Himatsingka Seide Limited

January 02, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer Rating	-	-	Reaffirmed at CARE BBB+; Stable / CARE A2 and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding issuer ratings of 'CARE BBB+; Stable/CARE A2' assigned to Himatsingka Seide Limited (HSL) with immediate effect. The above action has been taken at the request of the company and in line with the CARE Rating's withdrawal policy.

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

CARE Ratings further factors in the healthy operating performance of the company in FY24 compared to FY23 wherein high input prices, slowing demand and destocking at large retailers end impacted the operating performance. In FY24, the company reported total operating income (TOI) of ₹2,851 crore and profit before interest, lease rentals, depreciation, and taxation (PBILDT) of ₹612 crore backed by improved demand, higher capacity utilisation, and softening of raw material prices. In H1FY25, the company reported TOI of ₹1,430 crore and PBILDT of ₹285 crore, profitability was impacted due to recalibration of its branded portfolio under bed linen impacting the capacity utilisation of the sheeting division. CARE Ratings notes the foray of the company in the domestic market in Q3FY24, the company has launched three brands in the domestic market and expects the revenue to scale upto ₹1,000 crore in next five years.

The company has also raised ₹400 crore through qualified institutional placement (QIP) in October 2024, the proceeds net of issue expenses of ~₹375 crore will be utilised towards debt reduction and general corporate purpose. This is expected to strengthen the equity base of the company and improve the financial risk profile.

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/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.

Analytical approach:

CARE Ratings has considered the consolidated financials of Himatsingka Seide Limited (HSL) and its subsidiaries, as the subsidiaries are in the same line of business and have operational synergies. The list of subsidiaries consolidated has been provided in Annexure-6.

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that HSL's operating performance will improve over the medium term driven by better product mix and healthy operating margins. Financial risk profile is also expected to improve over the medium term on account of expected improvement in operating cash flows, scheduled repayment of debt obligations, absence of significant debt-funded capex plans, and recently done QIP by the company.

Detailed description of 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 over 40 years of experience in the textile sector, co-founded the company in 1985. Since joining his family-owned company in 2001, Shrikant Himatsingka

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

(Managing Director & Group Chief Executive Officer) has tripled production capacities, enlarged brand portfolio, and expanded distribution network across the globe.

Healthy market position in home textile 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. It's wide range of product mix helps it maintain its position as one of the leading players in the industry, catering to many clients, which includes top global retailers and renowned international brands.

HSL is vertically integrated and converts raw material i.e., cotton into made ups like bed and bath products through spinning, weaving, processing, printing, washing, cutting, and sewing. Entire spinning capacity is for captive consumption to produce downstream products, which enable the company to have better control on 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 FY21.

Operating performance expected to improve with better product mix

In FY24, the company reported TOI of ₹2,851 crore and PBILDT of ₹612 crore backed by improved demand, higher capacity utilisation, and softening of raw material prices. In H1FY25, the company reported TOI of ₹1,430 crore and PBILDT of ₹285 crore, profitability was impacted due to recalibration of its branded portfolio under bed linen impacting the capacity utilisation of the sheeting division. The company is trying to offset this by adding new clients and new markets. The capacity utilisation levels for the spinning division, sheeting division and terry division stood at 99%, 61%, and 67% for the quarter September 2024.

HSL exports to over 30 countries with the North America being the prime market with 85% share in the total revenues followed by Europe, Middle East, and Africa contributing ~11% of revenues. CARE Ratings notes the foray of the company in the domestic market in Q3FY24, the company has launched three brands in the domestic market and expects the revenue to scale upto ₹1,000 crore in next five years. The company has presence in 29 states and 350 cities in the domestic market.

Key weaknesses

Modest financial risk profile; expected to improve in medium term

HSL has a modest financial risk profile, marked by a high overall gearing as the high debt levels continue, mainly due to the debt raised for the capex executed in 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 an improved profit before interest, lease rentals, depreciation and taxation (PBILDT) in FY24, the overall gearing and net debt/PBILDT has improved to 2.94x (3.24x) and 4.46x (8.38x), respectively. The company does not expect to incur any major capex over the next two to three years.

The company has also raised ₹400 crore through QIP in October 2024, the proceeds net of issue expenses of ~₹375 crore will be utilised towards debt reduction and general corporate purpose. This is expected to strengthen the equity base of the company and improve the financial risk profile.

Elongated working capital cycle, albeit order-backed inventory

The company has an elongated working capital cycle on account of the high inventory period, as the company has to maintain an adequate inventory to meet its customer demands in a timely manner. The company's ability to efficiently manage the working capital cycle will be a key monitorable. The average fund-based utilisation for the company stood at 85.13% while the non-fund-based utilisation at 71.52% for the last 12 months ended November 2024.

Susceptibility to fluctuation in raw material prices and forex rates

Raw cotton is the major 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, area under cultivation, yield for the year, government regulation, and pricing, among others. As a result, the company remains exposed to the movement in raw material prices and may be required to absorb adverse fluctuation in raw material prices. However, the risk is mitigated to certain extent as the company mostly follows order-based production policy which minimises the raw materials and inventory fluctuation risk. In case of adverse movement in raw material prices, HSL due to its market standing and relations with clients can periodically revise prices despite with a lag. HSL is primarily engaged in manufacturing and exporting home textiles. Being a net exporter, it is inherently exposed to foreign currency fluctuation risk. The company's margins remain exposed to forex rate fluctuation.

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 such as China, Pakistan, Vietnam, Bangladesh, and Turkey among others. 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, among others. The domestic home textile market is still dominated by the unorganised sector and brand penetration continues to remain low, despite 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

The cash and liquid investments for the company stood at ₹163.36 crore for the FY24 (FY23: ₹107.29 crore) and ₹102.16 crore for the H1FY25. The company has also raised ₹400 crore through QIP in October 2024, the proceeds net of issue expenses of ~₹375 crore will be utilised towards debt reduction and general corporate purpose. This is expected to strengthen the company's equity base and improve its financial risk profile.
The average fund-based and non-fund-based working capital utilisation remained high, at 85% and 72%, respectively, in the last 12 months ended November 2024. With the company wanting to expand its operations in India with an aim of achieving ₹1,000 crore turnover in the next five years, the company's working capital requirement may further increase with increased scale of operations. CARE Ratings 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, and 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, and internal monitoring and auditing systems, are equipped to provide it with all the frameworks required to achieve its governance goals.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Cotton Textile
Manmade Yarn-Methodology
Short term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles & 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 two 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, 2023 (A)	March 31, 2024 (A)	H1 FY25 (UA)
Total operating income	2,728.60	2,851.56	1,429.79
PBILDT	321.87	612.05	284.85
PAT	(64.08)	112.82	42.26
Overall gearing (times)	3.24	2.94	-
Interest coverage (times)	1.25	2.08	1.75

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating history for last three years: Annexure-2
Detailed explanation of covenants of rated instrument / facility: Annexure-3
Complexity level of instruments rated: Annexure-4
Lender details: Not applicable

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Issuer rating-Issuer ratings		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for 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 2024-2025	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
1	Issuer rating-Issuer ratings	LT	-	-	1)CARE BBB+; Stable / CARE A2 (02-Jan-25)	1)CARE BBB+; Stable / CARE A2 (17-Oct-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not available

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer rating-Issuer ratings	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of subsidiaries which are consolidated as on March 31, 2024

Sr. No.	Name of the entity	Extent of Consolidation	Rationale for Consolidation
1.	Himatsingka Wovens Private Limited	Full	Operational & Management Linkages
2.	Himatsingka Holdings North America, Inc.		
3.	Himatsingka America, Inc.		
4.	Twill & Oxford LLC (under liquidation)	Proportionate (To the extent of share of profit/loss)	
5.	AMP Energy C&I Twenty Four Private Limited		

Note on complexity levels of 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 clarifications.

Contact us

Media Contact	Analytical Contacts
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	Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-6754 3505 E-mail: pulkit.agarwal@careedge.in Sonal Bhageria Assistant Director **CARE Ratings Limited** Phone: +91-22-6754 3631 E-mail: Sonal.Bhageria@careedge.in Sarthak Jindal Analyst **CARE Ratings Limited** E-mail: sarthak.jindal@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For detailed Rationale Report and subscription information, please visit www.careedge.in