



Himatsingka Seide Limited

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Q4 FY 2017 Results Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Himatsingka Seide Limited Q4 FY2017 Earning Conference Call, hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Prerna Jhunjhunwala from Batlivala & Karani Securities India Private Limited. Thank you and over to you Madam!

Prerna Jhunjhunwala: Thank you Janice. Good evening everyone. On behalf of Batlivala & Karani Securities, I would like to welcome you all for Q4 FY2017 result conference call of Himatsingka Seide Limited. From the Company, we have with us the senior management including Mr. Shrikant Himatsingka, Managing Director and the CEO of the Company, Mr. Gupta, VP Finance, Mr. Ashok Sharma, VP Treasury, Taxation and Company Secretary and Mr. Sachin Garg, Associate Vice President, Treasury and Investor Relations. I would now like to handover the call to Mr. Shrikant Himatsingka for opening remarks. Thank you Sir and over to you!

Shrikant Himatsingka: Good evening everyone. Thank you for taking the time as always. We will go through the consolidated operating performance and then we will go through some other chapters as well.

On the consolidated revenue front, we came in at Rs.2138.41 Crores versus Rs.1891.31 Crores during FY2016. We saw good organic revenue movement of 13.1%. The consolidated EBITDA for FY2017 came in at Rs.390.89 Crores versus Rs.314.04 Crores during FY2016. The EBITDA including other income margins stood at 18.3% for FY2017 versus 16.6% for the previous year.

Consolidated EBIT for FY2017 grew 34.5% to Rs.232.88 Crores versus Rs.247.52 Crores during FY2016. The EBIT margin consequently stood at 15.6% versus 13.1% during the last year. The interest and finance charges for FY2017 increased marginally to Rs.93.53 Crores versus Rs.93.31 Crores during the previous year. It may be noted that per Ind-AS 23 erstwhile AS-16, there is a regroup in foreign exchange losses from other expenses to interest and finance charges to the extent of Rs.11.98 Crores in FY2016 whereas the same is nil in FY2017.

The PBT on a consolidated basis for FY2017 was up 55.3% and stood at Rs. 239.35 Crores versus Rs.154.11 Crores during FY2016. Consequently the profit after tax for FY2017 stood at Rs.182.10 Crores versus Rs.125.26 Crores during the previous year, so our growth of 45.4% for FY2017.

Just a look at the manufacturing activities for FY2017, revenues from manufacturing operations grew 36.6% to Rs.1398.07 Crores versus Rs. 1023.80 Crores during FY2016. EBITDA from manufacturing activities including other income stood at Rs.351.76 Crores versus Rs.284 Crores during the previous year and therefore witnessed a growth of 23.9%.

EBITDA from manufacturing activities stood range bound and came in at 25.2% versus 27.7% during the previous year. It is to be noted that the Company commenced commercial operations of its new sheeting facility during the month of October 2016. On the global retail and distribution front, total revenues from the retail and distribution divisions stood at Rs.1825 Crores versus Rs.1684.6 Crores during the previous year. EBITDA came in range bound at Rs.61.06 Crores versus Rs.61.21 Crores during the previous year. So the EBITDA percentage, the EBITDA margin from retail and distribution divisions came in at 3.3% versus 3.6% during the previous year.

Taking up closer look at the quarterly numbers on a consolidated basis, the revenues jump up 30% and stood at Rs.584.27 Crores versus Rs.449.55 Crores during the last year. Consolidated EBITDA grew 16.5% to Rs.101.32 Crores versus Rs.86.99 Crores during the previous year. EBITDA margin including other income stood at 17.3% during the quarter versus 19.4% in the corresponding period of the previous year. Please note this YOY movement is influenced by Ind AS 23 standard that we report too earlier and will be happy to explain it later.

The consolidated EBIT for Q4FY2017 stood at Rs.85.68 Crores versus Rs.71.61 Crores, a growth of 19.6% over the previous year. The EBIT margin was range bound and stood at 14.7% versus 15.9% during the previous year. The interest and finance charges for the quarter decreased to Rs.22.86 Crores versus Rs.28.11 Crores in the corresponding quarter of the previous year. It may be noted that as per Ind-AS 23, there is a regrouping of foreign exchange losses from other expenses to interest and finance charges to the extent of Rs.4.39 Crores in Q4 FY2016 whereas the same is the negative Rs.5.21 Crores in Q4 FY2017. Consequently, there is a movement of interest by approximately Rs.9.6 Crores Y-on-Y.

The PBT for Q4, the consolidated profit before tax for Q4 was up 44.4% to Rs.62.82 Crores versus Rs.43.5 Crores, a growth of 44.4%. The PAT came in at Rs.45.58 Crores versus Rs.36.09 Crores during the previous year, a growth of 25.3%.

Revenues from manufacturing operations during the quarter grew 60.7% to Rs.405.55 Crores versus Rs.252.3 Crores during Q4 of FY2016. The EBITDA including other income from manufacturing operations increased 21.3% to Rs.93.87 Crores versus the Rs.77.13 Crores that we clocked during the previous year.

The EBITDA including other income margin stood at 23.1% versus 30.6% during the corresponding period of a previous year, again influenced by the Ind AS-23 movement.

The total revenues from the retail and distribution divisions for the current quarter stood at Rs.486 Crores versus Rs.397 Crores during the corresponding quarter of the previous year, a growth of 22.6%.

The EBITDA from the retail and distribution divisions decreased during the quarter and stood at Rs.11.22 Crores versus Rs.22.35 Crores in the corresponding quarter of the previous year. So we have seen sharp degrowth on the EBTIDA front, which we will be happy to explain as we go

along as far as the retail and distribution divisions are concerned. The consolidated EBITDA margin stood at 2.3% for the quarter versus 5.6% during the previous year.

The total tax provision for FY2017 stood at Rs.57.25 Crores as against an amount of Rs.28.85 Crores for the previous year and the tax provision for the quarter came in at Rs.17.34 Crores as against an amount of Rs.7.41 Crores being the provision for the corresponding quarter of the previous year.

On the consolidated debt front, the consolidated gross debt as of March 31, 2017 stood at Rs.1364 Crores of which Rs.810 Crores was term debt and Rs.554 Crores was in capital debt. The cash and cash equivalence stood at Rs.203.6 Crores as on March 31, 2017 as against Rs.122 Crores during the same period last year. The net debt as on March 31, 2017 stood at Rs.1161 Crores as against Rs.886 Crores during the year ended March 2016.

The movement in debt is primarily because of two reasons; a) as you know we are undergoing our expansion program and therefore term debt is being taken on that front and b) our manufacturing divisions and retail and distribution divisions have seen revenue growth, so there is some working capital movement on that front.

On the leverage ratios, the debt service coverage ratio for FY2017 came in at 2.09 times as against 1.89 times for FY2016. The interest service coverage ratio stood at 3.56 times versus 2.8 times for FY2016. The net debt to equity stood at 1.09 versus 0.84 for FY2016. The net debt to EBITDA net of project spends stood at 2.58 times versus 2.65 times during FY2016.

The return on capital employed for FY2017 came in at 15.4% as compared to 13.8% for FY2016, please note that this previous year numbers have been Ind-AS adjusted. The return on equity stood at 17.1% compared to 16.9% for FY2016.

Just a few thoughts and points to share on the business update front. So I would like to once again share with everybody that during the year the company completed the Brownfield expansion of sheeting plant and commenced commercial production of the expanded capacity during October 2016. The capacity of the sheeting plant was enhanced from 23 MMPA to 46 MMPA, MMPA being million meters per annum.

Also as communicated earlier, the company has commenced construction of its spinning facility at Hassan and it is on schedule to commence production during Q3 FY2018. I would also like to share that we had earlier communicated with our stakeholders on our focus on building our brands portfolio globally and we were looking at touching revenues of approximately Rs.1200 Crores for FY2018.

I am happy to inform that branded revenues have crossed Rs. 1000 Crores mark for FY2017 and stood at approximately Rs.1200 Crores in FY2017 itself. I guess this would be the end of our business update, we will be happy to take questions. Over to you!

- Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** Good evening and first of all congratulation on these great set of numbers. Starting off with manufacturing division, can you tell us what was the utilization of the bed sheeting capacity may be spread including what was the utilization of the new unit in this quarter and for the year as a whole?
- Shrikant Himatsingka:** We do not normally share utilization numbers. What I did indicate prior to commissioning of the plant was that we are confident of looking at placing 40% to 50% of incremental capacities that were commissioned in October 2016. So the last two quarters saw approximately 40% odd being placed and I think we would like to move that up or not going into FY2018, so I think that number should see you know we would like to move it to the close to 60% marked as we go along into FY2018.
- Nihal Jham:** Sure and on the retail and distribution front, any reasons why our margins have fallen this quarter, I am guessing that it is on a sequential basis I think it is correct?
- Shrikant Himatsingka:** It is fair question. We actually have portfolio of close to 12 brands and we have decided to focus more on our larger international brands portfolio rather than the smaller regional brands. So we have sort of looked at exiting some of the smaller brand portfolios in order to consolidate our national brands portfolio. For example, Calvin Klein, Kate Spade, our new cotton platform, Pimacott, our Italian brands etc., Barbara Barry, these would be brands that we sort of focus on more and some of the regional brands that we were experimenting with to see how they track we wanted to exit, so we have taken some of those hits during Q4.
- Nihal Jham:** I think you have 12 brands, have you exited any brands as you speak by the end of this year?
- Shrikant Himatsingka:** Say that again please?
- Nihal Jham:** I would say that if I remember either we have around 12 brands as of now and what is the count as of now how many brands have you exited in this last quarter and this year?
- Shrikant Himatsingka:** Of the 12 brands, there were a larger brands and then there was a smaller regional brands or slash brands that were still small in size, so I think going forward we would like to really drive focus on the five to seven larger brands in the group and sort of look at either exiting and/or seriously limiting the other smaller brands that we have, because even the traction that we saw in FY2017 on branded revenues came primarily from our larger brands portfolio.
- Nihal Jham:** Fair enough. Just one last question on this that the margins have basically fallen because in some restructuring charges in relation to exiting some of these brands?
- Shrikant Himatsingka:** I would not say restructuring charges, we know we have exited some inventories of the smaller brands and things like that, so we have done that because we had good set of numbers and I think

we focus on the larger brands will actually auger well for retail and distribution divisions going into FY2018.

Nihal Jham: Absolutely. Thank you so much Sir. I will get back in the queue.

Moderator: Thank you. Next question is from the line of Prerna Jhunjhunwala. Over to you!

Prerna Jhunjhunwala: Congratulations Sir on a great set of numbers. Could you please give us a more clarity on Ind AS-23 standard that you are talking in your opening remarks?

Shrikant Himatsingka: We will be happy to take that offline. Please get in touch with Mr. Gupta and we will be happy to explain the same of Mr. Sachin, he will put you onto Mr. Gupta.

Prerna Jhunjhunwala: My next question would be on retail business. The retail and distribution business, we have achieved a target well in advance, so now how do we look forward to this business with respect to revenue as well as profitability?

Shrikant Himatsingka: I think we will continue to focus on consolidating our brands portfolio. As the gentleman just asked the earlier question, I was talking about the fact that we will focus on our larger brands. We see a lot of potential there. So we are going to be doing that, so we will hopefully look at organic growth on our retail and distribution front in FY2018. We will continue to focus on driving EBITDA margins for the retail and distribution businesses as well. I have said in the past and continued to believe that the right margin profile for EBITDA for the retail and distribution division should be in the region of 5% odd depending on the mix and time of year. So we have some distance to go and that is where we will be focused as far as retail and distribution is concerned and of course on the manufacturing front, we have three point agenda going into FY2018, a) We will look at sweating our capacities of the new sheeting plant that we have just commissioned in October 2016, b) we will look at bringing on stream our spinning capacities, this will be the world's largest spinning plant under one roof and we are looking forward to commissioning this plant. As of today we seem to be on schedule for Q3 FY2018 production schedule and the third thing we will focus on is commencing construction of our terry towels project as stated earlier, we wanted to put our three projects put them up in a phased manner over three years and so we will be doing exactly that.

Prerna Jhunjhunwala: Okay, I would just like to understand the demand per se in the light of currency appreciation and volatile raw material prices, so how do we see demand going forward and how are we tackling it?

Shrikant Himatsingka: I do not think, this is going to be material impact on demand given the currency movement. So I do not think the two will be linked at this point and as far as cotton prices are concerned, thankfully we had our revenue visibility and we took steps on the cotton front as well. So we do not see a great deal of impact coming through from the raw material inflation side. Yes, there might be some impact, which will be difficult to pinpoint, but I do not think it is going to be materially influencing our numbers.

Prerna Jhunjhunwala: Thank you. I will get back in queue if any further questions are there.

Moderator: Thank you. We will take the next question from the line of Shraddha Agarwal from Asian Market Securities. Please go ahead.

Shraddha Agarwal: Good afternoon management team and congrats on a good set of numbers. For the retail and distribution business, you highlighted that you have exited out of some regional smaller brands, but if I recall right I mean two years back also we had top rate of similar strategy wherein we wanted to stay put with larger brands, so this time around again we have been talking of a similar thing which we have done, so where did we deviate from earlier policy of just taking to larger brand in the last 12 months?

Shrikant Himatsingka: I do not recall making statements earlier. Madam, we had portfolio of approximately 12 brands. I have made a statement earlier or rather the company had made a statement earlier that we are sort of exiting micro clients, not micro brands and therefore these are two mutually exclusive eventualities. So the smaller brands in our portfolio where we looked at experimenting with them and seeing how we can bring them to pace while we have met with success on some fronts, we think that the traction, the larger brands are seeing is very interesting and we would like to focus more on that. Hence we move to look at exiting some of our smaller brand portfolios, which I said, will probably auger well for the margin profile for the retail and distribution division given the cost associated with the small brands.

Shraddha Agarwal: Secondly, we had also talked about moving to other markets like South East Asia market then probably and New Zealand and Australia, the other markets to penetrate into the retail and distribution business is there, so how successful have we been to incrementally gain access into new accounts?

Shrikant Himatsingka: Again Madam I think we have not made any statements of venturing into New Zealand and other such markets while they are interesting markets, they are not our focus areas at this point, but what we have done is we have tried to intensify our focus on the European markets, we have formed the new subsidiary during the year, Himatsingka Europe Limited and Himatsingka Europe will be our European distribution vehicle. It will also have the Giuseppe Bellora subsidiary under it and we will look to see how we can scale our European business in the times to come, because we would like Continental Europe to contribute a larger percentage vis-à-vis revenues. I think South East Asian markets like ones you spoke about would not be on our radar at this point. We would be more focused on continental Europe and may be some part of Asia.

Shraddha Agarwal: Secondly on, in the light of current rupee appreciation, so where do we see margins headed I mean how will we tackle this current rupee appreciation?

Shrikant Himatsingka: I think the current rupee appreciation will obviously prima facie will impact on any export led division, but having said that the group as plain vanilla forward contract that it takes given its order books and we seem to be fairly well covered for FY2018, so the current volatility that we have witnessed in the last 10 weeks or so will not materially impact us going into FY2018.

Shraddha Agarwal: Could you tell us as to for how many months do we generally take out forward for?

- Shrikant Himatsingka:** We will be happy to take you that offline, but our policies are 12 months, it is in our order books.
- Shraddha Agarwal:** Last question, just at there was mention of Mr. Aditya Himatsingka stepping down from the board, so what did your comments on the same?
- Shrikant Himatsingka:** I have no comments on that matter Madam. In fact there were two resignations from the board in the ordinary course. One was Mr. Berjis Desai and one was of Mr. Aditya Himatsingka.
- Shraddha Agarwal:** That is really helpful. Thank you.
- Moderator:** Thank you. We will take the next question from the line Giriraj Daga from KM Vesaria Family Trust. Please go ahead.
- Giriraj Daga:** Couple of questions. What is the capex for the Brownfield sheet expansion being incurred?
- Shrikant Himatsingka:** As discussed earlier, we did not really share specific breakups given the fact that there were several shared assets and so on, so specific breakups of the projects vis-à-vis capex were not shared between, so the total outlay was approximately Rs.1300 Crores of which we said approximately over Rs.200 Crores will be for the sheeting plant and that is what we expect.
- Giriraj Daga:** Over Rs.200 Crores sheeting plant that should be assumed for spinning?
- Shrikant Himatsingka:** No, terry towels.
- Giriraj Daga:** So would you be able to give me the number of spinning how much we are looking to spend for this spinning for that?
- Shrikant Himatsingka:** We said approximately over Rs.600 Crores.
- Giriraj Daga:** So just to understand a bit more in detail last year if I look at annual report, we had shown about sheet revenue, sheet set of about Rs.1800 Crores kind of revenue and since we have doubled our capacity, should you assume that once we reach the utilization, the revenue number will double itself, there is a right thought process?
- Shrikant Himatsingka:** Sorry, should you assume what?
- Giriraj Daga:** Like last year the revenue was Rs.800 Crores there, so now we have doubled our capacity from 23 to 46 sheets of capacity, so the revenue also, the utilization be double up depending on the cotton prices.
- Shrikant Himatsingka:** That is a fair assumption.
- Giriraj Daga:** Second is that how much we are backward integrated, so as of now and once this spinning projects come will we have excess capacity to sell in the open market in the raw material side?

Shrikant Himatsingka: We will not have excess capacity in spinning to sell on the open markets. We believe just under 50% of our requirements is what this plant could be able to cater to and therefore it will not have any spare capacities to sell outside, and of course this percentage might shrink as sheeting scales its placement and therefore as soon as the new spinning plant goes on stream, our efforts will be to optimize our efficiencies because there is no question of any marketing and/or sales activities to be done for spinning as it look from day one.

Giriraj Daga: Are we getting anything from the captive?

Shrikant Himatsingka: As of now we are not because we do not have cotton spinning and as I said earlier, the plan in advanced stages of construction and we are looking to be on schedule for Q3 FY2018.

Giriraj Daga: I have joined the call for the first time so I just wanted to understand you must have answered in the earlier calls, why we have this kind of corporate structure where we keep the retail and distribution in subsidiary structure and show the internominee sales like any particular reason for this kind of structure and may be some point of time we might look to consolidate everything and merge into the company?

Shrikant Himatsingka: The structure is this way because that is how we evolved and also because we are in other jurisdiction, so it cannot be part of the same entity, but we have tried to keep the structure very simple and straightforward.

Giriraj Daga: Okay, because what I understand is the manufacturing is in one side and the retail and distribution you have got in a subsidiary with this mainly the foreign subsidiary so that is the structure we have kept so far. My one question on the capital employed, if I look at last year annual report we have given capital employed of revenue as well as capital employed of region wise also and majority of revenue comes from US, but when I look at capital employed, we have significant amount of Rs.1000 Crores capital employed in Europe also.

Shrikant Himatsingka: Please come back with these clarifications offline. We will be happy to clarify this, because these numbers seen erroneous to us Rs.1000 Crores cannot be deployed in Europe, there seems to be something wrong in the numbers you are seeing, we will be happy to clarify for yourself.

Giriraj Daga: Thank you. That is it from my side.

Moderator: Thank you. We will take the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Just on the cotton or cotton front, I am assuming that the way cotton has gone up and we would have seen an increase in yarn prices, so going forward do we expect that to impact our margins or how do you think that will play out in the coming year?

Shrikant Himatsingka: As I said, these cotton price movements have definitely taken place to a limited degree, we will also be impacted and I use the word limited is because we had a reasonable amount of revenue visibility and so we have sort of taken us cover on the kinds of cotton that we use and therefore

we do not see at this point significant impact on our financial for FY2018 as far as cotton is concerned.

Nihal Jham: We are hedged on the raw material front also?

Shrikant Himatsingka: Yes, we have sort of covered our raw material procurements. It is not hedging strictly speaking. We are just covering our position.

Nihal Jham: That is it from my side. Thank you so much.

Moderator: Thank you. We will take the next question from the line of Resham Jain from DSP Blackrock. Please go ahead.

Resham Jain: Good afternoon Sir. Sir, just one question on brand business. So typically in India we see that let us say a brand in India, which is placed in any of the retail chains, the pricing of the brand is done by the brand owner. So in US is it similar for all your five six brands?

Shrikant Himatsingka: No, in US I would say it is a collaborative effort in decision making vis-à-vis deriving price points. So if the brand owner has credible intellectual property and the retailer seems to be having traction vis-à-vis that brand, then I would say there is reasonable influence on pricing that is available to the brand. So, if I take our larger brands, we enjoy a reasonable influence on pricing, but as I have said earlier, this industry does not see pricing change very often and if there are organic movements on the raw material front or other fronts from time-to-time it does not necessarily change pricing. So while we have reasonable influence on pricing along with our clients it is a joint exercise to determine these prices and these prices do not change because of some organic movements on the cost front.

Resham Jain: Sir out of our 1,200 Crores of brand portfolio how much of the portfolio we may have some influence in terms of pricing?

Shrikant Himatsingka: That is difficult to quantify Resham, but as I said this primarily most of the branded revenues are coming through from our larger brands and our larger brands we share reasonable influence on making joint decisions on pricing, but given the nature of the market, while you have this sort of influence on pricing, you necessarily do not exercise because of organic movements on the cost front. So, I would say that the large portion of the portfolio enjoys that.

Resham Jain: Sir, if you can just give this Q4 one time inventory hit while exiting the smaller brands what would be that amount, just to get a sense that on a normalized basis are the numbers?

Shrikant Himatsingka: On a normalized basis the quarter would have clocked similar to what it did YOY had it not been for this.

Resham Jain: 11 Crores EBITDA losses?

Shrikant Himatsingka: Not all of it is attributable to this issue, but a substantial portion is, yes. We just thought it is

prudent to move on with it.

Resham Jain: Sir, one more question on inventory. We have seen the overall revenue grew by around 250-odd Crores on a consolidated basis while the inventory has gone by almost 170 Crores. So just wanted to understand is it to do with something to do for the next year you have built up inventory or something?

Shrikant Himatsingka: Good question. So yes some of that is in preparation for some of the launches that we have carried through this year in the latter half of this year and in order to service these launches appropriately we would have to have some inventory, but I would also see some of that ease off. So again it is difficult to quantify, but there are two things happening, a preparation to service some of the launches that we have carried through and some inventories of previous product lines still to get of the balance sheet. So, I would say net-net we would also see some correction, broadly speaking. Plus we have also seen manufacturing growth come through so there the working capital pull on the manufacturing front, 36.6% growth on manufacturing will see some work-in-capital pull as well. I would say that it is difficult to predict. Sometimes we have timing differences, we have lumpy launches, etc., but this number would be probably range bound, we might see some corrections as I said because some inventory has to go out the balance sheet given the fact that they have lived shelf life but we never know we might see some incremental launches, we might see thing so it is difficult to predict this number.

Resham Jain: Sir last question, before this sheeting plant, if I am correct, you were sourcing or you were selling roughly around 38 to 39 million meters in your retail and distribution put together and 21, 22 was coming from the manufacturing division. So the plan was that once this 23 million meters will come on stream some of those capacities will be used to service the existing retail and distribution segment. So in terms of outsourcing of sheeting sales in retail and distribution if you can just tell us in percentage terms how much of it you will be outsourcing?

Shrikant Himatsingka: I would say that first of all fair question. The integration portion which I would define as the quantum the group sources from within its own facilities if prior to the expansion of sheeting's to that in the region of 50% we were ideally looking at enhancing the integration portion to approximately 70% or thereabouts. So we are on track for that and the rest of the 25% or may be a little less than that would continue to be outsourced either most because we do not currently make such products or we do not plan to make such projects. But for example, Resham, as I have shared earlier with investors, the group's brands, already higher are of bath portfolio and currently the group does not make bath products, so for example we will continue to outsource till we make bath products, but the integration portion should enhance from 50%-odd or that range to around 75% and we are on course for that.

Resham Jain: Thank you Sir. Best of luck.

Moderator: Thank you. The next question is from the line of Hem Agarwal an individual investor. Please go ahead.

- Hem Agarwal:** Sir great to see the expansion plans coming to fruition. I have a couple of question, once the terry towel construction will begin in the latter part of this year, how much time will it take before production begins Sir?
- Shrikant Himatsingka:** I said that we look forward to beginning or commencing the construction of terry towels during FY2018. When in FY2018 is something that we are yet to announce, so we will come back to you on that. It may be in the latter part of the fiscal or earlier, but we will come back on that. As far as the longevity of execution of such projects is concerned, a 14-month time period for a project of that kind is a good estimate.
- Hem Agarwal:** All right Sir. The tax expense came at 27% this year versus 19% last year. What would be the visibility for next year in terms of the tax rate?
- Shrikant Himatsingka:** We expect our effective tax rate to climb to the region of 31%.
- Hem Agarwal:** Lastly, just a comment the EPS is going up, revenue is going up, but the dividend payout is still very small percentage Sir. You know 10 years ago Himatsingka used to be one of the very large dividend distributors in the industry. When do we see this changing Sir?
- Shrikant Himatsingka:** I cannot specifically comment on and I take your point but the company and board in its wisdom thought that we are currently in a capex cycle and it felt that the dividend that it has declared is prudent under the circumstances, so should we change our opinion we will definitely come forth, but for now we think that what we have done is reasonable.
- Hem Agarwal:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Vikas Agarwal.
- Vikas Agarwal:** Good evening Sir. Congratulations on a fantastic set of numbers. I had a one small question not related to numbers, but definitely relating to the business. Mr. A.K. Himatsingka had stepped down last year in May and this year Mr. Aditya Himatsingka had stepped down. My query is because Mr. Aditya Himatsingka was not only an Executive Director, he was also from the promotor group. Any background or anything that we should know about it more than what is there?
- Shrikant Himatsingka:** Nothing to communicate at this point, Vikas. Mr. A.K. Himatsingka stepped down some time ago on grounds of age, and Mr. Aditya Himatsingka has stepped down recently as one of the participants asked me earlier the same question. There is no specific communication on this effect. He wanted to consider stepping down and therefore has stepped down from executive responsibilities and roles in the company.
- Vikas Agarwal:** Another thing, there is no time as such, but I was just looking at the stock exchange declaration. The Board meeting got concluded only at 4 o'clock in the morning.
- Shrikant Himatsingka:** Yes, it got pulled a little late. We started a little late and got pulled a little. So to be quite honest I

am a little sleepy.

Vikas Agarwal: Thank you so much.

Moderator: Thank you. We will take the next question from the line of Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Thanks Sir for taking my question. My question pertains to more from the industry perspective. The rupee has witnessed appreciation and on the another side the Chinese Yuan has depreciated vis-à-vis US Dollar. So how do we see the impact of the same in terms of India's competitiveness vis-à-vis China in the home textile specifically in the bedding segment because India has gained market share in the past four to five years and currency was one of the major factors?

Shrikant Himatsingka: I do not think the current movements will materially change India's stance vis-à-vis home textiles or its underlying competitiveness. It will definitely have some impact from short-term pricing implications, etc., but I do not see it becoming a macro issue vis-à-vis our competitiveness in home textiles and as far as Himatsingka is concerned, I explained you earlier saying that we followed a very simple foreign exchange hedging policy wherein we look at 12 month rotating cycle given our order book so at this point we do not see more recent volatility on the Rupee front materially impacting our operating performance for FY2018, but never say never. If we do see some material movements vis-à-vis Himatsingka coming on the FX front, we will definitely communicate that with the investors.

Pankaj Kumar: Sir, the other question was more on this like the political scenario in the US and the protective policy that they have on the sourcing part. So how do we see that any risk that you have seen on that front in terms of sourcing to the locals or something that you are seeing?

Shrikant Himatsingka: There is a lot of dialogue that has been going on various subjects ranging from border tax to other protective measures. We have no specific information on the implementation of any specific measure vis-à-vis our industry though we remain concerned on this front, yes to some extent, we are concerned, but we do not see any precipitating measures that are being taken at this point.

Pankaj Kumar: Thank you Sir for taking my questions.

Moderator: Thank you. We will take next question from the line of Srinath M from Motilal Oswal Securities Limited. Please go ahead.

Srinath M: Good evening everybody. Just one or two questions mainly on the working capital side. Would you have off hand the traded goods stock as of March 31, 2017?

Shrikant Himatsingka: No we would not.

Srinath M: Let us refer to the March 31, 2016 number that is about 390 Crores as per the annual report and it was 385 Crores the previous year. So one risk we have seen in some textile companies earlier is the massive write down of inventory so you also kind of indicated in a previous question that

may be there will be some write down of inventory of unsold inventory or whatever. So can you confirm that it would not be significant enough to effect profitability?

Shrikant Himatsingka: I absolutely can. We do not see any material impact from inventory write downs. What I had referred to earlier was the limited write downs that we incurred in some of our small brand portfolios. It has nothing to do with this quantum of inventory that you are referring.

Srinath M: But still this seems a bit too high, any reasons?

Shrikant Himatsingka: I would be happy to take this offline because I am not quite sure where you are getting these numbers from.

Srinath M: This is on page 126 of the FY2016 annual report.

Shrikant Himatsingka: We will be happy to take this offline. The inventories we keep to service our clients. We do not see any inherent risk in doing so other than ordinary course movements and/or write downs and/or obsolescence that the industry witnesses in this ordinary cause of the life. We sometime tend to become a little heavy on inventory as the participant asked me earlier the reasons are typically building inventories around launches and things like that because product launches can be fairly significant.

Srinath M: Yes because in terms of number of days it is almost 120. That is four months of inventory.

Shrikant Himatsingka: That is right.

Srinath M: So it could be a cause of concern for somebody outside the company?

Shrikant Himatsingka: Yes, but on a consolidated basis given the nature on the industry it is not materially off what we would consider normal.

Srinath M: In contrast, we have very low number of debtor days selling to large names like Wal-Marts and the J.C. Penney's we would expect debtors to be higher than inventory but here it is the reverse. So is it that we engage in some factoring and discounting of debtors is it what you think?

Shrikant Himatsingka: That is true. We do not take risk on our receivables in those jurisdictions.

Srinath M: Sorry can you repeat?

Shrikant Himatsingka: We do not take risk on our receivables. They are non-recourse factoring.

Srinath M: Those are the two questions. Thank you.

Moderator: Thank you. We will take the next question from the line of Resham Jain from DSP Blackrock. Please go ahead.

- Resham Jain:** Sir now we have reached close to 1,200 Crores of branded portfolio. What is the kind of growth that we can look in this business say for the next three to four years over a longer period? What is the plan?
- Shrikant Himatsingka:** I guess a good measure for what we intent to do. As you know we would not share specific numbers on growth rates, but we have just commissioned our new sheeting capacities so we would like to take it to full utilization. So that will be our motto clearly. So we would definitely like to take those capacities and leverage our portfolios of brands and replace both capacities. We would also be happy to use private label platforms to place these capacities. So either which way we would like to a) place these capacities, so brands would ride piggy bank on that as well and b) we would like to grow them anyhow even in other genres like bath for which we are putting up a terry plant. So I think we will continue to want to grow organically with the portfolio that we have if that answers your question broadly?
- Resham Jain:** Yes, so what I wanted to further ask on this is let us say currently you have brand placed in US, Canada and I think a portion of South America also and your European brand has now been placed in US so eventually would you like to take this brands. I do not know how the license agreement is, but can you take these brands globally as well?
- Shrikant Himatsingka:** Some of our brands, some of our large brands are brands we can take to other geographies and we will be in dialogue to take these to other geographies because it is possible so that is a pertinent point, and you are right we will be doing that or considering at that level.
- Resham Jain:** Like for example CK is a well-known brand and I do not know whether that you can do it in other geographies like Europe?
- Shrikant Himatsingka:** Well I cannot comment on any brand where our arrangements with the brands specifically largely speaking, our large brands portfolio will have flexibility and we will leverage that.
- Resham Jain:** Thank you Sir.
- Moderator:** Thank you. Well that was the last question. I now hand the conference over to the management for their closing comments.
- Shrikant Himatsingka:** Well, I thank you all very much for taking the time to join us on this call. We apologize if we have not been able to answer some of your questions more specifically on the call. Do reach out to us. You have our contacts, etc., and we will be happy to clarify any questions that you might have to the best of our ability. Thank you again. Look forward to chatting with you all soon. Bye.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Batlivala & Karani Securities India Private Limited we conclude today's conference. Thank you for joining. You may now disconnect your lines.