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**Himatsingka Seide Limited**

**10/24, Kumara Krupa Road, High Grounds, Bangalore 560 001**

**Q1 FY 14 Earnings Conference Call**

**August 13<sup>th</sup>, 2013**



**Moderator:**

A very good afternoon, ladies and gentlemen. I am Anchal Rastogi, the moderator of this call. Thank you for standing by, and welcome to the Himatsingka Seide Limited First Quarter Financial Year 14 Earnings Conference Call. For the duration of presentation, all participants' lines will be in a listen-only mode. And we'll have a question-and-answer session after the presentation. I would like to now hand over the conference to Mr. Amit Mishra from Macquarie Capital Securities. Over to you, sir.

**Amit Mishra:**

Good afternoon, everyone. It is our pleasure to host Himatsingka Seide post results conference call today. And thank you very much all of you for participating on it. To represent the company we have with us today Mr. KP Pradeep, President Finance and Group CFO; and Mr. Ashok Sharma, GM Treasury, Taxation and Company Secretary. I would now like to hand over the call to the management team for first brief background to the results, and then we'll open the floor for Q&A. Over to you, sir.

**KP Pradeep:**

Good morning, everybody. This is Pradeep. Thank you for joining the call. I would like to give you a brief summary on our first quarter results for FY14. I will take you through the performance of the manufacturing divisions and then retail and distribution divisions, followed by the consolidated performance of the group.

For the first quarter ended June 30<sup>th</sup> FY 13, manufacturing posted revenues from operations of Rs. 213.91 crores, a growth of 31.5% over Rs. 162.65 crores during the same period last year. The growth was led by higher volumes and improved constant currency realisations. For bed linen, the average realisation increased by 9.9% to Rs. 358 per metre, from Rs. 326 per metre same quarter last year. In the drapery and upholstery division, average realisations increased by 1.9% to Rs. 1178 per metre, from Rs. 1156 per metre. The EBITDA, including other income, increased by 29.8% to Rs. 37.32 crores, from Rs. 28.75 crores during the same period last year. The capacity utilisation for the bed linen plants was 83%, and that for drapery and upholstery plant was around 48%.

The interest and finance charges in manufacturing division increased to Rs. 11.65 crores from 9.19 crores in the previous year. The increase in cost was due to increase in interest rate



pursuant to reset of a TUF loan that we have had in the quarter, and a one-time upfront charge of Rs. 1.87 crores for working capital facility.

Foreign exchange loss or gain has been regrouped as interest and finance charges pursuant to the requirement of Accounting Standard 16 as they relate to working capital borrowing of Packing Credit in Foreign Currency. So the difference between interest on local currency working capital borrowing and foreign currency borrowing is regarded as an adjustment to the interest cost. So in this quarter we have had an amount of Rs. 1.64 crores on account of this regroup as against 2.66 crores in the previous year.

The net profit has increased by 56% to Rs. 14.13 crores on the manufacturing side, from Rs. 9.05 in the same quarter previous year.

The distribution business in the North Americas, which includes Divatex, our private label business, and DWI, our branded business, have clocked growth of 26.6%. The revenue from operations during the quarter stood at 401 crores, versus Rs. 317 crores last year.

The EBITDA for the quarter was Rs. 18.33 crores, as against Rs. 11.35 crores last year, a growth of 61.6%.

Revenues in Divatex which focuses on our private label business has grown 28.5% to Rs. 291.09 crores versus 276.52 crores in the last year. Revenues of our DWI divisions which manages brands grew 21.9% to Rs. 109.22 crores versus 89.62 crores last year. We continue to see stability in the demand for our brands and our private label businesses in these markets.

As regards retail business in India and Asia represented by Atmosphere, revenues for the quarter were Rs. 10.79 crores versus Rs. 13.12 crores during the last year. The decline of around 17.7%, mainly due to lack of institutional orders in this quarter. The increased marketing spends and the increase in rentals in some of the showrooms have also resulted in higher operating costs in this division. The EBITDA for the quarter, including other income, was Rs. 0.64 crores versus Rs. 2.63 crores in the previous year.



The revenue for the distribution division in Europe came in at Rs. 21.62 crores for the quarter versus Rs. 22.42 crores in the previous year, a de-growth of 3.6%. The EBITDA for the quarter was a negative 2.46 crores as against the negative of 3.19 crores in the previous year. We anticipate that the initiatives that have started in this division should help mitigate our loss over the next few quarters.

So the group has clocked consolidated revenues of Rs. 477.70 crores versus 382.45 crores in the previous year, a growth of 24.9%. The consolidated EBITDA, including other income for the quarter, stood at Rs. 50.56 crores versus Rs. 39.58 crores in the previous year, a growth of 27.7%. If you look at our consolidated performance, the finance cost, interest and finance charges were 19.34 crores against Rs. 16.34 crores in the previous year.

The breakup of interest and finance charges is as follows. We have interest of around 13 crores. Finance charges include bank charges of 2.8 crores, the one-time upfront charge that I was referring to earlier of 1.87 crores, and the regroup of the Foreign Exchange loss as interest cost amounting to around 1.64 crores. So that amounts to 19.34 crores. So normalised for the one-time Rs. 1.87 crores on write off of upfront charges, our interest costs are range bound.

The consolidated Profit Before Tax is at Rs. 18.16 crores, versus Rs. 11.09 crores in this previous year, a growth of 63.8%. The consolidated Profit After Tax and minority interest is Rs. 15.54 crores for the quarter versus 10.4 crores during the previous year, a growth of 59%.

On the raw material front, cotton prices have shown an increasing trend of roughly around 5% increase in cost for the quarter, but these are well within manageable levels and have remained range bound. Silk yarn prices have also increased over the same quarter previous year. We have purchased in the region of around \$53 for a kilo of a filature, which was around \$45 same period last quarter. We expect these prices to stabilise at these levels. We have covered cotton yarn purchases for the next three months to meet requirements of our orders.

On the debt side, the total debt outstanding as of 30<sup>th</sup> June 2013 is Rs. 706 crores, 552 crores being the term debt and



154 crores being the working capital debt. The company's effective cost of debt is at 6.21%, as compared to 6.37 % in the previous sequential quarter. The net debt as of June 30<sup>th</sup> was Rs. 677 crores. During the period ended 30<sup>th</sup> June, we have repaid debt of around Rs. 22 crores. The debt that is still be paid for the remaining part of this year is around Rs. 70 crores.

Our Capex incurred is around Rs. 3 crores this quarter. We anticipate a total Capex of around Rs. 15 crores for the year.

Our Retail stores "atmosphere" continue to be 14 in number, 12 in India, one in Dubai and one in Singapore.

On the order book, the total order book for the manufacturing division is around 336 crores, which is around 317 crores for the Bedding division and around 19 crores for the Drapery and Upholstery division. It amounts to two quarters sales in the Bedding side and one quarter in the Drapery and Upholstery side.

On the foreign exchange front, we are covered at an average rate of around Rs. 56 for the next two quarters. We have seen volatility in Exchange rates in the last quarter. We have a Foreign exchange risk management policy and we address the volatility through this policy. .

So overall, this sums up the performance of the quarter and the year ended 30<sup>th</sup> June 2013. Back to you, Amit. I'll be glad to take questions.

**Moderator:**

Thank you so much, sir. Participants, those who wish to ask questions, they can press "0" "1" on their telephone keypads and we would announce their names. I repeat, any questions from participants, please press "0" "1" on your telephone keypad. And the first question is coming from Mr. Lalit, and he's a shareholder. Sir, please go ahead and ask your question.

**Lalit:**

Good afternoon, sir. And congratulations on a good set of numbers.

**KP Pradeep:**

Thank you.

**Lalit:**

My question is regarding the note number two mentioned in the results release regarding this 609 lakhs of unhedged



foreign currency loss. So is it like the loss which we have incurred because of the coverage we have taken... because of the coverage policy of two months coverage what we are taking?

**KP Pradeep:** The PCFC which is the packing credit in foreign currency is a manner of drawing working capital for a company. Due to the nature of the financing, it also helps in hedging future receivables. As a result, it gets the same nature of a forward contract. The same is therefore accounted under the Accounting Standard 30. This is a notional amount and represents the Mark to Market. The Accounting Standard is not yet mandatory and since it's an early adoption it finds mention in the published results for greater clarity. It depends on how the Rupee would behave in the future going forward, because all the PCFCs that have been taken and are outstanding as of the June 30<sup>th</sup>, will fructify in the period going forward. And the final impact on the accounts will depend on exchange rate at that point of time when the transaction fructifies.

**Lalit:** So how much amount is outstanding under PCFC, sir?

**KP Pradeep:** Around 20 million dollars approximately

**Lalit:** So this is 20 million loan. And what is the repayment period for this?

**KP Pradeep:** These are all repayable over 60 to 90 days.

**Lalit:** So if understand, 60 to 90 days means this is due in the next one quarter?

**KP Pradeep:** This is due in the next quarter.

**Lalit:** See, what I want to know is, as on June, the dollar rate was around 56?

**KP Pradeep:** As on June end?

**Lalit:** June end, yeah.

**KP Pradeep:** 59.

**Lalit:** 59?



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- KP Pradeep:** Yeah.
- Lalit:** So now we are in 61-62 range. I understand that this loss will further increase.
- KP Pradeep:** You will have a contra with higher sales.
- Lalit:** Okay. So we are taking... no, I'm just understanding... what was the accounting treatment finally when the maturity of this PCFC?
- KP Pradeep:** In PCFC what happens is that when you take a working capital loan in dollars , that loan has to be settled in dollar because it is a pre-shipment credit in foreign currency. So the translation is notional . If you were allowed to account for your sales at the rate at which you realise, you won't have an item of this nature.
- Lalit:** Okay, sir. Yeah. No issues.
- Moderator:** Thank you so much. Any other questions from any other participants, please press "0" "1" on your telephone keypads. The next question is from Mr. Arpit Ranglav [ph]. And he's also a shareholder. Please go ahead with your question, sir.
- Arpit Ranglav:** Yeah. Good afternoon, everybody. So I have a few questions here, and so I'll start off with, say, how does the ForEx, say Rupee at 60 as compared to less than 50, and maybe say a year ago, impacts our business in the medium term, right? In a sense. So do we pass on benefits that we get out of higher realisation to the customers or do you think there is scope for us to keep up some of the benefits that will accrue and probably expand the margins [Unclear]. So if you can just sort of help us understand that how exactly this ForEx volatility further impact our business, that would be helpful.
- KP Pradeep:** As per our foreign exchange policy we cover our Foreign Exchange exposures through simple forwards. The booking is done on the net position, basis our order book and forecast which extends to a maximum of 9 months. The Rupee has been depreciating and the volatility is extreme as we have seen over the last two to three months. For companies which follow a risk management policy it will be difficult to realise current Rupee dollar rates as the forward that we have booked in the past have already locked in to rates. So we are receiving the current rates only for the future months based



on the forecasted inflows. So I wanted to firstly clarify that we are not currently receiving spot dollar rates for our receivables. Let's say if the Rupee continues to depreciate at this rate, and if the depreciation is sustained, beyond a certain level you would find reverse pressure from customers to relook constant currency prices. We don't believe we have yet reached that point on a sustainable basis. Our foreign exchange policy ensures very conservatively that we are at the upper end of the average. So let's say the average is around 54 or 55, our policy will realise around 56 or 57. We will never be able to touch 61 which is the market rate as of today. But having said that, there is a more fundamental point I am trying to make that while the exchange may depreciate or appreciate, inherent volatility of such a nature is not good for corporates with exposure. Further fundamental depreciation in currency only gives you a short term benefit as the costs start catching up and the gain neutralises. We look forward to a regime of some stability rather than such high volatility.

**Arpit Rangav:**

Sure. [Unclear] broadly understand that. From what I understand, what you're saying is that all this volatility leads in a lot of uncertainty into the business in how you end up contracting with the customers and all. But my question is slightly different here. For example, if you were to look at it [Unclear] three perspectives from today, right?

**KP Pradeep:**

From a? Sorry.

**Arpit Rangav:**

[Multiple Speakers] difficult... from a three-year perspective or a two-year perspective, which extends much beyond the two-year hedge that you typically carry on your books. So how do you see from that perspective? Because I remember that in 2011 or 2010, when you had massive amount of cost (inaudible 0:20:55.5) coming up because of increases in cotton and silk you had taken price increases at your customer level and stuff like that. So that gave us some sense that there was some pricing power that we as a company and as a product sort of command in the market. So that is what I am trying to understand here, that... So it's one way to look at not just in terms of stability of business in the near term, but also in terms of how does this change the nature of our business. For example, let's assume six months we'll probably continue to do business as 10-11% margin which we are currently doing, but beyond that, would [Unclear] any way position us to expand our margins to historically... or



maybe say 13-14% or something like that, assuming that Rupee remains at 60 or somewhere along these lines. Do you see that... even if it remains at 60, that is a very, very bleak profitability because we'll have to pass on the benefits arising out of this to the customer. So I'm trying to understand beyond the six months which sort of locks in the profitability for the near term. But what happens in the near term, in the long term, assuming that this remains favourable for us?

**KP Pradeep:**

In the long run, on the logic that this remains favourable and the Rupee continues to depreciate at this extent, the company will definitely get the benefit of the exchange. However there is no one-way street on this because for example if Rupee were to become 65 on a sustainable basis, I believe customers would come back and ask for some benefits of the depreciation. As you mentioned, when the raw material pressure was high in the past, what happened was finally the manufacturers had to push the value chain to get the cost escalation reimbursed only when the escalation was sustained over a period of time.

**Arpit Rangrav:**

Sure. That's a fair point. Thanks for that. And if I can follow it up with what... sir, we have had a 25% growth this quarter as compared to same quarter last year. What is driving it? Is it volume? Is it value? And also what are the driving forces either way, because we keep reading that after five-year period in terms of US housing market phase we are seeing drivers there. So is there a correlation between activity on that front versus the amount of business that we end up doing?

**KP Pradeep:**

We see stability in the North American market where we are present in a significant way. For example, if you see the growth in the North American markets, the constant currency growth itself has been 21% and the rupee translation is 5 % giving an overall increase of 26 %. We continue to see a very stable market. Many of the programmes that we are currently handling are also long production programmes which are over one or two years. As the distribution sources 50 % of its requirements from our plants, we are also getting the benefits of capacity utilisation at our plants.

**Arpit Rangrav:**

Okay. So that's really a reassuring factor there. So if you were to translate this into, say, the higher value added segment in our manufacturing space [Unclear] you had given a figure of 19 crores order book which you said is



specifically about one quarter sales there. And if I recall the last financial year, we're just somewhere about 80-85 crores. So I just want to understand. Is this 21% volume growth that you are talking about, is it driven by the bedding which is a low margin segment or drapery also is seeing relatively better tracks [Unclear] market?

**KP Pradeep:**

So like I mentioned, the manufacturing growth this time was driven largely due to the bedding side. The margins have also improved. We are seeing stability coming this year in the drapery and upholstery side of the business.

**Arpit Ranglav:**

Okay. So if I can just raise another question on the CapEx here, right? Because once... So if I can just point out that [Unclear] which has been communicated by the management is that we are in the frame of [Unclear] our assets going ahead, and no significant CapEx on [Unclear] plan, so the key is to reduce the debt. So is it impact? Because for example, if we start running our bedding plant at 100% [Unclear], will we go ahead and put on an asset CapEx again or the priority today is to focus on bringing out the debts from about 700 crores to 300, 400 which you have spoken about, over the next two years? So I just want to understand. Because I understand it is not very easy to formulate a plan and stick to it because you probably as business required you, you change your plan as such. I want to understand management's stand that is debt reduction still remains the key criteria we are after or if growth comes in the bedding then we'll probably announce a CapEx plan there as well?

**KP Pradeep:**

We were at an 83% capacity utilisation in the bed linen division and moving quickly towards the 90% to 95% level. At this rate we will fill our capacities at the bedding plant shortly. Our greenfield expansion in Bedding cost us Rs. 515 crore. Hypothetically if we were to expand capacity it could be done at a fraction of the earlier cost since it would be a brownfield expansion. For example if we were to expand our processing capacity of 60,000 metres to 120,000 metres it should cost us roughly around 70 to 75 crores and make the return very interesting to us.

**Arpit Ranglav:**

Okay.

**KP Pradeep:**

This would literally mean doubling the capacity of the plant. All the facilities are already available and there are no additional civil structures required. The subsequent CapEx



will provide great leverage on the existing facility and enhances your capacity very significantly without providing too much of a drag on your capital structure. We don't have this on our agenda at the moment but this looks very interesting as a proposal. Having said that we will continue to reduce our debt in the normal course based on scheduled repayments. If you see our debt today, we have a gross debt of 706 crores, our net debt is 675 crores, and also in this number is translation impact of debt taken in overseas subsidiaries of 20 crores. This has no cashflow implication because all this debt taken in the US is repaid in dollars in the US. And so the debt reduction is continuing, as repayments continue to keep happening in this year and in the next year.

**Arpit Rangkv:** Sure. No because that's one of the factors that [Unclear] in the way we are approaching this, it's good to know that that's pretty much on the radar of the management. So assuming that this year you will repay about 85-90 crores, a similar thought also debt reduction could happen next year, is that a fair assumption or it will be more...

**KP Pradeep:** Based on our repayments FY15 debt reduction would be 125 crores.

**Arpit Rangkv:** Thank you. Okay, that sounds great. And on the debt front especially in the context of the latest, as you said that we have done on [Unclear] so our cost of that is somewhere around 5-6% today, now what's the visibility on this front? Because one thing that could hurt us is what if the cost of debt was to go up to say 9% or 10% which is typically the norm when you have a normal term loans sitting on your books, which is not the case today. So what's the outlook there? Do you see those cost of debt going up significantly or do you have a good amount of certainty that this will remain at 6% over the next three to five years?

**KP Pradeep:** I can't give a three to five year perspective on debt because it's a little difficult to predict interest rates over five years. But from what I see it appears that our debt could be range-bound and we should be able to manage overall interest rates within this range.

**Arpit Rangkv:** Okay. No the reason I used a three year, five year perspective was because there's been lots of talk about TUF being taken away or being reframed over the last two, three years. So



that's where, I mean, could it continue beyond the 10, 12 that we have seen over the last decade or... so basically that uncertainty remains, and then as long as it remains the way it is structured today, you are saying 6-6.5 is maintainable. There is a...

**KP Pradeep:**

Firstly once TUF debt is taken, the maturity is for ten years, we have a two year moratorium and a eight year repayment structure. So when the government announces that there is no more TUF, it means no new proposals will come under TUF. However the existing proposals which are complete will continue to get the benefit of TUF. . Second we understand from the Textiles Ministry that the TUF scheme will continue. So I see no reason to think otherwise. But I'd like to again reiterate that all existing proposals which have already been cleared through TUF continue to get the benefit of TUF.

**Arpit Rangkav:**

Sure. So that way our existing loan book irrespective of any changes to the TUF scheme will continue at the rate that we have taken. For example, the recent reset that we have done at probably slightly higher rate, it's for a ten year period. Is this the right way to understand the speed of the business here?

**KP Pradeep:**

Yes we will maintain our interest rates by addressing the mix of debt. TUF loans are subject to specific terms of the loan and has a reset after seven years. Reset will impact overall costs. The 5% subsidy on interest cost will continue for our existing TUF loans.

**Arpit Rangkav:**

Okay. And so what will be the contribution of TUF loan in the 700 crore loan that we have? We have also the dollar denominated debt would be how much? If you could clarify that.

**KP Pradeep:**

Just hold on, Arpit, I will give you that number.

**Arpit Rangkav:**

Yes, sure.

**KP Pradeep:**

The TUF loan is around Rs.226 crores and the total overall term loan is Rs. 552 crores. The dollar loan in the overseas entity is around 175 crores.

**Arpit Rangkav:**

Okay. Thanks a lot. Just one final question. There is a minority gain which continues to accrue to us every quarter,



and last year financial it was about 4.4 crores, something like that. If you could elaborate a bit on that where is it coming from and just sort of give us an overview on that.

**KP Pradeep:** The European subsidiary Bellora, is a 70/30 venture which is 70% owned by Himatsingka and 30% by the minority partner. As per accounting where there is a loss there is a 30% share of the minority in that loss.

**Arpit Rangkv:** No, I didn't get it. You said...

**KP Pradeep:** Let's say on the consolidated EBITDA we have a loss of for example 2 crores, we account for the whole loss of 100% at the EBITDA level and take a reduction in loss at the PBT level under minority interest which is in this example 30% of Rs. 2 crores, that is Rs. 60 lakhs.

**Arpit Rangkv:** Okay. I understand we have a loss of about 16 odd crores, so that's why the 30% round about is about 4/4.5 is accrued as a gain to us. So it's effectively not a gain, it's a loss which you taken up in the operating line, it will be...

**KP Pradeep:** Our share of loss is 70%.

**Arpit Rangkv:** Fair enough. So that certainly helps. Okay, yes. That's it from my side. Thanks a lot.

**Moderator:** Thank you so much. Any other questions from any other participants please press "0" "1" on the telephone keypads. I have Mr. Dhaval Shah from Siddesh Capital, please go ahead, sir.

**Dhaval Shah:** Yes, this is Dhaval Shan from Siddesh Capital Bombay. Sir I wanted to know, sir, the business of Divatex and DWI, so the sourcing of the products in those subsidiaries is totally from our standalone operations or do we source it from elsewhere in US and Europe also?

**KP Pradeep:** Roughly 50% of their requirements are sourced from our manufacturing plant and the remaining 50% are sourced from various other geographies.

**Dhaval Shah:** Okay. So on 700 crores of top what we did for standalone number, so that totally would be... so that full amount goes to debit Divatex and DWI, am I right?



- KP Pradeep:** Yes to the extent of around 575 crores. Are you talking about the last year number?
- Dhaval Shah:** Yes, FY13 number, yes.
- KP Pradeep:** Okay .
- Dhaval Shah:** Okay. And sir more question on the Goodwill front, sir, Goodwill has increased by around 100 crores in FY13, can you please explain to me what is the entry for that, I mean in what basis have we increased the goodwill?
- KP Pradeep:** We have purchased our overseas distribution entities in dollars and in Euros. So as and when the dollar and the Euro keep appreciating , you will have an impact on Goodwill . In addition any fresh purchase of stake in the entity would also have an aggregation to Goodwill.
- Dhaval Shah:** Okay. So I think in the last conference call you mentioned that you bought additional 20% in Divatex for 90 crores and that amount you have added here.
- KP Pradeep:** That's right.
- Dhaval Shah:** Okay. So, sir, how come if we add like whatever the acquisition cost directly with Goodwill and there's no increase in the gross block?
- KP Pradeep:** We purchased the stake for 17 million and 3 million has been added to Fixed Assets and 14 million has been added to Goodwill. The acquisition has been made in a distribution entity which is typically asset light and hence the higher addition to Goodwill in comparison to assets.
- Dhaval Shah:** 14 million, okay. So 17 million was the acquisition cost for the additional 20%?
- KP Pradeep:** Correct.
- Dhaval Shah:** Okay. And sir, when are we going to start writing off the Goodwill? Because from our 1300 crores balance sheet we already have a 500 crores of Goodwill. So what is the plan? When we'll start writing off in the P&L, the impairment of Goodwill?



- KP Pradeep:** We subject all this goodwill in our balance sheet to impairment tests , and these are independently done by a third party and subject to audit. We do these tests every year. There is no requirement to write off goodwill every year on a sustained basis on a formula. It's not required as per accounting standards. It is required only in case if there is an impairment and we don't have that situation.
- Dhaval Shah:** Okay, sir. And sir, how much of the debt we plan to repay and how much is the operating cashflow we expect to generate this year in FY14?
- KP Pradeep:** We don't give any specific guidance on the operating profits. The debt that we are expected to repay this year is around 88 crores and the next year is around 123 crores.
- Dhaval Shah:** Okay. This is our scheduled repayment, what you have to do to the banks?
- KP Pradeep:** Yes
- Dhaval Shah:** Okay. So 88 this year and 128 next year?
- KP Pradeep:** 123 crores
- Dhaval Shah:** Okay, sir. And sir, are we planning to add any further debt and then going... I mean increasing any capacity on the bed linen side or it's just we're going to reduce the debt? Because in the past also you have seen revenue about 20% additional in Divatex, though we paid some part we also acquired new debt for that acquisition. So are we just going to see a [Unclear] on the debt side?
- KP Pradeep:** So to clarify, the debt that we took for the acquisition of the 20% also had benefits in terms of the 20% income that gets accrued . Having said that, the main focus is on reducing debt. And as I was mentioning a little earlier, as and when an interesting possibility of capacity expansions do come, we'll definitely want to look at it because such expansions could potentially come at a low capex cost and improve our overall leverage.
- Dhaval Shah:** Okay, correct, sir. So that means that 50-60 crores number you said for the capacity expansion, additional CapEx if you were to double it from here.



- KP Pradeep:** Yes 70 to 75 crores.
- Dhaval Shah:** Correct, sir. Sir, one question on the Q1 number that our other expenses have been continuously reducing in terms of percentage to sales terms; like it was in 16% in Q1FY13 to 13% this year. So are we seeing operating efficiency kicking in because of our increase capitalisation levels gradually? So where are we seeing this ceilings in the other expenses?
- KP Pradeep:** There have been a lot of initiatives around optimising of expenses all across the group. We are seeing benefits of scale kicking in at the manufacturing plants We also continue to consolidate and optimise our distribution assets. We have seen a consolidation of our overseas corporate offices and warehousing, initiatives that have helped in bringing down cost overall across the globe. So I should say a lot of benefits of integration and synergy overall.
- Dhaval Shah:** Correct, sir. So sir, if we were supposed to assume that our linen plant is almost working at near 100% utilisation level and our silk is around 43%, and if I think silk plant would work... and in best times it has worked at around 70-75%. So assuming that silk plan is working at 55-60% in the next two/three quarters and the linen works have full capacity, what kind of margin expansion can we see on the EBITDA front because of the operation efficiency and also because of the higher realisation on the silk business?
- KP Pradeep:** In our current... if you look at this quarter , our blended EBITDA is in the region of around 16%. If the Drapery and Upholstery and the Bedding business were to work at full capacity with above average realisations you could theoretically see this EBITDA move up by at least another 500 basis points.
- Dhaval Shah:** No sir I was just cracking a little bit. Can you just repeat, sir what you said.
- KP Pradeep:** I said currently we are at around 16%.
- Dhaval Shah:** Okay. So 16% is the EBITDA number?
- KP Pradeep:** Correct currently. The blended EBITDA if we were to go full capacity in Bed linen and Drapery and Upholstery would be 21-22 %.



- Dhaval Shah:** Correct. [Unclear] thing, yes.
- KP Pradeep:** If we were to go back to those levels, we should have blended EBITDA in the region of around 21-22%.
- Dhaval Shah:** 21-22% okay. So sir, seeing the current business scenario and our silk business purely selling its products on the western world, so do you foresee in the coming two, three quarters our capacity reaching to that at least 60% level?
- KP Pradeep:** I don't see it reach the 60 and 75% level in the next two, three quarters. All I can say is I see some stability in our order book, I see stability in some of the markets that we are working in. We could probably see capacity utilisation increase after three or four quarters in the Drapery and Upholstery Division .
- Dhaval Shah:** Okay. So sir, annually how much business have you did out of the silk plant, like whatever silk product you manufacture, how much was in the value terms, how much did we sell for?
- KP Pradeep:** In which year are you talking about?
- Dhaval Shah:** FY13 sir. We did some 60, 90 crores of business in terms of top line, so how much was the silk contribution in that?
- KP Pradeep:** Drapery and Upholstery is around 110 crores in FY13.
- Dhaval Shah:** So broadly the... so the rest 1500 crores are purely from the linen side?
- KP Pradeep:** Yes Bed Linen Distribution largely.
- Dhaval Shah:** Okay. And sir, how much EBITDA do we make on that? How much was the margin on that 110 crores?
- KP Pradeep:** See, the EBITDA currently is in the region of around 19 to 20%.
- Dhaval Shah:** On the silk business.
- KP Pradeep:** We address the Silk business as the Drapery and Upholstery business as Silk is only one of the fibres that we use . It is really Silk and Silk blended fibres
- Dhaval Shah:** Okay. So you mean as of Q1 FY14 it is at 19-20%?



- KP Pradeep:** In Q1 it is around 19.3%.
- Dhaval Shah:** 19.3% in Q1. Okay. So this was 19-20% for the FY13 period?
- KP Pradeep:** FY13, that's right.
- Dhaval Shah:** And sir, majorly our... whatever we produce out of our silk plant is sold to Bellora or it goes to US, to our DWI and Divatex?
- KP Pradeep:** No. From the drapery upholstery plant, we sell direct into Europe and into the US. It goes through a separate value chain, it doesn't go through Divatex and DWI for our distributors in the US nor to Bellora in Europe.
- Dhaval Shah:** Okay sir, so we have a third unit which is the holding company for DWI and Divatex which is a...
- KP Pradeep:** Himatsingka America.
- Dhaval Shah:** Correct. So what does the HimA do?
- KP Pradeep:** Himatsingka America is the holding company which is a vehicle for investments in both the DWI and Divatex.
- Dhaval Shah:** Okay. So they're just purely a holding company made, so whatever silk you sell doesn't go through HimA, it goes through other route also?
- KP Pradeep:** We have a small division within our branded division in DWI which handles Drapery and Upholstery sales in the US. We also have majority of our sales go directly to editors in the US and Europe on a direct basis.
- Dhaval Shah:** Okay. And sir, you mentioned I think one, two calls back that we also plan to launch a mid-market retail brand like... I mean Atmosphere being on the premium side, in India we want to get into a mid-market. So what are the plans on that front? Have you finalised anything or it's still on the papers?
- KP Pradeep:** You know that was quite some time ago I guess sometime in December 2010. We were talking about a mid-market brand, we are currently not considering this in the given market scenario, but I don't rule that out in the future.



- Dhaval Shah:** Okay. So sir Atmosphere brand will be comparable to the Ddcor [ph] which is there in the market in terms of pricing of the products or is a little different?
- KP Pradeep:** We don't believe that it's comparable. We believe we are a unique luxury format in the drapery, upholstery and Bedding space. Our price points are different, our clientele and markets are also very different. Our retailing methodology and our customer base, both institution and individual consumers, are very different.
- Dhaval Shah:** Okay, sir. Finally the last question on the debt front. So the dollar debt that we have taken, so that is under Himatsingka... it's under HimA, right?
- KP Pradeep:** We have some dollar debt in Himatsingka America, we have some dollar debt in India too.
- Dhaval Shah:** Okay. Fine sir, thank you very much.
- Moderator:** Thank you so much, sir. Any other question from any other participant, please press "0" 1" on your telephone keypad. I'm getting the next question from Mr. Avinash Agarwal from Sundaram Mutual Funds. Please go ahead, sir.
- Avinash Agarwal:** Good evening, sir. Just a little short-term kind of question. Assuming the cotton prices is at this level, which is about 5 to 10% higher than last year, and we buy this higher cost cotton, do you think due to the depreciation of Rupee we would not be able to pass through the increase in cost?
- KP Pradeep:** We are seeing the cotton prices a lot more stable relatively speaking. We haven't as yet seen any pressure on the depreciating Rupee vis-à-vis our selling prices in constant currency. A little difficult as to say where the rupee is headed is headed. I personally believe it will be range-bound between Rs. 58 to Rs. 62 given all the various pressures the government has. So I don't see this as anything being beyond range bound.
- Avinash Agarwal:** Okay. So do you expect that we could... I mean what I wanted to understand was because we have got about 5-6% improvement in our realisation due to this currency. And you know similar kind of cost increase in raw materials, I mean, would we have any pricing power to go ahead and increase it



or do you think we'll need to pass on this, I mean we'll need to retain this cost to ourselves?

**KP Pradeep:** In Bedding there's been a 6.1% increase in our constant currency price basis the mix of products that we do. The exchange impact has been 3.6%. Collectively our average realisation per metre has moved up 9.9%. So this increase has been driven by our constant currency rate realisation increase on account of a superior product mix.

**Avinash Agarwal:** Okay. Is it also because you are selling more outside, sir, where you have higher margins I mean other than our subsidiaries?

**KP Pradeep:** You mean our sales other than our sales to subsidiaries?

**Avinash Agarwal:** Yes.

**KP Pradeep:** It's not so significant that it can create an overall impact . It definitely has better realisation.

**Avinash Agarwal:** Okay. And some bookkeeping questions. What was the top line from the silk business this quarter, sir?

**KP Pradeep:** Top line was 25.76 crores.

**Avinash Agarwal:** Okay. And sir what was the EBITDA in North America? You mentioned, was it 18 crores?

**KP Pradeep:** In the North America, 18.33 crores.

**Avinash Agarwal:** Sure, sir. Thanks a lot and all the best.

**KP Pradeep:** Thank you.

**Moderator:** Thank you so much, sir. Any other questions from any other participants we request you to press "0" "1" on your telephone keypads. Right, I'm getting a question from Lalit again, from Shareholder. Please go ahead.

**Lalit:** Sir, this is regarding the revenue guidance given in the last con call. Mr. Srikant gave that around 18% is what we are looking at the growth in the FY14. Now, seeing the first quarter trend it is already we achieve 25%. So should we consider that there will be a guidance revenue balance



upgrade or we have to take it at around 18/20 and see how the market behaves in subsequent quarters?

**KP Pradeep:** I'll continue with the guidance.

**Lalit:** So it's 18%. So this 25% is one-off, is it like an aberration and we are going to see the dip in the subsequent quarter?

**KP Pradeep:** Lalit, we'd like to be conservative and our position is that you continue to take the guidance.

**Lalit:** Okay sir. And regarding in the other expenses, sir, what is the major component, sir? How much is on the advertising and sales promotion? Because if I see the other expenses are constantly hovering around 60-65 crores in the last few quarters and about 260 crores in total for the year, so seeing the top line growth is there any likely increase in this other expenses because of the more spent on the advertising and the sales promotion?

**KP Pradeep:** No unusual cost increases. We have to realise in this consolidated numbers there's also a Rupee translation from the dollar since we are translating from the overseas subsidiaries.

**Lalit:** Okay, sir. Coming to the next question regarding the tax rate. So if I see in this quarter, it was almost like 17. So what is the guidance of the complete year, sir?

**KP Pradeep:** 18 to 20% is what you should take as effective tax rate.

**Lalit:** So it will be around the same rate percent 17-18?

**KP Pradeep:** Yes 18 % to 20 %

**Lalit:** That's it sir, thanks. Okay one question about the Dollar and the Euro realisation sir. Can you say what is the Dollar and the Euro realisation rate?

**KP Pradeep:** You want to know the Dollar realisation rate this quarter?

**Lalit:** Yes.

**KP Pradeep:** It is around 55 roughly

**KP Pradeep:** and Euro around 72.



- Lalit:** Okay. Seeing the trend in the current quarter, the July and August, is it fair to assume that that will be around 60 and 80?
- KP Pradeep:** No. You should plan around 55.5 to 56 to a dollar and around 72 to 73 to Euro.
- Lalit:** But the average in this last July and August is almost like 59 to 60, sir.
- KP Pradeep:** We book based on the orders received and in advance of actual realisation. So there will always be a lag effect in terms of realisations catching up with current rate.
- Lalit:** In that case, then, should we assume that in Q3 we'll see this rate?
- KP Pradeep:** Yes, it will catch up gradually
- Lalit:** Okay. Thanks, sir. Yeah.
- Moderator:** Thank you so much. Any other questions from any other participant, please press "0" "1" on your telephone keypad. I repeat. Any questions from any participants, please press "0" "1" on your telephone keypads. All right, I'm getting another question from Mr. Dhaval Shah from Siddhesh Capital again. Please go ahead, sir.
- Dhaval Shah:** Sir, I just want to clarify one thing. Sir, the blended EBITDA number which you said for this quarter at 16%, so that you said on the standalone site, correct?
- KP Pradeep:** Yes.
- Dhaval Shah:** And it's around 5-6 % increase which we expected...
- KP Pradeep:** Let me give you the actual, precise number, 16.2% is the standalone EBITDA number for the quarter.
- Dhaval Shah:** Correct, sir. And the console comes to around 10%?
- KP Pradeep:** Yes, 10.4%



- Dhaval Shah:** That's correct, sir. So the incremental number which you expected, that will go around to 21-22%, so that will be on the standalone site?
- KP Pradeep:** In a scenario of full capacity
- Dhaval Shah:** Correct.
- KP Pradeep:** ...and optimal realisations
- Dhaval Shah:** Yeah, full or around 50%, because, I mean, from current 43 % to 70-75 % capacity utilisation in Drapery and Upholstery will take a lot of time. So in the near term, say, within next one or one-and-a-half year, can it move to around 43-50% also?
- KP Pradeep:** Instead of answering this very directly, let me give you the optimised EBITDA capabilities of the bed linen and drapery upholstery plant.
- Dhaval Shah:** Sure.
- KP Pradeep:** The optimised EBITDA should be in the region of around 17 to 18% in the bed linen plant. And in the drapery upholstery, it should be anywhere in the region of around 30 % to 35 % .
- Dhaval Shah:** Okay. And how much of top line can we expect at the optimum capacity utilisation level?
- KP Pradeep:** At the current capacity, we should be anywhere in the region of 175 to 200 crores in the drapery and upholstery segment. And in the case of Bed linen, I think at the most we could possibly do 800 to 850 crores. With the added benefit of rupee depreciation and constant currency appreciation.
- Dhaval Shah:** Okay. Fine, sir. Thank you very much.
- Moderator:** Thank you so much. Any other question, please press "0" "1", participants. Right. The next person in line we have is Mr. Hittesh Godhani from Span Capital. Please go ahead, sir.
- Hittesh Godhani:** Hello, sir. Thank you for taking questions. I just... your regular CapEx numbers, what could be your maintenance CapEx for FY14 and FY15?



Himatsingka

- KP Pradeep:** Around 15 crores per year being the organic Capex of a gross block of this size.
- Hittesh Godhani:** Ok. 15 crore per annum is your maintenance CapEx?
- KP Pradeep:** Yes
- Hittesh Godhani:** Okay. And the tax rate would be around 18-20% for both years?
- KP Pradeep:** That's right.
- Hittesh Godhani:** Okay. Thank you.
- Moderator:** Thank you so much. Participants, I request you to press "0" "1" if they wish to ask any further questions. Once again, any questions from any participants, press "0" "1", please. Sir, there are no more questions coming up from the participants. You can take over the floor for final remarks.
- KP Pradeep:** To conclude, I would like to thank everybody once again for having joined the conference call. We are happy with our first quarter FY14 results with strong growth in revenues, operating profits and net profits. We look forward to seeing you again at the end of Q2 FY14. Thank you very much.
- Moderator:** Thank you so much, sir. Thank you so much, participants. With this, we conclude the conference call for today. You may all disconnect your lines now. Thank you and have a great day.