# Transcript

## Conference Call of Himatsingka Seide Limited

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*Presentation Session*

***Moderator:*** Good morning ladies and gentlemen. I'm Priya, moderator for this conference. Welcome to the earning conference call of Himasingka Seide Limited. We have with us today Mr. Shrikant Himatsingka, Executive Director, Mr. Rajesh Kunnath, CFO, and Mr. Amit Jain of Himasingka Seide Limited along with Ms. Sangeetha of Anand Rathi Securities Limited. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Ms. Sangeetha Tripathi of Anand Rathi Securities Limited.

***Sangeetha Tripathi:*** Good morning everybody. Thanks Priya. On behalf of Anand Rathi Securities it gives us real great pleasure to host this conference call for Himatsingka Seide. We have a pleasure of having Mr. Shrikant Himatsingka with us. Now without much ado, I would now like to hand over the floor to Mr. Shrikant Himatsingka for his opening comments. Over to you sir.

***Shrikant Himatsingka:*** Thank you. Good morning everyone. As such I will take you through the developments that have taken place in the company over the last quarter and six months post which Mr. Rajesh Kunnath and Mr. Amit Jain will take you through finer details in the question and answer session.

It has been an eventful quarter for the company. We have completed our third overseas acquisition on the 18th of October 2007. This acquisition was of a company called DWI holdings, which is headquartered out of Atlanta. The company is approximately a 50-million USD in terms of revenues and the size of the transaction was 30 million USD in terms of enterprise value. The acquisition is interesting for Himatsingka because the company controls the home textile licenses to three very exclusive home textile brands namely, Calvin Klein, Barbara Barry and Royal Sateen. For a brand like Calvin Klein, we will have the United States, Canada, and Mexico, as the territories under which we can operate the license. For Barbara Barry, we will have a global license, and for Royal Sateen, we will have the United States centric license. This third acquisition clearly puts us firmly in saddle in terms of integrating the bed linen business, because after our acquisitions of Guiseppe Bellora SpA headquartered in Milan in February 2007, which is a luxury brand, essentially operating in the pan European region, and Divatex Home Fashions, which was a transaction executed in July 2007, the three companies together give us significant distribution strengths in the United States and European markets. And collectively we will be able to consume the entire capacity of the bed linen plant, which has been commissioned on the 12th of October 2007 for commercial production. We are quite pleased with these developments as it de risks the bedding business going forward. At this point what we estimate in terms of the progress on the ramping up of the bedding facilities is as follows. During Q3 we will be operating the plant at an estimated capacity utilization of 50%, which will ramp up to 80% to 85% during the 4th quarter this financial year. At this point we estimate that we will be able to break even the plant. Clearly in the 4th quarter the plant will not be operating on a stable product mix, it will still be a relatively simple product mix vis-à-vis what we envisage at a stable state, but that’s clearly because it will be the second quarter of commercial production and we would like to keep the product profile simple.

As far as the other divisions, and businesses go, we have had a fairly good quarter in the retail business, which grew 71% year-on-year as far as the quarter is concerned, and profits increased substantially, I believe the PBT numbers have shown an increase of approximately 100%, of course on a small base year-on-year, but the retail momentum continues, and we are going to see this continuing through Q4 and hopefully the rest of the financial year. At this point I would just like to make a few observations on the quarterly and half yearly results. As you all will notice quarterly revenues stand at 261 crores. We do not have corresponding quarterly numbers consolidated for the last financial year because we didn’t consolidate at that point of time. However, you will notice that we have the consolidated numbers for six months ended last financial year with a comparison of this year and that with the 250% growth in revenues for the first half of this year, we are at

355 crores in total revenues verses a 101 crores that we clocked last year. Having said that, while the growth initiatives have started reflecting in revenue numbers, our profitability has been dampened, and I would just like to outline broad reasons because of which this has taken place. Clearly, during the 1st half the Hassan facility was in trial production, and there were expenses during this period pertaining to trial production, which cannot be capitalized and has been charged off and therefore this has contributed a hit, Rajesh and Amit will take you through the details of this hit later on in the conversation. We have been impacted clearly by the dollar on two fronts, while we have lost in rupee realizations on the dollar after marginally passing on some of the impact at a constant currency level, we have landed up with a net rupee impact of approximately 6% to 7% again the quantity of this impact in crores will be talked to you about by Rajesh and Amit. We have also been hit by foreign exchange translation losses at the standalone level, which was on account of an ICD, which was sent to the United States subsidiary Himatsingka America to fund the mergers and acquisitions which got restated at the present dollar. And we have also had a couple of other events relating to the start up of the Dubai store, which has now stabilized in September, but clearly this first 6 months have been a period where a significant amount of startup costs have been incurred towards the store, and which will not sort of come in going forward. Apart from this, we have had approximately close to 3 crores of deal related expenses pertaining to mergers and acquisitions, which again is more of a one time cost.

So, once you go through the details of the extraordinary costs incurred during the 1st half and the quarter, it will reflect a trued up number, which we believe, keeps us on track to achieving the kind of growth we estimated that we will achieve during this stable state. One more thing I would like to add before I would like to hand over to Rajesh and Amit, is the fact that the Hassan production facility, since it started commercial production only on the 12th of October, and as I said, will be only achieving estimated 50% utilizations during this quarter, this quarter will be soft from the perspective of the losses arising out of the Hassan performance, however, that will clearly neutralize by Q4 and give us a full-fledged performance in ’08-’09. So with that I would like to conclude my introduction, and over to Rajesh.

***Rajesh Kunnath:*** Good morning everybody. Sangeetha, would you like me to take everybody through the specifics of the extraordinary cost that have been incurred in the quarter, which would explain the reasons for the softness in the profit before tax, or can that wait for the questions?

***Sangeetha Tripathi:*** I guess if we have in quantitative terms, the rupee impact as well as the mergers and acquisitions impact, we can just gauge what all impacted the margins as well as PBT.

***Rajesh Kunnath:*** Okay. Good morning everybody. I will take you through the key items, which have impacted the profits before tax and I will also give you some sort of a perspective on the standalone numbers. As far as the consolidated results go, the softness in the numbers and the extraordinary charges that Shrikant was just referring to, I would like to take you through some of the key items that impacted the profitability. For the first half of this year, that is the half ended 30th September 2007, Hassan bed linen facility related indirect expenses impacted the results by 842 lakhs that is 8.42 crores. In our estimate the appreciation of the dollar has impacted the sales of the silk and blended fabric business by Rs.4.1 crores. We also booked in acquisition related expenses; I am referring to expenses paid for due diligence post our closing out the acquisitions of Divatex and DWI Holdings. Though the DWI Holdings deal was concluded on 12th of October, the due diligence effort had been completed in the previous quarter itself. The total acquisition related expenses that we booked was Rs.2.1 crores. As regards the Dubai store,, the startup expenses which have impacted results, which we expect will not recur to the same magnitude going forward, is Rs.1.2 crores. In addition to this, we have also had an impact of Rs.0.5 crores on account of elimination adjustments of trial production out of Hassan. So this in brief is the summary of the extraordinary items, which impacted the profits for the first half. Now, just to give you a sense of the standalone numbers, when we eliminate the impact of Hassan as also the impact of exchange rate translation in the standalone numbers, I did not give the impact of FX restatement in the consolidated results because the ICD, which Shrikant was referring to, the loss on restatement of that gets netted off in the consolidation, because it was given to the subsidiary. So however, as far as the standalone results for the quarter are concerned after adding back Hassan indirect expenses, since there is no revenue attributable to Hassan in the quarter, and also adding back foreign currency fluctuation, the adjusted EBITDA for the business stands at 32.8%. This means that the existing silk business continues to return these levels of EBITDA despite the dollar softness though that EBITDA could have creeped up to about 35%, 36% levels, had it not been for the dollar. This essentially in brief is what we thought we should explain in terms of the extraordinary items which have impacted the numbers, and also to give a sense of how the standalone silk business has performed. Now, Sangeetha, if there is anything else that you would like to ask, or are we ready for questions?

***Sangeetha Tripathi:*** No, we could start off with the question and answer session sir.

*Question and Answer Session*

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***Moderator:*** Thank you ma'am. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Our first question comes from Mr. Ankit.

***Ankit:*** Good morning sir.

***Shrikant Himatsingka:*** Good morning Ankit.

***Ankit:*** Sir, I just wanted to confirm your revenues on standalone basis, I have also seen the softness of yearly around 8.3% YOY. Sir is that because of this rupee appreciation thing or there are some other factors associated with this decline in revenues?

***Shrikant Himatsingka:*** Rajesh may I take that question?

***Rajesh Kunnath:*** Yes.

***Shrikant Himatsingka:*** Ankit, it's predominantly to do with timing difference on certain shipments, which were accumulated in Q2, but are going to be shipped in Q3 on customer requests. So 70% of the decline of 8.3% is attributable to a timing difference and 30% is to softness.

***Ankit:*** Toward the rupee appreciation, towards the rupee thing.

***Shrikant Himatsingka:*** Yes, on the rupee aspect.

***Ankit:*** And sir, other income has also declined in this quarter?

***Rajesh Kunnath:*** Yes Ankit, other income has declined because as you are aware the free cash we had from the GDR proceeds have now been deployed for the acquisitions. So the surplus funds, which earned us interest income in the previous quarters has now started tapering.

***Ankit:*** Okay. Sir, I just wanted to confirm the GDR proceeds, which were available with the company, are entirely exhausted in these acquisitions or a part of it is still there with the company, because the recent DWI acquisition was done through funding, taking loan from the US banks.

***Rajesh Kunnath:*** Funding of the DWI acquisition was partly funded through debt; some part of it was also paid out from the GDR proceeds. But to answer your questions, yes, the GDR proceeds have practically been used up fully for the acquisitions.

***Ankit:*** Okay, and sir this increase in interest costs is basically due to the addition of tax or some other factors have also led to this increase in interest costs of the company?

***Rajesh Kunnath:*** The increase in interest in the standalone results is mainly related to interest on working capital for the bed linen facility. As you are aware, the start up of commercial production from 12th of October required us to build up inventory.

***Ankit:*** Okay sir. Sir, what has been the working capital requirement in the 2nd quarter, in the absolute…

***Rajesh Kunnath:*** In absolute value, the working capital requirements fluctuated between 55 to 70 crores.

***Ankit:*** Okay sir. And what has been the average cost of debt for the company, in this quarter?

***Rajesh Kunnath:*** The average cost of debt was 3.35%. On working capital, it was about 9%.

***Ankit:*** On working capital?

***Rajesh Kunnath:*** Yes.

***Ankit:*** Okay and on the consolidated basis, there is also a huge jump in the interest, so the average cost of debt also must have gone over there also, because of the international borrowing and all. What has been the interest cost over there, the cost of debt, average cost of debt?

***Shrikant Himatsingka:*** The interest expense that you see in the consolidated results is a result of rolling up of numbers of Bellora and Divatex. Bellora has certain long term debt and working capital loans, for which the average cost is about 5.5%. It's in the region of Euribor plus 130 to 140 bits, it's about 5.5 – 5.7%.

***Ankit:*** Okay, and sir your tax has substantially gone down for the quarter on year-on-year basis, if you see it was 2.7 crores the corresponding quarter last year, and it is around 1 crore this year. What is actually…?

***Amit Jain:*** Last year there was significant other income, which was fully taxed. And this year because of low other income in the standalone results, tax is low.

***Ankit:*** Is the benefit coming out of this Hassan SEZ confirmation?

***Rajesh Kunnath:*** Hassan SEZ benefits will flow in only now, after the commercial production has started.

***Ankit:*** Okay from 3rd quarter onwards.

***Rajesh Kunnath:*** Yes.

***Ankit:*** Thank you very much sir.

***Shrikant Himatsingka:*** Thanks Ankit.

***Moderator:*** Our next question comes from Mr. Pawan of Edelweiss capital

***Gautham:*** Good afternoon sir, Gautham here.

***Shrikant Himatsingka:*** Yes Gautham.

***Gautham:*** How you are doing?

***Shrikant Himatsingka:*** Fine Gautham.

***Gautham:*** I just wanted clarity on a few things. Firstly, how have you booked the Hassan related hit that you have spoken about, 8.4 crores, that would be the in GNA and in staff costs I believe. Is it there also in raw material expenses?

***Rajesh Kunnath:*** No. There is no expense booked in raw material. It's only in personal costs, admin, and in interest.

***Gautham:*** Okay, but raw material costs, as a percentage of sales in standalone are at a historical high, is it because your raw material is booked at historical rupee dollar rate, something related to that?

***Rajesh Kunnath:*** No, I would say, it's basically a function of the denominator. As the sales have been soft for the reasons that have already been explained, RM expressed as a % of sales has gone up. Otherwise if you eliminate the impact of the dollar weakness, raw material as a percentage of sales would be about 31.3%.

***Shrikant Himatsingka:*** Having said that Gautham, to add to what Rajesh mentioned, our raw material prices have been softening and since we are on a weighted average system, the purchases of raw material that may have been at slightly lower prices will really come into play during Q3 and Q4.

***Gautham:*** Okay, and depreciation of the bed linens facility, has that started or we can expect that from next quarter.

***Rajesh Kunnath:*** You can expect it only in the next quarter Gautham, though there is a small component of depreciation of some assets like fixtures and computers, very, very small.

***Shrikant Himatsingka:*** And we have commercialized 10 million meters, like parts of it.

***Rajesh Kunnath:*** Shrikant, you want to take that?

***Shrikant Himatsingka:*** Yes, Gautham the process house is entirely functional with a capacity of 60,000 meters a day. As you all know, weaving is being put up in two phases. Phase 1 was of 176 looms, and phase 2 was of the rest, which takes the total to 320 machines. 176 looms are now running and the other looms are under erection, which will be over by the end of Q3. So we expect that the total weaving capacity will be smooth and contributing to the extent it should by Q4. And as far as made ups is concerned, it's been commissioned for a total capacity for 9,000 sets a day, but there is a ramp up time involved, which again we believe we will be able to achieve by Q4, at least 80% to 85% as I mentioned. And during Q3 in the present quarter it will be around 50%.

***Gautham:*** Okay, and process house itself will be operational at what percentage in Q3?

***Shrikant Himatsingka:*** Since the process house is a middle process, it will start the output, so process will be working at 50% also.

***Gautham:*** Okay so you won't get weaving and made ups done from outside, outsourcing?

***Shrikant Himatsingka:*** No, made ups we won't get done outside, we might get certain grey fabric, which is outsourced, but at the end of the day, it will all be tracked by the output, which is made ups.

***Gautham:*** Okay, so made ups will be the constraint.

***Shrikant Himatsingka:*** The main constraint, yes. And I would say while in-house weaving is also a constraint, grey can be outsourced, we will always prefer in-house weaving.

***Gautham:*** Other thing is, can you share some light on the profitability profiles of Divatex, Bellora, and DWI going forward. What kind of EBITDA and PAT margins can we expect from them?

***Rajesh Kunnath:*** Bellora, as we said is on the improving trajectory. As we said last quarter, our effort was to ensure that Bellora reported a positive EBITDA and we are happy to inform everybody that this quarter, that is the quarter ended 30th of September 2007, Bellora has reported a positive EBITDA after excluding translation impact. We expect going forward, i.e. 2008-2009, Bellora would report EBITDA margins in the region of about 7% to 8% of sales, and contribute positive income at the net level on a consolidated basis. The important thing to remember in Bellora's case is the situation where they were prior to acquisition and where they are right now. So, to us the improving trajectory is what holds the promise for the next year.

***Shrikant Himatsingka:*** I would like to just add to the Bellora aspect here. As Rajesh explained, since basically its been about 24 weeks since the take over, we have sort of turned them around and we expect the positive impact of the turnaround to continue going forward, so since it is a luxury brand, and you can sort of see the kind of EBITDAs we are achieving in atmosphere with our own stores, etc, it's a similar kind of EBITDA that Bellora should ultimately settle at, so the 8% to 10% bracket is a safe target to set our eyes on as far as the Bellora EBITDA is concerned for the next couple of quarters.

***Gautham:*** Right, what have been the key reasons for Bellora being loss-making and what are you doing to turn it around?

***Rajesh Kunnath:*** The main issue is Bellora, before we acquired the business, was that they had a very unviable manufacturing operation, which they closed down in June 2006. This is much before the acquisition. As a result of having unviable manufacturing, they were also heavily overstaffed for the type of sales profile that they had. The resultant issue was that they were not able to finance their operations on a regular basis and were saddled with debt and the resultant high interest costs. Besides this, they also operated in certain businesses like wholesale which did not even command gross margins of 15%, 20%. It was a combination of these factors that resulted in Bellora reporting losses prior to the acquisition. So our effort was to get their sales mix right, to focus on the expansion of retail which as Shrikant mentioned, comes with high gross margins. We also focused on financial reengineering – reducing interest costs, improving supplier payment terms, renegotiating prices etc., All this coupled with the fact that we don't have to contend with manufacturing operations going forward can only see the financial performance improving going forward.

***Gautham:*** Okay, and how about Divatex and DWI? What is their profit?

***Rajesh Kunnath:*** Divatex is an existing profit making company, and it is debt-free as of today, it only has a loan to one of the share holders, which will get paid up early next year, so there is no debt in the strictest sense on its books in any form. Divatex, on an annualized basis, is expected to report sales in the region of 160 million dollars, and we expect them to have EBITDA margins in the region of 8% to 10%, and net margins of about 5% to 6%. Remember, Divatex is a large distributor, and distributor businesses in the US typically do not command very high margins. Of course, our whole rationale behind the acquisition was to look at the through-put and distribution muscle which Divatex provides, and also the excellent manufacturing synergies they provide as far as the Hassan facility is concerned. So we expect to push up margins as we steadily increase our sourcing component into Divatex.

***Gautham:*** Right, about DWI?

***Rajesh Kunnath:*** Coming to DWI Holdings, I have to give you a sense of their financials when comparing two years financial results. For the previous year, that is the year ended 2006, DWI reported a revenue of about 55 million, an EBITDA in the region of 5 million and net income of about 4 million. They hardly have any depreciation expenses, their interest expenses are a result of factoring of bills. .

***Gautham:*** That's a PBT?

***Rajesh Kunnath:*** Yes, at the PBT level, yes. Now, for the year 2007, that is for the period ended May 2007, DWI Holdings sales was softer at 47 million with a PBT of under 1 million, mainly to due to the launch of a new collection of Calvin Klein in place of a collection that was being currently retailed. When dealing with a brand like Calvin Klein, you need to extremely careful about the manner in which stocks of the existing collection are pulled back and replaced with the new collection. Unfortunately for DWI, this transition from the old collection to the new collection happened around the time when the fiscal year was ending, from February of this year, as a result of which Calvin Klein sales was soft, This consequently impacted their net income as well. But, since then they have launched the new line and currently for the year ended 31st March 2008, they expect to record revenues in the region of 50 million and profit before tax in the region of 3 to 3.5 million. Further, as in the case of Divatex, DWI Holdings is also debt-free, they have a small 600,000 dollars of loans payable on the warehouse that they own near Atlanta, so there is hardly any debt that we can speak of in DWI Holdings. Of course, the debt that comes as part of the transaction of 3.9 million would be on their books.

***Gautham:*** Okay and what would be the tax rates for these people, the US rates?

***Rajesh Kunnath:*** The tax rates in our estimates based on the benefits that we will get out of amortizing goodwill, will be a shade under 30%.

***Gautham:*** 30%, and how much cash was paid for this acquisition?

***Rajesh Kunnath:*** As Shrikant said, the enterprise value was 30 million; we paid 26.1 million, because 3.9 million of debt was assumed by the previous promoters for paying off transaction related expenses.

***Gautham:*** Okay sir.

***Shrikant Himatsingka:*** So, Gautham, on DWI they will pretty much be on track, ‘08-‘09 financials will be back to stable state with organic growth in the region of 55 to 58 million with EBITDAs in the region of a shade over 6.

***Gautham:*** Okay sir, thanks.

***Moderator:*** Our next question comes from Ms. Shripriya. Sir, it seems Ms. Shripriya’s line is not active.

Next question comes from Mr. Bharath of Quest Investments.

***Bharath:*** Hello.

***Rajesh Kunnath:*** Yes.

***Bharath:*** Hi, good afternoon, yeah I am Bharath Seth from Quest, hello.

***Shrikant Himatsingka:*** Yes.

***Bharath:*** Sir, going ahead, just can you elaborate on this bed linen project, that we were anticipating around 800 crore turnover from this project, hello.

***Shrikant Himatsingka:*** Yes.

***Bharath:*** So, how much we are anticipating in current year and how much in next year and once we reach the full capacity, what are the EBITDA that we are targeting and…

***Shrikant Himatsingka:*** Can I take this question?

***Rajesh Kunnath:*** Yes, sure.

***Shrikant Himatsingka:*** Bharat, this 800 crore number that you are referring to, I think you are referring to the bed linen vertical, which is manufacturing and the brands put together, as a vertical, so the brands and distribution networks we have acquired, have collectively clocked last year revenues in the region of 1,080 crores, so it will contribute revenues of at least this 1,080 to 1,100 crores next year. So, at least that much of distribution revenues will be coming in, in the bed linen vertical and we will be supplying to our distribution arms, the total sales of which will be in the region of 300 crores from manufacturing to these distribution arms. So, collectively the vertical should be in the region of 1,100 plus crores and this will be kicking in, in 2008-2009, of course in full fledged manner and we will start seeing the benefits of this integration in Q4, because in Q3 the bed linen project, although it has been commissioned, is still ramping up, so it's the first quarter of commercial production, so there is a certain limitation on productivity levels we can achieve, but because of this integration, by Q4 we will start seeing the benefits of this entire vertical.

***Bharath:*** Okay, so why sir, I am talking mainly, we are looking, sir, I mean from '08-'09 point of view, if you can highlight, I mean, say '08-'09 will give you 1,080 crore type of turnover.

***Shrikant Himatsingka:*** 1100 crores coming from bed linen vertical and as we had gone public earlier, we estimate total revenues to be in the region of 1300 crores consolidated in '08-'09.

***Bharath:*** And how much of CAPEX that we expect to incur because I believe we have increased it from 400 crore to 450 crores, so hold…

***Shrikant Himatsingka:*** We will expect to hold at around 450 to 480 crores at this point.

***Bharath:*** And this is including the power project?

***Shrikant Himatsingka:*** That's correct.

***Bharath:*** And power project when we do we expect to…

***Shrikant Himatsingka:*** March '09.

***Bharath:*** Okay, and how much benefit that…so what are the ROI that we are looking from this project?

***Shrikant Himatsingka:*** We are looking in the region of between 25% and 28%.

***Bharath:*** ROI, okay, and can you just say the number, what is our total consolidated debt after taking DWI takeover?

***Shrikant Himatsingka:*** Consolidated, what, sorry?

***Bharath:*** Borrowings, net of surplus cash?

***Shrikant Himatsingka:*** Rajesh, net debt is?

***Rajesh Kunnath:*** You are talking of the consolidated debt of the company?

***Shrikant Himatsingka:*** Net debt, excluding cash, netting off after cash will be in the region of 440 crores, is that correct?

***Rajesh Kunnath:*** Yes, 440 crores, excluding working capital?

***Bharath:*** This is after taking over, I mean, the amount we spent for DWI Holdings?

***Shrikant Himatsingka:*** Yes.

***Rajesh Kunnath:*** Yes.

ANANDRATHI

**_Bharath:_** And how much out of this 400 crore have we availed against TUF?

**_Rajesh Kunnath:_** As of now we have availed about 290 crores. We have almost availed the 300 crores that have been sanctioned.

**_Bharath:_** Okay sir, so that 300 crores is the concessional rate we have availed?

**_Rajesh Kunnath:_** Yes, 3.35%.

**_Bharath:_** Okay, and sir, going ahead, I believe that our EOU status will be expiring in end of FY09 for existing manufacturing facility, so going ahead, then in that case we will have to incur a full tax rate?

**_Rajesh Kunnath:_** For the silk vertical the full tax rate will come into effect for the year ended March '09.

**_Bharath:_** March '09 or March '010?

**_Rajesh Kunnath:_** No, up to March '08, the EOU tax benefit continues, the EOU tax benefit ceases from that year onwards.

**_Amit:_** I would just like to add that only the income tax benefit will cease to exist, all other benefits will continue because we will continue as an EOU.

**_Bharath:_** Correct. Okay, thank you very much sir.

**_Moderator:_** Our next question comes from Kudale of Anand Rathi.

**_Kudale:_** Good afternoon, I have a specific question for Mr. Shrikant Himatsingka.

**_Shrikant Himatsingka:_** Yes.

**_Kudale:_** I have two questions, one is, are you planning any backward integration with so much of forward integration you have done, number one, number two, in the bed linen, what is your product mix and what is the thread count mix for the market?

**_Shrikant Himatsingka:_** Okay, if I can respond to that, to your first question of integration, we believe that having manufacturing bases in both silk and blended fabrics and cotton sheeting fabrics, we are to a large extent backward integrated from a manufacturing perspective. In the silk business, we can't backward integrate any further because that would involve getting into sericulture activities of silk yarn, which we don't want to do and as far as the cotton is concerned, we don't want to backward integrate into spinning at this point because India is a hub of good spun yarn and the kind of alliances we have with our vendors will ensure that we have a good supply of yarns. Additionally spinning is not a very high return business and its asset heavy relative to returns and from that perspective we would like to steer away from that, and concentrate on the manufacturing facilities we have at this point. So, that's on the integration bit. As far as the product mix is concerned, the plant of bedding has been designed to be quite flexible and at stable state will be focusing on 35% of total output to be in the high end bracket and the rest being in the mid end bracket and this combination will help us achieve optimal efficiencies of the plant because greater focus on the high end segment beyond say 40%, will also hamper the efficiencies of the plant. So, we believe this is the optimal mix to have and the product mix and average thread count will translate to between 1050 and 600 thread count on an average.

***Kudale:*** Okay and what is your percentage share in the US and European market for this bed linen?

***Shrikant Himatsingka:*** See. the percentage share will be quite high because Divatex is the third largest distributor of bed linen in the United States and now with DWI combined, we will still be holding collectively third in total distribution, so therefore we believe our…I don't have market share numbers, but our shelf space will be quite high.

***Kudale:*** And what about Europe?

***Shrikant Himatsingka:*** In Europe, with Bellora, we have a very high share in the luxury market in Italy with some other European countries included, but clearly not as high as the United States. But, through Bellora, we will have a platform to be able to expand into the European region.

***Kudale:*** Right, thanks a lot.

***Moderator:*** We have a followup question from Mr. Ankit.

***Ankit:*** Sir, if you could just throw some light upon the segmental results, which have been reported, specifically to home textiles and yarn, there has been decline in home textile revenues and a huge dip in the PBIT margins of yarn business, from 18.1% in corresponding quarter last year to 6.8% this quarter, specifically if we talk about the yarn business?

***Shrikant Himatsingka:*** Rajesh?

***Rajesh Kunnath:*** Yes Ankit, as far as the home textile business sales & margins are concerned, I think we have already explained that, in terms of what Shrikant had told you about the phasing issues on the orders of silk, as also the impact of the dollar appreciation. Now, if you look at yarn, the reason for the dip in the PBIT is similar to that of the silk business in so far as it pertains to the impact of the weak dollar on yarn realization.

***Ankit:*** Sir, to what regions are you exporting your yarn?

***Rajesh Kunnath:*** Our yarn is exported to Korea and Italy.

***Ankit:*** Okay and all the realizations are in dollar terms?

***Rajesh Kunnath:*** Yes, the realization is in dollars for yarn as well.

***Ankit:*** Okay, sir, on consolidated basis, as of now before all these acquisition and Hassan facility, Himatsingka was purely into silk, now Himatsingka with these acquisition and Hassan facility would be moving into a mix of cotton fabric also, so on a consolidated basis, as Shrikant sir, said that company is targeting a revenue of around 1,300 crores by the end of FY09, what would be the mix of silk and cotton in that, how much would be coming from silk and…?

***Shrikant Himatsingka:*** Approximately, close to 20% will be coming from silk and blended fabrics. It not true that apart from cotton, we are a pure play silk player. We are a silk and blended silk player, so silk and blended fabrics will contribute about a 20% and the rest from cotton.

***Ankit:*** And what kind of the margins would be there, on silk and the cotton business?

***Shrikant Himatsingka:*** The silk business should hold steady between 33% and 35% EBITDAs and the cotton business manufacturing will be in the region of 22% to 23% EBITDAs, what we estimate for next year and the retail business atmosphere will be in the region of 20% EBITDA and overseas distribution businesses collectively would be in the region of 10 to 11% EBITDA because some are slightly higher, some are lower, so I am taking a collective view.

***Ankit:*** Okay, and sir, what are the dollar prices you are estimating, going ahead, for your projection or dollar conversion rate?

***Shrikant Himatsingka:*** Well, what we have looked at is, of course we have some positions, which have been hedged going forward, so to that extent our view will not hold good on that portion, but overall we are estimating the dollar to be slightly softer from today's levels at about 38.80 and 39 though our internal budgets had been compiled assumed the dollar at 42..

***Ankit:*** Okay sir, another one question about the acquisition, is company looking out for some more acquisition in overseas market or this is an end to the trail of acquisitions in which company was into?

***Shrikant Himatsingka:*** Well, I would like to say, since we have completed three acquisitions, there are no further acquisitions in the pipeline for the here and now, but inorganic growth opportunities is something we will always be looking at going forward.

***Ankit:*** Okay and sir, just wanted to know how these three companies happened to Himatsingka, are there some other players who are also looking to acquire these companies or Himatsingka, what are the strengths that actually helped Himatsingka to acquire these companies or Himatsingka has paid some premium in comparison to others?

***Shrikant Himatsingka:*** No, I have made a statement even earlier saying that we believe that we have acquired these entities at reasonable valuations, I mean, on an average its between five and half and six times EBITDA, so we believe that going forward they will be accretive to us, number one. Number two, yes, without being specific, I can't take names, but we were on a couple of transactions witnessing certain other companies also having interest in these targets, but the reason they aligned with us was, basically of our manufacturing strengths, which we could bring to the table as well as distribution strengths, which we couldn't bring to the table, given the fact that we now have a significant domestic presence through Atmosphere and we now have five luxury brands in the group, namely Calvin Klein, Barbara Barry, Royal Sateen, Bellora and Atmosphere. So, lot of these brands we are now going to channel going forward through our own stores, which were additional reasons that made them look at us, not only as a manufacturing player, but an incremental distribution player for that.

**Ankit:** Okay, and sir, one last question, what have been the realizations for silk business in this quarter?

**Shrikant Himatsingka:** Rajesh?

**Rajesh Kunnath:** Yes, just one minute. 21.7 dollars per meter.

**Ankit:** For silk business?

**Rajesh Kunnath:** Yes.

**Ankit:** And what has been in the corresponding quarter last year?

**Rajesh Kunnath:** 20.85.

**Ankit:** So, there has been improvement on that front?

**Rajesh Kunnath:** Yes.

**Ankit:** Thank you sir.

**Shrikant Himatsingka:** And this 21.7 are prices reflected of first half realizations in constant currency, during the month of September we have revised prices in the region of 6%, 7%, which will be effective now, going forward.

**Ankit:** Okay, sir, does this flexibilities available with the company to all these fluctuation which are happening in the exchange market, to pass on to the end customers of the product?

**Shrikant Himatsingka:** Well, obviously it will be unfair to say that one can pass on the entire impact, for example, in the silk business a fair amount of the impact has been passed on because we must remember that approximately 30% of the cost of goods sold are imported and we also gained on the dollar front, as far as that is concerned to some degree. So, the silk business over the next couple of quarters would have passed on close to 80%, 90% of the impact and with organic growth we will utilize the impact. The retail business, having its own distribution, surely you can pass on any increases with much greater ease. Our distribution business overseas to the extent of their own point of sale can pass it on, but to the extent that they supply to other big box formats, it might be difficult for them to pass it on. So, overall I would say it will be an optimal mix of some amount of the impact that we absorb, but a fair amount of the impact that we can pass on at a consolidated level, so its not that we can pass on everything, but it is not that we will get impacted by the entire amount either.

**_Ankit:_** Okay sir, thank you sir.

**_Moderator:_** Next follow up question comes from Mr. Bharath of Quest Investments.

**_Bharath:_** Yes sir, hello.

**_Shrikant Himatsingka:_** Yes.

**_Bharath:_** To understand more about this linen business, as we said that in '08-09 we are expecting around 1,100 crores type of sales, what will be the mix between say, our own manufacturing and distribution?

**_Shrikant Himatsingka:_** See, thumb rule it will be half and half.

**_Bharath:_** No, our own manufacturing will be half?

**_Shrikant Himatsingka:_** Yeah, thumb rule it will be around 40% actually, if I go into specifics, it will be approximately 40% of the entire cost of goods sold, but will be coming through our own manufacturing facilities and the rest 50%, 60% will be coming through outsource. The reason being, there are certain sourcing requirements which other mills and other countries can make more competitively than our own in house facilities. So, there is no reason for us to want to make those products, we will continue to source them competitively and the best in the class products which will unleash high manufacturing synergies will be made in house.

**_Bharath:_** Okay, sir we have also other manufacturing facility of our acquired company?

**_Shrikant Himatsingka:_** No, no acquired company has any manufacturing assets of any consequence.

**_Bharath:_** Okay, so sir, if we really talk, so retail will be 400 plus type of crore sales will be manufacturing?

**_Shrikant Himatsingka:_** You have combined; you are talking about bed linen or all manufacturing, combined?

**_Bharath:_** Bed linen only.

**_Shrikant Himatsingka:_** Bed linen, next year will be in the region of close to a shade over 300 crores.

**_Bharath:_** Okay, so that is at Hassan facility?

***Shrikant Himatsingka:*** Correct.

***Bharath:*** Okay, and sir, but if you really look, because we gave the number of Divatex and DWI, for Bellora, I mean, what was the sales, I mean, annualized?

***Shrikant Himatsingka:*** Bellora annualized sales, consolidated is in the region of 170 crores.

***Bharath:*** And in Divatex we expect 160 million and DWI, 50 million-type of sales?

***Shrikant Himatsingka:*** The numbers were of this year ended.

***Bharath:*** No, the next year we are expecting around 1,100 crores?

***Shrikant Himatsingka:*** Yeah, around 1100 crores collectively between the three entities, which will mean, let's say Divatex is in the region of, Rajesh would you like to just throw light on the breakup of 1100 crores.

***Rajesh Kunnath:*** We are talking of the year ended March '09. For March '09, Divatex will be in the region of 170 million. The DWI should be about 55 million and…

***Shrikant Himatsingka:*** The rest will come through Bellora.

***Rajesh Kunnath:*** Bellora will be about 40 million.

***Shrikant Himatsingka:*** Euro.

***Rajesh Kunnath:*** So, if you take…

***Shrikant Himatsingka:*** Bharath, the numbers Rajesh is giving for Bellora is in Euros, sorry it will be 33 million Euros and approximately 43 to 44 million US.

***Bharath:*** Okay, fine sir.

***Rajesh Kunnath:*** So, that's how you get to about 265, 270 million dollars, which translates to 1100 crores.

***Bharath:*** Okay, thank you sir. Hello.

***Shrikant Himatsingka:*** Yes, Bharath.

***Bharath:*** This distribution facility will help us also some way in our home textile business also, silk business?

***Shrikant Himatsingka:*** Yes, it could have indirect synergies, because we could use the customer base to also, for example, with high end brands we could use this customer base and point of sales to also promote some silk products. But, most of the synergy in our silk production is coming from Atmosphere, which is now present across 12 locations in India, it has launched its Dubai store in May, we have launched our Singapore store in October and we will continue our South-east Asian market growth, going forward.

***Bharath:*** Sir, can you say by March '09 how many stores do we plan?

***Shrikant Himatsingka:*** Put together, domestic and international stores currently stand at 14; we are projecting around 20 to 22 stores by next year end.

***Bharath:*** Sir, can you share our two years CAPEX plans?

***Shrikant Himatsingka:*** That will be a little difficult to project at this point in terms of two years CAPEX.

***Bharath:*** Okay, even next year sir?

***Shrikant Himatsingka:*** Next year is organic CAPEX, what is it, Rajesh?

***Rajesh Kunnath:*** Next year, our major capital commitment will be on the power plant in Hassan which is expected to get commissioned in March 2009. We will also have some organic capital expenditure for the silk business which when combined with the power plant will be in the region of 75 crores.

***Bharath:*** Okay, thank you very much sir.

***Shrikant Himatsingka:*** Hello, Sangeetha.

***Sangeetha Tripathi:*** Yeah.

***Shrikant Himatsingka:*** Any more questions.

***Sangeetha Thripati:*** Priya, are there any more questions?

***Moderator:*** There are no further questions. Now I hand over the floor to the management team of Himatsingka Seide Limited for closing comments.

***Sangeetha Tripathi:*** Sir, just a clarification, this Singapore store which we have opened this quarter, in the next quarter, that is third quarter

‘08, are we going to see certain amount of expense, the way we have put in the expenses on the Dubai stores?

***Shrikant Himatsingka:*** Yes, you are right.

***Sangeetha Tripathi:*** So, that will again impact the third quarter numbers…?

***Shrikant Himatsingka:*** Yes, well, Dubai has come out of that and will start giving us enhanced contributions. Singapore will enter that phase, but given the total retail growth we are seeing, we will be able to comfortably utilize that impact through growth.

***Sangeetha Tripathi:*** Okay and apart from the new store which you have added in Mumbai, this month itself, are there any other store opening which you are looking at in this financial year?

***Shrikant Himatsingka:*** In this financial year we are looking at a store in Cochin, a store in Chandigarh, and one more international store.

***Sangeetha Tripathi:*** This is by FY08?

***Shrikant Himatsingka:*** Yes.

***Sangeetha Tripathi:*** Okay sir, fair enough, thanks sir. Thank you for participating in this conference call.

***Moderator***: Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha’s conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

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***Note:***

1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.