Transcript

Conference Call of Himatsingka Seide Limited

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Presentation Session

Moderator: Good morning ladies and gentlemen. I'm Shirley, moderator for this conference. Welcome to the 1st quarter results conference call of Himasingka Seide Limited hosted by Anand Rathi Securities. We have from Himatsingka, Mr. Shrikant Himatsingka, Executive Director, Mr. Rajesh Kunnath, CFO, and Mr. Amit Jain, Company Secretary, while from Anand Rathi, we have Ms. Sangeetha Tripathi. 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.

Sangeetha Tripathi: Thank you Shirley. Good morning ladies and gentlemen. On behalf of Anand Rathi Securities it gives me great pleasure to host this conference call of Himatsingka Seide Limited. Today we have with us Mr. Shrikant Himatsingka, Executive Director, Mr. Rajesh Kunnath, the CFO, and Mr. Amit Jain, the Company Secretary. This is basically pertaining to the quarterly numbers along with the future growth drivers, which the company feels it has. Without much ado, I would now like to hand over the floor to Mr. Rajesh Kunnath. Over to you sir.

Shrikant Himatsingka: Yes. First I will take the overview. Shrikant here. May I start the Q1 overview? I would like to throw light both on the standalone results and the consolidated results front. The standalone total revenues stood at 45.5 crores for the 1st quarter versus 43.94 crores during the last year. The EBITDA was down to 14.6 crores versus 18.74 crores, and likewise the net profit was impacted and stood at 9.15 crores versus 14.4 crores last year. As far as the consolidated highlights are concerned, clearly last year we did not consolidate our Q1 results as we only had the retail subsidiary to consolidate with, we did not have other subsidiaries, the likes of Giuseppe Bellora, and its subsidiaries to consolidate with, so hence we didn't consolidate our results during the last financial year. However, the consolidated total revenues for the quarter stood at 89.3 crores, the EBITDA for the consolidated P&L stood at 15.8 crores and the net profit consolidated stood at 7.34 crores. If I may throw light on the consolidated results, as it sums up the results of both standalone and the subsidiaries of the firm, I would like to explain the growth in revenues first followed by why the profits have been impacted during the quarter. The parent Silk and Silk Blended fabrics business basically had marginal growth during this year. The growth in terms of volume stood at 6.45%, which is something that we are quite satisfied with, because this segment has been seeing organic growth all this while over the last few quarters, but the 89.37 crore numbers also reflects the revenues coming in from Giuseppe Bellora SpA, the revenues from that acquired company stood at around 38.43 crores for the quarter, while retail clocked in revenues of 7.45 crores for the quarter, so essentially 89.37 reflects the Silk and Silk Blended fabrics business, the acquired Italian brand Giuseppe Bellora, and the retail business under Himatsingka Wovens, and this total number was at 89.37 crores.

The quarter was quite interesting for us, because it was the 1st quarter we got to reflect revenues for Giuseppe Bellora in its entirety, and retail saw good growth as well. At the PBT level, if I may take you there for a moment, we have had several impacts during this quarter. I would like to begin with our new bedding project, we had about close to 3.5 crores of expenses, which are not capitalizable as per accounting standards and have therefore been expense during this quarter, while the plant awaits commissioning. We also had a foreign exchange translation loss, arising **out of our American subsidiary in America to the tune of a crore, 94 lakhs to be precise, which also impacted the results during this quarter.** And in addition, we had in consolidated results an impact of 1.1 crores on account of M&A expenses that we incurred. As you know, we are quite active on the M&A front for the last six months, and I will brief you a little more on that going forward, but 1.1 crores was the impact that we took on M&A expenses we booked into the P&L. And we also had startup costs of our first international store in Dubai, UAE, to the tune of 55 lakhs that came through. The earlier 94 lakhs foreign exchange translation loss that I spoke to you about, in addition to that we had foreign exchange translation loss of 70 lakhs, also coming in from our American subsidiary.

The total impact that all these expenses have had on the quarter, are to the tune of 7.2 crores consolidated. So while the revenues have gone up substantially, the reasons for the impact had been as I have explained, and the total impact on account of these had been to the tune of 7.2 crores.

As far as an overview is concerned, in terms of developments of new initiatives, I would like to take some time to explain that. The firm had acquired a 70% stake in Giuseppe Bellora SpA on the 20th of February 2007. The firm is a luxury Italian Home Textile brand as you know. And post February 20th, of course, all formalities have been completed and we are now integrating the operations of Himatsingka and Bellora with satisfactory results on that front. As far as the retail division is concerned, it has shown a significant growth year on year. The revenues of retail have grown at 43% over last year, while PBT has grown at 65% over last year and stands at 1 crore. The Bedding division, which is a 400 crore Greenfield project that we are undertaking at the Hassan Special Economic Zone in Karnataka, is awaiting commercial production. We are running 6 to 8 weeks behind schedule on that front. We had earlier indicated commercial production date in July, but we are 6 to 8 weeks behind schedule and we expect to start commercial production in the end of Q2. Trial production runs have been very satisfactory, and we should be able to take off on commercial productions by the time we have now indicated.

The company also acquired during Q1 on the 1st of July 2007 80% stake in Divatex Home Fashions based out of New York. Divatex is the third largest distributor of bed linen products in the United States, and this has been a very positive development for the company, because in addition to Giuseppe Bellora, we now have Divatex as our bedding distribution arm, and given the size of Divatex, which registered revenues of 151 million during the last financial year and an EBITDA of 14 million, given its size, it is going to consume close to 80% of the plant's total output. So clearly with Divatex and Giuseppe Bellora, 85% to 88% of the plant's capacity has actually been sold out, the results of which we will start seeing going forward. The enterprise value of Divatex was 75 million and the equity value for the firm was 66.5 million, and our 80% stake has cost us in the region of 55 million therefore. The transaction was funded through our cash accruals, comprising of both GDR proceeds, which we raised in December 2005, and our cash reserves, which we also had. So I have taken you through the consolidated revenues, why the jump in consolidated revenues, and I have explained the reason for the impact on the quarterly profit numbers. I have also taken you through the two acquisitions and the Bedding project. I had earlier public stated that we are looking at a revenue band of 850 to 900 crores for this financial year, and I think the firm is in line to achieving these numbers, given the fact that Q1 does not reflect Divatex numbers at all. Is there anything else that I may speak about?

Sangeetha Tripathi: No, fine. Hello Shirley? We can now begin the Q&A session.

Question and Answer Session

Moderator: Sure 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. Nitin of Kotak Securities.

Nitin: Hi Shrikant, this is Nitin. Just a few things on the numbers, on the guidance basically, you guided us about 850 to 900 crore rupees of the top line for the company put together. Can you just help us with what could be the balance for Bellora for 12 months and Divatex; I think you could consolidate for nine months, and the Bedding and the existing businesses?

Shrikant Himatsingka: Yes. I will take you through it. The numbers that we expect for nine months as far as Divatex is concerned is 120 million US dollars in revenues, and the numbers that we expect from Bellora consolidated for the year, I may speak in Euro as far as this company is concerned, is 32.5 million Euros, is what we expect at a consolidated level from Bellora. And the Bedding division, given that it's going to go into commercial production probably only in the end of Q2, we expect a 105 crores of revenues coming in from the Bedding division this year. But clearly, most of this sales I would say 90% plus would be going to our own distribution arms, so to that extent it will get eliminated in consolidation, and we are actually looking at robust growth in retail once again this year. We expect retail to have revenues in the region of 50 crores, versus 25 crores last year. And we expect the standalone parent business in terms of the Silk and Silk Blended fabrics to have organic growth during this financial year. We have added capacity in our velvet manufacturing, and we are looking at sales of a 185 crores coming in from that division of the firm. Of course, the consolidation effects will happen in two areas, one is on the bedding front like I stated earlier, 90 plus percent of total bedding revenues of 105 crores will be to our distribution arms, and about close to between 16 and 18 crores of parent revenues will be to its retail subsidiary, which will also get eliminated.

Nitin: Okay and how the margins vary on these businesses, on a broader range between Bellora, Divatex, as compared to the current businesses?

Shrikant Himatsingka: Yeah, that's actually an interesting point that we would like to spend some time on. Clearly given the number of businesses that we now have, the margin profile of the firm at a consolidated level will undergo change. While the parent EBITDAs will be range bound in the region of 33 to 35% for the entire year, we expect retail EBITDAs to be in the 20 to 22% range during the financial year. Divatex EBITDAs are in the region of 10 to 11% for the financial year, and Bellora in terms of consolidated EBITDA is going to be a little lower this year, because the firm is turning around, and will be in the region of 6% for this year, because the firm is turning around and the signs of which have already begun in Q1 as they have a positive EBITDA and increasing going forward.

Nitin: Okay and bedding manufacturing EBITDAs would, because if 10 to 11% is Divatex, there would be (inaudible).

Shrikant Himatsingka: Correct, on the manufacturing bedding front, we would like to share that we have a capacity of 20 million meters per annum, that translates to 60,000 meters a day, and since Q3 is going to be our first Q of commercial production, as you can imagine, ramping up a facility of this size to full capacity will take us about two quarters, so Q3 will be under pressure and EBITDA margins will be normalized at all. Q4 we are hoping and budgeting for a breaking even the plant in term of the manufacturing of bedding.

Nitin: Basically breakeven of the op ex in Q4.

Shrikant Himatsingka: No, breakeven at PBT levels, at net level.

Nitin: Yeah, operating levels basically okay, at net levels.

Shrikant Himatsingka: Right, that's what we are gunning for and why we have targets like this is because now with integration with

Divatex and Bellora, clearly the order availability for manufacturing is plenty, and that will give us the opportunity to be able to run in the plant and stabilize it by the 4th quarter of this financial year, is what we currently feel. However, I would like to mention that during this ramp up, especially in Q3, clearly we will have to take a loss on the bedding manufacturing front, we estimate the loss to be in the region of 7 to 8 crores for that quarter, on account of ramping up. So Hassan is going to contribute to us negatively until it stabilizes by 4th quarter of this financial.

Nitin: What kind of capacity utilization can one see from the 1st six months?

Shrikant Himatsingka: In Q3 we are looking at 55 to 60%, and in Q4 we are looking at 80%.

Nitin: And then for the entire FY09?

Shrikant Himatsingka: I think for FY09 we will be at pretty much 90% plus capacity utilizations.

Nitin: Wouldn't the process however take some amount of time before we, as you put out the entire process fabric we are using, because we hear that processing generally takes some time to ramp up, to stabilize, so do you think 90% the first year would be…

Shrikant Himatsingka: This is an interesting question and I will tell you why it's going to happen. First of all we have had very vigorous trial runs to be able to really tune up the plant. Number two, because we are now integrated with Divatex and Bellora, the manufacturing set up will not go through ups and downs in terms of order availability. So it will be very smooth run in terms of order availability, which actually helps the plant ramp up quickly, because typically what happens in a pure manufacturing set up when a firm does not distribution, and is not integrated, they are exposed to the vagaries of inbound orders, and its fluctuations in terms of quantities, which typically causes a plant to take a little longer to stabilize in terms of achieving its utilization levels of 90% plus. But in our case, given the situation with Divatex and Bellora, we clearly feel that '08-'09 will be a full blown financial year for Bedding. The product mix during '08-'09 may not be optimal in terms of where we are really looking to stabilize at, close to 65, 70% of mid-end volume based products and 30 to 35% of high-end value-added products, that's the product mix that we would like to stabilize at, and that's something we see happening in the 2nd half of ’08-’09 versus the first half. So while capacities will be in the region of 90% plus, as far as utilization is concerned, the optimizing of product mix will probably take place during the 2nd half of next financial year.

Nitin: So optimization level, what would you be thinking of?

Shrikant Himatsingka: In terms of EBITDA?

Nitin: No, in terms of volume split, about 2/3rd in mid and 1/3rd in high?

Shrikant Himatsingka: Correct.

Nitin: Okay, sir, but in the 1st half you could see more of volume, about 80% or something?

Shrikant Himatsingka: Correct.

Nitin: Okay, and on the realization front, how would these differ on the mid and the high end?

Shrikant Himatsingka: Sorry, it’s difficult to put a number on that, but I would say there will be a 25 to 30% difference between realizations on mid and high.

Nitin: It would be about 30%, because I was just working it backwards, if you say 65% in the Q3 and 80% in Q4, and you are producing something like 6 1/2, or quarter to 7 million meters, and revenue guidance of about 1050 million, that works about 155, 160 rupees per meter kind of a fabric, and so what could be the, am I right, is that the average kind of realization that we are looking at for this year. So it could be higher in the next year, because you would have a better product mix.

Shrikant Himatsingka: That’s correct.

Nitin: Okay and what would be the front end selling, if Divatex and Bellora were to sell these fabrics? Or what could be the multiple, two times or three times?

Shrikant Himatsingka: Well, these numbers that we are talking to you about in terms of realizations, eventually land up giving our front end distribution firms an EBITDA in the region of what we spoke about, so their selling prices clearly enabling them to get EBITDAs that we spoke about. I would say they typically market up by in the case of Bellora, in the region of 2 to 3 times depending on the product, and as far as Divatex is concerned, it's a little lower in terms of markup.

Nitin: About 2 times.

Shrikant Himatsingka: No, a little less than 2.

Nitin: Because if you talk about margins in the range in Divatex at about 10 to 11%...

Shrikant Himatsingka: No, Divatex gross margins will be in the region of 20%.

Nitin: Gross margins will be about 20%.

Shrikant Himatsingka: Correct.

Nitin: So, that means about 1.2 times, 1.3 times.

Shrikant Himatsingka: Yeah, correct.

Nitin: But in the case of Bellora it's about, due to product may differ, products would be very high.

Shrikant Himatsingka: Correct. Bellora being a luxury brand…

Nitin: So that could consume your existing capacities as well, existing capacity production as well, Bellora?

Shrikant Himatsingka: Of course. You see, like I said, the combined sourcing of Divatex and Bellora is greater than the capacity of Hassan, but why I told you that they will consume up to 85% of the capacity of the plant, is because we would like to cherry pick the best in the class products that they source and manufacture only that at the Hassan facility.

Nitin: And just last question, if we can have the sales team breakup of both and what is the geographies that both actually cater to?

Shrikant Himatsingka: Well Divatex predominantly caters to the Americas and when I say Americas, I would really mean predominantly the United States, Canada, and Mexico. As far as Bellora is concerned, it is predominantly catering to Europe, and within Europe, it has about 65% exposure to Italy and the rest coming in from other Western European countries. The sales set up as far as Divatex is concerned is focused on the three geographies that I spoke about, and as far as Bellora is concerned, it's a little different, because they also have their own retail distribution channels, i.e. their own stores and shop-in-shops and multi-brand outlets. So their sales team is a little different in terms of structuring versus Divatex.

Nitin: So what could be strength of the Divatex team, in sales numbers, because they are distribution channel, so they have to reach out to the maximum, I don't think they have set ups of their own to sell, so what could be the sales team there, can we just have a sense?

Shrikant Himatsingka: See, biggest strengths of Divatex is that it has deep distribution strengths in the United States market, and what I really mean by that is that it has shelf space across key retailers in the United States, which is what makes it a very, very strong distribution network. And therefore its sales team is continually enhancing this shelf space available for the firm, and now with an integrated situation, we will be able to offer a much larger product range than it earlier did for their clientele.

Nitin: If they did an EBITDA of 14 million, what was the PAT?

Shrikant Himatsingka: The PAT will be in the region of around 9 million.

Nitin: So it's got that marginal debt, what you said of about 9 million dollars.

Shrikant Himatsingka: Yeah.

Nitin: Okay, thank you.

Shrikant Himatsingka: Sure.

Moderator: Our next question comes from Mr. Chirag of MK Shares.

Chirag: Yeah good morning sir. Sir I just wanted to know what is the cash balance and debt position.

Rajesh Kunnath: Of HSL standalone?

Chirag: Sir, both.

Rajesh Kunnath: Both meaning, consolidated?

Chirag: Yeah.

Rajesh Kunnath: The debt in HSL as of now is, we have the load that we have taken from the EXIM bank, the tough loan, that stands at 240 crores, and we have our working capital loan that we have taken for the Hassan facility, because that's just started getting into trial productions. So we have 45 crores of working capital as of 30th June. In addition to this, the Bellora that we have consolidated has about 8 million Euros of debt on their books.

Chirag: And what is the position of Divatex?

Rajesh Kunnath: Divatex is currently debt free, the debts that we referred to in the transaction was the share holder loan, so that's not been consolidated anyway, in the numbers.

Chirag: Yeah, so what is the cash balance?

Rajesh Kunnath: Their cash balance in?

Chirag: In all this?

Rajesh Kunnath: You mean in HSL, in HSL the cash balance as of 30th June was…

Chirag: Hello?

Rajesh Kunnath: Yeah, the cash balance in Himatsingka was 75 crores as of 30th June. Bellora is just about operating a current account, not much to speak of, and that's it, because Divatex we have not consolidated those numbers.

Chirag: And sir, how much is the other income included in our results?

Rajesh Kunnath: Other income included in the standalone results is 592 lakhs.

Chirag: And sir, in consolidated.

Rajesh Kunnath: In consolidated, the other income is 6.24 crores.

Chirag: Okay, so what is the breakup of this other income?

Rajesh Kunnath: Breakup of other income, one minute. In the HSL standalone 5.92 crores, 4.8 crores is on the base of the surplus free cash that's the interest and dividend that we earned on the surplus free cash. The balance is miscellaneous other items like small profit from sale of assets and all those type of…

Chirag: Okay, and sir, in consolidated?

Rajesh Kunnath: In consolidated you will have almost the same split because from 5.92 to 6.3 crores, so the only incremental thing was some rent received by the retail business for the property in Bangalore.

Chirag: Sir, we don't have any EBITDA for the change in our accounting standard 11. Now we have to book at it some FOREX gains in the other income?

Rajesh Kunnath: No, that's the point which Shrikant made when he gave the overview, we have actually had and in fact in the reverse way when complying with AS11, we have had mark to market exchange rate, so because the exchange rate as a reference point is lower than what it was as of 1st of April, we have had to take on exchange losses. The net impact of it has been 94 lakhs in the standalone.

Chirag: Okay, sir what about the hedging policy?

Rajesh Kunnath: Hedging policy as of today is to cover 50% of the net exposure of the company, of which within that 50% we can cover up to 50% of that amount through derivative products. Going forward we are readdressing this policy, given that the rupee is continuing to appreciate against the dollar, so we will be stepping up the exposure levels. We will be looking at covering more of the gross exposure because the only exposure on the import side has been the yarn imports and if the rupee continues to appreciate in this form, we have a natural hedge. So, we are switching to a gross exposure mechanism, by which we will be looking at covering more of our dollar earnings going forward. So, we will be stepping it up from the current levels of 50%.

Chirag: Sir, at what rate have you taken out the derivative products?

Rajesh Kunnath: See, as of today the derivative products that we have taken is hardly anything, we are reviewing the whole basket of derivative products that are on offer currently and as a company we are pretty averse to taking risk of this sort. So, we would like to balance everything before we take a final call on the derivative products.

Chirag: Okay, thank you sir.

Moderator: Our next question comes from Mr. Ankit Jain of B&K Securities.

Ankit Jain: Good afternoon sir. My question is, as you talked about that in this quarter company has capitalized some of its expenses regarding to expansion process, sir, I just want to confirm that in how many quarters does company plan to capitalize these expenses?

Rajesh Kunnath: I am not sure if you got the overview right, Ankit, what Shrikant referred to was that in the quarter 3.4 crores of expenses have not been capitalized, meaning that you have certain indirect expenses being incurred for the Hassan bed linen project, that cannot be capitalized as per accounting standard. So, that amount that has got charged in this quarter is 3.4 crores.

Ankit Jain: Okay, sir I just wanted to confirm that, the similar amount is also expected to be accounted as expenses in other quarter, in the coming quarters too?

Rajesh Kunnath: Yes, it could be a little higher than this actually, because 3.4 crores is at the current level of activity. As you know, the activity level is increasing by the day, so the next quarter should see a little bit of a higher number, marginally, I mean, we should be looking at something closer to 4 1/2 to 5 crores in the coming quarter.

Ankit Jain: And sir, it will be there in the last quarter too?

Rajesh Kunnath: No, because we would have started commercial production by October, so we will be recovering cost on the revenue as is normally done for any other business.

Ankit Jain: Okay, the sir has mentioned in the summary that there has been increase in the velvet capacity of the company, how much was that?

Shrikant Himatsingka: 30%.

Ankit Jain: 30% increase, so as of now how much is the total capacity for the velvets, how much meters?

Shrikant Himatsingka: It's about 1,20,000 meters per annum.

Ankit Jain: Okay sir. There has been high increase in the interest cost in the current quarter as compared to the last quarter and on the consolidated basis also, the interest expense is quite high?

Shrikant Himatsingka: It's predominantly coming in from our two overseas subsidiaries Giuseppe Bellora and Divatex, but it's predominantly from Giuseppe Bellora.

Ankit Jain: Okay sir, and sir any future acquisition company is looking forward to?

Shrikant Himatsingka: Yes, we are, I had also stated this earlier; we are continually looking for opportunities in the home textile space in terms of both branded and important distribution networks. The company is actively pursuing this as a path to growth and we are quite active on this front.

Ankit Jain: Okay, sir as you have just mentioned that the currency fluctuation which has been seen in the past, the part of it is bit hedged the imports of yarn, which has been done and on the import and export front. Sir, I just want to confirm is that the value amount in which the yarn has been imported is not equivalent to that which is exported, because 95% of the company products are exported, so how much does this sort of hedging helps in.

Amit Jain: Ankit, if I can answer this, out of the total exports from HSL, about 50% are denominated in US dollar and yarn constitutes about 30% of the total sales. All the yarn imports is in dollars, so as against a 50% exposure in USD, 30% is imports, to that extent we have a natural hedge.

Ankit Jain: Okay, so for the remaining we have other…

Amit Jain: We have other currencies like Euro and pounds.

Ankit Jain: Okay sir, sir can you give us the guidance about the realizations in this quarter, about the fabric and on the home textile front, what are the realizations expected?

Shrikanth Himatsingka: We can't give you a guidance on the realizations specifically, but I think what we should keep in mind is what, Rajesh and Amit referred to earlier, we are looking at taking a cover as far as the exposures are concerned to be able to increase the strike on the USD INR to a marginal degree, but with the help of increase in constant currency realizations, we should hold realizations stable.

Ankit Jain: Okay sir, thank you very much sir.

Moderator: Our next question comes from Mr. Gautam of Edelweiss.

Gautam: Good afternoon sir, just wanted to have the balance sheet numbers as of end of March 31st, consolidated.

Amit Jain: Consolidated, what numbers, any specific numbers you wanted?

Gautam: Yeah, NFA.

Amit Jain: Net fixed assets?

Gautam: Yeah.

Amit Jain: Net fixed assets are 423 crores.

Gautam: Okay, and working capital?

Amit Jain: Net working capital is about 340 crores.

Gautam: Investments?

Amit Jain: 51.3.

Gautam: And debt would be what you said earlier, 240 crores plus 45.

Amit Jain: On a consolidated basis the total debt is 320 crores.

Gautam: Okay and the split between tough loans and others, what is the average cost of debt?

Rajesh Kunnath: Average cost of debt, tough loan is about 3 1/2%.

Gautam: That's 240 crores?

Rajesh Kunnath: Correct.

Gautam: And the rest?

Amit Jain: As on March we are 224.

Rajesh Kunnath: It was 224, as of March.

Gautam: 224, tough?

Rajesh Kunnath: Yeah.

Gautam: Okay and the rest?

Amit Jain: Rest is in…

Shrikant Himatsingka: As far as our debt in Bellora of 8 million is concerned, Gautam the cost of debt is in the region of 5%, it hovers between 5 and 5.5%. The cost of debt as far as working capital in India is concerned, which Rajesh mentioned of tune of 45 crores is in the region of 8 1/2 to 9%, that was as of June and as far as Divatex debt is concerned, like Rajesh mentioned earlier, it basically is a share holder loan from the former promoters to the company and which is going to get paid off, but the cost of that is low, its in the region of 4 to 4 1/2%.

Gautam: And Divatex, what would be your fixed assets like?

Rajesh Kunnath: They don't have any sizeable fixed assets to speak of, because all that they have is a bit of computer equipment and the like. They don't own any property and the like.

Gautam: Okay, so it would be almost zero, is it?

Rajesh Kunnath: It is about 500,000 dollars, half a million.

Gautam: Okay and working capital?

Rajesh Kunnath: Working capital of Divatex, depending on the point of the year, depending on where the seasonal prices are, hovers between 12 million dollars and 15 million dollars. Net working capital, right, that's the number you wanted.

Gautam: That's right, yeah and any investments there?

Rajesh Kunnath: No, they don't have any investments.

Gautam: Okay, perfect.

Shrikant Himatsingka: Gautam, as you know, the Q1 numbers don't reflect anything of Divatex.

Gautam: Yeah, I know that. I am just looking for forward numbers.

Shrikant Himatsingka: Yeah and which will get reflected in Q2 onwards.

Gautam: Right and what is the kind of growth we are expecting in Bellora and Divatex in FY09 over FY08?

Shrikant Himatsingka: I would say for this year it is more organic growth from both entities. In case of Divatex, we are looking at revenues in the region of 160+ million dollars versus 151 last year and in term for Bellora; we are looking at a 5 to 7% growth.

Rajesh Kunnath: In both the cases it's in the region of between 5 and 7%.

Gautam: 5 to 7%, okay, thanks a lot.

Moderator: Our next question comes from Mr. Amish of JM Financials.

Amish: Yeah, sir just if you can elaborate a bit on Bellora in terms of you know, you said its in the process of turning around, what kind of steps are you taking and what kind of integration process that is put in place, which will add to the EBITDA margins and stuff like that?

Shrikant Himatsingka: First of all we have revisited the cost of goods sold for that firm, as you know, when you are in the distribution business, you largest expense of P&L is your cost of goods sold. After Himatsingka acquired the firm, because of the financial strength that comes with this acquisition, all purchase contracts that they have had with various suppliers across Europe and other parts of the world have been revisited and have come down, that's one initiative we have taken. Also re looked at pricing of the products across geographies, this is the second initiative. We have restructured their capital structure in terms of, you know, when we acquired the firm, we put in 3.7 million Euro of equity in the firm in terms of capital infusion, so which has helped them retire debt to that extent and retire outstanding liabilities to that extent, which was hurting their P&L. We have also enhanced their banking relationships and helped rationalize debts that exist and we have also optimized their sales mix. So, basically what we feel is that in the medium terms, both our brands atmosphere and Bellora, similar EBITDAs in the medium terms, once they stabilize. So, for example, in next financial year they should see parity, is what we feel, in the region of 20 to 22% EBITDA band in terms of both the brands.

Amish: Okay, which as of now you said is, I guess, close to what, in the single digits?

Shrikant Himatsingka: Yeah, in Bellora it is single digit, Atmosphere cost is in the 20, 21 range.

Amish: Correct, I was referring to Bellora, so you are saying its up from closer to, I guess you said 6% currently, and it can go as high as 20% plus.

Shrikant Himatsingka: Correct.

Amish: Okay, thanks a lot.

Moderator: I request the participants to press * and 1 for your questions. Our next question comes from Mr. Prashanth Jain of HDFC Mutual Fund.

Shrikant Himatsingka: Hi, Prashanth.

Moderator: Mr. Prashanth, you may go ahead sir.

Prashanth Jain: Hello, I just wanted to request you to go over the one time items in Q1 once again and also a clarification, assuming no hedge and if the currency remains stable at the current rates, what would this profitability have been, what we have seen, assuming the rupee was at Rs.40.50 paisa in the whole of Q1 and we had no hedge and we had no one time items, what would the profits have looked like?

Shrikant Himatsingka: If I may just clarify Prashanth, so you have two questions, one is what was the breakup of the sort of one time kind of expenses during this quarter? Some of them are one time, some of them aren't, but we will give you the breakup nevertheless and the second question was what would Q1 look like had we not had any hedge? As far as the impact is concerned, we will take you through at a consolidated level, the total impact was in the region of 7.2 crores as I had stated earlier. The breakup of this is, we had 3.4 crores coming in from expenses at the Hassan facility, which could not be capitalized. We had 94 lakhs of foreign exchange translation losses on account of an ICD forwarded to our 100% subsidiary, Himatsingka America, towards the acquisition, which got mark to market in terms of FOREX. We additionally had translation losses from Hima on account of FOREX to the tune of 70 lakh. We had about 55 lakhs coming in from our UAE subsidiaries for the one time launch of Dubai expenses. We had 1.1 crores coming in on account of M&A expenses debited to the P&L and we had 35 lakhs loss coming in from Bellora subsidiaries.

Prashanth Jain: Yeah, right and how much was the benefit from any hedges?

Rajesh Kunnath: Our average realization, Prashanth was 41.35 in Q1 to a dollar.

Prashanth Jain: Only and you said about 50% of the sales are in dollars?

Rajesh Kunnath: Yes.

Prashanth Jain: So, on 20 crores you benefited by about 2%?

Rajesh Kunnath: Yeah, that’s it.

Prashanth Jain: So, the impact of that would be about 40 odd lakhs.

Rajesh Kunnath: Yes, actually it is about 60 lakhs.

Prashanth Jain: Okay fine, thank you very much.

Moderator: A followup question comes from Mr. Nitin of Kotak Securities.

Nitin: Yeah, are there any brands in the Divatex, I just wanted to understand what is the front end, you said distribution, are there any brands that they own, what are those brands and if we can have a split of its revenues?

Shrikant Himatsingka: The Divatex does not per se own any brands, it predominantly supplies to important private labeled programs across the United States, Canada and Mexico.

Nitin: Which could be the largest private labels buying from them?

Shrikant Himatsingka: Well there will be several, Nitin.

Nitin: Okay, just the top three accounting for nearly 30, 40%, if you can understand?

Shrikant Himatsingka: We should go by retailers than by versus the name of the private label brand because you and I won't be able to relate to that names, but it clearly has relationships with bed bath and beyond, with retailers like Linens and things, with retailers like Cosco, to name a few of their larger clients. So, they supply to the private label programs of these clients in addition to a lot many other clients that they have across the United States, Canada and Mexico. At some times they also sell under the Divatex brands, but that is a very small part of their business.

Nitin: But what about, like in Bellora we have brands, like Bellora, I think, believe they have their own brands, am I right?

Shrikant Himatsingka: Correct.

Nitin: So, we have a manufacturing facility, we are spending so much of cost on the distribution side, how much time before we actually grow into owning brands over there, because we have presence in the top end fabric through our silk business and now we have a bed linen project, can Divatex build brands over there and what would be required?

Shrikant Himatsingka: Earlier if you remember, I mentioned that we have a target product mix in the Bedding facility, which is in the region of 65:35 or 70:30, 65 to 70% being the volume based production and 30 to 35% being the higher value-added production. So, Divatex fills the puzzle of the high volume segment. So, we don't have to worry about, as a manufacturing facility, where this volume is going to come from and Bellora to some degree completes the higher value added picture of the Hassan manufacturing capacity and like I also stated earlier, we still are looking at important brands in the home textile space.

Nitin: So, what could be the amount of money that we could spend for any acquisition, a broader range, 50 million, 200 million or something like that?

Shrikant Himatsingka: It would be a little smaller than that; it would be in the region of probably 30, 40 million.

Nitin: And what could be your peak debt, if you can say it, this year end, I believe this should be the peak year for your debt levels?

Shrikant Himatsingka: I think total debt in the group at peak this year, we should estimate in the region of 450 to 475 crores.

Nitin: The debt that you have is about 320, so this should go to about 400 to 475 crores, so what could be the balance 150 crores (inaudible)?

Shrikant Himatsingka: Out of the balance 150, 100 is to complete the total tough that we have.

Nitin: For the Hassan?

Shrikant Himatsingka: Yeah, and we will take another 30, 40 crores more for working capital.

Nitin: So, we should see a decline of debt from next year onwards?

Shrikant Himatsingka: Yes.

Nitin: From '09 onwards. And what kind of a working capital cycle are we looking at the businesses that we are getting into because, what kind of a storage we have to build up there, since we have been feeding something from India, the balance feeding area is for the product to Bellora and Divatex, what kind of other sourcing areas are there and what kind of a working capital you will have to maintain?

Shrikant Himatsingka: I am not quite sure I get your question.

Nitin: See, the idea is that okay as of today before you start to producing your bed linen and providing to these Divatex and Bellora to an extent, you would be sourcing from other geographies, am I right?

Shrikant Himatsingka: Yes.

Nitin: And, so what is the working capital cycle over there that you have to store about three months in advance before you have to, what is the (inaudible) working capital and its cycle over there in those businesses?

Shrikant Himatsingka: It is a little seasonal, but I would say on an average three months.

Nitin: Okay, three months in both of them?

Shrikant Himatsingka: No, in Bellora it is a little higher. Bellora it will be in the region of probably four to five months.

Nitin: Okay, Bellora is about four to five months and Divatex would be about three months?

Shrikant Himatsingka: Correct.

Nitin: Okay, thank you.

Shrikant Himatsingka: Yeah.

Moderator: I request the participants to press * and 1 for your questions. I request the participants to press * and 1 for your questions.

Sangeetha Tripathi: Shirley?

Moderator: Yes ma'am.

Sangeetha Tripathi: I have certain questions.

Moderator: You may go ahead ma'am.

Sangeetha Tripathi: Yeah, sir I just wanted to understand how is this Atmosphere business, the Dubai Store which we had opened in May, how is that doing, can you just elaborate on that, till now what type of response you have seen from that store?

Amit Jain: (inaudible)

Sangeetha Tripathi: Sir, if I may interrupt you, your voice is cracking. Shirley, the voice is not, I mean, its cracking, it's not clear.

Moderator: Just a moment madam. Hello sir?

Shrikant Himatsingka: Can you hear me now.

Sangeetha Tripathi: Yeah, sir now I can hear you properly.

Shrikant Himatsingka: What I am saying is, the order book as far as (not sure) is concerned, is up by 80% year to date versus last year and the contribution from Dubai, will start showing in Q2. As far as new store launches are concerned, we will be launching Singapore and Hong Kong as well and in India we will be launching Chandigarh, Kovai and Cochin during this financial year.

Sangeetha Tripathi: Okay sir, in this financial year we will be having four more new stores coming up?

Shrikant Himatsingka: Five more, apart from Dubai and on the larger picture, we have already kick started our expansion for more stores in the Southeast Asian regions and we are now exploring opportunities of looking at opening stores in Kuala Lumpur, in Jakarta, in Shanghai, in Bangkok, in Seoul, in Taipei, and in Istanbul. We would like to take up some of these initiatives during this financial year, but as far as these new stores that I just mentioned about, to give a definite time frame.

Sangeetha Tripathi: Okay, fine enough.

Shrikant Himatsingka: But we are definitely looking at these new stores in the next 12 to 16 months.

Sangeetha Tripathi: Okay sir, fine enough.

Moderator: There are no further questions. Now I hand over the floor to Ms. Sangeetha Tripathi for closing comments.

Sangeetha Tripathi: Yeah, thank you Mr. Himatsingka, Mr. Kunnath and Mr. Jain for sharing with us the business plan and the growth strategies of the company and we wish you all the best for the future endeavors. I would also like to thank all the participants for joining us for this conference call, thank you sir.

Shrikant Himatsingka: Thank you very much.

Rajesh Kunnath: Thank you.

Amit Jain: Thank you.

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.

Note:

1.This document has been edited to improve readability.

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