 1 to March 31) amid the high commodity inflation and high energy costs. Further destocking at the retailers-end in the US and key export markets amid the recessionary trend in Europe and the cut-down on non-essential expenses in the US due to the high inflation has impacted the demand. With the destocking at the retailers-end coming round, the home textile industry witnessed an increase in order flows from the US during H1FY24.

That said, these strengths are partially offset by the company's modest financial risk profile, working capital-intensive nature of operations, its exposure to inherent industry risks such as concentration of customers as well as geography, the susceptibility to fluctuations in raw material prices and foreign exchanges, both imparting volatility to the profitability and the cyclical and competitive nature of the home textile industry.

Any unenvisaged large capex or merger or acquisition or unrelated diversification, leading to a significant increase in the debt levels, resulting in further deterioration in the capital structure and debt coverage metrics, thereby resulting in weakening of the financial risk profile, will remain a key monitorable. The financial risk profile of the company is expected to improve over the medium term on account of the expected improvement in the operating cash flows, the scheduled repayment of debt obligations, and the absence of significant debt-funded capex plans.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the return on capital employed (ROCE) to around 14%.
- Deleveraging of the balance sheet, aided by an improvement in the operating performance, resulting in significant improvement of the debt metrics with the overall gearing below 2.5x and total debt (TD)/earnings before interest, taxes, depreciation, and amortisation below 3.5x.

Negative factors

- Any further deterioration in the overall gearing to 3.5x and above on a sustained basis.
- Decline in the operating performance, resulting in a sharp decline in scale and operating margins below 12% on a sustained basis.
- Any further elongation in the inventory period, leading to the operating cycle stretching beyond 150 days on a sustained basis.

Analytical approach

CARE Ratings has considered the consolidated financials of HSL and its subsidiaries, as the subsidiaries are in the same line of business and have operational synergies. The list of subsidiaries consolidated is presented in Annexure-5 below.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

The stable outlook reflects that HSL's operating performance will improve over the medium term, driven by an increasing volume and sustained healthy operating margins. The financial risk profile is also expected to improve over the medium term on account of the expected improvement in operating cash flows, the scheduled repayment of debt obligations, and the absence of significant debt-funded capex plans.

Detailed description of the key rating drivers:

Key strengths

Experienced promoter in the home textile segment

Dinesh Kumar Himatsingka, the Executive Chairman of HSL and a first-generation entrepreneur with more than 40 years of experience in the textile sector, co-founded the company in 1985. Since joining his family-owned company in 2001, Shrikant Himatsingka, Managing Director & Group Chief Executive Officer, has tripled the production capacities, enlarged the brand portfolio, and expanded the distribution network across the globe.

Healthy market position in home textile segment and diversified presence

HSL has emerged and established itself as one of India's leading suppliers and exporters of bed linen and terry towels. HSL's product portfolio is spread across various products in the home textile market, offering different qualities. HSL's wide range of product mix helps it maintain its position as one of the leading players in the industry, catering to a large number of clients, which includes top global retailers and renowned international brands.

HSL is vertically integrated and converts its raw material, i.e., cotton, into made-ups like bed and bath products through spinning, weaving, processing, printing, washing, cutting, and sewing. The entire spinning capacity is for captive consumption for the production of downstream products, which enables the company to have better control on the supply chain systems and generate sustainable margins.

For the past several decades, HSL had been generating the majority of its revenue from bedding products. To diversify its product profile and to foray into bath products, the company has undertaken a calibrated capex programme for a terry towel facility with an installed capacity of 25,000 tonne per annum (TPA). The terry towel plant, commissioned in October 2019, was significantly ramped up from the second quarter of FY2021.

Operating performance expected to improve in FY24

Post the strong year-on-year (y-o-y) growth of 42% in FY22, HSL reported a y-o-y de-growth of 15% in FY23 with a total operating income (TOI) of ₹3,197.77 crore, impacted by the recessionary trend in Europe and the cut-down on non-essential expenses in the US amid the high inflation. The depreciating Rupee against the Dollar and the China+1 policy across the globe restricted the turnover fall, but the margins were poorly impacted due to the lower operating leverage attributed by lower capacity utilisation.

During H1FY23, the operating profitability of the company was impacted by the inflation in raw material and energy prices; and the inventory correction undertaken by major retailers, which impacted both, the TOI and operating margins. However, as the raw material and energy prices eased, the operating margins improved.

The operating margins improved from 8-9% in the initial two quarters of FY23 to 16% in Q3FY23, 18% in Q4FY23, and 22% in Q1FY24. The sustenance of recovery in the demand witnessed from key markets during Q1FY24 is critical, as the company derives majority of its revenues from exports.

The demand is expected to improve in FY24 on account of the uptick in orders as the inventory levels at the retailer-end normalises, which will also aid in the improvement of the operating margins due to the improved operating leverage attributed to higher capacity utilisation.

Key weaknesses

Modest financial risk profile; expected to improve in the medium term

HSL has a modest financial risk profile, marked by a high overall gearing of 3.24x as the high debt levels continue, mainly due to the debt raised for the capex executed during FY17-FY20. Due to the high working capital requirement and higher debt levels given the past debt-funded capex, the overall financial profile of the company remains highly leveraged. Furthermore, with a lower profit before interest, lease rentals, depreciation and taxation (PBILDT) in FY23, the overall gearing and net debt/PBILDT has deteriorated to 3.24x (3.17x) and 8.38x (5.05x), respectively. The company does not expect to incur any major capex over the next two to three years.

Furthermore, between March 2023 and July 2023, HSL raised non-convertible debentures (NCDs) aggregating to ₹460 crore and foreign currency convertible bonds (FCCB) amounting to around ₹100 crore from International Finance Corporation (IFC). The debt raised will be utilised towards refinancing HSL's existing long-term debt of ₹410 crore, capex of ₹53 crore for debottlenecking of the terry towel plant, and capex of ₹97 crore for decarbonisation of the captive power plant. As a result of this refinancing, the company's medium term debt obligations are being spread out over a longer period.

Better utilisation due to an uptick in demand and improved realisation will enable the company to improve its free cash flows, which will be used to reduce the overall debt level. An improvement in profitability and reduction in debt will lead to an improved capital structure and debt coverage indicators in the medium term.

Elongated working capital cycle, albeit order-backed inventory
The company has an elongated working capital cycle on account of the high inventory period, as it has to maintain adequate inventory to meet its customer demands in a timely manner. The ability of the company to efficiently manage the working capital cycle will be a key monitorable. The average working capital fund-based limits utilisation remained high, at 85% during the last 15 months ended September 30, 2023.

Susceptibility to fluctuations in raw material prices and forex rates
Raw cotton is the main raw material for the company, which it sources from local suppliers, especially in its vicinity. Cotton prices are prone to volatility, driven by various factors such as the area under cultivation, yield for the year, government regulation and pricing, etc. As a result, the company remains exposed to the movements in raw material prices and may be required to absorb any adverse fluctuations in raw material prices. However, the risk is mitigated to a certain extent, as the company mostly follows an order-based production policy, which minimises the raw material and inventory fluctuation risk. Furthermore, in case of adverse movements in raw material prices, HSL, due to its market standing and relations with clients, has the ability to periodically revise prices, albeit with a lag. HSL is primarily engaged in the manufacturing and export of home textiles. Being a net exporter, it is inherently exposed to foreign currency fluctuation risk. The company's margins remain exposed to forex rate fluctuations.

Competitive landscape of the global and domestic home textile industry
The Indian export home textile market is dominated by four large players, including HSL. These organised and larger players mainly cater to export demand from large global retailers and face competition from countries like China, Pakistan, Vietnam, Bangladesh, Turkey etc. Nevertheless, HSL has been able to maintain a healthy market share in its key markets and has strong tie-ups with reputed players in key home textile segments such as bed linen, towels, etc. The domestic home textile market is still dominated by the unorganised sector and brand penetration continues to remain low, albeit increasing due to the increasing brand consciousness. The operating performance is highly susceptible to economic slowdown and increase in competition globally, given the export-dependent sales. While prospects for home textile exports are healthy, competition is on the rise, with higher trade incentives offered by competing countries. The operating profitability is partially vulnerable to adverse movements in raw material and foreign exchange (forex) rates, with HSL being a net exporter.

Liquidity: Adequate

HSL has adequate liquidity, marked by unencumbered cash and cash equivalents of ₹82.30 crore as on June 30, 2023. The same is sufficient to service the scheduled debt repayments of ₹43.42 crore from July 2023 to March 2024. The average fund-based and non-fund-based working capital utilisation remained high, at 85% and 62%, respectively, during the last 15 months ended September 30, 2023, owing to the higher raw material prices for most part of the period. CARE Ratings also draws comfort from the absence of a significant capex in the medium term and the management articulation that the company's operating strategy going forward will be focused on deleveraging.

Environment, social, and governance (ESG) risks

Improving the energy productivity of the company's processes is an ongoing priority. To achieve its targets on carbon neutrality, the company's energy transition will focus on energy and resource efficiencies. HSL's sustainability goals include 100% renewable energy by 2025, coal-free steam generation by 2027, carbon-neutrality by 2030, all manufacturing facilities to be ZWL-certified by 2025, the use of 100% sustainable cotton by 2025, and operation of zero liquid discharge (ZLD) water management plants across manufacturing facilities. To reduce its carbon footprint, the company is aggressively enhancing the procurement of green power and implementing cleaner processes, while increasing energy and resource efficiencies.

HSL's community enhancement initiatives focus on programmes that are positive, sustainable, and impactful. Targeting underserved communities in and around Hassan, Bengaluru, the company continues to support them through multi-dimensional and integrated development projects in education, health, and livelihood enhancement.

The company exercises and maintains strong corporate governance practices and policies to strengthen its Board and management accountability, as well as promote the long-term interests of its shareholders. HSL demands and delivers the highest standards of ethical conduct and compliance across all its businesses and facilities. The company's industry-leading training programmes, as well as internal monitoring and auditing systems, are equipped to provide it with all the frameworks required to achieve its governance goals.

Applicable criteria

Rating Outlook and Credit Watch
Policy on Withdrawal of Ratings
Policy on default recognition
Manufacturing Companies
Manmade Yarn Manufacturing
Liquidity Analysis of Non-financial sector entities
Issuer Rating
Financial Ratios – Non financial Sector
Cotton Textile
Consolidation

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles and apparels	Other textile products

HSL is a vertically-integrated global textile major that designs, develops, manufactures, and distributes a suite of textile products. It has a diversified portfolio spanning across made-up bedding products, drapery and upholstery fabrics, and towels. The company has a cotton spinning capacity of 211,584 spindles, a bedding capacity of 61 million metre per annum (MMPA), a terry towel capacity of 25,000 TPA, and a drapery and upholstery capacity of 2 MMPA. The company has a strong brand portfolio in the home textile space, which includes 15 licensed and owned brands. It has a global network of sales offices and warehousing facilities across North America, Europe, the UK, and India.

Brief Financials (₹ crore) Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	3,197.77	2,728.60	682.14
PBILDT	545.58	321.87	152.09
PAT	140.82	(64.08)	29.15
Overall gearing (times)	3.17	3.24	NA
Interest coverage (times)	3.06	1.25	2.29

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Not applicable

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Issuer Rating-Issuer Ratings	Issuer ratings	0.00	CARE BBB+; Stable / CARE A2	-	-	-	-

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not available

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer Rating-Issuer Ratings	Simple

Annexure-5: List of subsidiaries consolidated as on March 31, 2023

Sr. No.	Name of the Company/Entity	Subsidiary/ Step Subsidiary	Country of Incorporation	% shareholding as on March 31, 2023
1.	Himatsingka Wovens Private Limited	Subsidiary	India	100%
2.	Himatsingka Holdings North America, Inc.	Subsidiary	USA	100%
3.	Twill & Oxford LLC (under liquidation)	Subsidiary	UAE	49%
4.	Himatsingka America, Inc.	Step Subsidiary	USA	100%

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	**Analytical Contacts** Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-6754 3505 E-mail: pulkit.agarwal@careedge.in Arti Roy Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3657 E-mail: arti.roy@careedge.in Madhusudhan Giri Goswami Lead Analyst **CARE Ratings Limited** E-mail: madhusudhan.g@careedge.in

About us:
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