



REF: HSL/SEC/2022/40

August 23, 2022

To The Deputy Manager Department of Corporate Services BSE Ltd. PJ Towers, Dalal Street Mumbai -400001 Script Code: 514043	To The Manager National Stock Exchange of India Ltd. Exchange Plaza, Plot No. C/1, G Block Bandra-Kurla Complex, Bandra (E), Mumbai 400051 Symbol: HIMATSEIDE
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Dear Sir/Madam,

Sub: Intimation of revision of Credit Rating of the Company

Ref: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, we would like to inform that CRISIL has revised the credit rating of the Company as given below:

	Existing Ratings	Revised Ratings
Long Term Debt	A-/ Negative	BBB+/Negative
Short Term Debt	CRISIL A2+	CRISIL A2

This is for your information and records.

Thanking you,

Yours faithfully,
For Himatsingka Seide Limited

SRIDHAR

M

Sridhar Muthukrishnan
Company Secretary

Digitally signed by SRIDHAR M
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pseudonym=90fca05f266be311b804ac1906485a,
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Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

August 22, 2022 | Mumbai

Himatsingka Seide Limited

Ratings downgraded to 'CRISIL BBB+/Negative/CRISIL A2'; Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	Rs.3383 Crore (Enhanced from Rs.2984.17 Crore)
Long Term Rating	CRISIL BBB+/Negative (Downgraded from 'CRISIL A-/Negative')
Short Term Rating	CRISIL A2 (Downgraded from 'CRISIL A2+')

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has downgraded its ratings on the bank facilities of Himatsingka Seide Limited (HSL; part of the Himatsingka group) to '**CRISIL BBB+/Negative/CRISIL A2**' from '**CRISIL A-/Negative/CRISIL A2+**'.

The downgrade reflects delayed deleveraging and slower-than-expected improvement in credit metrics owing to weak operating performance because of inflationary pressure and subdued demand in fiscal 2023.

Operating performance weakened in the second half of fiscal 2022 owing to higher raw material prices and supply chain challenges. This is likely to continue in fiscal 2023 with heightened raw material inflation and subdued export demand because of inventory correction at retailers and inflationary impact on consumer demand. During the first quarter of fiscal 2023, HSL reported loss of Rs 55 crore and decline in revenue by 17%. The operating performance will likely recover in the second half of fiscal 2023.

Revenue growth is expected to remain flat in fiscal 2023 because of short-term headwinds on account of 5-10% fall in demand driven by large inventories of retailers and lower price increases. Earnings before interest, tax, depreciation and amortisation (Ebitda) margin will improve in the second half of this fiscal aided by lower cotton prices and 5-10% higher demand but remain below historical levels owing to high raw material inflation and lower capacity utilisation. Capacity utilisation will reduce in the near term on account of unprecedented levels of inflation, supply chain challenges and demand impact. As a result, net cash accrual is expected to decline to Rs ~200 crore in fiscal 2023 from Rs 294 crore in fiscal 2022.

Debt increased to Rs 2,805 crore as on March 31, 2022, from Rs 2,467 crore a year earlier owing to higher inventory despite completion of capital expenditure (capex). The increase in inventory was because of inflation and delay in reimbursements under the ROSCTL scheme. The industry took a hit on the realisable value of scripts due to which the company has been slow in offloading them.

Debt metrics will moderate in fiscal 2023 driven by decline in profitability and slower debt reduction. With improvement in business performance in fiscal 2024, interest coverage and net debt to Ebitda ratios are expected at 3.2-3.3 times and 3.8-3.9 times, respectively, in fiscal 2024, compared with ~2.9 times and ~5 times in fiscal 2022. Recovery in debt metrics envisaged in fiscal 2022 has been delayed because of the Covid-19 pandemic. Liquidity is expected to be adequate, with debt repayment of Rs ~160 crore in fiscal 2023, unencumbered cash balance of Rs ~150 crore and average bank limit utilisation of 94% in the 12 months through May 2022.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of HSL and its subsidiaries (owned directly or indirectly), Himatsingka Wovens Pvt Ltd, Himatsingka Holdings North America, Inc, and Himatsingka America, Inc. This is because these companies, collectively referred to as the Himatsingka group, have common management and strong operational and financial linkages, with past instances of support.

Also, CRISIL Ratings has restated the increase in valuation of plant, property and equipment by around Rs 240 crore owing to Ind-AS. The acquisition cost of Tommy Hilfiger Home, Copper Fit and brands acquired in May 2018 has also been capitalised and is to be amortised over five years from fiscal 2019.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Healthy market position

The group is among the top five home textile players in India. It has high-end bed sheet manufacturing capacity of 61 million meters per annum (mmpa), terry towel manufacturing capacity of 25,000 tonne per annum, spinning capacity of 211,584

spindles and drapery and upholstery fabric manufacturing capacity of 1.8 mmpa. Foray into the terry towels segment improved diversity and increased revenue by 50% with capacity utilisation of terry towels improving to 69% in fiscal 2022 from 11% in fiscal 2020.

The group has licenses for brands such as Tommy Hilfiger Home, Calvin Klein Home, Disney and Barbara Barry, and caters to the private labels of major retailers. Branded sales contribute more than 75% of overall revenue. In fiscal 2021, the company secured marketing rights for Disney home textile products in Europe, the Middle East and Africa (EMEA) region, helping to increase presence outside the US. Furthermore, the company added clients in both verticals, which should help in moderating client concentration over the long term.

HSL has tied up with Applied DNA Sciences (ADNAS), a leading authentication and supply chain security company, to ensure tagging of all kinds of cotton, including PIMA cotton that is grown in the US. This will ensure that purity of the product can be verified at each point along the supply chain. The group has registered three brands, PimaCott, HomeGrown and Organiccott on this platform. Such initiatives will help drive customer preference and augur well for the business over the medium term.

Strong operating efficiency

Manufacturing capability is complemented by vertical integration into distribution and retail. The distribution business provides significant market reach in the Americas, efficient warehousing infrastructure, global sourcing base and access to large customers such as Costco; Bed, Bath and Beyond; TJ Maxx; and Walmart in the home textiles space. The manufacturing business yields operating margin of 25-30%, while the distribution business fetches margin of 3-4%. Share of manufacturing is increasing, with more than 75% of bedsheet requirement now being procured internally (up from 50% in fiscal 2017). This, along with backward integration into spinning, resulted in increase in operating margin to 16.7% in fiscal 2019 from 10.4% in fiscal 2015. In fiscals 2022 and 2021, the operating margin was impacted owing to the pandemic in the first half of fiscal 2021 and inflation in the second half of fiscal 2022. Lower-than-expected operating margin could delay improvement in the debt protection metrics, and hence, any adverse impact on the operating margin will be a key rating sensitivity factor.

Weaknesses:

Modest financial risk profile

The group's balance sheet is leveraged owing to sizeable capex of Rs 1,950 crore during fiscals 2016-2020 (for expansion of the sheeting capacity and installation of a high-count spinning unit and a terry towel unit), acquisition of brands and higher working capital requirement, resulting in substantial debt. This resulted in lower accretion to networth in the past three years.

Over the medium term, capex is expected to be low and focus will be on ramping up capacity utilisation. Delay in realisation of benefits from the capex, through growth in revenue and operating profitability, will remain key rating sensitivity factors.

Furthermore, operations are working capital intensive, with short-term borrowing remaining large owing to ramp up of utilisation in newly installed capacities, sizeable inventory and high credit. Delay in receipt of subsidies, goods and services tax (GST) refunds and government incentives amounting to Rs ~400 crore have stretched the working capital cycle in the recent past.

Interest coverage and debt to Ebitda ratio are expected below 2.1 times and above 6.8 times, respectively, in fiscal 2023, as against 2.9 times and 5.3 times, respectively, in fiscal 2022 because of low Ebitda and slow reduction in debt. The debt to Ebitda ratio is expected below 4.5 times in fiscal 2024. Delay in recovery in operating performance will remain a key rating sensitivity factor.

Susceptibility to economic downturns

The US accounts for over 70% of the group's turnover, and hence, performance will be susceptible to major slowdown and increase in competition. Also, as the top five customers account for bulk of textile revenue, the group's fortunes are susceptible to sourcing policies. HSL is enhancing its presence in Europe and expects to increase revenue from the region. Nevertheless, while prospects for home textile export are healthy, competition is on the rise, with higher trade incentives offered by competing countries. Operating profitability is partially vulnerable to adverse movements in foreign exchange (forex) rates, with HSL being a net exporter.

Exposure to volatility in cotton prices and forex rates

The operating margin is susceptible to fluctuations in prices of the key raw material, cotton (comprises 50% of the cost of yarn). Cotton prices are volatile as they are sensitive to international demand and supply factors, rainfall and pest attacks. This impacts profitability despite benefits derived from large procurement and adequate risk management systems. Furthermore, HSL is a net exporter and derives nearly 90% of its revenue from export. While it hedges its forex exposure, volatility in the forex rate may impact profitability. Therefore, movement in forex rates and cotton prices will be key monitorables.

Liquidity: Adequate

Cash surplus stood at Rs 150 crore as on March 31, 2022. Bank limit utilisation averaged 94% in the 12 months through May 2022 owing to ramp up of capacity utilisation, delay in release of incentives and subsidies by the government and increasing raw material prices. Expected cash accrual of Rs ~220 crore and Rs ~340 crore in fiscals 2023 and 2024, respectively, will sufficiently cover debt obligation of Rs 160 crore and Rs 300 crore in fiscals 2023 and 2024, respectively. Capex spend is expected to be low at less than Rs 100 crore per annum over the next two fiscals.

Outlook: Negative

CRISIL Ratings believes the Himatsingka group's term debt obligation will remain high in fiscal 2023. Low operating margin will lead to slow reduction in debt. Nonetheless, better utilisation of the terry towel and bed linen capacities, higher operating margin, backward integration from the spinning unit will help to materially improve business performance over the medium term.

Rating Sensitivity factors

Upward factors

- Significant improvement in business performance leading to better cash generation, and recovery in RoCE
- Improvement in debt metrics due to sharp reduction in debt levels; for instance - gross debt to EBITDA of below 4 times on sustained basis

Downward factors

- Weak growth in business levels and operating margins remaining below 10-11%, impacting cash generation
- Lower than anticipated improvement in debt metrics, due to higher than expected debt levels, owing to higher capex or elongation of working capital; for instance Net Debt to EBITDA remaining above 4.5-5 times in fiscal 2024 and beyond

About the Group

The Himatsingka group is a vertically integrated textile major with a global footprint. The group focuses on manufacture, retail and distribution of home textile products. It operates one of the largest capacities in the world for bed and bath products, drape and upholstery fabrics, and fine count cotton yarn. Spread across North America, Europe and Asia, it owns or has licenses for the largest brand portfolios in the home textile space. With over 8,000 people, the group continues to build capacities and enhance reach in the global textile space.

The group reported loss after tax of Rs 55 crore (unadjusted for goodwill) and operating income of Rs 638 crore in the first quarter of fiscal 2023, as against profit after tax of Rs 57 crore (unadjusted for goodwill) on operating income of Rs 815 crore in the first quarter of fiscal 2022.

Key Financial Indicators (Consolidated; CRISIL Ratings-adjusted financials)

Particulars	Unit	2022 (Provisional)	2021
Revenue	Rs crore	3184	2258
Profit After Tax (PAT)	Rs crore	140	-53
PAT margin	%	4.4	-2.4
Adjusted debt/adjusted networkth	Times	3.51	3.76
Interest coverage	Times	2.93	1.56

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Term Loan	NA	NA	Jan-29	147.69	NA	CRISIL BBB+/Negative
NA	Term Loan	NA	NA	Aug-26	57.50	NA	CRISIL BBB+/Negative
NA	Term Loan	NA	NA	Dec-29	111.72	NA	CRISIL BBB+/Negative
NA	Term Loan	NA	NA	Feb-29	48.04	NA	CRISIL BBB+/Negative
NA	Term Loan	NA	NA	Nov-29	50.00	NA	CRISIL BBB+/Negative
NA	Term Loan	NA	NA	Dec-29	40	NA	CRISIL BBB+/Negative
NA	Term Loan	NA	NA	Jan-29	661.29	NA	CRISIL BBB+/Negative
NA	Term Loan	NA	NA	Jul-29	99.13	NA	CRISIL BBB+/Negative
NA	Term Loan	NA	NA	Oct-28	40.00	NA	CRISIL BBB+/Negative
NA	Term Loan	NA	NA	Sep-28	48.00	NA	CRISIL BBB+/Negative
NA	Term Loan	NA	NA	Oct-26	40.00	NA	CRISIL BBB+/Negative
NA	Term Loan	NA	NA	Feb-27	110.00	NA	CRISIL

NA	Proposed Term Loan	NA	NA	NA	211.13	NA	BBB+/Negative
							CRISIL BBB+/Negative
NA	Working Capital Facility	NA	NA	NA	976.00	NA	CRISIL A2
NA	Bank Guarantee	NA	NA	NA	5.50	NA	CRISIL A2
NA	Letter of Credit	NA	NA	NA	205.00	NA	CRISIL A2
NA	Packing Credit#	NA	NA	NA	432.00	NA	CRISIL A2
NA	Proposed Working Capital Facility	NA	NA	NA	100.00	NA	CRISIL BBB+/Negative

#Interchangeable with bills discounting

Annexure - List of Entities Consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Himatsingka Wovens Pvt Ltd	Full consolidation	Subsidiary
Himatsingka Holdings North America, Inc	Full consolidation	Subsidiary
Himatsingka America, Inc	Full consolidation	Step down subsidiary

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	3172.5	CRISIL BBB+/Negative / CRISIL A2		--	04-08-21	CRISIL A2+ / CRISIL A-/Negative	27-03-20	CRISIL A2+ / CRISIL A-/Negative	31-10-19	CRISIL A/Negative / CRISIL A1	CRISIL A/Negative / CRISIL A1
			--		--	13-05-21	CRISIL A2+ / CRISIL A-/Negative		--	30-07-19	CRISIL A/Negative / CRISIL A1	--
			--		--		--		--	26-06-19	CRISIL A/Negative / CRISIL A1	--
			--		--		--		--	28-03-19	CRISIL A/Negative / CRISIL A1	--
			--		--		--		--	15-01-19	CRISIL A/Negative / CRISIL A1	--
Non-Fund Based Facilities	ST	210.5	CRISIL A2		--	04-08-21	CRISIL A2+	27-03-20	CRISIL A2+	31-10-19	CRISIL A1	CRISIL A1
			--		--	13-05-21	CRISIL A2+		--	30-07-19	CRISIL A1	--
			--		--		--		--	26-06-19	CRISIL A1	--
			--		--		--		--	28-03-19	CRISIL A1	--
			--		--		--		--	15-01-19	CRISIL A1	--
Non Convertible Debentures	LT		--		--		--		--		--	Withdrawn

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	5.5	Canara Bank	CRISIL A2
Letter of Credit	180	Canara Bank	CRISIL A2
Letter of Credit	25	IndusInd Bank Limited	CRISIL A2
Packing Credit#	234	Canara Bank	CRISIL A2
Packing Credit#	53	DCB Bank Limited	CRISIL A2
Packing Credit#	45	Doha Bank	CRISIL A2
Packing Credit#	50	IndusInd Bank Limited	CRISIL A2

Packing Credit#	50	YES Bank Limited	CRISIL A2
Proposed Term Loan	211.13	State Bank of India	CRISIL BBB+/Negative
Proposed Working Capital Facility	100	Not Applicable	CRISIL BBB+/Negative
Term Loan	160	Exim Bank	CRISIL BBB+/Negative
Term Loan	48.04	Bank of India	CRISIL BBB+/Negative
Term Loan	147.69	Canara Bank	CRISIL BBB+/Negative
Term Loan	501.29	Exim Bank	CRISIL BBB+/Negative
Term Loan	111.72	IndusInd Bank Limited	CRISIL BBB+/Negative
Term Loan	57.5	YES Bank Limited	CRISIL BBB+/Negative
Term Loan	37.7	Axis Finance Limited	CRISIL BBB+/Negative
Term Loan	40	Tata Capital Financial Services Limited	CRISIL BBB+/Negative
Term Loan	110	Housing Development Finance Corporation Limited	CRISIL BBB+/Negative
Term Loan	50	Bank of Maharashtra	CRISIL BBB+/Negative
Term Loan	99.13	HDFC Bank Limited	CRISIL BBB+/Negative
Term Loan	40	Aditya Birla Finance Limited	CRISIL BBB+/Negative
Term Loan	10.3	Axis Finance Limited	CRISIL BBB+/Negative
Term Loan	40	State Bank of India	CRISIL BBB+/Negative
Working Capital Facility	181	Axis Bank Limited	CRISIL A2
Working Capital Facility	145	Bank of India	CRISIL A2
Working Capital Facility	110	Kotak Mahindra Bank Limited	CRISIL A2
Working Capital Facility	100	Bank of Maharashtra	CRISIL A2
Working Capital Facility	100	HDFC Bank Limited	CRISIL A2
Working Capital Facility	100	The Karur Vysya Bank Limited	CRISIL A2
Working Capital Facility	150	State Bank of India	CRISIL A2
Working Capital Facility	40	Bank of Bahrain and Kuwait B.S.C.	CRISIL A2
Working Capital Facility	50	IDBI Bank Limited	CRISIL A2

This Annexure has been updated on 22-Aug-2022 in line with the lender-wise facility details as on 22-Aug-2022 received from the rated entity

#Interchangeable with bills discounting

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Cotton Textile Industry
CRISILs Criteria for Consolidation

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