



Himatsingka

Earnings Call Transcript  
Bengaluru, November 05, 2018

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## **Q2 FY19 Earnings Conference Call**

**November 05, 2018**

**Moderator:**

Good evening ladies and gentlemen, I am Shyamala, moderator for the conference call. Welcome to Himatsingka Seide 2Q FY19 post results Conference Call hosted by Batlivala & Karani Securities India Private 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 keypad. Please note this conference is recorded. I would now like to hand over the floor to Ms. Perna Jhunjunwala. Over to you ma'am.

**Perna Jhunjunwala:**

Thank you Shyamala. Good evening everyone. On behalf of B&K Securities Limited, I would like to welcome you all for 2Q FY19 post result conference call of Himatsingka Seide Limited. From the Company we have with us the senior management, including Mr. Shrikant Himatsingka, Managing Director and CEO of the Company, Mr. Ashok Sharma, CFO – Strategic Finance and Company Secretary, Mr. K.P. Rangaraj, President – Finance and Group CFO, Mr. T G S Gupta, Senior Vice President – Finance and CFO – Manufacturing and Operations and Mr. Sachin Garg – Associate Vice President – Finance and Treasury and Investor Relations. I would now like to hand over the call to the management. Over to you Sir!

**K.P. Rangaraj:**

Thank you Perna. Good evening ladies and gentlemen. My name is Rangaraj. On behalf of the Company we would like to welcome you all on the earnings call for the quarter ended September 2018. As usual we start this call with a business update, followed by updates on the financials and some key accounting treatments. So, this will be the sequence of the call.

On the business update section, the integration of the recently acquired brand licenses is progressing well. The revenue uptick is visible. However, the manufacturing integration is underway. As indicated earlier, we expect the integration exercise to continue through the end of FY19. The operating progress of the new Spinning unit has been satisfactory and the performance parameters are now aligned with our expectations. The construction of the Greenfield Terry Towel facility is progressing as per schedule and the plant is expected to come on stream during H1 FY20, as communicated earlier. This facility will have an installed capacity of 25,000 metric tonnes per annum. The utilization levels at our Sheeting facility remained stable during the quarter and we expect utilization levels to be range bound during the H2 FY19 as well. Revenue contribution from brands continued its upward trend in Q2 FY19. During the quarter, revenue from brands stood at Rs. 567 crores.

I will move on to the next section which is the consolidated financial performance for the quarter ended September 2018. The consolidated total income increased by 18.0% for the quarter and stood at Rs. 698.89 crores versus Rs. 592.27 crores for the previous year. The consolidated EBITDA for Q2 FY19 increased by 36.1% to Rs 154.13 crores versus Rs. 113.22 crores in the previous year. EBITDA Margin improved to 22.1%, as compared to 19.1% in the previous year, an increase of 294 bps. The consolidated EBIT for Q2 FY19 was up by 33.8% to Rs. 127.86 crores versus Rs. 95.56 crores in Q2 FY18. The consolidated PBT for



Q2 FY19 was up by 23.4% to Rs. 87.20 crores versus Rs. 70.65 crores in Q2 FY18. The consolidated PAT for the quarter was up by 4.3% and stood at Rs. 52.73 crores versus Rs. 50.56 crores in the previous year. The consolidated cash profit for Q2 FY19 was up by 15.8% to Rs. 79.00 crores versus Rs. 68.21 Crores in Q2 FY18.

So, I will now move on to the next section on H1 FY19 performance. Consolidated total income increased by 17.4% for the half year ended FY19 and stood at Rs. 1,300.27 crores versus Rs. 1,107.43 crores for H1 FY18. The consolidated EBITDA, excluding non-recurring expense, for the half year increased by 31.1% to Rs. 295.43 crores versus Rs. 225.37 crores in H1 FY18. EBITDA Margin, excluding the non-recurring expense stood at 22.7% as compared to 20.4% in the previous year, an increase of 237 bps. The non-recurring expense incurred in Q1 FY19 stood at Rs.6.99 crores towards the recent brand acquisition, which we had mentioned to you earlier. Consolidated EBIT: The consolidated EBIT excluding non-recurring expense for H1 FY19 was up by 27.3% to Rs. 242.86 crores versus Rs. 190.71 crores in H1 FY18. Consolidated PBT: Consolidated PBT, excluding the non-recurring expense, for the half year ended 30<sup>th</sup> September,2018 was up by 17.8% to Rs. 165.65 crores versus Rs. 140.58 crores in H1 FY18. The consolidated PAT for the half year stood at Rs. 97.30 crores versus Rs. 101.19 crores in the previous year. The consolidated cash profit for the half year was up by 10.3% to Rs. 149.86 crores versus Rs. 135.84 crores in the previous year.

I will now move on to the debt profile section. The consolidated gross debt as of 30<sup>th</sup> September 2018 stood at Rs. 2,510 crores. The total term debt stood at Rs. 1,564 crores and the working capital debt stood at Rs.946 crores. The cash and cash equivalent as of 30<sup>th</sup> September 2018 was Rs.242 crores. Consequently, the company's net debt outstanding as of 30<sup>th</sup> September stood at Rs. 2,268 crores.

I will now focus on leverage ratios which have been computed on a TTM basis. The net debt excluding the project work in progress debt, to EBITDA stood at 3.97 time for the quarter ended 30 September 2018, as against 4.2 times at the end of FY18. The debt service coverage ratio(DSCR) stood at 2.28 times at the end of Q2 FY19 as against 2.34 at the end of FY18. Interest service coverage ratio(ISCR) at the end of Q2 FY19 was 3.41 times as against 3.80 times for FY18. The Net debt to Equity ratio stood at 1.76 times at the end of Q2 FY19 versus 1.63 times at the end of FY18. The Net Debt, excluding the project work in progress debt, to equity ratio stood at 1.65 times at the end of Q2 FY19 versus 1.59 times at the end of FY18.

Capital efficiency ratios computed on a TTM basis. The Return on Capital Employed (ROCE), excluding the capital employed in projects work in progress, for the quarter ended 30<sup>th</sup> September 2018 stood at 14.6% compared to 13.9% at the end of the previous year. The Return on Equity ratio stood at 16.4% at the end of Q2 FY19, compared to 17.6% at the end of FY18. On an annualized basis, the Return on Capital Employed, excluding the capital employed in projects work in



progress, stood at 15.9% and the Return on Equity ratio on an annualized basis stood at 17.0% at the end of the first half of the year.

I will move on to the last section, which is our comment and observations on the financial results for the quarter and the half year.

Forex: We continue to witness headwinds on the forex realization front, despite recent depreciation of the rupee. We expect to witness the pressure on the forex realization till the Q3 of FY 19 due to our forex hedging policy that typically covers forex exposure on a rolling twelve months' basis.

Other income: The other income of Rs.32.93 crores should be considered as a part of revenue from operations, as it predominantly arises from foreign exchange movements relating, pertaining to the sales realizations, such classification is arising out of applicable accounting standards.

Lastly, the tax rates. The effective tax rate for Q2 FY 19 is higher on account of non-availability of deferred tax in subsidiaries.

With this, I would like to complete my update. We will be happy to take on your questions now. I now hand over to our Managing Director, Mr. Shrikant Himatsingka.

**Shrikant Himatsingka:**

Please go ahead with your questions.

**Moderator:**

Ladies and gentlemen, if you have any questions, please press \* and 1 on your telephone keypad.

We have the first question coming from Mr. Nitin Dharmavat from RM Capital. Please go ahead with your question.

**Nitin Dharmavat:**

Thank you for the opportunity. Just wanted to know the trend in the cotton prices now during the quarter and also the impact on our realizations, if we are already maintaining some inventory, how would it impact given the immediate and the next quarter?

**Shrikant Himatsingka:**

The cotton prices have seen an uptick during Q1 and Q2. So, it has had a marginal impact on our operating numbers. But, the prices are now stable. And we feel that looking through into H2, they are likely to be stable from where they are presently.

**Nitin Dharmavat:**

Okay, got it. And will there be any impact due to the inventory that we maintain, since the prices might have softened a bit? So, I just wanted to know from that perspective as well.

**Shrikant Himatsingka:**

No, the numbers we are seeing are after the inflation that we have seen on the cotton front. And so I don't think there will be any specific inventory impact as such.

- Nitin Dharmavat:** Okay, got it. Thank you.
- Moderator:** Thank you Sir. We have the next question coming from Mr. Nihal Jham from Edelweiss. Please go ahead with your question.
- Nihal Jham:** Hi Sir. First of all, I wish the entire management team a very Happy Diwali. Sir, the first question was in the revenue growth that we are seeing, is there any impact of the recent acquisitions or is all the growth purely organic growth?
- Shrikant Himatsingka:** No, there is an impact of the recent acquisition and so I think it is fair to say that there is both organic and an impact of the recent acquisition. So, we are seeing both together. And so we are quite happy with the revenue uptick, because it is the highest revenue we have clocked for a quarter. But, as far as the brand acquisition is concerned, while the revenue uptick is visible, the manufacturing integration is currently underway. As I said earlier, we will probably see this in manufacturing integration carry on through until the end of FY19.
- Nihal Jham:** Sir, is it possible to say what was the organic growth for this quarter?
- Shrikant Himatsingka:** We can't you give you specific break up. But, we did share with you all that the revenue portfolio of the brands that we acquired was in the region of \$60 million. And the revenues were likely to be largely back ended on an annualized basis. Please do recall that we acquired the brands only effective end of May, so we lost the first couple of months, so that needs to be suitably adjusted. So, we are tracking online with those portfolio numbers vis-à-vis the acquisition. And we are also seeing healthy organic growth rates during the quarter.
- Nihal Jham:** Okay, sure Sir. What was the quantum of the forex income in our other income for this quarter specifically?
- Shrikant Himatsingka:** There is nothing called forex income. As Mr. Rangaraj, our Group CFO explained, other income is an integral part of the total revenue, because lots of the forex movements, some of them sit in revenue and some as per accounting standards sit in other income. So, it cannot be looked at in isolation as foreign exchange income. There is no such concept.
- Nihal Jham:** But, I believe we do classify it under a separate item as well it is clubbed, so just wanted to understand the quantum, that is the only thing for comparison purposes.
- Shrikant Himatsingka:** Other than some treasury income, it is largely, foreign exchange led, which we will be happy to explain to you offline.
- Nihal Jham:** Okay, sure sir. And if I had to just check on our expenses, I see that there has been an increase in the employee expenses, if I look at it sequentially. Is this related to say, a higher ramp up in the spinning unit or is there some other reason for it?



**Shrikant Himatsingka:**

No, I guess it is across, because we are also seeing an uptick in revenue. So, we have seen some come from spinning, some from our recent acquisitions and so on. So, I think it is a factor of several buckets, but nothing in particular to report home about.

**Nihal Jham:**

Okay. And just last set of questions on the spinning unit, is the utilization of say, close to 100% or full capacity that we can achieve on the unit or is there still room for that to improve?

**Shrikant Himatsingka:**

So, there is some, as we had said in our update, the operating performance of the spinning unit is now aligned to our expectations. So, there could be some marginal movement from here. But, it has broadly aligned. While this journey has unfolded in terms of stabilizing the spinning unit, some of our more specialized businesses have also seen some headwinds. For example, our Drapery and Upholstery manufacturing division and some of our niche brands have also seen some headwinds. So, it has taken away some of the sheen from the operating performance that spinning brought in. But, hopefully going forward we will be gradually addressing that.

**Nihal Jham:**

Sir, absolutely. Sir, my last question was just on that, when I say compare your numbers, it is still the benefit of spinning is still to be seen in the EBITDA accruing. So, could the explanation be, as you mentioned that maybe the drapery and the niche brands are somehow not performed as per track, but spinning is still giving us the contribution EBITDA that we have been expecting?

**Shrikant Himatsingka:**

You are removing the other income and looking at the numbers. Please don't do that. It will give you misleading statistics. If you see the EBITDA, it has gone from, let's say if I look at Q2 FY18, from 113 crores to 154 crores. And we have seen, even if you look at the standalone, which I don't urge you to look at in isolation, but since you have asked this question, Q2 FY18 standalone EBITDA was 102 crores, which is now at 142 crores. So, it is not like the spinning EBITDA is not coming through. Please do not subtract other income and look at numbers. It will give you misleading estimates vis-à-vis the current, given the current accounting standards that are in force with regards to the FX income and so on. So, spinning EBITDA is absolutely coming through. But, I would like to add that some of our smaller divisions have given us some headwinds and has taken some of the sheen off, in addition I would also like to remind investors that the numbers that you have seen for both Q1 and Q2 on a YoY basis, we have an impact of approximately 200 basis points on manufacturing revenue. We have impact of approximately 200 basis points, which is the result of the retraction of certain incentives on the export front. In addition, we are also suffering YoY with regards to foreign exchange realizations, because we have a simple hedging policy wherein we had hedged approximately a year forward. So, as Rangaraj mentioned in his update, we are not realizing the full benefit of the Rupee or anywhere close to it. In fact YoY we are impacted by the Rupee. So, if you look at the YoY, our EBITDA increase is despite the lower realization on the Rupee and despite approximately 200 basis points being taken away on export



incentives and despite other headline inflation numbers that are in the ordinary course of business.

**Nihal Jham:**

Okay, sure. I will take this offline with you and I will get back in the queue. Thank you.

**Moderator:**

Thank you Sir. Ladies and gentlemen, if you have any questions, please press \* and 1 on your telephone keypad.

We have the next question coming from Mr. Tushar Jain from India Infoline Securities. Please go ahead with your question.

**Tushar Jain:**

Hello. Hi Sir, thank you for the opportunity. Sir, I just wanted to understand the classification of the purchase of traded goods and cost of material consumed, like what all products are in those two categories. And have we reclassified last quarter's numbers?

**Shrikant Himatsingka:**

Typically purchases of stock and trade are products that the Group has not manufactured. And obviously the cost of raw materials consumed is with regard to what we have consumed within the group. So, that is really the difference in the classification.

**Tushar Jain:**

And have we reclassified it from the last quarter?

**Shrikant Himatsingka:**

Yeah. There might have been some reclassifications. Please get in touch and the team will explain it to you off line.

**Tushar Jain:**

Okay. Thank you Sir.

**Moderator:**

Thank you sir. We have the next question coming from Mr. Raunak from Value Quest. Please go ahead with your question Raunak sir.

**Raunak:**

Good evening sir. Sir, I would like to know, what is the non-recurring expense that has happened in this quarter?

**Shrikant Himatsingka:**

Raunak, the non-recurring expense was incurred in Q1 to the tune of Rs.6.99 crores, which was sitting in other expenses, but was non-recurring in nature, because those expenses related to the acquisition that we carried out during the quarter.

**Raunak:**

Sir, but if you look at your numbers, your EBITDA comes to around Rs.121 crores in terms of the absolute numbers, if you exclude the other income from it.

**Shrikant Himatsingka:**

Raunak, please do not subtract other income from the computations, because it will give you a skewed view. The other income is an integral part of revenue. Given the current accounting standards, a lot of the foreign exchange movements in the ordinary course of business rests in the other income line. And therefore



that is what the standard prescribes. Some of it sits in sales and some in the other income. So, it is an integral part. My request is not to look at it without other income please.

**Raunak:** Sir, in this quarter there is no onetime non-recurring expense?

**Shrikant Himatsingka:** That is correct.

**Raunak:** Okay sir. Thanks a lot and all the best.

**Moderator:** Thank you Sir. We have the next question coming from Mr. Hardik Solanki from Moneybee Investment Advisors. Please go ahead with your question.

**Hardik Solanki:** Sir, congratulations on a good set of numbers.

**Shrikant Himatsingka:** Thank you.

**Hardik Solanki:** There are couple of questions from my side. First one is relating to what would be the break up between the trading goods and our own manufacturing? Secondly, what would be our current capacity, your utilization rate of bedding, Sheeting?

**Shrikant Himatsingka:** So, I will attempt to answer both these questions as accurately as I can. As far as your first question is concerned with regards to the break up between materials consumed and purchase of stock in trade, ideally about 75% of the Group's requirements are in-house sourced and 20% to 25% of the required goods are not sourced in-house, because typically those products are something that we do not manufacture. The current numbers during H1 may not be reflective of that ratio, because the recent acquisition of the brand portfolio which we announced during the last quarter. As I said earlier, the manufacturing integration is still underway. In other words, we have not started making the amount of goods for the acquired brand portfolio that we should. The transition is currently underway and that should reduce the traded goods quantum vis-à-vis that portfolio. But, on a stable state basis, we presume that we will be in the region of 75% in-house and 25% outsourced. With regard to your second question on sheeting utilization numbers, so the sheeting utilization numbers remains steady during the first half. And we expect it to be range bound during the second half. When we had commissioned the plant, we had spoken with investors and subsequently as well we have spoken with investors saying that approximately 40% to 50% of the plant's incremental capacity that was coming on stream was likely to be placed upon commission, which is what we had achieved. So, basically we had doubled the capacity as you recall from 23 to 46 MMPA. And of the incremental 23 MMPA, close to let's say 11½-12 MMPA was something that we had said we would place, which is the case. Over and above that over the last few quarters, we have crept up a little further. And we continue to look for profitable opportunities to increase utilization. And the manufacturing integration that is currently underway for the brands will aid that effort. So, we will see marginal increase in utilization going forward. And also, I would also like to let investors know that we have the ability

to debottleneck our capacities to 60-61 million meters per annum, should it be required with a very marginal Capex.

**Hardik Solanki:**

Okay. Thank you Sir. On Terry Towel, so just in case I missed out, at what stage are we there in our Terry towels expansion plant and have we completed our Capex?

**Shrikant Himatsingka:**

Yeah. The Capex for the Terry Towel project is on schedule. We had communicated with the investors that the plant is likely to be commissioned during the first half of FY 2020. We believe we are on schedule and the progress on the project is satisfactory.

**Hardik Solanki:**

Okay. And sir, what volume can we catch on this 25,000 tons in terms of revenue wise?

**Shrikant Himatsingka:**

It depends on the product mix. So, there is no specific number I can attach to the revenues, potential revenue stream that can arise from a capacity of this kind. But, let's say, the industry has an average realization of close to 4.5 to 5 dollars a kg on the Terry front, on the thumb rule basis, is what the industry might clock. So, that should give you a broad idea. Normally we do better than industry, like in the case of Sheeting, while we don't share specific realization numbers, our Sheeting realization numbers are materially superior to the industry.

**Hardik Solanki:**

Okay. That was helpful. Thank you sir and I will get back in the queue.

**Moderator:**

Thank you sir. We have the next question coming from Mr. Hem Agrawal, an Individual Investor. Please go ahead with your question.

**Hem Agrawal:**

Good evening Sir.

**Shrikant Himatsingka:**

Good evening.

**Hem Agrawal:**

Sir, I would like to know, we spoke earlier about the European business reorganization. So, I would like to know what is the status of it and from when can we expect some revenue and margins profits from that business sir?

**Shrikant Himatsingka:**

It is a good question Hem. We are still at it. Obviously this is not an assignment. It is a journey that is going to unfold. The Group is leveraging its brand portfolio and other strengths to address the European market. It is more fragmented than the market in the North America. There is no doubt about it. We are also doing some reorganization work around our Bellora brand and bringing it onto a new sort of platform in terms of model products, brand profile and so on. So, I think the focus on Europe is as intense as it was. But, the results in terms of revenue from Europe look like they are a little slower than we anticipated. So, the efforts are on. And it remains an area of focus.

**Hem Agrawal:**

Okay. But, the business potential, you can see, it is just a question of time, is it?



- Shrikant Himatsingka:** Yes, there is definitely potential on the European front. It is just that the results from Europe are not as quick as one would have wanted. But, we do believe Europe is a very major region, which it is. And we do believe that we have enormous potential to grow there. And we are working on ways to harness our potential in that region.
- Hem Agrawal:** Okay sir. Thank you very much and keep up the good work sir. Always a pleasure.
- Moderator:** Thank you Sir. We have the next question coming from Mr. Yash Pal Madan, an Individual Investor. Please go ahead with your question.
- Yash Pal Madan:** Good evening Mr. Himatsingka.
- Shrikant Himatsingka:** Good evening Sir.
- Yash Pal Madan:** If I see for last many quarters, the top line was stuck between Rs.550 crores to Rs.600 crores. After a long time, it has gone beyond 600 and 700. My first question is what had been the growth drivers, number one? And second, is it sustainable in the future? Can we see this kind of growth continuing in the coming quarters also? And third, what kind of EBITDA you think you will be able to sustain if this growth is going to continue?
- Shrikant Himatsingka:** Okay. Lot of loaded questions Yash Pal, but all of them are very fair and reasonable questions. So, as far as our uptick on revenue is concerned, as I shared with an investor earlier, this is primarily arising out of two factors. One is, the recently acquired brand portfolio, which we concluded during the first quarter of FY19. And the second is just underlying organic volume led growth that we are seeing. And probably the third which I forgot to add was some translation impact as well. But, the largest of these three contributors is probably the brand acquisitions and our organic growth. So, that is what is driving the revenues. And we are also happy to see it come out of the 500 to 600 zone and come to the point that it is at. Going forward while we do not share any revenue guidance, the absolute numbers of the revenues that we clocked, what I would probably say is 500 crores to 600 crores range will look little revised and maybe higher than that band definitely at an absolute level. The growth numbers are different question altogether, because that is reflective and it is dependent on the denominator of the previous year's numbers that you are comparing it with. So, I will say that the absolute numbers look like they are reset from the 500 crores to 600 crores zone, look like they will be more buoyant than that, because the acquisition effect has kicked in as well and the organic rates continue. So, that is on the revenue front. On the EBITDA front, I think our consolidated EBITDA margins should be range bound from where we are. It would vary from quarter to quarter a little bit based on the product profile or the seasonality of the quarter and so on. But, I think that it should be range bound from here.
- Yash Pal Madan:** So, what percentage of cotton you buy locally or you import?

- Shrikant Himatsingka:** We cannot specifically address that question Yash Pal, because our raw material mix is sensitive in terms of information. But, we do procure a substantial amount of US cotton as well. And we also consume a large amount of domestic cotton. So, we do both.
- Yash Pal Madan:** I see. So, have you been utilizing your capacity 90% plus in the last few quarters and currently also of your production capacity?
- Shrikant Himatsingka:** We also don't share utilization numbers. But, the investors just prior to you had asked the same question. So, our spinning capacity utilization is full. There is no doubt in the matter, because it is a captive unit. As for the Sheeting capacity is concerned, other than the 40% to 50% of the incremental capacity that we were supposed to utilize post commissioning the plant and which we did, post that we have clawed at an organic growth rate on the utilization front. So, we have some more utilization headroom in the Sheeting plant. And as I shared, we have the ability to debottleneck the plant from the 46 MMPA number to 61 MMPA at very short notice and extremely marginal Capex.
- Yash Pal Madan:** I have one simple request or suggestion, if you wish to consider. As we track other companies also in the sector, when it comes to utilization, they do share the numbers. That gives some idea to the investors somewhere what kind of growth potential the company has. Let's say if somebody is already utilizing 95%-100% capacity, then definitely the top line growth is least expected, so then the investor can decide what the investor wants to do. I think you are keeping so much information with you and not sharing it in presentation or in the conference call, which doesn't give us any futuristic view. Even if you don't want to give the numbers or the projections, it is fine. But, at least these numbers I think are basic which lot of companies share.
- Shrikant Himatsingka:** Fair point Yash Pal, we will definitely think about this feedback of yours and come back with some suggestions and thoughts.
- Yash Pal Madan:** Thanks a lot. Thank you. All the best.
- Moderator:** Thank you sir. Ladies and gentlemen, if you have any questions, please press \* and 1 on your telephone keypad.
- We have the next question coming from Mr. Venkat Subramaniyan from Organic Capital. Please go ahead with your question.
- Venkat Subramaniyan:** Thanks for the opportunity sir. Our judgment is that we have a couple of nice headwinds appear, nice tailwinds for us beginning next year. But, can we probably get to 2.5 kind of number for debt to EBITDA by the next year, just as a broad indication? We have currency in our favor. We will have a Terry Towel capacity in place.
- Shrikant Himatsingka:** When you measure debt to EBITDA, you take Net debt to EBITDA or gross?

- Venkat Subramaniyan:** What would be it actually on either one of them, because our PAT is just about 250 crores, right?
- Shrikant Himatsingka:** Yeah. So, what we track is Net debt to EBITDA. And on an annualized basis, as Rangaraj pointed out it is heading towards 3.6 number on an annualized basis. On a TTM basis it is 3.97. So, all I would say is that it should head south from here after the Capex is complete, maybe 2.5 is a little aggressive.
- Venkat Subramaniyan:** But, south of 3 is very possible, right?
- Shrikant Himatsingka:** I wouldn't say that either. I wouldn't comment yes or no. I am saying that from 3.97 it will start heading south after the Capex is complete. Naturally, because our Capex schedule will stand completed vis-à-vis this phase of expansion and the EBITDA from the assets that have been commissioned will kick in. So, the number will start going south as it already has, because at the end of FY18, during the same quarter it stood at 4.2 times, which is now 3.97 times.
- Venkat Subramaniyan:** But, I don't know whether we are getting more aggressive than yours, but currency, since you are fully hedged for the current year, it will become a very meaningful tailwind for us, so that the rate of drop should be lot more meaningful than just the 0.3?
- Shrikant Himatsingka:** Yeah, I think I shared my thoughts on this. The rest of the math is your computation.
- Venkat Subramaniyan:** Okay Sir. Thanks.
- Moderator:** Thank you Sir. We have the next question coming from Mr. Rajesh from Alpha Accurate Advisors. Please go ahead with your question.
- Rajesh:** Good evening Sir.
- Shrikant Himatsingka:** Good evening.
- Rajesh:** Sir, my question is while your currency has depreciated and there might be some benefit at some point of time, I am sure the clients are efficient enough and therefore beyond a point you have to pass it on the currency benefit to remain competitive. So, do you think it is a sustainable benefit or is it, do you think it is more of a one off, onetime benefit maybe for three-six months at some point of time as your hedging gets over? But, ultimately the new pricing that you are entering will be lower in INR terms although it might be same in dollar terms?
- Shrikant Himatsingka:** It is a fair question. This is my own thinking and thoughts on this matter. It may or may not apply to the industry obviously. Typically, large foreign exchange movements are not sustainable in terms of benefits. And some of it gets eroded away in terms of re-pricing and so on. So, I would think that currency movements, being export oriented currency movements are ordinary costs movements that we see from time to time. And the one we have recently



witnessed will give some tailwinds and maybe some of that tailwind will get eaten away and some will remain. How much remains and how much gets eaten away, we will know as we get closer to the time periods. But, typically some benefits tend to stay in the system, which are organic in nature. So, organic FX movements, 4%, 5%, 7% tend to be sustainable. As we see it sometimes, beyond that gets eaten away. But, that remains to be seen as we get closer to the quarter.

**Rajesh:**

Understood. And just one little bit technical question in nature that we see lot of, within the shareholders, what I would say, promoters or family disclosure to the exchanges, lot of transactions. Can you little bit clarify on this? How much percent stake is still there and how much is yet to be sold or something like that, in case if you have any idea if it is a defined kind of thing?

**Shrikant Himatsingka:**

No, the promoters have disclosed whole 47.57%. We have not sold anything. And we have no transactions of any sort. So, I don't know what you are referring to.

**Rajesh:**

No, they may not be classified as promoters, but same family, there are some members, am I right, in the disclosure?

**Shrikant Himatsingka:**

For any family members, who are public shareholders and are not part of the family, are not part of the promoter group, their shareholding and or their selling and buying activities are not something we are privy to. And it is entirely public shareholding matter. We have no knowledge of this to share with you.

**Rajesh:**

Okay Sir. Fair enough. Thank you very much.

**Moderator:**

Thank you Sir. Ladies and gentlemen, if you have any questions, please press \* and 1 on your telephone keypad.

We have the next question coming from Ms. Prerna. Please go ahead with your question ma'am.

**Prerna:**

Thank you. Sir, I would like to understand the question of EBITDA margin sustainability going forward. What would be the sustainable EBITDA margin? You have answered this question earlier, but I wanted to understand that even after Spinning plant has come up and taking away, and keeping the forex related cost or income aside, shouldn't our sustainable EBITDA margin be a little higher than the current rate?

**Shrikant Himatsingka:**

No Prerna, if I see on a consolidated basis, our EBITDA margin was approximately, we are in the 22% region as we saw. And I shared with the investor earlier that we should be range bound from here vis-à-vis the 18% we used to see, 18.0%-18.5% we used to see earlier. So, we have added a good 300-350 basis points from there. But, I see it range bound from here.

**Prerna:**

Okay. Any particular cost that you are seeing, which would be impacting the numbers, because apart from export incentives if I see, cotton costs have gone up,

otherwise other things have almost remained the same, export incentives of course is a factor.

**Shrikant Himatsingka:**

Prerna, you have to see 2% of export incentives. You have to see cotton inflation which has been visible on the domestic cotton and international cotton prices. You have to see things like energy prices which have seen an uptick. Energy raw materials like coal have seen an uptick. We are also not entirely integrated as yet with regards to our acquisition. We have all the headwinds; despite which we are showing close to 300-350 basis points increase from the normal EBITDA margins that we used to see. We also as I said earlier have seen some headwinds from some of our niche divisions, other than all the factors which I stated, which have impacted even the Sheeting division. So, I think all this put together, some of this will recover and some other additional factors may crop up and so therefore I see this to be range bound from here, which is still superior to what the industry has clocked.

**Prerna:**

And that is true sir, your margin is superior to the industry today. And if the current run rate continues, then also you will be better off than the industry. So sir, second question, I want to understand your tax rate.

**Shrikant Himatsingka:**

I would also like to add Prerna that the benefits that some of the peers in the industry get in some of the other States outweigh the benefits that Himatsingka get in Karnataka.

**Prerna:**

Completely agree sir. Sir, my next question was on tax rate. This quarter your tax rate was around 39%. What would be the run rate for the full year, if you want to take a call on that?

**Shrikant Himatsingka:**

The tax rates were a little high as Rangaraj had alluded to because of the deferred tax unavailability in subsidiaries and so on. But, it is fair to assume that our tax rates will be maxed up.

**Prerna:**

Okay. And sorry if I have missed our earlier. Now your subsidiaries, your standalone PAT is around Rs.59 crores and your consolidated PAT is around Rs.52 crores. So, the balance, is it fair to assume there is a loss in subsidiaries?

**Shrikant Himatsingka:**

Yeah, there is. It is a mathematical fact, so there is nothing to deny on this matter. But, please recall that I urge, I request all investors to look at us only as an integrated player and an integrated financial number. Any attempt to dissect us in a standalone or on a consolidated basis might yield to skewed interpretations and inferences. So, do look at us as one integrated chain and please analyze consolidated financials as much as possible.

**Prerna:**

Okay. We generally do that to understand if apart from the other assets, apart from your Indian assets are yielding you results.

**Shrikant Himatsingka:**

But ma'am, there are certain costs, there are certain benefits that are not necessarily flowing in a linear manner between the parent and the subsidiaries



and various obligations and so on. So, while you attempt to look at the standalone to get a better feel of the Indian assets, what I am saying is, you are more than welcome to do that, but you may land up making some erroneous inferences. So, my request is to please look at consolidated financials.

**Prerna:** Okay. So, this has been helpful sir. Thank you.

**Shrikant Himatsingka:** Yes, thank you.

**Moderator:** Thank you ma'am. We have the next question coming from Mr. Sunil Jain from Nirmal Bang Securities. Please go ahead with your question sir.

**Sunil Jain:** Good evening Sir. My question relates to working capital loan. In the past we have seen that because of GST that has increased, so is there any scope for it to come down in the coming period?

**Shrikant Himatsingka:** Can you please repeat your question?

**Sunil Jain:** We saw working capital loan increasing because of GST also in the past. You explained that in the previous calls that because of GST our working capital cycle has increased. So, is that reverting back or are we still impacted by GST?

**Shrikant Himatsingka:** No, I think the GST thing is largely normalized. And working capital has also corrected a little bit over the last couple of quarters. There could be some movement because of the recent acquisition and its working capital requirements. But, there is no GST congestion like there used to be at the end of Q4 FY18.

**Sunil Jain:** The second question is relating to your, whatever acquisitions which you have done. You will be definitely doing manufacturing integration, so that should increase your utilization or Sheeting capacity in the second half. Am I correct or not?

**Shrikant Himatsingka:** That is correct.

**Sunil Jain:** So, will that be very minimal or it can be substantial?

**Shrikant Himatsingka:** It could be material.

**Sunil Jain:** Great sir. And sir, last question is relating to Terry Towels. Sir, this Terry Towels whatever the production will be coming, they will be, are we sourcing it from a third party and then replacing it with other production or how the function will be?

**Shrikant Himatsingka:** No, we will be manufacturing it in-house. Currently because the plant is under construction we are sourcing it from third parties. Of course that is not a very large amount, because the segment for that is small. But, as soon as our plant is ready, we will be making it in-house and we will be focused on ramping up that segment.



**Sunil Jain:** Okay. Great Sir. Thank you very much.

**Shrikant Himatsingka:** Thank you.

**Moderator:** Thank you Sir. That will be the last question for the day due to time constraints. Now, I hand over the floor to the management team for closing comments. Over to you Sir!

**Shrikant Himatsingka:** Thank you everybody for taking the time for this call this evening. If there are any questions that have remained unanswered or we have requested you to reach us offline, please do so. We will be happy to clarify all your queries and doubts. And we look forward to our next interaction with you. Thank you very much.

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