



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

**Q3 FY13 Earnings Conference Call**

**January 29th, 2013**

**Moderator:** Good afternoon, ladies and gentlemen. I am Anchal Rastogi, the moderator of this call. Thank you for standing by and welcome to Himatsingka Seide Limited third quarter financial year '13 earnings conference call. For the duration of presentation, all participants' lines will be in a listening-only mode and we will have a question-and-answer session after the presentation. I would like to now hand over the conference call to Mr. Priya Ranjan from Macquarie Capital Securities. Over to you, sir.

**Priya Ranjan:** Thanks, Anchal. Good afternoon, everyone. It's our pleasure to host Himatsingka post 3QFY13 results conference call, and thank you all very much for your participation in it. Today we have from the management team Mr. K. P. Pradeep, Group CFO; Mr. Ashutosh Halbe, VP Corporate Finance; and Mr. Ashok Sharma, GM Treasury, Taxation and Company Secretary, who will represent the management team from the company for this call.

Now, we would like to hand over to Mr. Pradeep who would like to give some brief background to the result. And then we will proceed for the question-and-answer session. Thank you. Over to you, sir.

**K. P. Pradeep:** Good morning, everybody. Thank you for joining the call. I would like to give you a brief summary on our third-quarter results, FY13. I will take you through the performance on the manufacturing divisions, and then performance on our retail and distribution divisions, and then finally the consolidated performance of the group.

For the third quarter ended December' 12, our manufacturing revenues came in at 182.53 crores versus 182.99 crores during the same period last year. The manufacturing divisions have come in at 30.66 crores for the quarter versus 33.79 crores during the same period in the last year. The reduction in EBITDA on account of a marginal increase in cost of inputs. The bed linen unit has clocked an 81% capacity utilisation, and the average realisation has increased by 5.2% to Rs. 322 a metre, from Rs. 306 a metre same quarter last year. In the drapery and upholstery divisions, average realisations have increased by 0.5%, from Rs. 1164 per metre to Rs. 1159 per metre. And

capacity utilisation is currently at the 43% level. For the last quarter it was at the 41% level.

So to recap on the third quarter, we closed manufacturing with Rs. 182.54 crores in revenue and Rs. 30.66 crores in EBITDA, as against Rs. 182.99 crores in revenue and 33.79 crores in EBITDA during the last year.

On the distribution side of the business, we have clocked steady growth in the North American market which includes the United States, Canada, Mexico. Our total revenue for North America during the quarter stood at Rs. 374.84 crores versus Rs. 334.16 crores last year, a growth of 12.2%.

Divatex, the distribution business division which addresses the private label business grew 10.4% to Rs. 274.11 crores versus Rs. 248.29 crores last year. Our DWI division which is in the branded side of the business grew to 100.73 crores versus 85.87 crores last year, a growth of around 17.3%. The quarterly EBITDA for the North American distribution divisions which include both Divatex and DWI came in at Rs. 14.99 crores as against Rs. 15.87 crores last year. The marginal reduction in EBITDA reflecting the product mix in this particular quarter. We continue to see stable demand for our brands as well as our private label business as in the last quarter.

Through our 100% subsidiary in the America HimA, we were holding 90% of the shareholding of Divatex as of the last quarter. During the third quarter, we acquired the remaining 10% shareholding in Divatex, taking our total shareholding to 100% in this division. We have acquired the additional holding of 10% at a cost of \$8.5 million.

As regards the distribution businesses across India and Asia represented by Atmosphere, the revenues for the quarter were 15.06 crores versus 13.44 crores during the last year, a growth of 12%. The EBITDA margin for the quarter was at 10.9% versus 9.6% in the previous year.

The revenues for the distribution division in Europe came in at Rs. 21.06 crores for the quarter versus 28.41 crores in the previous year. The EBITDA for the quarter was a negative Rs.3.21 crores as against a negative of Rs.1.66 crores in the previous year. The de-growth in the division

mainly on account of the weak European demand. We still continue to see a stressful situation in terms of growing the revenues within that geography. We have a few initiatives to increase the footprint of the brand across geographies, and we expect to see the benefits over the next four quarters.

On a consolidated basis, the company clocked revenues of Rs. 440 crores versus 401 crores in the previous year, a growth of 9.7%. The consolidated EBITDA for the quarter stood at 43.49 crores versus 43.39 crores in the previous year. The consolidated Profit After Tax and minority interest stood at 13.03 crores for the quarter versus 11.21 crores during the previous year, a growth of 16.2%. This overall sums up the consolidated quarter performance for Himatsingka.

The finance cost for the current quarter represents interest cost of Rs.13.94 crores and finance charges of Rs. 2.97 crores. The equivalent in the previous sequential quarter was Rs. 14.4 crores on account of interest and Rs. 2.24 crores for finance charges. In the interest cost of 13.94 crores in this current quarter, we have an amount of Rs. 2.45 crores being the differential interest relating to PCFC availed during the quarter. We have talked about this on previous calls too.

The total debt outstanding as of 31<sup>st</sup> December 2012 stands at 706 crores; 553 crores being the term debt and 153 crores being the working capital debt. The company's effective cost of debt is at 5.78% versus 5.80% in the previous quarter. During the nine-month ended 31<sup>st</sup> December, 2012, we've repaid Rs. 76 crores of debt and borrowed fresh loans of Rs. 84 crores; the fresh borrowing mainly to fund the acquisition of further stake in Divatex of 20%, i.e 10% in July 2012 and the other 10% in December of 2012.

I would also like to inform that Crisil has upgraded our ratings from BBB negative to BBB for the long term, and the short term rating has also been upgraded from A3 to A3Plus. Our overall position on the debt front is steady. And we will continue to see debt reduce as loan repayments continue over the next few quarters. Our overall performance is steady.

Our manufacturing order books continue to be strong. The manufacturing order books of the bedding division stands at around 237 crores. And on the upholstery and drapery side of the business, our order book is round 14 crores. So in total we have an order book position of around 241 crores on the manufacturing front.

We had implemented successfully an ERP package for the manufacturing division i.e both the Bed Linen and the Drapery and Upholstery divisions in the earlier quarters. We have implemented the ERP solution in our retail division in the current quarter.

We have seen relative volatility in the last quarter on the foreign exchange front. We are current covered at an average rate of approximately Rs.55.75 per dollar for the next two quarters.

This sums up the performance for the quarter.

For the current nine months, our consolidated revenues were Rs. 1295.11 crores as against Rs. 1093.93 crores in the corresponding nine months of the previous year, a growth of 18.4%. Our consolidated EBITDA was at Rs. 123.99 crores as against Rs.11.41 crores in the corresponding nine months of the previous year; a growth of 11.3%. The consolidated net profits of the current nine months is Rs.34.87 crores, versus Rs. 31.01 crores in the corresponding nine months of the previous year, a growth of 12.4%.

So this sums up the performance for the quarter and the nine months ended 31<sup>st</sup> of December, 2012. Over to you, Ranjan. I would be glad to take questions.

**Moderator:**

Thank you so much. Participants, we would now start the question-and-answer round. Any questions from any participants, please press "0" "1" on your telephone keypads and we would announce your names. All right. I'm getting first question from Mr. Ravi Deshpande from Silverdale Capital. Please go ahead, sir, and ask your question.

**Ravi Deshpande:**

There is ForEx gain of 53 million in the book. So I just wanted to understand the nature of the same.

- K. P. Pradeep:** Sorry, can you repeat, please? Your voice is not audible.
- Ravi Deshpande:** There is a foreign exchange gain of 53 million in this quarter. I wanted to understand the nature of this gain. 52.8 million.
- K. P. Pradeep:** So this is basically the 5 crores 28 number that you are talking about in the consol , right?
- Ravi Deshpande:** Right.
- K. P. Pradeep:** This is a combination of better realisation and translations.
- Ravi Deshpande:** And same is the case with the previous quarter? 9.39 crores, right?
- K. P. Pradeep:** Yeah, in the previous quarter, if you are looking at the sequential, right?
- Ravi Deshpande:** Yeah.
- K. P. Pradeep:** In the sequential you have a figure of 9 crore and 38 lakhs, correct?
- Ravi Deshpande:** That's right.
- K. P. Pradeep:** That is a loss.
- Ravi Deshpande:** Yes, the nature is the same but?
- K. P. Pradeep:** The nature is the same.
- Ravi Deshpande:** Ok, thank you.
- K. P. Pradeep:** What happens, Ravi, is that we hedge our books as an when we see an order book position. When the actual order fructifies into a billing, the differential will reflect the rate at which we have realised vis-à-vis the rate at which the invoice has been booked. And in this case, what has happened over this quarter is we are seeing a consistency between these two rates, and that's why you're finding the profit in this business apart from normal exchange translations
- Ravi Deshpande:** Ok, got it. Thanks a lot.

**Moderator:** Thank you so much, sir. The next question in line is from Mr. Nilesh Harya, and he's an independent investor. Please go ahead, sir.

**Nilesh Harya:** Thank you. Good afternoon, Chairman and the board members of Himatsingka. My question is regarding adequate rewards to the shareholders. And the second question is towards the retail segment in India. The first question I will read out, over the last several quarters on the income side, your sales growth has been impressive. Equally impressive has been the growth on the expenditure side too, meaning some expenditure has grown disproportionately in the quarter due to which the growth in PBT is not proportionate to the sales growth. Those hedges can have either been cost of materials consumed or employee-benefit expenses, or finance cost or other expenses. Basically, besides the shareholders, everyone seems to be adequately rewarded, be it the people you supply the finished products or the people from whom you procure raw materials or for the employees who work for you or the banks who finance you, and the expenses whomsoever they represent. What do you have to say to the shareholders who [inaudible] [0:14:48] without proportionate compensation being generated?

My second question is the retail segment. India is projected to have [Technical difficulty] [0:15:01] within the next decade. I believe the company, time and again, mentioned that they have [Technical difficulty] the retail segment in India, but instead of the blue spent not [Technical difficulty] acquired 20% stake in [Technical difficulty].

**Moderator:** I think, Sir, he got disconnected. We will take the next question.

**K. P. Pradeep:** Yes, please take the next question.

**Moderator:** Yes. Before taking the next question, participants, those who wish to ask questions can press "0" "1" on their telephone keypads. The next is from Ms. Ruchita Maheshwari from Nirmal Bang. Please go ahead.

**K. P. Pradeep:** Hello. Yes, Ruchita.

**Ruchita Maheshwari:** Hi sir. Sir just wanted to know, if you see in the Bellora segment there's been a very big fall. It's 27.7% decline

year-on-year, and even in the sequential basis, the decline is 6%. If can you throw some light on what's happening and what is the future?

**K. P. Pradeep:**

In the case of Bellora we are seeing degrowth in the European market. It's a very stressful situation there. So what we have been doing in terms of -- two, three initiatives that we have been doing in Bellora. One is, we have been looking at the cost structures very closely to try and align it with the reduction in the topline because there is an inability in that particular market situation, to move the revenue higher.

The other aspect of Bellora is we have been very concentrated around the European geography. We are attempting to look at Bellora moving beyond the geography, which is typically into the North American markets, and to a certain extent into the Chinese markets as we look at various options within that market. So while the revenue within the geography looks stressed, we anticipate higher licensing and other royalty incomes to compensate. But in terms of our brand, the brand continues to be one of the top three luxury brands in Italy. It continues to be high on brand recall and it has a good potential of growth in the future, not just within the geography but outside too.

**Ruchita Maheshwari:**

Sir, it's because that the brand is very, you know, high-end premium, so it's facing problem because of that?

**K. P. Pradeep:**

It's a little bit of a mix because if you look at brands across Europe, there are some brands that are facing challenges and there are others brands which are doing well. So it's a little bit of both. If you look at Bellora, it's concentrated around the Italian geography in particular. Since that particular geography is having a higher stress even within Europe it is bound to impact. So while we recognise and appreciate the fact that that geography is going through stress, our emphasis has been on moving out of the geography to new markets. So we have got some initiatives around moving towards the relatively better off markets in Europe, the North Americas and geographies within South-East Asia, Middle East and China.

**Ruchita Maheshwari:**

Sir, when this, you know, moving to the different parts of geography, what is the timeline and what kind of revenue will be generated after that?

- K. P. Pradeep:** It's difficult for me to, put a revenue number on this. I should say that the potential is enormous. And I think we could see it fructify over the next four quarters. Initiatives are in place and we should likely see it fructify four quarters from today.
- Ruchita Maheshwari:** Okay sir. Sir, my next question is on Calvin Klein brand, you know, in the Northern America. Sir, the growth is very, you know, nominal growth. It's just 5.7% year-on-year, 4.1% quarter-on-quarter. So what's happening in that side?
- K. P. Pradeep:** In the case of growth in the North America, especially on the branded side, Calvin Klein continues to be stable. Ruchita, the growth of 3%, 4%, 5% in these mature markets is considered steady . And apart from growing the Calvin Klein side of the business, we are also growing the Barbara side of the business. Barbara Barry is another brand that we have in the US. So we have seen the growth coming from Barbara Barry vis-à-vis Calvin Klein. And the margin profiles are interesting on Barbara Barry as a result we see overall margin profiles move up in the last quarter.
- Ruchita Maheshwari:** Okay, sir, can you tell me what is the growth rate for Calvin Klein and for Barbara Barry year-on-year and quarter-on-quarter?
- K. P. Pradeep:** We are seeing overall branded growth in the region of 7%.
- Ruchita Maheshwari:** Okay, sir. And sir, my next question is on your interest cost which has risen 33.6% year-on-year. But I believe you have reduced your debt. So what's the scenario there?
- K. P. Pradeep:** We have taken on some debt. We have reduced some debt. It's a mixture of both. If you look at our debt as of the 31<sup>st</sup> of December, 2012, our debt is at Rs.706 crores as against Rs. 676 crores in the same quarter last year, the additional debt mainly on account of the debt that we had taken for the acquisition of the 20% additional stake in Divatex. Our cost of debt continues to remain range-bound. In fact, it reduced a little from the last quarter, sequentially speaking. We are seeing interesting reductions in our working capital. We had drawn Rs. 159 crores on working capital as of 31<sup>st</sup> December, 2011. As of 31<sup>st</sup> December, 2012 our working capital is at Rs.127 crores. So we have seen increases on one side and we have seen reduction on the other side.

Overall, our cost are in control because the increase has been on the term side, reduction has been on the working capital side with its differential interest. So that's been a positive.

In this number of Rs. 706 crores, we also have a translation impact of roughly 10 crores, because when you have debt overseas it gets translated to Indian Rupees and so there is an impact of around 10 crores. We really don't have a cash impact on this because we service this out of dollar inflow.

**Ruchita Maheshwari:**

Okay. Sir, if I have to talk on raw material prices, I believe in the last quarter you said the raw material prices are easing off. But in the Q3 the raw material is at the same percentage of sales, is 8.6%. So what is the scenario in the raw material prices going forward; and I believe this is going to impact our operating margins?

**K. P. Pradeep:**

We have two distinct types of major raw materials. One is on the Bedding side of the business where we buy cotton yarn, and on the other side would be the drapery and upholstery side of the business which is silk-related – where we buy raw silk .

There has been a movement in raw material prices between 4-5% if you look at the cotton yarns. On the raw silk side, we have had a 7.8% increase in prices on raw silk. There has been a movement upwards. But it has been more or less negated by virtue of the product mix that we currently run in the Drapery and Uphostry side of the business. On the bedding side, this has had a negative impact on our overall bedding performance. We however see the raw material prices currently range bound and something that we can absorb within the value chain as we go forward.

**Ruchita Maheshwari:**

Okay. Are we not thinking of any price increase going forward to negate, you know, the raw material price increase or it will be the product mix?

**K. P. Pradeep:**

It would be a combination of both. But the...

**Ruchita Maheshwari:**

But have we taken any price increase during this quarter to negate the negative impact?

**K. P. Pradeep:**

In this quarter we haven't. We don't see this increase particularly alarming, Ruchita. So if it comes to the point

where we need to take the price increase, we will take the price increase. As we see it today, we don't see this getting alarmingly out of control. 4-5% is something that we can manage within the value change.

**Ruchita Maheshwari:** Okay, sir. No price increase on the accounts?

**K. P. Pradeep:** There were no price increases in Q3 on this account. On Q4 we are already booked on the raw material front I don't see any particular stress. But as you go into Q1 and Q2 of FY14, the value change will absorb any increase in raw material prices if the situation does warrant.

**Ruchita Maheshwari:** Okay, sir. Thank you so much.

**Moderator:** Thank you so much, ma'am. Now, we have next person in line is Mr. Nilesh Haria. Sir, please go ahead.

**Nilesh Haria:** Hello.

**Moderator:** Mr. Haria, you can please go ahead and ask your question. Your line is unmuted.

**K. P. Pradeep:** Nilesh, this is Pradeep. I am sorry your line disconnected but if I recollect right you were referring to two questions; one on share holder value and the other one on approach to the retail segment. Is that correct?

**Nilesh Haria:** Exactly. Yes.

**K. P. Pradeep:** All right. So, Nilesh, let me give you a small perspective. I have said this on earnings calls in the past, and I don't know whether you have been on those calls, but I will give you the perspective that we have here at Himatsingka. You are quite right, I mean, there has been a sort of a 5-year history on how the company has performed. We have had issues in the past relating to either foreign exchange, plant stabilisation, a recession in our markets worldwide and unusual commodity movements. All of these have impacted our performance over these past few years. A lot of these issues have corrected and we see positive trends.

On your specific point on the expense lines, I would like you to look at it a little closely because over several quarters the expense line on a consolidated basis has actually shrunk rather than increased. Any increase you

notice is on account of exchange translation. So there has been many initiatives around cost optimisation that we have been driving over the past few years. I do take your point. There's a lot more cost optimisation capability and some of the initiatives are already in place. They will start to play out over time.

If you look at performance over the last maybe eight or nine quarters, what we have been trying to address is a greater degree of stability within the financials. And I believe that we have to a large extent managed that. And given the sort of initiatives that we have on hand, we believe going forward we will continue to see this stability.

On the retail side of the segment, we have 14 stores in Atmosphere, 12 in India, one in Singapore, one in Dubai. We are clear that the Atmosphere segment of the business should grow. We have a vision of how the stores should grow from the current 14. We have been on record saying that we would like to see these grow up to 40 within the geography, that is, South-East Asia, Middle East and India.

What we are also very clear is while we take those steps, we take the correct steps. Retail is a very interesting segment. It has a lot of opportunities, but if you don't get this right, you are probably going to be creating an expansion on a wrong footing, and that's not something we want to do. We want to be clear, our approach is right. We are currently being advised on how we need to look at our retail expansion going forward. There are things that we need to do within the retail space to ensure brand visibility and to ensure that the brand continues to get focus. We would like to get the essential first steps clear before we go in to store expansion. So I would urge you to be a little patient on this. Our Retail foray is important to us. We will continue to keep engaging on this, but we need to get those first few steps correct within our existing store structure and then move forward. I hope this explains.

**Nilesh Haria:**

Thank you, sir. Thank you very much. I am convinced.

**Moderator:**

Thank you so much, sir. Any other question from any other participants, you are requested to press "0" "1" on your telephone keypads. Now, the next question is coming from Mr. Jay Daniel from Corporate Database. Please go ahead, sir.

**Jay Daniel:** Yes. I would like to know what is the direction on debt going forward. I mean, your debt as of now is around 706 crores and your term loan is around 579. So how will this play out, say, in the next year or two years? Where do you see it stabilising?

**K. P. Pradeep:** Daniel, the way our debt is structured, we have got a debt outside in the foreign entity, which we had taken for acquisitions. We got a debt in India, which is typically a debt that was driven by requirement to expand our Greenfield bed-linen project. These are lump sum and, therefore, have a concessional rate of interest. The way I see debt, we have got an 85-crore debt repayment happening over the next year. And debt will continuously keep reducing as we go forward. Debt also has got two connotations. This number of 706 crores reflects term and working capital. As and when you see these EBITDAs improved, and they have been improving quite significantly over the last two years. As and when you see this EBITDA improving, you will start seeing its first impact on working capital, because we have a constancy in terms of debt repayment. So we are pretty clear that you need to pay 85 crores of debt in the next year and anything beyond that within the EBITDA structure. Of course, interest would go to reduce the working capital borrowings that we have. I see this constantly reducing. I am not very sure that we would like to see this drop below 300 to 400 levels, but that's where it will be as we go over the next three to four years. We have debt repayments happening over the next three, four years which would, in pure theory, take us to zero debt in five years from now.

**Jay Daniel:** Okay. Thanks a lot.

**K. P. Pradeep:** I mean, to your point, if you are also looking at the CapEx, we don't have any significant CapEx at the moment, and our current spreading of assets team will continue on the basis of the existing assets that we have, and we are not looking at any significant expansion.

**Jay Daniel:** Okay. Fine. So approximately how much cash would you be generating? I mean, if I were to – would it be 85 crores or more than that – free cash generation that would come up?

- K. P. Pradeep:** Free cash should be more than that as we go forward. Last year, we did a 147-crore EBITDA. We are looking at a significantly higher number. We already had 123. We are set to move in the region of 160 to 165. So net of interest is what you will generate in terms of cash. You don't need to put more than, maybe, 10 to 15 crores in CapEx.
- Jay Daniel:** Right, true. Okay, thanks a lot. Thanks
- Moderator:** Thank you so much, sir. I request participants to press "0" "1" if they have any further questions. I am getting Ms. Ruchita Maheshwari again from Nirmal Bang to ask question. Please go ahead, ma'am.
- Ruchita Maheshwari:** Hello.
- K. P. Pradeep:** Hello.
- Ruchita Maheshwari:** Yes. Sir, I just wanted to know last con-call you said that the raw silk prices have moved to \$60 and it has been, you know, stabilized the \$48 to \$50. If I see a 7-8% price increase from here, it's coming to somewhere around \$54. So are we seeing the raw silk prices moving to the last time peak high?
- K. P. Pradeep:** Sorry, what is this? Sorry, your voice is again breaking Ruchika. Can you repeat the question please.
- Ruchika Maheswari:** Sir I'm talking about the raw silk prices. In the last con-call, as far as I remember, you said that this raw silk had moved to \$60 and is recently stabilized to \$40 or to \$50. And according to you the raw silk prices moved to 7-8% price hike. So, if I see from \$50 and if I increase to the tune of 7%, it's coming to \$54. So are we seeing the prices moving to the last time high level?
- K. P. Pradeep:** I don't anticipate it moving it to the 60 levels that we saw in the past. But you are right, I mean it's hovering in the region of \$51, \$52 at the moment. As I mentioned a little earlier, there are ways to manage this price increase through a combination of product mix and a little bit of pass on of prices .
- Ruchika Maheswari:** And little bit of?

- K. P. Pradeep:** And a little bit of pass on. We pass on prices also; pass on the increase to the value chain .
- Ruchika Maheswari:** Okay, okay, sir. And sir, what if the other income include that? It's 2.71 crores which is very high compared to your last previous not many quarters.
- K. P. Pradeep:** We have an asset sale of around 2.14 crores embedded in that number. These are some spinning assets in our drapery and upholstery unit that was lying unutilised and had a zero value book value. So the sale price in total has reflected in the other income.
- Ruchika Maheswari:** Okay, sir. And sir, what will be the tax rate for the full year?
- K. P. Pradeep:** You can take in the region of around 23-24%.
- Ruchika Maheswari:** Okay. And sir any guidance for FY14 in terms of revenue and operating margins?
- K. P. Pradeep:** We generally don't give guidances, Ruchika. But I should say we should look at a topline growth in the region of anywhere between 11-13%. And EBITDA growth we should see in the region of around, 14-15%.
- Ruchika Maheswari:** 14-15%?
- K. P. Pradeep:** Right.
- Ruchika Maheswari:** 14-15% because I believe in the last FY12, your EBITDA margin was 10.1%.
- K. P. Pradeep:** I am talking about the growth over the current level .
- Ruchika Maheswari:** Okay, of the growth.
- K. P. Pradeep:** The topline growth in the region of 11-13%, the EBITDA growth roughly around 14-15%.
- Ruchika Maheswari:** 14-15%.
- K. P. Pradeep:** Yeah, 14-15% is what you can look at.
- Ruchika Maheswari:** What about the margins?

- K. P. Pradeep:** Hello?
- Ruchika Maheswari:** Hello? What about the margin, EBITDA margin?
- K. P. Pradeep:** I have given you the trend, you can work the math.
- Ruchika Maheswari:** No, that's okay. I just want to know [Technical difficulty] margin going forward or will it be in the region of 10.5-10.9% or 10.11%?
- K. P. Pradeep:** Yeah. So if you work this number it should move up at least 100-basis.
- Ruchika Maheswari:** Okay, fine, sir. Okay, thank you so much.
- Moderator:** Thank you so much, ma'am. Any other question from any other participant, please press "0" "1" on your telephone keypads. I repeat, any questions coming up from any other participants, you are requested to press "0" "1" on your telephone keypads. I'm getting one question from Mr. Shitij Kothani [ph] from Stan Capital. Sir, please go ahead.
- Shitij Kothani:** Yeah. Hello this is Shitij Kothani. First of all, good afternoon, sir. My question is assuming you have to increase your capacity utilisation of your drapery upholstery plant, which is currently at 40-42% to upwards of 55- 60% in medium term. So how much growth rates you would be targeting over next 3-4 years to reach the level of 50-55% capacity utilisation?
- K. P. Pradeep:** Shitij, the current utilisation is around 43%. The Drapery and Upholstery business at the best of times has not been more than 75%. So we believe that over the next 3-4 years, we should be able to drive to this 75%. You're quite right, I mean currently the capacity utilisation in this particular division is much below our expectations.
- Shitij Kothani:** Yeah. So even if we have to reach to 60% utilisation in the next three years, how much growth rates we have to target for that?
- K. P. Pradeep:** In meterage terms we produce on an annualised around 900,000 metres. This should move to region of around 14 lakh metres.
- Shitij Kothani:** To? 14 lakh metres.

- K. P. Pradeep:** Upto 14 lakh, that should be on an average around 18-19% growth year on year.
- Shitij Kothani:** Okay. And my question is on your Atmosphere retail business actually. I would just want to understand about your portfolio of the product, which you keep at your store, all the products are manufactured at Himatsingka plants or you also keep private labels?
- K. P. Pradeep:** We sell exclusively Himatsingka product. We sell Bedding and Drapery and Upholstery product. The drapery and upholstery is made at our Doddaballapur manufacturing unit And in the case of bedding, our Hassan Bedding plant supplies the bedding range to the Atmosphere stores.
- Shitij Kothani:** Okay. So overall full manufacturing is in-house only?
- K. P. Pradeep:** That's right. We would have a very small percentage that's outside this.
- Shitij Kothani:** Okay, okay. Not an issue. Thank you.
- Moderator:** Thank you so much. We have another person in line. Mr. J. Daniel again. Sir, please go ahead.
- J. Daniel:** Sir, if I were to look at the interest cost, I mean because your debt portion has TUF loans and, you know, foreign loans outside India. So now the interest cost for the year would be around 70 crores if I would just analyse it. So how do you see this moving going forward, I mean? Would there be sizable reduction in this amount?
- K. P. Pradeep:** You should see reductions in line with the reduction in debt.
- Firstly we need to note in these numbers is that there is debt in dollars outside the country and given the translation you would have an impact on a non cash basis in these numbers.
- Secondly, as debt keeps reducing, you will definitely see this number go down.
- Thirdly we normally do our working capital financing in India through a medium called the PCFC ( Packing Credit in Foreign Currency). Earlier the whole PCFC cost, which

is in our case Libor plus 350 bips, would be treated as the cost of the financing. Lately, however, we have seen a change in accounting standards and consequently a change in the way we account for these interest costs. And so we have an additional costs of interest. So for example, in this 15-crore number that you see this year, you have an addition of roughly Rs. 2.5 crores on account of PCFC cost treated as interest. What does it mean? It means typically that, if you took PCFC from a bank and if you had an alternate rate for packing credit in Indian Rupees which is in the region of say, 10%, the differential interest cost between 10 % and Libor plus 350 bips needs to be recognised as an interest cost. This differential which in the past used to be in the foreign exchange loss/gain line needs to now be recognised as an interest cost. How this will move is difficult to predict as it depends on the interest rate structure and the Rupee-Dollar rate.

**J. Daniel:** But that's not a notional item, I mean it's not a cash item, right?

**K. P. Pradeep:** Some treat this as notional and some treat is as cash because when you take PCFC you also fix the realisation for the future receivable and to that extent what you are basically giving up is a future opportunity. Now you can decide where to place that opportunity. It could be on the foreign exchange line or you could take it as interest cost. The standards are clear that it's an interest cost.

**J. Daniel:** But is there cash outflow on account of that? I mean the 2.5 crores, which you had included here, does the money actually go out the company or is it just an item that has been moved from foreign exchange here?

**K. P. Pradeep:** No, we don't have a physical outflow of cash. However as I said earlier there are two views of thought. One view is that it's an opportunity loss and the other says no we have no cash outflow.

**J. Daniel:** Okay, okay fine. So, the interest cost you're saying will go down to the extent of 85 crores of repayment that'll happen next year?

**K. P. Pradeep:** Every year you will find this drop.

- J Daniel:** Because a large portion of EBITDA goes off in, you know, for interest payment. That's why I wanted to know, how this would move going forward?
- K. P. Pradeep:** Given our debt repayment profile, this will definitely go down. As you see EBITD As move up, the interest will have to fall, and the interest also will start to look a smaller proportion of the EBITDA.
- J Daniel:** Okay, fine. Thanks a lot.
- Moderator:** Thank you so much, sir. I request participants to press "0" "1" if they have any further questions. I repeat, any questions from any participants please press "0" "1". Sir, there are no further questions coming up from the participants. So you can take over the floor for final remarks.
- K. P. Pradeep:** I thank everybody who has joined us on our Q3 earnings call. We look forward to seeing you on the Q4 earnings call. Thank you.
- 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.