Himatsingka Seide

Quarter four and annual financial results–FY08
June 30, 2008

Moderator: Good evening ladies and gentlemen. I am Rita, the moderator for this conference. Welcome to the Himatsingka Seide conference call hosted by Edelweiss Securities. For the duration of the presentation, all participants' lines will be in a listen-only mode. I will be standing by for the question and answer session. I would now like to hand over the floor to Mr. Sandeep Raina from Edelweiss Securities. Thank you and over to you sir.

Mr. Sandeep Raina: Thank you Rita. Good evening friends. On behalf of Edelweiss Securities, I welcome you to the conference call of Himatsingka Seide. We have with us Mr. Shrikant Himatsingka, Executive Director, Mr. K. P. Pradeep, CFO, and Mr. Amit Jain, Company Secretary of Himatsingka Seide. We are here to discuss the FY08 results and the road ahead for the company. Over to you Mr. Himatsingka.

Mr. Shrikant Himatsingka: Well, good evening everyone. I will just give you a brief from my side as to the year gone by and post which Mr. K. P. Pradeep and Mr. Amit Jain will be happy to answer all questions and queries that you might have. The year 2007-08 has been a very interesting financial year for Himatsingka. There were several significant events we saw taking place during the year. If you recall, in February 2007, we had concluded our first international acquisition in the home textile space of Giuseppe Bellora. Consequently, in July 07-08, we completed the acquisition of Divatex Home Fashions. We acquired 80% stake in the firm and they are the third-largest distributor of sheeting in the United States. In October 2007, we completed acquisition of 100% stake in DWI Holdings, which controls licenses of three very important luxury brands in home textiles, namely Calvin Klein, Royal Sateen, and Barbara Barry. In addition to the acquisitions, we had the commissioning of the Hassan bed linen facility in October 2007 as well and on the retail front, we commissioned two international stores during the year. The first was in Dubai during May 2007 and the second one was in Singapore during October 2007. On the financial front, the total consolidated revenues of Himatsingka went up from INR 244 crores in the year ended March 31, 2007, to INR 892 crores for the year ended March 31, 2008. Clearly, the growth from acquisitions has begun to reflect sharply as far as the topline is concerned. For the quarter ended March 31, we had net revenues of INR 285 crores and clearly, at an annualised level we are looking at INR 1,100-1,200 crores, going forward. As far as the operations are concerned, we have had a severe impact on the results from the commissioning of the Hassan facility. In the two quarters that it has been in commercial production, we had had a net loss of INR 40 crores from that facility and during the first half of the financial year (Q1 and Q2), prior to commercial production, we suffered additional expenses of approximately INR 9.5 crores on account of all expenses, which were not capitalised. So, during the financial year, we have had an impact of INR 50 crores coming in from the Hassan facility. In addition, we have had approximately INR 2.5 crores of M&A deal expenses, which have been incurred on account of the acquisitions. We have had approximately INR 1.5 crores, which has been written off in context to the Portugal subsidiary of Giuseppe Bellora, which we wrote off. We have had an INR 1 crore write off on an old DG Set during the year and in Q4, we have provided for INR 27.7 crore as a mark-to-market (MTM) on a foreign exchange derivative contract. So cumulatively, these hits have accounted for approximately INR 80 crores during the financial year. This therefore is the main reason for the financial performance being negative, and I would like to say a few words as to how we see things, going forward. As our main focus, going forward, will be to address the challenges that we face in stabilising the new Hassan facility, we estimate that over the next six to eight months, all efforts will be made to continue to ramp up the facility and to stabilise it to the best of our abilities during the time frame. As far as the retail operation goes, revenues have grown 42% Y-o-Y for the *Atmosphere* brand. We continue to see those growth rates continuing into this financial year, which will consequently, you know, be a growth for our silk and blended fabrics business as well. This is all from my side. This, I think sums up from the management's perspective the significant events that have impacted the firm during this financial year, and Mr. K. P. Pradeep and Mr. Amit Jain will be happy to take you through any questions and queries that you might have. Thank you.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, kindly press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. I repeat, participants who wish to ask questions, kindly press *1 now. First in line, we have Mr. Isuru from Equinox. Over to you sir.

Mr. Isuru: Hello. Question here about the debt situation. What is the current net debt situation and interest cover? How do you feel about the prospects… how will this improve over the year?

Mr. K. P. Pradeep: This is Pradeep here. On a consolidated basis, we would be saying a situation where we currently are at around INR 450 crores of long-term debt and INR 150 crores short-term debt that includes bank borrowings on working capital account. So, to that extent, given INR 600 crores net worth, we are almost at a 1:1. Now, as we go forward, we don't see any substantial addition apart from the fact that we have a capex project that is still in its stage of completion, a part of the Hassan facility, which is the 12.5 MW captive power plant. That could potentially have a INR 78 crores spend, out of which the spend over the next year could be anywhere between INR 54-55 crores, and we are expecting at least INR 45-50 crores to come out of term loan and the debt for the coming year. Apart from this, I don't see any major item coming on to the debt structure over the next year. Does that answer your question?

Mr. Isuru: Yeah. Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. Next in line, we have Mr. Vinay Paharia from Lotus India AMC. Over to you sir.

Mr. Vinay Paharia: Hello…

Mr. K. P. Pradeep: Yeah.

Mr. Vinay Paharia: Yeah, hi sir. Can you provide a breakup for both sales and margins for the silk business as well as your acquired businesses that is the US and Europe distributions?

Mr. K. P. Pradeep: Can I send that across to you at the end of the presentation?

Mr. Vinay Paharia: Okay, that should be fine with me.

Mr. K. P. Pradeep…we can send across...

Mr. Vinay Paharia: Fine, I will send you an e-mail sir.

Mr. K. P. Pradeep: To give you a perspective, I mean the silk business as such…

Mr. Vinay Paharia: Yeah.

Mr. K. P. Pradeep: …as Shrikant said a little earlier, there are two major impacts, one being the Q1 and Q2 P&L debit of roughly around INR 9.5 crores on account of the Hassan pre-capitalisation spends, which couldn't be capitalised and therefore had to be charged on the account. Apart from that, you have the derivative hit of roughly around INR 27.77 crores. So, if you unwind the two, we would be exactly at the same spot, if not better, on a like-to-like basis as compared to the previous year, but I will in any case circulate this out to you at the end of the call.

Mr. Vinay Paharia: Fine. And you said there are two actually notes to accounts in your results, one says it is a INR 27 crores mark-to-market loss, which I think you have booked in your P&L account and the second is about one repudiated contract. Can you just explain the nature of both these contracts, what are these and what is the nature of this these contracts?

Mr. K. P. Pradeep: All right. There are essentially two contracts, which get mention here apart from another contract that I will come to in a little while. The first contract is with a bank. Currently, that structure is under subject matter of a legal dispute and subjudice. So, while I speak, I can tell you that the endeavor here is to give you a feel from the company's side. The company fundamentally feels that the contract was made under representations from a bank, which were not entirely accurate. The contract is essentially in two parts , one part being USD-INR and the other part being USD-EUR.

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: I don't want to go into greater details on this call for the reason that this structure will take a lot more explaining to do and may take up time on this call.

Mr. Vinay Paharia: Okay…

Mr. K. P. Pradeep: the second structure that we were referring to is with another bank. The essential exposures being one on the USD-INR side and second leg being USD-CHF. So, these are the two structures, one with HDFC Bank, (we are in the public domain on this), we had the first contract with HDFC that is currently in court and the second contract with another bank on USD/INR and USD/CHF something that we have taken a P&L debit in terms of provision in the books of account for Rs. 27.77 cr.

Mr. Vinay Paharia: And that is a Swiss one?

Mr. K. P. Pradeep: Yeah, this is a Swiss one. There is another one too which found mention in that note or you will find it as you go along in the…

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: There is a third contract one another structure, which are typically USD-INR and a second leg being USD-Swiss.

Mr. Vinay Paharia: Okay. And is that recognised or that is also under dispute?

Mr. K. P. Pradeep: On account of the fact that there is an uncertainty regarding the final fructifying of a liability.

Mr. Vinay Paharia: Oh, it is an option contract.

Mr. K. P. Pradeep: It is more of the European type and so that happens at certain period of time into the future and as a result of which, the lack of capability to ascertain is the reason for which we are not providing.

Mr. Vinay Paharia: I want to know what is the outstanding interest on this INR 116 crores of MTM loss, which you have taken, that is something you have not recognised. What sort of outstanding interest is there?

Mr. K. P. Pradeep: I am sorry, I am not able to understand this question in its entirety.

Mr. Vinay Paharia: I mean what is the nature of this transaction, was it to hedge any exposure. Also, I think, exports are pretty low and what you predominantly export currently is your silk as well as small part of your home linen facility, if I am not mistaken.

Mr. K. P. Pradeep: Well, the intent at the time of taking the contract was to hedge receivables in foreign exchange.

Mr. Vinay Paharia: Receivables, that is basically the cash, free cash flows that you would be making in your foreign subsidiaries. Right?

Mr. K. P. Pradeep: No, it was the sale of our product to an overseas entity.

Mr. Vinay Paharia: Okay. Now, in terms of your broader strategy, you said that these acquisitions basically give you a front end to your entire Hassan distribution.

Mr. K. P. Pradeep: That's true.

Mr. Vinay Paharia: Okay. How are we progressing in terms of that strategy, going forward, what sort of ramp-up has happened in Hassan and, some color on that?

Mr. K. P. Pradeep: Like Shrikant mentioned earlier, Hassan started on October 12, 2007. The plant has been working to a capacity of roughly 50-52% and that moved up to 56% in Q4 . The plant is on a basic configuration of 60-40, where 60 is on mass product and 40 is essentially high-end product. The configuration of the machinery have been done to manage this sort of 60:40 ratio.

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: Now, the whole process is engaged in terms of product under this 40% category and this gets developed only over time. As we stand today and we look at the production that is coming out of the plant, it is at 95:5, which is that we are essentially doing 5% of the overall 40%. So, we are in a situation where we have not yet scaled up for meeting a demand on the high-end side, but this is something that we are addressing as we go through Q1, Q2, and Q3.

Mr. Vinay Paharia: Okay. To put it differently, what sort of realisations we have in your distribution subsidiary for a meter or something like that.

Mr. K. P. Pradeep: I don't have an off-hand number on this, but I could provide this to you. Who is this on the call?

Mr. Vinay Paharia: Vinay from Lotus Mutual Fund.

Mr. K. P. Pradeep: Vinay, I could provide this to you.

Mr. Vinay Paharia: Okay fine.

Mr. K. P. Pradeep: To give you a feel...

Mr. Vinay Paharia: Yeah.

Mr. K. P. Pradeep: ...from the Hassan side, basically, we have average realisations of roughly USD 2. 90 and have moved up progressively to around USD 3.52 per meter in Q4.

Mr. Vinay Paharia: Okay. The one that you mentioned in the start was at the time of starting the plant, is it?

Mr. K. P. Pradeep: That's right. I will send across the details regarding the realisations at the distribution company's end, but they would of course be substantially higher.

Mr. Vinay Paharia: So, basically they would be utilising this 40% capacity, right?

Mr. K. P. Pradeep: That's right. I mean, we have three acquisitions, one is Bellora in Italy and DWI and Divatex in the US.

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: Divatex is essentially in the 60's category—the mass format distributor, and DWI, given that they handle brands like Calvin Klein, Royal Sateen, and Barbara Barry, is more on the higher end. Bellora is also very high-end in that sense.

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: This would essentially meet your 40.

Mr. Vinay Paharia: Right. In these three entities, combined or individually, what sort of gross margins would they be making, in the sense of what would be the cost of goods sold?

Mr. K. P. Pradeep: See, gross margins...give me a second, I will just...

Mr. Vinay Paharia: Sure.

Mr. K. P. Pradeep: For Divatex, it is roughly around 17%.

Mr. Vinay Paharia: Divatex is 17% gross margins.

Mr. K. P. Pradeep: Yeah, in Divatex.

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: In DWI, it should be around 50-52%.

Mr. Vinay Paharia: 52%.

Mr. K. P. Pradeep: And in Bellora, it should be anywhere between 35% and 40%.

Mr. Vinay Paharia: Okay. So, basically sourcing this entire cost from Hassan, how much savings we can make, which you can clearly envisage, going forward.

Mr. K. P. Pradeep: You know, your question is that the distribution companies…

Mr. Vinay Paharia: Absolutely.

Mr. K. P. Pradeep: …that we currently source from a geography…

Mr. Vinay Paharia: Exactly.

Mr. K. P. Pradeep: …by virtue of pulling the demand into Hassan…

Mr. Vinay Paharia: Right.

Mr. K. P. Pradeep: …an incremental drop in terms of…

Mr. Vinay Paharia: Margins.

Mr. K. P. Pradeep: ….the costs.

Mr. Vinay Paharia: Yeah.

Mr. K. P. Pradeep: I think that is the question right?

Mr. Vinay Paharia: Exactly.

Mr. K. P. Pradeep: What we have done is we have treated all this at arm's length and so, if for example any of these distribution companies were taking from corporates in China, what we would be offering them is a similar price.

Mr. Vinay Paharia: Okay, okay.

Mr. K. P. Pradeep: To the extent of that, the distribution companies are being treated absolutely at arms length basis ….

Mr. Vinay Paharia: Okay, okay.

Mr. K. P. Pradeep: ….and have managed themselves.

Mr. Vinay Paharia: So, the corollary is basically that Hassan would be making a higher profit margin?

Mr. K. P. Pradeep: As Hassan moves into stability, yes, they would make higher margins.

Mr. Vinay Paharia: Okay, okay. And why is this capacity utilisation on the high-end facility at just 5% because anyway these subsidiaries have been with you for quite a while…

Mr. K. P. Pradeep: No, no, the…

Mr. Vinay Paharia: …at Hassan.

Mr. K. P. Pradeep: You are talking about the…

Mr. Vinay Paharia: High-end facility at Hassan.

Mr. K. P. Pradeep: See, in Hassan, just to give you a small background, we have a facility, which has got weaving, a process house, and made-ups operation. The weaving facility capacity is roughly at around 45,000 meters per day.

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: Process house is at around 60,000 meters per day. The made-up is at around 8500 sets per day.

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: Now, essentially the process house and the made-ups are stable.

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: The problem is essentially at the weaving point, I mean we are doing roughly around 20,000 to 22,000 meters per day.

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: And why is it so, the reason is because even though these are looms which are automated, there is a human element that is required at the weaving point. Now, to give you a sort of a statistic. I mean let's say the looms that are working; now, it is basically yarn that is on the loom. In case of a break in the weaving yarn, it would normally take an expert weaver around 52 seconds to knot this back. Our existing labor would end up with an average time taken for knotting in case of a break in yarn at roughly around 1.5 minutes.

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: So that is what is creating the distress at the weaving level. Now, that is something that gets rectified over time, but is essentially a process that has to deal with a certain amount of time and maturity of people handling the job. So, to your point, the high end will start getting manufactured…

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: …at the plant as and when we reach that level of scale. Now, given that these products are very high in terms of standards and exacting in terms of their specification, we don't want to venture down that path till we are absolutely certain that we can deliver products that are capable of being delivered in the market. In the current year, we are trying to move this 95:5 ratio to 80:20.

Mr. Vinay Paharia: Okay.

Mr. K. P. Pradeep: That is the endeavor. As I speak, we have already done a couple of these high-end products in the current year, and I should tell you the experience has been very positive.

Mr. Vinay Paharia: Okay. Okay sir, fine, thanks, I am through with questions. And if you can just tell me your e-mail, so I can just send you an e-mail regarding my questions.

Mr. K. P. Pradeep: kp.pradeeep@himatsingka.com.

Mr. Vinay Paharia: Okay, fine, thanks.

Mr. K. P. Pradeep: Right.

Mr. Vinay Paharia: Yeah.

Mr. K. P. Pradeep: Thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. Next in line, we have Mr. Singh from Goldman Sachs. Over to you sir.

Mr. Singh: Hello sir.

Mr. K. P. Pradeep: Hello.

Mr. Singh: Just wanted to know, what is your fully diluted equity share, and secondly, there are certain warrants, which are outstanding to the promoters, what is the status of that?

Mr. Amit Jain: The number of shares, weighted average number of shares outstanding would be about…

Mr. Singh: If you don't take the weighted average, just give the year-end number that would be great.

Mr. Amit Jain: The year-end number, just a second, it is 98.4 mn shares.

Mr. Singh: Okay. And the status of the warrants issued to the promoters?

Mr. Amit Jain: Yeah, we had issued 58 lakh warrants to promoters, out of which they have converted 10,24,000 already. So, balance 47,76,000 is outstanding and as per the terms, they have time till April 2009 to convert the rest.

Mr. Singh: Okay. Secondly, sir, just for my understanding, these three distribution companies that you have, what percentage of the sales is sourced from Hassan or from Himatsingka?

Mr. K. P. Pradeep: Currently…just hold on, I will give you this number, just one second…can I send it across, I mean these are details that are available in our sheet, can we send it across to you?

Mr. Singh: Yeah, that will be great.

Mr. K. P. Pradeep: Okay.

Mr. Singh: Secondly like for the Hassan facility, this year we recognised there were a lot of one-off cases because of which the profitability got impacted, but net-net it is at USD 3.5 per meter. What are the profits that Hassan, the bed linen facility, will make as such?

Mr. K. P. Pradeep: See, I don't know where you got that USD 3.5 figure.

Mr. Singh: You just now mentioned, I think Q3 realisation went up to around USD 3.5 per meter.

Mr. K. P. Pradeep: No, you are talking about a situation in the future.

Mr. Singh: Yeah, yeah.

Mr. K. P. Pradeep: Right.

Mr. Singh: I am saying, like okay, if you were to just take this USD 3.5 per meter, what will be the profitability for your bed linen facility? In case it improves, that will be better.

Mr. K. P. Pradeep: I will put it a little differently.

Mr. Singh: Yeah.

Mr. K. P. Pradeep: We are looking at a realisation, which is a little higher.

Mr. Singh: Okay.

Mr. K. P. Pradeep: Which will be anywhere between USD 4-4.5…

Mr. Singh: Okay.

Mr. K. P. Pradeep: …per meter, USD 4.5 per meter and at that level, we are hoping to break-even over the current year.

Mr. Singh: Okay. So, that basically means like if we were to take your revenues at around INR 1,000 crores taking into account the full ramp-up in your bed linen facility…

Mr. K. P. Pradeep: The bed linen facility at a steady state will be around INR 300 crores.

Mr. Singh: Will be around INR 300 crores?

Mr. K. P. Pradeep: Yeah. So, to your point, I mean I think you are trying to equate this, it is a sales made at the distribution company end.

Mr. Singh: Correct, correct.

Mr. K. P. Pradeep: The distribution companies essentially have USD 225 mn worth of sale and that would almost be around INR 900 crores. So, essentially Hassan is not positioned to supply all the demand of these distribution companies. They are going to continue to source, as they did in the past, from different geographies and different companies. What essentially this acquisition does for us is, it helps us to cherry pick, it helps us to pick higher realisation orders and essentially during times when we have difficult markets, basis the relationship and linkages, it helps us to sustain it in a manner that is a little more consistent than other players on the market.

Mr. Singh: Okay. Okay sir, thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Ms. Preeti from B&K. Over to you ma’am.

Ms. Preeti: Good evening sir.

Mr. K. P. Pradeep: Good evening.

Ms. Preeti: Sir, I wanted to understand this derivative thing. In your notes to the account, the third point says that there is a loss of INR 166 crores, which is still pending with the court.

Mr. K. P. Pradeep: That's right.

Ms. Preeti: Okay. So, if I assume that this particular amount of INR 166 crores gets settled in future, so this whole amount you will be charging in your books or… since it is an MTM number or will there be any variation to it?

Mr. K. P. Pradeep: Madam, as we speak today, I mean it is kind of a hypothetical question to answer because as you are aware, the basis on which the company has gone to court is pretty strict in its entirety in terms of what we are saying and we are very confident about what we are saying in the reply, and I firmly believe that this is a subject matter interpretation, which the court will position in our favour. So, to your point, I mean it is a hypothetical question as we speak today as to where this INR 166 crores will lie.

Ms. Preeti: No, if suppose the whole amount needs to be paid by the company itself, I mean if you have to charge it in your book, suppose jurisdiction goes not in favor of the company, God forbid, so then this MTM amount I hope will not change because this is the MTM as on March 30-31…

Mr. K. P. Pradeep: This is an MTM as of March 24, 2008…

Ms. Preeti: Yeah.

Mr. K. P. Pradeep: …and the reason I tell you this is that one, as we have repudiated the contract.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: And at the time of repudiation, these are the values at those times. Now, what the bank is doing to that contract, we don't know because we have scant visibility. We are talking to our lawyers and we haven't heard from the bank, and the bank is of course talking to its lawyers too. So, to your point I mean that whole scenario is hypothetical, but if your question is whether you want to know whether that contract is still alive, I would not know, I mean I don't have visibility to that as I speak.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: Is that your question?

Ms. Preeti: Pardon sir.

Mr. K. P. Pradeep: Was that your question?

Ms. Preeti: Sir, there is another question which is a follow-on to this only. There is another amount of, INR 6.8 crores.

Mr. K. P. Pradeep: That's right.

Ms. Preeti: For that, it says that it depends on future uncertain events, so it is on some future transaction, which you have entered into.

Mr. K. P. Pradeep: This, madam is a derivative.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: It is on a European logic. When I say European logic, I mean there are certain derivative contracts whose liability is ascertainable on the happening or not happening of an event…

Ms. Preeti: Okay.

Mr. K. P. Pradeep: …that is time contingent on a particular period.

Ms. Preeti: So, these are the outstanding as of now, this particular…

Mr. K. P. Pradeep: This period is well into the future and a result of which the liability itself is unascertainable, not the exchange rate, the liability itself.

Ms. Preeti: Okay, sir. And sir, can you give us a breakup of your standalone sales, if you can give me the breakup as it used to happen in the past quarters, how much is coming from the home textiles and how much is coming from yarn?

Mr. K. P. Pradeep: From a silk standalone?

Ms. Preeti: Yeah, on the standalone numbers,

Mr. K. P. Pradeep: Okay. From a silk standalone…

Ms. Preeti: Yes.

Mr. K. P. Pradeep: …it is around INR 146 crores on the fabric side and INR 24 crores on the yarn side on an annual basis.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: And if you want the Q4 number…

Ms. Preeti: Yeah. I want for the whole year, I mean for the full year if you can give me.

Mr. K. P. Pradeep: Yeah, that is the number for the full year.

Ms. Preeti: And how much on home textiles?

Mr. K. P. Pradeep: That is the bed linen?

Ms. Preeti: Yeah, bed linen.

Mr. K. P. Pradeep: INR 61.32 crores.

Ms. Preeti: INR 1.32?

Mr. K. P. Pradeep: INR 61.32.

Ms. Preeti: Okay, so it comes to INR 245 crores….okay sir. And sir, the next question is on your consolidated numbers, how much of the revenues are coming from each subsidiary?

Mr. K. P. Pradeep: Okay, we have a sheet here. Can I do one thing, can I send that sheet across to you, the sheet which gives each subsidiary and what turnover it contributes.

Ms. Preeti: Fine.

Mr. K. P. Pradeep: Can I send that across to you? Would that be all right?

Ms. Preeti: Yeah, that will be fine sir.

Mr. K. P. Pradeep: All right.

Ms. Preeti: Sir, further, there are questions on account of your loss on Hassan facility. In your first note to the results, it says that on the whole year, the loss has been around INR 40 crores on Hassan facility.

Mr. K. P. Pradeep: That's right.

Ms. Preeti: And then there are some items of sales and expenditure, which says that they have been capitalised, so…

Mr. K. P. Pradeep: Okay. This is more of an accounting intricacy rather than anything else.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: What would have normally happened is during the pre production phase, expenditure, which went directly into capital on account of the pre-production phase has got capitalised, but this is a methodology of disclosure where they gross up the expenditure and then show a separate line for transfer to capitalisation.

Ms. Preeti: So, these expenses and sales figure…

Mr. K. P. Pradeep: Have all gone to capital.

Ms. Preeti: Yeah, but these must have been incurred in the first half of 2008?

Mr. K. P. Pradeep: No, no, these are project…pre-project expenditure.

Ms. Preeti: But what timeframe are they denoting? I mean from what period to what period have these numbers been…these expenses and sales been done?

Mr. K. P. Pradeep: Till October 12, 2007.

Ms. Preeti: Starting from October 12, 2007?

Mr. K. P. Pradeep: Ending with October 12, 2007.

Ms. Preeti: Okay, that is what I am saying, it is starting from April 1, 2007, to October 11-12, 2007.

Mr. K. P. Pradeep: Absolutely.

Ms. Preeti: Okay. And sir, if you can give us an idea how much total debt you have on a standalone basis.

Mr. K. P. Pradeep: On a standalone basis, we have INR 300 crores on account of TUF loan and another INR 15 crores on account of buyer's credit.

Ms. Preeti: That is working capital?

Mr. K. P. Pradeep: No, no, it is secured loan for CAPEX…

Ms. Preeti: Okay.

Mr. K. P. Pradeep: And apart from that, we have roughly around INR 80 crores of short-term debt.

Ms. Preeti: Okay. And if you can give me an idea what rate of interest you are paying on both fixed loans and your working cap?

Mr. K. P. Pradeep: We should have an average cost of roughly around 5.5%.

Ms. Preeti: On all these…I mean on working and fixed loan taken together?

Mr. K. P. Pradeep: On an average.

Ms. Preeti: Can you give a breakup of that, that would be…

Mr. K. P. Pradeep: 3.35% is what we pay on TUF.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: And 7% is what we pay on our working capital.

Ms. Preeti: And sir if you can give us an idea on your gross block, how much is the gross block as of now in your current assets breakup?

Mr. K. P. Pradeep: Just hold on…

Ms. Preeti: Yeah.

Mr. K. P. Pradeep: The gross block, it is INR 594 crores.

Amit Jain: These are standalone numbers.

Ms. Preeti: Standalone numbers I want…and current assets breakup?

Mr. K. P. Pradeep: Current asset, it is at roughly INR 385 crores.

Ms. Preeti: I mean breakup on current assets in terms of inventories…

Mr. K. P. Pradeep: Inventory is around INR 100 crores.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: Debtors at around INR 59 crore.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: Then, you have loans and advances of roughly INR 217 crores.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: And cash and bank balances of roughly around INR 8.5 crores.

Ms. Preeti: INR 8.5 crores.

Mr. K. P. Pradeep: That's right.

Ms. Preeti: And sir, there is one power plant that the company is planning to set up. If you can give an idea as to how much is the power cost right now and what would be the per unit power cost after the set up of the plant?

Mr. K. P. Pradeep: Right. The existing power cost is at INR 4.80 per unit.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: And what we are attempting to do in this power plant is make a 12.5 MW co-gen captive power plant. When I mean co-gen, essentially a power plant that gives steam and by virtue of the process, it also gives power. This is a thermal power plant, which is essentially coal-based, so at a certain point on the turbine, they draw out steam, which is used in the process plant at the textile side and the remaining goes to make power. Now, the project is at INR 78 crores in total…

Ms. Preeti: Yes.

Mr. K. P. Pradeep: …and we are well into the project, we have already consigned INR 6-7 crores of equity to it.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: The project is essentially to be funded, INR 60 crores on debt and INR 18 crores on equity.

Ms. Preeti: So, that debt will be under TUF itself or it will be the normal, I mean, on the normal rate of interest?

Mr. K. P. Pradeep: That is an interesting question because we have written to the textile ministry for a clarification.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: But pending that, we are still going ahead because as and when the clarification does come…

Ms. Preeti: Okay.

Mr. K. P. Pradeep: …the benefit of that will be extended to the loan.

Ms. Preeti: Okay, okay.

Mr. K. P. Pradeep: Your second question as to what is the sort of differential that you see…

Ms. Preeti: Yes sir.

Mr. K. P. Pradeep: Yeah, we are estimating a cost of roughly INR 3 a unit as the cost of generation…

Ms. Preeti: Okay.

Mr. K. P. Pradeep: …and so the differential is essentially something that is making the process extremely viable. Plus, for the Hassan captive power plant ,, if you look at the mechanics of the cost per MW, it is a little on the higher side for the simple reason that it is a co-gen plant and it is not in the nature of a normal power plant . A normal power plant would be in the region of INR 4-4.3 crore per MW, we are a little higher than that. Does that answer your question?

Ms. Preeti: Yes sir. Just one more thing, this 12.5 MW, this will be used only for the Hassan unit or it can be used for all your other units?

Mr. K. P. Pradeep: Essentially, madam, this power plant is for the Hassan unit.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: And what does happen is that in the process of balancing capacity, there would be a situation where initially we would be doing a little bit of wheeling to our Seide silk unit in Doddaballapur.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: We estimate at least around 3 MW down that road.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: To give you a view, the 12.5 MW plant will essentially give an exportable power of 11 MW because 1.5 MW is used within the utility of the power plant itself.

Ms. Preeti: Okay.

Mr. K. P. Pradeep: What essentially comes out is 11 MW power out of which we are assuming 8 MW usage within Hassan and 3 MW at Seide for the moment.

Ms. Preeti: Okay. Sir, if you can give some idea on the growth prospects in terms of for the next year… I mean how much growth you are expecting in revenues and on net profit or EBITDA levels for 2009?

Mr. K. P. Pradeep: We essentially don't make any forward-looking statements or, you know, references, but to give you a feel on a consolidated basis revenues should be anywhere between INR 1,100-1200 crores consolidated.

Ms. Preeti: And on standalone?

Mr. K. P. Pradeep: On standalone, we should be around INR 450 crores.

Ms. Preeti: INR 450 crores on the sales. Any idea on the net profit level?

Mr. K. P. Pradeep: We don't essentially give guidance on that logic, but…

Ms. Preeti: Actually sir, in this year, it has been totally loss for the whole year and that is what is a bit difficult for us to exactly understand as to how much would be the profits coming up in the next year, so if you can give some fair idea on that front?

Mr. K. P. Pradeep: See, I work from two difficulties, one is the fact that the numbers being quoted and positioned will not have the impact of translation exposures nor will they have any potential impact of derivatives as we go through this year.

Ms. Preeti: Sure sir. And sir the Hassan unit that is incurring a loss in the current quarter, how much time will it take for the unit to break-even and then to generate profit?

Mr. K. P. Pradeep: We are looking at this year for neutral PBT, at the most a small number on a negative side, Our endeavor this year as we go through it is to avoid the bleed on Hassan on the total consolidated financials.

Ms. Preeti: So, in the first quarter, has the unit incurred losses? I mean the Q1FY09, which has just ended today, if you can give some idea?

Mr. K. P. Pradeep: You may have to wait for another 20 days for that madam, we will be back on this call.

Ms. Preeti: Okay sir, thank you so much. Thanks a lot.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Prashant Jain from HDFC Mutual Fund. Over to you sir.

Mr. Prashant Jain: Good evening. My questions have been answered. Thank you very much and wish you all the best for the current year.

Mr. K. P. Pradeep: Thank you sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Nishant from ICICI Securities. Over to you sir.

Mr. Nishant: Yeah, hi. Thanks, my questions have been already answered.

Mr. K. P. Pradeep: Thanks Nishant.

Mr. Nishant: Yeah.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. I repeat, participants who wish to ask questions, kindly press *1 on your telephone keypad. Next in line, we have Ms. Sangeetha from Anand Rathi Securities. Over to you ma'am.

Ms. Sangeetha Tripathi: Good evening sir.

Mr. K. P. Pradeep: Good evening Sangeetha.

Ms. Sangeetha Tripathi: Hi. Sir, just wanted to understand regarding the Bellora subsidiary. We were making losses as far as Bellora was concerned. Is it still doing the same or what has been the…whether there has been improvement in terms of subsidiaries?

Mr. K. P. Pradeep: Sangeetha, essentially when we bought Bellora, yes, they were making losses. This year has been a period of consolidation for Bellora. The numbers, as they stand are, on a revenue of roughly around EUR 23 mn, we are at a EUR 2.6 mn loss, but if you look at it on a one-off level, I mean this is a loss only on account of the fact that there are two big write–downs. One of their ventures by the name BP Ventures has a write-down of EUR 880,000 and BP USA has a write-down of around EUR 1.45 mn. Essentially, if we pull these back in into the financial, they are actually just about EUR 100,000-200,000 negative. That is essentially because they have been managed in a fashion that as we speak, they should, in the coming year, at least give a positive figure for 2008-2009. 2007-2008 had a marginal loss, but they have come around the corner. We are expecting that performance to sustain and for Bellora to close positive.

Ms. Sangeetha Tripathi: Okay, we are expecting Bellora to be positive in 08-09.

Mr. K. P. Pradeep: Yeah.

Ms. Sangeetha Tripathi: Okay. And sir, as you said that there have been certain… there has been certain dilution as far as the equity is concerned in one of the subsidiaries of Bellora.

Mr. K. P. Pradeep: Yeah.

Ms. Sangeetha Tripathi: Can you please explain that a little more in detail, what exactly…

Mr. K. P. Pradeep: What happened was that we had a subsidiary called BP Venture in which we had 56% stake.

Ms. Sangeetha Tripathi: Bellora had 56% stake.

Mr. K. P. Pradeep: That's right.

Ms. Sangeetha Tripathi: Okay.

Mr. K. P. Pradeep: In line with the consolidation requirements in the retail space and strategic focus to reduce our involvement in that line of distribution business, which was essentially multi-brand, we decided to…

Ms. Sangeetha Tripathi: Okay, this was a distribution business.

Mr. K. P. Pradeep: That was a multi-brand sort of outlet.

Ms. Sangeetha Tripathi: Okay.

Mr. K. P. Pradeep: So, we decided to, as a conscious decision, unwind our position in that particular company. So, what you see is essentially a result of that.

Ms. Sangeetha Tripathi: Okay, but still we have stake of around 15% in this subsidiary.

Mr. K. P. Pradeep: That's right.

Ms. Sangeetha Tripathi: Okay, the loss is because of that.

Mr. K. P. Pradeep: We have taken a hit of EUR 880,000 on account of a write-down in the investment on account of that.

Ms. Sangeetha Tripathi: Okay. And as you said that for FY09 Hassan would either break-even or there will be a little building still to be seen, right?

Mr. K. P. Pradeep: Very marginal if we get the act right.

Ms. Sangeetha Tripathi: Okay. So, may be by the third quarter of this financial year, we can expect some amount of profit as far as Hassan is concerned. Some amount of profit, I mean on a quarterly basis I am talking, not on a yearly basis.

Mr. K. P. Pradeep: Well, mathematically what you are saying is right, so we have to wait and watch.

Ms. Sangeetha Tripathi: Right. So, at this point at what capacity utilisation is Hassan working at?

Mr. K. P. Pradeep: It is at around…see, I had on this call a little earlier talked about different capacities in different sections of the plant, but from a weaving perspective, we are at roughly around 50-52%.

Ms. Sangeetha Tripathi: Which is the lowest right, as far as the processing or the made-up is concerned at a higher level?

Mr. K. P. Pradeep: Much higher level.

Ms. Sangeetha Tripathi: Okay sir. And sir, just wanted to understand the tax rate as far as your subsidiaries are concerned, what type of tax rate do they attract?

Mr. K. P. Pradeep: If you are talking between Seide and Hassan, Hassan is in the nature of an SEZ.

Ms. Sangeetha Tripathi: No, no, I am not talking about Hassan as a standalone, I am just talking about the acquired subsidiaries.

Mr. K. P. Pradeep: You can position it anywhere between 28% and 29%, effectively.

Ms. Sangeetha Tripathi: 28-29%.

Mr. K. P. Pradeep: Exactly.

Ms. Sangeetha Tripathi: Okay. And for the company as a whole, what would be the tax rate? I mean…

Mr. K. P. Pradeep: It is…as such, the silk business will not have tax on account of the losses at Hassan and the only other business is the retail business, which gets taxed at your normal rate.

Ms. Sangeetha Tripathi: Okay, okay. And sir how is *Atmosphere* working because on the topline, as you said, there has been 42% growth Y-o-Y, Just to talk about a little on the Singapore store, which we have opened in October, how is that doing and what are the plans as far as the new stores are concerned?
Mr. K. P. Pradeep: Singapore as such started in October.

Ms. Sangeetha Tripathi: Yeah.

Mr. K. P. Pradeep: The overall result is not very positive for the past quarter.

Ms. Sangeetha Tripathi: Okay.

Mr. K. P. Pradeep: this is a business that will take 8-10 months, minimum, to stabilise.

Ms. Sangeetha Tripathi: Okay.

Mr. K. P. Pradeep: It is not entirely unusual for what has happened, but,going forward, we expect to at least break-even on these stores on FY09 basis, but Singapore, as I talk, will continue to be a matter of concern as we go through Q1, Q2, and Q3 of the current year. Twill & Oxford is the other store that we have in Dubai and that is doing reasonably well. That is delivering the expected projections. So, apart from that, our stores in India are all clocking growth, which is extremely healthy, and we don't see any reason for any undue alarm, but as I say this, I mean, we are into an economy that on an everyday basis is going through some amount of stress, so that will obviously impact as we get into the second half of the year

Ms. Sangeetha Tripathi: Right, that is what I was wondering that the type of growth which we witnessed in 2007-08, that may not be the same, we may not be able to replicate the same in the coming year.

Mr. K. P. Pradeep: I would tend to believe that this is partly true, but one should also base the fact on performance, and I have reason to believe that it is performing beyond par. The other stores haven't seen too much of distress in growth in Q1, but as I said, I mean it is too early to talk about the year, based on the Q1 story.

Ms. Sangeetha Tripathi: Okay, fair enough. Sir, just wanted to confirm this 12.5 MW power plant, captive power plant, which we are setting up at Hassan, we had a similar power plant at Doddaballapur, is it still there, I mean…

Mr. K. P. Pradeep: I don't think we had a power plant at Doddaballapur, it was a 4.4 MW DG, I think, that was being used in Doddaballapur. There is no power plant in Doddaballapur.

Ms. Sangeetha Tripathi: So, a DG set, has that been sold off? What is the status because we have a loss on DG set also.

Mr. K. P. Pradeep: Right, that has been sold.

Ms. Sangeetha Tripathi: Okay, that has been sold. So…
Mr. K. P. Pradeep: the Hassan captive power plant is a coal-based power plant.

Ms. Sangeetha Tripathi: Okay.

Mr. K. P. Pradeep: And cogeneration.

Ms. Sangeetha Tripathi: Okay fine, thank you sir.

Moderator: Thank you very much ma'am. Sir, we have one question from Ms. Varsha. Ma'am, you can go ahead.

Ms. Varsha: Hello…good evening sir.

Mr. K. P. Pradeep: Good evening Varsha.

Ms. Varsha: Sir, I just wanted to know one thing, could you throw some light on the strategies of the company regarding retail business, like domestically and internationally.

Mr. K. P. Pradeep: See essentially what we feel as a group is that this year we will open a few more shops. Now, where those shops will be essentially… we are exploring areas of the Middle East and the South East. What the numbers would be, it is a little difficult to comment off hand at the moment because a lot of this stuff is on the drawing board. Essentially also this would be a period when we are going to look at consolidating the Dubai and Singapore operations. We are looking at…this is essentially again on the drawing board, we are looking at opening specialty bedding stores, but when this will actually come up is still a subject matter of a little bit of timing, so as I speak, this is something that we are discussing very actively. This strategy should flow through over the later part of the year in the retail space. This is as much as we are looking at as we go through the current year.

Moderator: Ms. Varsha…

Ms. Varsha: Yeah.

Moderator: Ma'am, are you through with your question?

Ms. Varsha: Yeah.

Moderator: Thank you very much ma'am. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Sandeep Raina for the final remarks. Over to you sir.

Mr. Sandeep Raina: Thank you Rita. On behalf of Edelweiss Securities, I thank all the participants and the management of Himatsingka Seide for taking out their time and sharing their FY08 results. Thank you sir,
Mr. Shrikant Himatsingka: Thank you Sandeep.

Mr. K. P. Pradeep: Thank you Sandeep.

Mr. K. P. Pradeep: Thank you, everyone.

Moderator: ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.