



Himatsingka

Himatsingka Seide Limited

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

Q4 FY13 Earnings Conference Call

May 27th, 2013



Moderator: Good morning, ladies and gentlemen. I am Sourodip Sarkar, the moderator of this call. Thank you for standing by and welcome to the Himatsingka Seide Fourth Quarter FY13 Earnings Conference Call. For the duration of presentation, all participants' line will be in listen-only mode and we will have a Q&A session after the presentation. I would like to now hand over the proceedings to Mr. Priya Ranjan from Macquarie Capital Securities. Thank you and over to you.

Priya Ranjan: Hello, everyone. This is Priya Ranjan from Macquarie Capital Securities. It is our pleasure to host Himatsingka Seide Fourth Quarter Post Result Conference Call and thank you all very much for your participation. We have with us Mr. Shrikant Himatsingka, Executive Director, Mr. K.P. Pradeep, President Finance and Group Chief Financial Officer and Mr. Ashutosh Halbe, Vice-President Corporate Finance and Mr. Ashok Sharma, G.M. Treasury, Taxation and Company Secretary. Now we would like to invite Himatsingka management team for brief overview of the result and then we can take question and answer session. Over to you, sir.

K. P. Pradeep: Good morning, everybody. Thank your for joining the call. I would like to give you a brief summary on our Fourth Quarter Results Financial Year 13. I will take you through the performance and the manufacturing divisions and then performance on the retail and distribution divisions and then finally the consolidated performance of the group.

For the fourth quarter ended March 13 our manufacturing revenues came in at 183.35 crores which is 149.02 crores during the same period last year, a growth of 23%. The EBITDA of manufacturing divisions have come in at 33.56 crores for the quarter versus 24.80 crores during the same period in the last year, a growth of 35.32%.

The bed linen unit has clocked an 82% capacity utilisation and the average realisation has increased by 14.7% to Rs.332 a metre from Rs.289 a metre for the same quarter last year.



In the drapery and upholstery division average realisations have increased by 18.1% from Rs.1062 per metre to Rs.1254 per metre. And capacity utilisation is currently at the 35% level.

So to recap on the fourth quarter, we closed manufacturing with Rs.183.35 crores in revenue and Rs.33.56 crores in EBITDA as against Rs.149.02 crores in revenue and 24.80 crores in EBITDA during the last year.

On the distribution side of the business, we have clocked steady growth in the North American markets which include the United States, Canada and Mexico. Our total revenue for North America during the quarter stood at Rs.330.33 crores versus Rs.270.85 crores last year, a growth of 21.9%.

Divatex, the distribution business division which addresses the private label business grew 23.4% to Rs. 236.90 crores versus Rs.192.01 crores last year.

DWI which is in the branded side of the business grew 93.43 crores versus 78.84 cores last year, a growth of around 18.5%. The quarterly EBITDA for the North American distribution divisions which include both Divatex and DWI came in at Rs.13.34 crores as against Rs.8.33 crores last year, a growth of 60.14%. We continue to see stable demand for our brands as well as our private label business.

As regard to distribution business across India and Asia represented by atmosphere, the revenues for the quarter were 11.37 crores versus 11.90 crores during the last year, de-growth of 4%. The EBITDA for the quarter was a negative of 1.43 crores as against a positive 0.63 crores in the previous year driven mainly by higher marketing spends and increased rentals in some of our showrooms.

The revenue for the distribution division in Europe came in at 23.28 crores for the quarter versus 36.77 crores in the previous year, a de-growth of 36.7%. The EBITDA for the quarter was a negative 1.99 crore as against a positive of 7.56 crores in the previous year.



The revenues in this division continue to be weak given the European situation. We have started a few initiatives which include extending the visibility and sale focus of the brand across North Americas, the Middle East and China. We expect to see some positive results starting the fourth quarter of the next financial year.

On a consolidated basis, the company clocked revenues of Rs.394 crores versus 335 crores in the previous year, a growth of 17.8%. The consolidated EBITDA for this quarter stood at 38.33 crores versus 33.39 crore in the previous year, a growth of 14.79%. The consolidated profit before tax is at 10.23 crores versus 3.19 crores, a growth of 320% over the previous year. The consolidated profit after tax and minority interest stood at 22.47 crores for the quarter versus 2.04 crores during the previous year. The quarter includes a deferred tax reversal of 12.27 crores. This overall, sums up the consolidated quarter performance for Himatsingka.

The finance cost for the current quarter was Rs.15.38 crores against Rs.14.53 crores in the previous year. The finance cost comprise of interest cost of 12.25 crores and finance charges of 3.13 crores in the current quarter as against an interest cost of 11.89 crores and finance charge of 2.65 crores in the previous year.

The total debt outstanding as of 31 March 2013 stands at 703 crores. This is the gross debt, 542 crores being term debt and 161 crores being the working capital debt. The company's effective cost of debt is at 6.28% this quarter versus 5.78% in the previous quarter. During the year ended 31 of March 2013, we have repaid Rs.59 crores of debt and borrowed fresh loans of Rs.94 crores; the fresh borrowing mainly to fund the acquisition of the further stake in Divatex of 20%, namely 10% in July, 2012 and the other 10% in December, 12.

The company's overall cost of debts for the financial year, 13 stood at 5.83%. The net debt as of 31st of March 2013 is Rs.675 crores. The net debt to equity stands at 1.06 versus 1.21 in the previous year. The net debt to EBITDA stands at 4.27 times as against 5 in the previous year.



The manufacturing order books of the bedding division stands at 309 crores. And on the upholstery and drapery side of the business our order book is around 10 crores. So in total we have an order book position of around 319 crores on the manufacturing front.

As part of an overall initiative to enhance the operational and financial cohesiveness in our businesses and to that extent we had started implementing an ERP package for our India-based businesses. I am happy to say that have successfully implemented an ERP solution on the SAP platform across all locations of our manufacturing and retail divisions in India.

We are currently covered at an average rate of Rs. 55.50 to a dollar for the next two quarters. This sums up the performance for the quarter.

For the current year, our consolidated revenues were Rs.1689.43 crores as against Rs.1428.69 crores in the previous year, a growth of 18.2%. Our consolidated EBITDA was at Rs.166.83 crores as against 147.63 crores in the previous year, a growth of 13%. The consolidated net profits for the current year is at Rs.57.32 crores versus Rs.33.06 crores in the previous year, a growth of 73.4%. So this sums up the performance for the quarter and the year ended 31st of March 2013. Mr. Shrikant Himatsingka and I will be glad to take questions. Over to you Ranjan .

Priya Ranjan:

Thank you Sourodip. Thank you, sir. Sourodip, can we take the question and answer session now?

Moderator:

Sure, sir. Thank you so much. With this, we are going to start with the Q&A interactive session. So I would request all the attendees and the participants, if you wish to ask any question, kindly press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat, if you wish to ask any question, kindly press "0" and "1" on your telephone keypad and wait for your name to be announced. The first question comes from Hitesh Godhani from Span Capital. The line has been unmuted. You can go ahead and ask your question.

Hitesh Godhani:

Hello, sir. Thank you for giving the opportunity. Sir, my first question is on your gross debt. What are the plans to



reduce this level of debt, like, your repayment schedule over the next two to three years?

K. P. Pradeep: Our gross debt is 703 crores 542 crores being term debt and 161 crores being the working capital debt. Our net debt is at 675 crores. On the term debt side we have repayments in the next year of Rs.87 crores. Given our principal repayments over the next few years our term debt should be an extremely low number over the next the next 3-4 years, in pure theory we should be a zero term debt company in four years.

Hitesh Godhani: Okay. It is normally a long-term debt which you have?

K. P. Pradeep: Correct. On the working capital side as performance keeps improving, the incremental EBITDA should address the working capital requirements and should ultimately reflect in the working capital debt going down to low levels.

Hitesh Godhani: Okay. And, sir, you talked a tax reversal of 12-crore in the current quarter, so what can we assume the tax rate for FY14 and FY15 like?

K. P. Pradeep: You can assume tax rate in the region of 18% to 20%.

Hitesh Godhani: 18% to 20%?

K. P. Pradeep: That's right.

Hitesh Godhani: Okay. And, sir, can you share some of your plans how would you like to scale up your business, like, when can you be Himatsingka to be a 3000-crore in revenue-wise?

K. P. Pradeep: I will hand it over to Shrikant to address that question

Shrikant Himatsingka: Yeah. On the growth front, our current focus is on enhancing our manufacturing and retail and distribution revenue schemes. Over the last five years consolidated basis we have been talking CAGR in the region of 15% and this year we have talked a growth of 18%. I see a strong undertone of organic growth during FY14. And I see this growth coming in both at the manufacturing and retail and distribution.



Himatsingka

- Hitesh Godhani:** Okay. And, sir, one last question on your Atmosphere side, Atmosphere brand what is the number of stores as on 31st March?
- Shrikant Himatsingka:** The numbers of stores as on 31st March stands at 14 stores, 12 of which are in India and two are overseas. The number has not changed since the last fiscal. We are evaluating plans at this point in terms of how we look at growing the number of stores, but at this point it's 14 stores.
- Hitesh Godhani:** Okay. And, sir, what can be your maintenance CapEx for FY14, regular CapEx which you do?
- Shrikant Himatsingka:** In the region of 15 crores.
- Hitesh Godhani:** Okay. And actually with the current capacity how much revenue you can achieve with the two plants which you have at the same capacity? How much revenue we can see, if you operate at optimum level?
- Shrikant Himatsingka:** It's a good question. As Mr. Pradeep pointed out, in one plant we are currently running at a capacity utilisation of in the region of 82% and in the other in a 35% to 40% bracket which we are looking to ramp up and it's taking a little bit of time. However, as I see it, you know, with both plants having the possibility to scale further in terms of utilisation we could scale manufacturing revenues in excess of 1000 crores from the present capacities of both the plants. And for FY14 we think that we could comfortably clock growth rates in the region of 15% from our manufacturing operations on an organic basis.
- Hitesh Godhani:** Okay, thank you. Thank you, sir.
- Moderator:** Thank you so much. I would like to repeat once again to all the participants if you wish to ask any question, kindly press "0" and "1" on your telephone keypad and wait for your name to be announced. It's "0" and "1" to ask questions, so kindly press "0" and "1" if you wish to ask any question. The next question is from Mr. Lalit Tapadia. He is an individual investor. The line has been unmuted. You can go ahead and ask your question, sir.
- Lalit Tapadia:** Good morning and thanks a lot for good set of numbers declared. Sir, my question is regarding the tax write-back



which has been asked earlier, but this 12 crores write-back can you throw some more light on what is its nature?

K.P.Pradeep:

Lalit, we had created a tax provision in the past for a deferred tax liability basis a certain tax treatment in our consolidated books. In the last year given the circumstances it was felt that there was a need to revisit the deferred Tax liability and we have reversed a portion of the same on the basis that this is an excess provision. This is one-time impact only.

Lalit Tapadia:

Okay, sir. It's a one-time nature, so we [unclear] [0:16:55] next set of numbers?

K.P.Pradeep:

That's right.

Lalit Tapadia:

Okay. Sir, I have another question regarding this other income. Now this other income at consolidated level has increased to 898 lakhs versus 293 lakhs, so it is almost an increase of 5 crores. Can you share some light on this what is this other income?

K.P.Pradeep :

During the year we had a profit on sell of old assets amounting to around Rs.2.3 crores. Apart from that, we also had a profit on sales of current investments amounting to Rs. 1.1 crores. Apart from this you also have a reversal of impairment losses of Rs. 2.9 crores.

Lalit Tapadia:

Okay, sir. So going forward, like, what will be the quantum of the other income on a recurring basis?

K.P.Pradeep :

We should see it in the region of 4 to 5 crores.

Lalit Tapadia:

In the region of 4 to 5 crores we can expect as a normal. This is mostly regarding the investment income, because sell of old assets will not be reflected. Are there any other plans in the pipeline, like, selling of old assets?

K.P.Pradeep :

No.

Lalit Tapadia:

Okay. Okay, fine. Sir, another question, if you permit me. In the balance sheet there is a goodwill on consolidation which has increased from 431 crores to 532 crores almost it's quantum jump of 100 crores. So can you share some



Himatsingka

light on this what is the nature of this goodwill which has been considered?

K.P.Pradeep :

If you recall, I had mentioned a 20% increase in stake in Divatex, our overseas distribution subsidiary during the last year. This amounts to an acquisition cost of Rs. 90 crores and the consequent increase in the goodwill.

Lalit Tapadia:

Okay, sir.

K.P.Pradeep :

Apart from this we also have a translation impact of the acquisitions cost of our overseas subsidiaries since they have been purchased in foreign exchange -in dollars and euros . That accounts for the balance.

Lalit Tapadia:

Okay, fine. Sir, there is one - In your press release the last para you have mentioned like consolidated revenues have continued to show good momentum here. We are focusing on maintaining growth and optimising our return on assets, leveraging distribution capabilities and hence utilisation of manufacturing capacities and cost optimisation measures. Sir, can you just share some information on what type of measures exactly plan to increase the performance and the operating margins?

Shrikant Himatsingka:

Yeah, sure. On the manufacturing front what we are really looking at is sweating our manufacturing assets in terms of utilisations and in terms of product mix to be able to enhance the EBIT from operations thereby enhancing the return on assets. And as far as the retail and distribution businesses are concerned, especially the larger space of the retailer distribution business, which is the North American arm, we are looking to leverage our distribution capabilities in terms of strengthening our brand portfolios and our presence through private label lines. We are working also on similar initiatives which include product mix, which include enhancing market share. And given the nature of the retail and distribution businesses which are relatively asset-light we feel we can also enhance EBIT from these operations going forward sweating and leveraging our capabilities thereby enhancing return on assets. So like I said earlier, we continue to remain confident of delivering strong organic growth across divisions which will in turn result in optimising our return on assets.



Himatsingka

- Lalit Tapadia:** Okay. Sir, how many retail outlets right now we have?
- Shrikant Himatsingka:** We have 14 in the India and Asian region. We have approximately 24 in the European region. And we have approximately 7000 points of sale through which we distribute in the North American region. So these 7000...
- Lalit Tapadia:** It is as on 31st March?
- Shrikant Himatsingka:** Yeah. The 7000 points of sale, obviously, they are not retail outlets. They are points of sales through which we distribute our products and our products are visible to the end consumer. So approximately these numbers represent visibility of our brands.
- Lalit Tapadia:** Okay. That's a nice set of numbers. Sir, can you share, like, do you have any plans to ramp these retail outlets in the near future, say, in the FY14 or FY15 how much will we be reaching?
- Shrikant Himatsingka:** Well, from a global perspective if I look at North America, Europe and Asia put together, the number of points of sale that we are present in should see again a strong organic growth. Specifically to retail outlets in the Indian, Asian and European region, we would consider a growth range bound. We will not be able to give you specific numbers in terms of the growth in context to the number of stores as the plans are still on the way. And the company is very selective about choosing points of sales in context to new stores in its luxury brand. And, therefore, I am looking at the larger global picture in context to the number of points of sale through which we retail and distribute our products which we will continue to see strong organic growth.
- Lalit Tapadia:** You know, the reason why I ask this is because when we are visualising a 15% growth in FY14, are we, like, going to achieve that with the existing distribution network and retail network or are we planning to have some CapEx investment on increasing our retail outlets and the point of sale point? So what's the reason?
- Shrikant Himatsingka:** Good question. Let me elaborate once again. So the increase in points of sale presence in the North American region will entail pretty much no investments as it's extremely asset-light. And as far as the European and



Indian regions are concerned, if we open new stores, it might involve small investments but nothing material. As far as manufacturing is concerned, the capacities are in place and we don't see anything further than our maintenance CapEx that might be incurred. Therefore, the 15 plus percent growth that we are looking at during FY14 should not come with large investments. The underlying theme is sweating our current asset base.

If you look at the 18% growth that has been clocked during FY13 from 1428 crores to 1689 crores, the total balance sheet size has been range-bound. The total assets are at 1597 crores versus 1542 crores last year which include the increase in net assets during FY13. So, in fact, you will see that certain parameters like consolidated inventories have actually reduced by approximately 6% during the fiscal which gives you a glimpse of how the company is being more capital efficient across asset classes.

Lalit Tapadia:

Yes, sir, that's clearly visible. Okay, sir, if you permit me, there is one more question, sir, if you allow me. This is regarding the finance cost, sir. This cost of consolidated level has increased to 65 crores versus 52 crores, almost 13 crores increase; whereas the long-term debt, there is an increase of 40 crores. Can you tell me, like, what is the quantum jump in interest cost?

K.P.Pradeep :

The increase in term debt is to fund the 20 % acquisition. Effective cost of debt has been higher due to upward interest rate movements. Finance charges have been higher on account of the requirements of the incremental financing during the last year, for the acquisition. We also have an incremental impact on account of the financing of Packing Credit in Foreign Currency (PCFC). As explained on earlier calls differential interest rates between the local Indian Rupee packing credit rate and the PCFC are now required to be charged as interest to the Finance Cost. This accounts for around Rs.7 crores in the last year. These are typically notional , because there is no effective cash outflow.

Lalit Tapadia:

Okay. So can you just – I think this has been in the initial interaction. I think it has been explained, but I missed out that point. Can you tell me what is our average interest cost?



- K.P.Pradeep :** Yeah, average interest cost for the year is at 5.83%. For this quarter it is at 6.28%.
- Lalit Tapadia:** 6.82. Average for the year is 5.8?
- K.P.Pradeep :** 5.83%.
- Lalit Tapadia:** 5.83. And can you give me a quarter-on-quarter also, please?
- K.P.Pradeep :** 5.78% for the previous quarter
- Lalit Tapadia:** Okay. That's fine. Do you have average for the last year? The reason is are we seeing the interest on an increasing trend or you visualized that it's going to come down?
- K.P.Pradeep :** That's right. In the last year there was a slight increase on account of rate movements, but I don't anticipate it increasing beyond this region.
- Lalit Tapadia:** Okay, sir. Thanks a lot. I will leave it for others to ask questions. I will join the queue in case I have any other questions. Thanks a lot.
- K.P.Pradeep :** Thank you.
- Moderator:** Thank you so much. I will like to repeat once again, if you wish to ask any question, kindly press "0" and "1" on your telephone keypad. I would request all the attendees and the participants, if you wish to ask any questions, kindly press "0" and "1" on your telephone keypad, please. The next question is from Mr. Govind Lal. He is an Individual Investor. The line has been unmuted. You can go ahead and ask your question.
- Govind Lal:** First, accept my congrats for good set of numbers and liberal dividend of Rs.1 you have declared. I have got one question. As we are not in much CapEx going forward and the existing capacities, we are optimizing, going to utilize. So can I hope that in current year we can see margin improvements?



Himatsingka

- Shrikant Himatsingka:** Yes, we should see organic margin improvements across retail and distribution and manufacturing. Although they might differ from quarter-to-quarter, but on an annual basis for FY14 to see a marginal increase in margin profile is something we expect as well.
- Govind Lal:** This fourth quarter versus sequential third quarter, our margins dipped by 1.25%. Any specific reason, sir?
- Shrikant Himatsingka:** There is no specific reason. Given the nature of the company's business with its home textile portfolio across bedding, drapery, and upholstery, bath products our fourth quarter is a slightly seasonal quarter for us and we see a slight dip through fourth vis-à-vis quarter three. Quarter two and three in context to the run up to Christmas is very strong on shipments and quarter four is slightly affected by seasonality. Therefore, you see the movement.
- Govind Lal:** I have missed one. Somebody asked about the debt reduction. On that front, sir, when we can see substantial debt reductions, in which quarter or in which year?
- Shrikant Himatsingka:** It's a good question. The way we are positioned at this point, you will start seeing material and substantial corrections of debt levels beginning FY14, because the company has concluded the minority acquisition purchased in FY13, therefore, making both the North American's operating subsidiaries 100% operating subsidiaries of the company. And given the absence of any lumpy capital expenditure, like, at this point we should see a material correction in the levels of debt. As Mr. Pradeep pointed out earlier, the repayments scheduled for FY14 are in the tune of 87 crores and we, therefore, foresee our gross debt levels at the end of FY 14 to be in the region of 620 crores. We...
- Govind Lal:** Pardon, sir?
- Shrikant Himatsingka:** We, therefore, see our gross debt levels for FY14 to be in the region of 620 crores including working capital and term debt. We closed FY13 with total net worth of 635 crores and a gross debt of 703 crores and, therefore, in FY14, our net debt to equity should come below the one mark.



Himatsingka

- Govind Lal:** I appreciate, sir. Okay. As we have not much CapEx this pipeline and we are going to generate good cash flow more than 100 crores every year, shall I hope in the next 2-3 years this kind of debt reduction we can see or this is specifically FY14 you are talking?
- K.P.Pradeep :** The debt will continue to keep reducing like what Mr. Shrikant Himatsingka was saying. On the term loan side there are scheduled repayments which are over the next 3-4 years. Technically, we should be zero debt as we approach the next four years. And we also have our working capital debt which is consistently reducing, because as EBITDA improves you will find the cash flow that is generated being used to reduce the debt on the working capital side too. So we anticipate both of this happening.
- Govind Lal:** In press release the last para you have emphasized about this optimisation, utilisation and the return ratios are all improving. So when we can see substantial this reflecting in bottom line and results, sir?
- Shrikant Himatsingka:** Sir, this is a business comment that was made in the line of what we envisaged going forward. Based on our plans, we are very clear that we will continue to act in a way which helps achieve all these purposes. We can't give a specific year and a date target to this, but you will see it on an ongoing basis as performance continues to keep showing the sort of effectiveness that's been showing over the last couple of quarters, yeah.
- Govind Lal:** No, in a specific particular quarter or a year you cannot specify when we can have some clear visibility of that it is happening?
- Shrikant Himatsingka:** No. This is not a quarter-by-quarter sort of situation. This is a long-term focus that we have in terms of being able to achieve the stated intent which is focused on maintaining the growth and optimising the return. I said it's a long-term stated focus and you will see it in operation when you start seeing results on an every year basis. You will find this being achieved through the enhanced results. This is the underlying theme for the activity.
- Govind Lal:** I hope every year some visibility will be there on this as we are going to reduce, that also not much CapEx, intersperse



Himatsingka

should come alone, I hope. So bottom line should improve every year, next two-three years.

K.P.Pradeep :

That's the math.

Govind Lal:

Yeah, followed. One thing I missed, the CapEx what you told this year or next two-three years what kind of CapEx we are going to incur?

K.P.Pradeep :

We have a normal organic CapEx in the region of around 15 crores, this is what Mr. Shrikanth Himatshingka was referring to a little earlier.

Govind Lal:

Every year – It is for next two-three years.

K.P.Pradeep :

That's right. Sir, this is 15 crores per year.

Govind Lal:

Yeah, that is for next two-three years, let us say 15 around?

K.P.Pradeep :

Yes, 15 per year.

Govind Lal:

Organic? Anything inorganic also we can do, sir, for next two-three years anything pipeline inorganic also?

K.P.Pradeep :

We cannot comment at the moment, sir, because it will depend on the sort of inorganic plans that we have positioned.

Govind Lal:

Followed. Thank you very much, sir. If anything, I will come back again.

Management:

Please do. Thank you.

Moderator:

Thank you so much. The next question is from Mr. Sunil Jain from Nirmal Bang Securities. The line has been unmuted. You can go ahead and ask your questions.

Sunil Jain:

Yeah, good afternoon, sir.

K.P.Pradeep :

Good afternoon, Sunil.

Sunil Jain:

Sir, my first question is related to North America. We had seen 22% growth in revenue in this year. So can you break it up in three parts like what was the volume growth and



Himatsingka

what was the price increase we had taken? And third is how much is exchange gain we are getting?

K.P.Pradeep :

We have a 22% growth of which 10% is on account of the volume and the remaining on account of exchange.

Sunil Jain:

Okay. And price increase anything which has happened?

Shrikant Himatsingka:

It depends on the product line, sir.

Sunil Jain:

Okay. Okay. And, sir, going forward how you see your – specifically, drapery sales and all in the North American market, because here in India you had only 35% capacity utilization which is hanging in the last two years? So do you see great improvement happening in this business in the coming year?

Shrikant Himatsingka:

As far as manufacturing is concerned, 35% is in the drapery and upholstery division alone here. The other division topped 82% and overall manufacturing revenues grew 10% to 714 crores. And as I said earlier, we continue to see strong demand on the bedding side of manufacturing and stable demand on the drapery and upholstery side which will result in strong organic growth as we see it for manufacturing activities during FY14 as well. As far as the retail and distribution activities in North America are concerned, the company has a new CEO for the North American region who came on board during Q3FY13. And the divisions are looking at expanding their presence across the United States, Canada and Mexico both in brands and private label product lines. So the way we see FY14 spanning out is again the theme remains strong organic growth across the geographies and the product lines.

Sunil Jain:

Great, sir. Sir, about Europe also if you can comment like we incurred loss of around 2 crores in this quarter, so is this the maximum or still there is more pain coming in the coming quarter?

Shrikant Himatsingka:

You know, as far as Europe is concerned, we must be very candid in our admissions that the challenges across the geography in Europe has been fairly strong and has resulted in de-growth in that division; however, the company has various initiatives that have been put in place recently to ensure that we see some amount of recovery in the



European division. So most of these initiatives are organic in nature, but one underlying theme is to be able to give our European brand high visibility in the North American markets by leveraging our North American presence. So we feel that with this visibility we should see some strong improvements in the European division during FY14.

Sunil Jain:

Okay, sir. Okay. Thank you very much.

Moderator:

Thank you so much. The next question is from Mr. Lalit Tapadia. The line has been unmuted. You can go ahead and ask your question.

Lalit Tapadia:

Sir, I just want to know about the visibility on the raw material cost side, sir, because it seems our operating margins on quarter-on-quarter basis have come down to 5.7 versus 6.8. So what is the scenario on the raw material cost side, sir? Is it going to be stable or are you going to see any increasing trend or like that?

Shrikant Himatsingka:

We typically see some organic movements in raw material prices over the last four quarters. They are range-bound in the region of 5-700 basis points typically up or down basis the macro-economic environment. And all our key manufacturing inputs, which include cotton, silk, viscose, polyester, linen and various other fibres including coal for our captive power generation have remained range-bound. We do not see any particularly material movements taking place on this front. As I said, they remain range-bound in the 5-700 basis points movement upward or down which is natural. As far as your observation on the operating margin is concerned, quarter-on-quarter as I said earlier, Q4 is slightly seasonal quarter on a consolidated basis for this company given the fact that it comes just right after Christmas and Q2 and Q3 are quarters which are to the run up to Christmas. So, therefore, we see a little bit of seasonality and fluctuation in operating margin levels.

Lalit Tapadia:

Okay. And what about the employee cost, sir? Are you going to be stable or are you saying any increase in the wage cost and the employee cost?

Shrikant Himatsingka:

We see organic increases in wage cost across the board. Nothing material in terms of either head count or percentage increases. They remain range-bound in context



Himatsingka

to the organic growth one normally sees in these operating expense heads. So our personal expenses for the year came in at 170 crores versus 150 crores last year which was on the back of 18% growth. So some of these increases that you are seeing is also related to the translation impact that we have on the rupee-dollar. So, all in all, the personal expenses for the company remain stable.

Lalit Tapadia: Okay, sir. Thank you.

Moderator: Thank you so much. At this time there are no more questions from the attendees. So I would like to hand it back to the management for any final or closing remarks.

Shrikant Himatsingka: Well, to conclude I thank everybody once again for having joined the conference call. The company is pleased with the relative growth that we have seen during the year and relatively strong operating performance vis-à-vis FY 12. As stated earlier, we look forward to FY'14 with strong organic growth themes in place, the theme of sweating our asset basis and focussing on our strengths of manufacturing and distributing home textile products. So we look forward to seeing you again at the end of Q1 FY '14. Thank you again.

Moderator: Thank you so much, sir. Thank you all the attendees for joining in. With this, we conclude the Himatsingka Seide Fourth Quarter FY13 Earnings Conference Call. You may all disconnect your lines now. Thank you so much.