



Himatsingka

Q2 FY18 Earnings Call Transcript
Bengaluru, November 08, 2017

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Himatsingka Seide Limited Q2 FY 2018 Post Results 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 “*” then “0” on your Touchtone Phone. Please note that this conference is being recorded.

I now like to hand the conference over to Ms. Prerna Jhunjunwala from Batlivala & Karani Securities India Private Limited. Thank you and over to you!

Prerna Jhunjunwala: Thank you, Stanford. Good Afternoon, Everyone. On behalf of Batlivala & Karani Securities I would like to welcome you all for this Q2 FY 2018 Post Result Conference Call for Himatsingka Seide Limited.

From the company we have with us key senior management which include Mr. Shrikant Himatsingka -- Managing Director and CEO of the Company; Mr. K. P. Rangaraj -- Group CFO; Mr. Ashok Sharma -- who is VP (Strategic Finance and Company Secretary); Mr. T. G. S. Gupta -- who is VP (Finance); and Mr. Sachin Garg -- who is AVP (Treasury and Investor Relations).

I would now like to hand over the call to Mr. Rangaraj for his initial comments. Thank you and over to you, sir!

K. P. Rangaraj: Good Afternoon, Ladies and Gentlemen. On behalf of the Company, I would like to welcome all of you into these earnings call for Q2 FY 2018. Thank you very much for your participation.

The sequence under which we will be proceeding is, I will give you a brief summary about the business updates for the quarter followed by a summary on the operational performance and any other impacting items on the financial performance of the company for Q2. So that is the sequence under which we will be taking this Presentation.

So basically, I will start with the business update for the quarter. So, we are very pleased to share that we have commenced trial production at our spinning facility and we are on course to commission the plant by end of Q3 FY 2018. While the new spinning facility is backward integration initiative, we see demand for an opportunity in selling fine count yarn embedded with our exclusive DNA tagging technology to select clients.

Himatsingka has emerged to be a global leader in offering cotton track and trace capabilities across the value chain from farm to shelf.

We have been the first to launch our cotton brands that carry our exclusive DNA tagging technologies. The brands will be on shelves under the Pimacott, Organicot, and HomeGrown Cotton labels. They are our exclusive trademarks.

The Sheeting division has clocked a consistent performance during the quarter and first-half of FY 2018. Utilization levels at the plant have been stable and we see H2 FY 2018 utilization levels to be range bound.

Our initiatives on enhancing market share in continental Europe have commenced and are likely to gain momentum during FY 2019. These initiatives will be led by our new President and CEO appointed for the European region.

We continue to consolidate our brand portfolio and focus on enhancing revenue streams from brands. During H1, we saw a robust growth from brands and total revenues from our brand portfolio stood marginally above the Rs. 700 crores mark.

The new rates for export incentives have been announced. Both the duty draw back and ROSL which is the reimbursement of state levies rates are lower than the previous levels. The MEIS rates however, continue to be the same.

The total basket of benefits including the GST credit on inputs have seen a reduction while various industry bodies are in dialog with the Government to review these rates they will be effective beginning Q3 FY 2018 and shall marginally impact EBITDA margins.

We are pleased to inform that we shall be entitled to receive benefits from the Government of Karnataka based on the investments we have made and committed to the state. The incentive shall substantially comprise of interest subsidy, power subsidy. There will also be some capital subsidy available. These incentives will substantially be visible beginning Q4 FY 2018 after the commissioning of our spinning plant.

As communicated earlier, we will commence construction of our proposed terry towel facility during H2 FY 2018. The facility will have installed capacity of 25,000 tonnes per annum. We propose to enter into a MoU and subsequently a long-term PPA with Himatsingka Energy Private Limited to secure and hedge our long-term energy requirements. Given our energy intensive business model we feel it is imperative to have a cost effective Green Energy foot print.

As disclosed, the company will own 26% disclosed, the company will own 26% of voting equity share capital of Himatsingka Energy Private Limited as required under the Electricity Act for Captive Power Plants. So, this concludes our business update.

I will take you through the consolidated financial performance for Q2 FY 2018.

The consolidated total income for Q2 FY 2018 stood at Rs. 592.27 crores versus Rs. 528.62 crores in Q2 FY 2017 which is an increase of 12.1%.

The consolidated EBITDA for Q2 FY 2018 was up by 21.6% and stood at Rs. 113.23 crores versus Rs. 93.13 crores in the same quarter of the last year. EBITDA margin stood at 19.1% compared to 17.7% for the corresponding period of previous year.

The consolidated EBIT for Q2 FY 2018 was up by 19.1% and stood at Rs. 95.57 crores versus Rs. 80.26 crores in Q2 FY 2017. EBIT margin stood at 16.1% for Q2 versus 15.3% during the previous year.

Now, we move on the interest and finance charges update.

Interest and finance charges for Q2 FY 2018 increased to Rs. 24.92 crores versus Rs. 20.01 crores during the corresponding period of the previous year.

The consolidated PBT for Q2 FY 2018 was up by 17.3% to Rs. 70.65 crores versus Rs. 60.25 crores during the last year.

The consolidated PAT for Q2 FY 2018 is Rs. 50.56 crores compared to Rs. 46.09 crores during the previous year, which translates to a growth of 9.7%.

On tax, the tax provision for the quarter stood at Rs. 20.09 crores against Rs. 14.16 crores during the corresponding period of the previous year. The effective tax rate for the quarter stood at 28.4% versus 23.5% last year.

I will give you an update on the debt profile, leverage ratios and credit ratings of the company.

The consolidated gross debt as of 30th September 2017 stood at Rs. 2,009.74 crores. The total term debt, of which the total term debt stood at Rs. 1,153.19 crores and the working capital debt stood at Rs. 856.54 crores.

The cash and cash equivalence as at end of September stood at Rs. 206.92 crores. Consequently, the company's net debt outstanding as of 30th September 2017 stood at Rs. 1,792.82 crores.

The Debt Service Coverage Ratio (DSCR) on TTM basis stood at 2.53x at the end of Q2 as against 2.57x for FY 2017. The Interest Service Coverage Ratio (ISCR) on TTM basis improved to 3.63x at the end of Q2 FY 2018 as against 3.56x for FY 2017.

The net debt to equity stood at 1.59 at the end of Q2 versus 1.13 for previous year. The increase is due to increase debt taken for projects.

The net debt, excluding project work in progress debt, to equity which also excludes investments into the project ratio stood at 1.35x at the end of Q2 versus 1.06x for the previous year. This increase is due to increase debt taken for projects.

The net debt, excluding project work in progress debt, to EBITDA stood at 3.00x for the quarter as against 2.70x for previous year.

In terms of our ratings, our debt ratings for CRISIL remain the same at the end of Q2, which is the same as end of Q1. Our long-term debt rating stood at CRISIL A/ Stable and our short-term debt rating stood at CRISIL A1. There has been no change.

On capital efficiency ratios, Return on Capital Employed (RoCE), excluding capital employed in project work in progress, on TTM basis for the quarter stood at 16.9% compared to 17.9% for the previous year.

The Return on Equity (RoE) on TTM basis stood at 18.4% for the quarter ended September 2018 compared to 18.6% for FY 2017.

I will now proceed to provide some comments and observations on the financial results for the quarter.

The consolidated total income for Q2 FY 2018 includes other income of Rs. 13.77 crores. We wish to clarify that Rs. 13.77 crores comprise of FOREX translation which impacts Rs. 9.27 crores which is an integral part of our revenue and this has been classified as other income given the requirements under IndAS.

The remaining of Rs. 4.5 crores comprise of income from current investments, interest income and rental income. We have witnessed a slight correction in EBITDA margin Q-on-Q basis which stood at 19.1% versus 21.8%. This is primarily due to GST impact and product mix.

With this, I complete my update on the various sections. We will be happy to take any questions from participants. Thank you. Thank you for your listening.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: My first question is on the margin part which you clarified, can you give the approximate break-up between what would have been the impact related to these GST benefits going out and second on the product mix?

Shrikant Himatsingka : It is substantially GST and some product mix.

Nihal Jham: Sure. So, on the product mix part, is it expected that going forward also we can expect that this product mix will continue and may be the margins will remain in the similar range excluding the fact that the spinning capacity is going to be commissioned in H2?

Shrikant Himatsingka: Nihal, we had a total impact of just under 200.

Nihal Jham: 200 bps, right.

- Shrikant Himatsingka:** Of which as I said, the substantial impact came in from GST. So, the marginal impact from product mix is not something that we could predict. I think, we would see some movement on that front in the ordinary course of business.
- Nihal Jham:** Sure, sir. And just taking ahead the point on the benefits, what are the kind of benefits that you are expecting from the Karnataka Government that you mentioned at the starting of the call?
- Shrikant Himatsingka:** As stated, we are expecting some interest subsidy, power subsidy and some capital subsidy.
- Nihal Jham:** Fair enough. And finally, for the Himatsingka Energy, who are the other shareholders in the 26% share we will be owning in the company?
- Shrikant Himatsingka:** It is a promoted by the promoters of Himatsingka. So, 74% will be held by them.
- Moderator:** Thank you. We take the next question from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.
- Prerna Jhunjhunwala:** I would like to know the demand scenario in the U. S. right now because based on U. S. OTEXA data, we do not see much traction improvement in the demand in the U. S. region.
- Shrikant Himatsingka:** I think, your observation is right Prerna. The macroeconomic data of the U. S. remains stable. We ourselves, we have seen very stable utilization levels at our sheeting facility, H2 also looks to be pretty stable to us. We do not see any significant signs of movement there. So, we echo the same sentiment.
- Prerna Jhunjhunwala:** Okay. But I have been reading a lot about this buyer sentiments there, more and more buyers are now looking at what they are buying and what they are consuming in terms of fiber and stuff. So, do we see a more bigger opportunity for Pimacott as our brand than the normal sheeting business that is happening in the U. S.? like more of branded and more of fiber oriented businesses coming forward in growth?
- Shrikant Himatsingka:** So to add to a little bit of what I said earlier, while the macroeconomic demand numbers as far as this segment is concerned remains range bound. And now a particular H2 view also is pretty stable. We do obviously see our medium growth to continue, not only in North America but also in continental Europe and other geographies. As far as our view on brands is concerned, I would like to share once again that Himatsingka is a global leader in cotton track and trace technology. We have three brands, that we currently offer to customers as we shared the names of the brands are Pimacott, Organicot and HomeGrown Cotton. We have seen excellent response from the retail universe as far as these offerings are concerned and we are working on seeing how to enhance the shelf space that these brands can occupy going forward. So yes, you are right, the retailer is more sensitive and aware and demanding on the status on the purity and integrity of the value chain that they buy from. And therefore, our technology will play a significant role in addressing and allaying these concerns of our clients.

- Perna Jhunjunwala:** Okay. And with respect to your European business what kind of traction we are seeing like in terms of adding new brands or existing brands, what is the traction coming in there?
- Shrikant Himatsingka:** Well, the traction unfortunately, the group is obviously present in Europe. I think, our intent of mentioning a little bit about Europe in our business update was more to do with the fact that we want to place an added emphasis on the region as a potential market for us. And therefore, we have new leadership representing us in the region, the fact remains at other than our cotton brands, we also operate a rich brand portfolio for fashion and other iconic brands and some of which we will take to Europe. So I think, the Europe dialogs are work in progress and momentum on the same during FY 2019.
- Moderator:** Thank you. We take the next question from the line of Shraddha Agarwal from Asian Market Securities. Please go ahead.
- Shraddha Agarwal:** So on the sheeting capacity are we still tracking broadly the 40% - 50% utilization or there has been some positive delta out there?
- Shrikant Himatsingka:** The 40% - 50% number ma'am was with regard to the fresh capacity
- Shraddha Agarwal:** The incremental capacity, yes.
- Shrikant Himatsingka:** And so cumulatively from our earlier and fresh capacities put together we are currently stable, that is right.
- Shraddha Agarwal:** And we expect that to be range bound going into 2H as well?
- Shrikant Himatsingka:** As we see things now, that is right. But as I said earlier, during the call, that is just our view for the next 20 weeks - 24 weeks as we see it. But going into FY 2019 we continue to see the uptick.
- Shraddha Agarwal:** Right. Sir, on the retail and distribution bit I know we have stopped disclosing the revenue and margins. But any qualitative description would be useful in the sense that how are we tracking on the margin in the sense that has there been some improvement whatever exercises in terms of brand consolidation or in terms of getting out of private labels which were not profitable. Are those exercises done and are we looking at a profitable, improving profitability in this business now?
- Shrikant Himatsingka:** Ma'am I cannot comment specifically on that segment. As you right noted, we now look at ourselves and talk about ourselves as an integrated model. We do think that while it might cause some short-term inconvenience as far as interpretation of some numbers are concerned, it will actually land up driving a lot of clarity for our stakeholders. So, as you can see the first-half has seen a robust sort of performance from brands as far as revenues is concerned. We shared with us the fact that we have crossed the Rs. 700 crores mark during the first-half, we do recall FY 2017 total revenue from brands stood at Rs. 1,200 crores. So we are clearly tracking some positive momentum there. So that is one thing to report back as far as brands is

concerned. The second is the strong traction we are seeing on our cotton brands and the Pimacott, Organicot and HomeGrown brands that we launched and the fact that we are global leaders in the track and trace space. We were not only the first, but we are the only with DNA tagging technology. As the earlier, lady had asked whether we see a lot of brand sort of sensitivity vis-à-vis our retail clients, we absolutely do. So, we think our cotton brands and brands like Calvin Klein, Kate Spade, our Italian luxury brand Bellora, all of these brands are going to see further traction as we go along. So, our focus on enhancing revenue streams from brands absolutely continues and I would say that and urge that you look at our holistic model the fact that we manufacture, retail and distribute home textiles as a holistic model and the margin profile that you are seeing really is part of that integrated model.

Shraddha Agarwal: That is helpful. Sir, secondly, I mean could you quantify the duty drawback impact for us. You said marginal impact, but any number would be helpful.

Shrikant Himatsingka: I am afraid, we cannot quantify the number ma'am. We are assessing granular aspects of the impact as far we are concerned because it is a confluence of several things including GST impacts on various kinds of inputs. So, we are working on seeing how to mitigate this impact beginning Q3. As we stated earlier, we expect to see some subsidies from the Government of Karnataka substantially beginning in Q4 obviously after our spinning plant in completion. And we are also looking at seeing how else to mitigate such impact including further improvement and efficiencies, including enhanced product mix if possible. Needless to say various industries bodies are in dialog with Government to look at these ways.

Shraddha Agarwal: Sir, I was just keen on understand excluding of the mitigating factors which we would any which way do in our business model. But excluding of these positive, what would be the incremental hit on margins just because this reduction in the rate of duty drawback because peers have kind of quantified the impact, so just some number from your end would be useful.

Shrikant Himatsingka: Sorry, who has quantified the impact?

Shraddha Agarwal: I mean, the other textile players have quantified the impact because of cut in duty drawback.

Shrikant Himatsingka: And what have they said?

Shraddha Agarwal: So from Government current duty draw back on export is 7.5%, which is coming now to 2.5% but at the same time they would be availing the input tax credit which would be close to 5%. So cumulatively ROSL plus duty drawback which was close to 11% that in fact would come down to 8%. So, net to net 250 bps to 300 bps is negative impact because of gains in duty drawback structure?

Shrikant Himatsingka: That is directionally correct.

Shraddha Agarwal: So are we on the same track or is there something different for us?

Shrikant Himatsingka: As I said, what you just mentioned is directionally correct.

- Shraddha Agarwal:** Okay. And sir, last question from my end, would it possible for us to quantify the proportion of Pimacott cotton in the total cotton consumed by us?
- Shrikant Himatsingka:** I am afraid not, ma'am. I just like to add that amongst other mitigation measures optimization of raw material costs are also an important tool that will be availed.
- Moderator:** Thank you. We take the next question from the line of Hem Agrawal, Individual Investor. Please go ahead.
- Hem Agrawal:** A couple of questions one is on the depreciation figure. Once the spinning plan goes into production, will the depreciation figure increase from the fourth quarter this year?
- Shrikant Himatsingka:** Absolutely.
- Hem Agrawal:** It will, yes. Any quantum that we can expect, sir?
- Shrikant Himatsingka:** You will see pretty shortly, sir.
- Hem Agrawal:** Okay. Now the other thing is that I think, I understood you saying that you will be selling some of the extra capacity you have of the fine yarn because of the quality of the product.
- Shrikant Himatsingka:** It is a fair question. I would like to clarify this. I would once again, reiterate that the spinning facility that we are building with a capacity of 211584 spindles is a backward integration initiative as communicated later. We do not have any extra capacity. We can currently consume the entire capacity of this plant for captive consumption. What I did state earlier is we saw opportunity in selling certain kinds of yarn including yarn that is embedded with our DNA technology to select clients and we would like to embrace this opportunity selectively going forward. But that does not mean we are utilizing extra capacity, we might be diverting some capacity to tap these opportunities.
- Hem Agrawal:** Sir, thank you very much for that clarification. Now, sir I just wanted to ask one question, it is a little bit on the terry towels project. We are going to be in production in sometime and we will be making 25,000 tonnes per annum. I am trying to get a handle approximately selling price of the terry towel would be in the range of like \$10 per kilogram? Actually I am just trying to get a little feel.
- Shrikant Himatsingka:** Let me answer you in a different way. I would urge you not to look at realization per kg as necessarily a measure because that could vary by product mix. But the group intends to invest in a 25,000 tonnes per annum plan. And typically, that segment is characterized by asset turnover ratios in the region of two. So that could probably give you an idea as to what the revenues could come in at from plants of this nature once they are stable of course.
- Moderator:** Thank you. We take the next question from the line of Dhwanil Shah from iWealth Management. Please go ahead.

- Dhwanil Shah:** Sir, I had couple of questions, sir. One of the incremental utilization, sir as you said it has been pretty stable. So sir, what is our sense on this? I mean, in the H2 sir, we were earlier planning to increase this. Sir, how confident are you on this, sir?
- Shrikant Himatsingka:** Dhwanil, we were not planning to increase it. What I said was, the first-half has seen stable utilization levels. And for the second-half we continue to see stable utilization levels as far as sheeting is concerned. However, that is only for the H2 going into FY 2019, I think we should resume strong organic growth rates for sheeting utilization.
- Dhwanil Shah:** Okay. So sir, versus H1, are we expecting incremental utilization to improve or it will be in the similar range?
- Shrikant Himatsingka:** It could be in the similar range.
- Dhwanil Shah:** Similar range.
- Shrikant Himatsingka:** As far as the second-half of FY 2018 is concerned. But see this is to be construed through the end of FY 2018. Beyond that I see growth resume.
- Dhwanil Shah:** Okay. And then sir, your outlook sir on the industry, you have been seeing there have been some kind of pressure coming in even on the retailers have been in terms of pricing?
- Shrikant Himatsingka:** It is actually a fair question.
- Dhwanil Shah:** So what is your view on this sir I mean? Are competitions increasing?
- Shrikant Himatsingka:** I think, the industry will continue to see consolidation on the supply side. I think, the requirements for corporates to grow in this segment will be more than just capacities, companies will have to have promising IP portfolios that is relevant for our global clientele and adds value to their offering. Near capacities arbitrage in pricing, these things alone would make it difficult for our companies to navigate near-term pressures in global industry in terms of changing shopping habits and allied pricing pressures and things like that. So overall, I think that from the supply side, we would have to continue to focus on building credible brands. Of course, continue to have capacities that are globally relevant and a combination of this would make us more relevant for our clientele.
- Dhwanil Shah:** Sure. But sir, in terms of players giving to the retailers also, so are there new players coming in terms of from different countries now?
- Shrikant Himatsingka:** I think, if I take a global view and see how many fresh entrants there has been, I do not see any actually. It is a pretty club of players globally at this point. I am talking about material players. There could be movement below a certain size and scale. But in the medium scale to large scale players on the retail front, etc., we have not seen any new participants as such. We have seen some in the e-Commerce space but not in the brick and mortar space.

- Dhwanil Shah:** Okay. Sir once our new spinning project comes into picture, how will the gross margins improve from here, sir? Is 100% we are going to utilize in-house only?
- Shrikant Himatsingka:** Mathematically, should we utilize all capacities for in-house consumption that will have a positive kick-on both gross margin and EBITDA margins. As I stated earlier, we do not have any surplus capacity. But we are keen on exploring opportunities to make products that have embedded technology and are therefore, specialized in nature. And keen to look at reserving some capacities to embrace such opportunities. To that extent gross margin may improve but EBITDA margins will change to the extent that such external revenue streams will bring in for the company.
- Dhwanil Shah:** Okay. Sir, 200 bps to 300 bps, can we model into it, sir?
- Shrikant Himatsingka:** I cannot answer that, sir, unfortunately.
- Dhwanil Shah:** Ballpark, sir, I mean.
- Shrikant Himatsingka:** That is up to you to crunch the number, think.
- Moderator:** Thank you. We take the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Someone asked you a question about the reasoning for reduction in EBITDA margins over the last quarter and I believe you said most of it was due to the GST. Just want to clarify what role did GST play in reduction of your margins?
- Shrikant Himatsingka:** Well, several inputs for raw material services, etc., was subject to GST during the Quarter and so we had to bear impacts across the board.
- Arjun Sengar:** Okay. So you would be getting credit for them at some point into the future?
- Shrikant Himatsingka:** Well, as far as going forward is concerned, yes. But not during the Second Quarter because the transitional provisions with regard to other export incentives were in force. And therefore, we could claim any credits because it was not mathematically interesting.
- Arjun Sengar:** Okay. But then, at the same time, you would be having a lower duty drawback, right? So my question is, I mean, is this basically a new normal.
- Shrikant Himatsingka:** Your question is fair. What I urge you to do is separate Q2 going forward from here because during the Second Quarter the Government of India continued to have enforce the same incentive structure that prevailed pre-GST. Only post Q2 when the regime kick-in at which point to the best of our knowledge companies in our industry will seek credits. But for Q2 we have had to bear the enhanced impact of GST vis-à-vis the CST that prevailed earlier.

- Arjun Sengar:** Okay. So my second question is relating to the U. S. market. Currently what percentage of total home textile sales happens through e-Commerce right now over there?
- Shrikant Himatsingka:** I would have to get back to you on that offline. I would have to look it up.
- Arjun Sengar:** Sure. I mean do you see this trend increasing as a rapid pace next three years to four years? And I mean, if you see that what kind of an impact would that have on our industry?
- Shrikant Himatsingka:** Well, you know what the e-Commerce sales as far as SoftHome is concerned is not category that sees a huge movement on the e-Commerce front. May be other categories see much large movement as far as our knowledge goes. So it is not like we are seeing a great increase in quantum of sales on e-Commerce channels. They pose other kinds of risks to brick and mortar retailers, but it is not like we are seeing explosive sales happening on e-Commerce. In fact, it comes with its own challenges. So do I think it is going to grow? Yes. But I think, the growth rates vis-à-vis SoftHome products will be reasonable and nothing explosive.
- Arjun Sengar:** Sure. So lastly, you were saying that the demand scenario in U. S. is a little bit stable or may be slightly sluggish. So what has happened in the U. S. market to led to the sluggishness in demand?
- Shrikant Himatsingka:** I do not think, it is sluggish, I said stable and it is not the stability in the macro demand as far as imports of the U. S. is concerned is not something that is a phenomenon limited to Q2. It has been around for some time now. So the question and focus really turns to company specific performance and how specific companies are gaining market share versus someone else. So I do not think it is a new phenomenon, I think it is going to continue to be stable going forward. But the question really will be the various strategies that one deploys to enhance market share. And our strategies led by brands and technology that we believe will help us differentiate ourselves sustainably.
- Arjun Sengar:** Sure. And sir, in the counts of cotton that you typically deal in, is there a reasonable reduction in prices in this new season or is that only mostly limited to the slightly lower value cotton?
- Shrikant Himatsingka:** I think, it is a mix bag. So on some fronts, we could see some reduction as I stated earlier to one of the questions. Raw material optimization could be one of the ways to mitigate any impacts that is going to begin starting Q3 as far as some export incentives are concerned. But I think, largely, I see that to be stable at this point.
- Arjun Sengar:** Okay. And if you would like to sir, could you give us the average count of cotton that you typically use?
- Shrikant Himatsingka:** I am afraid, I cannot share that and that is not how we track internally as well. But we do track in certain respects, but I would not be able to share unfortunately. But what I could share is and what I have shared earlier is that our new spinning facility will be fine count facility. So it is safe to assume that substantial quantum of consumption as far as Himatsingka is concerned is fine count.

- Moderator:** Thank you. We take the next question from the line of Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** In your comments you mentioned that you are looking at growing in the Europe market and because of the duty differential that has existed there, it has been a little difficult for at least Indian players to grow their market share there. So from our side what kind of strategy are we looking at? Will we be operating in the premium range like we have traditionally in the U. S.?
- Shrikant Himatsingka:** Well, in the U. S. we do not operate only in the premium, we operate across the spectrum, I would say lower mid to premium. We will attack the same segments in Europe and our underlying set of focus will be driven by brands and other points of differentiation including technology that we have just sort of developed and putting in place as far as cotton is concerned. So a confluence of these things Nihal we will have to take it through.
- Nihal Jham:** Sure. Would it you say mainly we done via Bellora you are seeing increase in exports also.
- Shrikant Himatsingka:** Both. Mainly exports. Bellora is of course, it is a different microcosm that we are also looking and focusing on. But when I talk to you about substantially enhancing European presence, it will also be largely driven by exporting to that market.
- Nihal Jham:** Okay. Sure, sir. Just one last question on towels, we are looking at commencing in H2. By when do we expect this unit to be in a state of being commissioned?
- Shrikant Himatsingka:** We are just working on a few things Nihal, which is why even in last call, we had kept it broad to H2 because we are not certain as to exactly when we will commence construction. But as soon as we do we will of course let stakeholders know.
- Moderator:** Thank you. We take the next question from the line of Akhil Kalluri from Franklin Templeton. Please go ahead.
- Akhil Kalluri:** Sir, you were highlighting that on the e-Commerce side, you have more players who are coming in the market. So just want to understand that if there are material differences in terms of servicing a brick and mortar client versus an e-Commerce client.
- Shrikant Himatsingka:** Good question. When I say many players, at least to the best of my knowledge, I mean it is not like they are new players by the 100's. There is a few new substantial players. But the essential difference in servicing e-Commerce players is essentially flexibility on the supply chain, that is the requirements which we are equipped to do of course like other players are. So I do not think that ability is something extraordinary, that is something that all good players have. So I guess that is the differentiation in terms of servicing. I hope I am answering your question.
- Akhil Kalluri:** Yes. So, sir, if you can elaborate a bit more on when you talk about flexibility of supply chain, is it more to do with the order sizes, etc., if you can just elaborate a bit more on that.

- Shrikant Himatsingka:** It has everything to do with order sizes. It has the ability to ship very small numbers to specific end consumers directly. It also involves a lot of repackaging, returns, etc., so you have to be very flexible on that front. So it comes with its own challenges and so on.
- Akhil Kalluri:** Right, understood. Fair enough. But at least in terms of say our own brand such as CK, etc., are we open to the idea of sending them on e-Commerce and if yes, are we seeing any traction if you are already doing that?
- Shrikant Himatsingka:** We have been doing that for a long time. We have been seeing reasonable growth rates, as I said in a response to an earlier question. At least as far as we are concerned as Himatsingka and may be that is not the only way to see it. But as far as we are concerned, we are present with e-Commerce sales across several brands of ours, not just one. But we only sort of land up seeing moderate to low-moderate growth rates. We do not see anything super explosive which is why we tend to believe that the SoftHome category of product is not as elastic to the larger movements we are seeing in the e-Commerce space. That is at least our reading.
- Akhil Kalluri:** Fair enough. Thank you. Just one question for you. So you highlighted a net debt as of the end of the quarter was about Rs. 1,800 crores. Can you throw some light on how you see the leverage changing over the next 12 months to 18 months and where do you see the peak debt levels for the company?
- Shrikant Himatsingka:** I can definitely tell you how we see leverage changing. It will be driven by essentially our projects. One stands completed as of October 2016. Spinning is coming to completion as I said. So most of the debt that needs to be taken from the spinning front, it must be in its last stages of taking any fresh debt. That leaves us with the terry facility which will add some debt. And if at all any working capital requirements we have seen some congestion on working capital I must admit over a last six months - eight months. And partly because of congestion on the GST front, we have had some timing mismatches on receipt of export incentives, etc., it is an industry phenomenon and I hope to see working capital congestion ease out. So if we could keep working capital largely stable that leaves us only with the addition of the terry towel project going forward.
- Akhil Kalluri:** Sure, fair enough. And could you also highlight the total CAPEX that we would have incurred during the first-half, a ball park number will help.
- Shrikant Himatsingka:** We do not have that. But just to remind you the total CAPEX outlay was approximately Rs. 1,300 crores of which two projects stand complete. We have shared specific break-up for each project because they are all in one campus and they have several common assets. But two having been completed I think as far as terry is concerned that is the only project we see ahead of us right now. And mind you, even in terry towels when we say that the capacity will be 25,000 tonnes per annum it is not like we will sort of pay it a little bit because it is not like these kinds of plans are populated just on day one.

- Moderator:** Thank you. We take the next question from the line of Harish Siyag, an Individual Investor. Please go ahead.
- Harish Siyag:** My question is on the terry towel project. What is approximately CAPEX for that project?
- Shrikant Himatsingka:** We have not disclosed any separate CAPEXes here because they are all in the same campus, they have some common assets and things like that. So, that is pretty much our view.
- Harish Siyag:** Okay. What would be our USP for terry towel project because there are many operators in terry towels now-a-days?
- Shrikant Himatsingka:** Our USP will be brands.
- Harish Siyag:** Approximately when it will get commissionized any idea?
- Shrikant Himatsingka:** One year from the time we commence construction.
- Harish Siyag:** Okay. That is yet to start after six months, you said.
- Shrikant Himatsingka:** We said, we will start during H2.
- Moderator:** Thank you. Ladies and Gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.
- Shrikant Himatsingka:** Well, on behalf of Himatsingka, we thank you all for taking the time to join us for this Earnings Call. Do reach out to us should you have any further questions, we will be happy to take them offline. And as always, we look forward to our next interactions. Thank you very much.
- Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.