



Himatsingka

Earnings Call Transcript
Bengaluru, February 06, 2019

Q3 FY19 Earnings Conference Call

February 06, 2019

**Moderator:**

Good evening ladies and gentlemen, I am Honeyla George, moderator for the conference call today. Welcome to Himatsingka Seide 3Q FY19 post results conference call hosted by Batlivala & Karani Securities India Private Limited. At this moment all participants are in the 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. Prerna Jhunhunwala. Over to you ma'am.

Prerna Jhunhunwala:

Thank you Honeyla. Good evening everyone. On behalf of B&K Securities, I would like to welcome you all for 3Q FY19 post results 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, Senior VP – Finance and CFO – Strategic Finance and Company Secretary, Mr. K.P. Rangaraj, President – Finance and Group CFO and Mr. Sachin Garg – Associate Vice President – Finance, Treasury and Investor Relations. I would now like to hand over the call to Mr. K.P. Rangaraj for the initial comments. Over to you and thank you.

K.P. Rangaraj:

Thank you Prerna and thank you B&K. First of all, very good evening to all ladies and gentlemen who have logged into the call. We welcome you to the Q3 FY19 earnings call. As always, we will start with the business update, followed by updates on financials. We will also take you through an update on the ratios and then brief comments on the financials. So, these are the four headings under which we will go through the call.

I will now start with the business update. The integration of acquired brand licenses, including the Tommy Hilfiger brand is progressing well and the revenue uptick is visible. The manufacturing integration is in progress and is expected to be completed by March 2019. The revenue contribution from brands continued its upward trend in Q3 FY19. During the quarter, revenue from brands stood at ₹ 571 crores for the three months ended December 2018, and for the nine months ended December 2018, the total revenue contribution from the brands stood at ₹ 1,648 crores. In line with our strategy to enhance brand led revenue streams, we have assumed global rights for the Calvin Klein Home Brand. Himatsingka continues to be a leader in the Cotton Track & Trace space with its exclusive DNA tagging technology along with its branded cotton platforms namely PimaCott, HomeGrown Cotton and OrganiCott. As communicated earlier, 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. The facility will have an installed capacity of 25,000 tonnes per annum. We completed the capacity debottlenecking initiative at the sheeting plant. The sheeting capacity now stands enhanced at 61 MMPA (Million Meters Per Annum) versus a capacity of 46 MMPA, earlier. The utilization levels at our sheeting facility remained range bound during the quarter. While we expect utilization levels to go up during Q4 FY19, we also expect the enhanced utilization levels to be offset by a reduction in realizations on account of product mix. This completes the business update.

We now move on to the consolidated financial performance for Q3 FY19. Consolidated Total Income increased by 12.3% for the quarter and stood at ₹ 661.25 Crores versus ₹ 588.64 Crores in the previous year.



The Consolidated EBITDA for Q3 FY19 increased by 37.7% to ₹ 151.07 Crores versus ₹ 109.73 Crores in Q3 FY18. The EBITDA Margin consequently improved to 22.8% as compared to 18.6% in the previous year, an increase of 421 bps.

The Consolidated EBIT for Q3 FY19 was up 33.1% to ₹ 123.68 Crores versus ₹ 92.92 Crores in the previous year.

The Consolidated PBT for the quarter was up 16.3% to ₹ 82.66 Crores versus ₹ 71.10 Crores in the previous year.

The Consolidated PAT for Q3 FY19 was up 2.0% and stood at ₹ 51.16 Crores versus ₹ 50.13 Crores in the previous year.

Consolidated Cash Profit was up by 17.3% to ₹ 78.55 Crores versus ₹ 66.94 Crores in the previous year.

Now, we now move on to the YTD consolidated financial performance.

The Consolidated Total Income increased by 15.7% for the nine months period ended December 2018 and stood at ₹ 1,961.52 Crores versus ₹ 1,696.0 Crores in the previous year.

The Consolidated EBITDA, excluding non-recurring expense, for the period increased by 33.3% to ₹ 446.49 Crores versus ₹ 335.08 Crores in the previous year. EBITDA Margin, excluding non-recurring expense, therefore stood at 22.8% as compared to 19.8% for the previous year, an increase of 301 bps. The non-recurring expense was incurred in Q1 of FY19 and stood at ₹ 6.99 Crores, this was towards the brands acquisition.

Consolidated EBIT, excluding non-recurring expense, for the nine months period was up by 29.2% to ₹ 366.54 Crores versus ₹ 283.61 Crores in the previous year.

Consolidated PBT, excluding non-recurring expense, was up by 17.3% to ₹ 248.31 Crores versus ₹ 211.66 Crores in the previous year.

Consolidated PAT for the nine months period stood at ₹ 148.47 Crores versus ₹ 151.30 Crores in the previous year.

Consolidated Cash Profit was up by 12.7% to ₹ 228.42 Crores versus ₹ 202.77 Crores in the previous year.

We now move to the debt profile. The consolidated gross debt as of 31st March stood at ₹ 2,701 crores. The total term debt stood at ₹ 1,680 crores and the working capital debt stood at ₹ 1,021 crores. The cash and cash equivalents as of 31st December stood at ₹ 227 crores. Consequently, the company's net debt outstanding as of 31st December stood at ₹ 2,474 crores.

On TTM basis, the net debt, excluding the project work in progress debt, to EBITDA improved to 3.79 times at the end of the quarter as against 4.2 times at the end of FY18. The debt service coverage ratio stood at 2.14 times at the end of the quarter as against 2.34 times at the end of FY18. The interest service coverage ratio at the end of the quarter was 3.18 times as against 3.8 times for FY18. The net debt to equity ratio stood at 1.8 times at the end of the quarter versus 1.63 times at the end



FY18. The net debt, excluding the project work in progress debt, to equity ratio stood at 1.59 times at the end of the quarter which was similar to FY18 number.

We now move on to the capital efficiency ratios on a TTM basis. The Return on Capital Employed (RoCE), excluding capital employed on project work in progress, for the quarter stood at 14.9% as compared to 13.9% at the end of the previous year. The Return on Equity (RoE) ratio stood at 15.4% at the end of the quarter compared to 17.6% at the end of FY18. On an annualized basis, the Return on Capital Employed, excluding the project work in progress debts, stood at 15.5% and the Return on Equity ratio stood at 15.9% at the end of the nine months period ended December 2018.

We now move on to the section on our comments and observations on the financial results.

Forex: We continue to witness volatility in foreign exchange in Q3 FY19. The rupee appreciated from 72.56 to 69.89 to a dollar as we all know. We continue to follow the hedging policy that typically covers forex exposures on a rolling twelve months basis. The implication arising out of the hedging resulted in low realizations compared to the average rate for the quarter. The positive impact of the hedging will be realized in the future.

Other income: Other income for the quarter was a loss of ₹ 16.99 crores and it predominantly arose on account of forex restatement on receivables. The restatement loss recorded for Q3 FY19 was ₹ 20.9 crores versus a profit of ₹ 29.25 crores in the previous quarter. Such classification is arising out of applicable accounting standards, hence other income should be read in conjunction with revenue from operations.

Tax rate: The effective tax rate for the quarter 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. We have our Managing Director Mr. Shrikant Himatsingka, who will respond to any Q&A. Thank you so much for your patient listening.

Moderator:

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Mr. Dixit Mittal from Subhkam Ventures. Please go ahead.

Dixit Mittal:

Good evening sir. Sir, my question is on spinning. So, what is the current capacity utilization in the spinning as well as in our sheeting plant for the third quarter?

Shrikant Himatsingka:

As you know we don't specifically disclose utilization levels. But I will be happy to share the utilization levels in spinning, because the plant runs at 100%, in the high nineties to 100% utilization levels, because it is largely for backward integration. And as far as the sheeting utilization levels are concerned, we remain range bound vis-à-vis last Q. And as Mr. Rangaraj pointed out, we are looking at increased utilization levels in Q4. But we are also seeing some headwinds on the realization front. So, all in all we feel that there is a likelihood that the drop-in realizations may



offset the enhanced utilization levels with sheeting. Having said that as we indicated to investors the last time around, we have debottlenecked our sheeting capacity and the sheeting capacity now stands enhanced to 61 million meters per annum vis-à-vis the 46 million meters per annum capacity that we had earlier. And the reason we have gone through with this debottlenecking is because we are seeing volume uptick with the change in product mix.

Dixit Mittal: Sir, you mentioned about headwinds on the realization, is it because of inferior product mix or any other reason for that?

Shrikant Himatsingka: No, a reduction in realization does not imply an inferior product mix. It implies a different product mix. It could be higher or lower. In this case it is lower. So, a lower product mix doesn't necessarily make it inferior. In fact, there are also advantages of broad based, more broad-based product mix. While the disadvantage is it takes up a little more capacity. So, it is not one way or the other. It is just a different product mix, which required us to also consider debottlenecking our operations and unleashing the latent capacity to 61 MMPA.

Dixit Mittal: So, can I see it this way that, because you have the capacity, so you are now diversifying into slightly lower realization just to fill up the capacity?

Shrikant Himatsingka: Say that again please?

Dixit Mittal: Sir, can I conclude that since you have now excess capacity of sheeting, so to fill that capacity now you have moved slightly down the realization chain?

Shrikant Himatsingka: Yeah, with scale it is only obvious that there will be some dilution on the realization front and one will end up broad basing their product mix. So, it is a safe assumption that we will continue to expand albeit with a slightly more broad-based product mix going forward. But yes, we have further capacities now available, which we will leverage going forward.

Dixit Mittal: Okay. And sir, lastly from my side, have we seen full benefit of backward integration in terms of margins, because earlier we were expecting 25%-26% margins, once we have the fully backward integrated operations? So, what is the current guidance sir, on that front?

Shrikant Himatsingka: While I always urge investors to look at the consolidated performance, if one, on the manufacturing front, we have realized the full potential of our vertical integration. There are variations from quarter to quarter. But by and large we have realized the full potential. The spinning plant is performing satisfactorily. And the kind of margin profile that we had indicated to investors that we expect to derive from our spinning investments and operations and what we are actually clocking are in line. And therefore, on a consolidated basis, you are seeing that 421 basis points jump year on year on consolidated EBITDA, which is largely driven by vertical integration.

Dixit Mittal: Okay. So, this 23% is the sustainable margins going forward?

Shrikant Himatsingka: No, I didn't say it was sustainable. I said that what we are currently clocking is largely a function of the vertical integration efforts that we have made. The margins remain range bound now for the last couple of quarter. So, it will be our effort to be in this range.

- Dixit Mittal:** Okay. Thank you, sir.
- Moderator:** Thank you sir. The next question comes from Mr. Rukun Tarachandani from Kotak Asset Management. Please go ahead.
- Rukun Tarachandani:** Hi. If you look at the revenue growth this year, considering that last year, same quarter you didn't have the Tommy Hilfiger portfolio and this quarter you had that and it is from the sales perspective, it is a portfolio that is back ended towards your second half. It appears that the rest of the portfolio hasn't grown. Is that assumption correct?
- Shrikant Himatsingka:** We have seen marginal growth in the rest of the portfolio. As we had indicated earlier, I think there have been questions from investors earlier as to what, potentially speaking what could be sustainable growth rates on a sort of same business portfolio going forward. And what we had indicated was it was in the mid single digits from a sustainable standpoint. So, we continue to see some marginal growth on that front. And as we had indicated we are seeing revenue upside from our enhanced brand portfolio this year. Unfortunately, all the investments we had made on the spinning front are not showing up in the form of revenue streams other than some small third-party revenue streams that we have undertaken on the spinning front. But, that is largely just showing up on the EBITDA front.
- Rukun Tarachandani:** Understood. And the business update part of your release states that you have assumed global rights for Calvin Klein Home, if you can elaborate on this please?
- Shrikant Himatsingka:** Yeah, the Calvin Klein Home Brand was focused more on the North American markets. But the Group has now taken up global license rights to the Calvin Klein Home Brand. So, we will be looking at worldwide markets to take this brand to. So, that is a new initiative which we wanted to highlight to the investors. And it is in line with our strategy to develop, solidify and grow brand led revenue streams.
- Rukun Tarachandani:** Understood. And this strategy or this change of moving towards lower realization products, how do you see that impacting the margins and return on capital going forward?
- Shrikant Himatsingka:** No, as you have seen, it has not impacted margins as such. And as you are also seeing, it is not impacting our TTM ROCE in any material way, positively or negatively. So, as I highlighted to the gentleman earlier, this is just a different product mix with some advantages and disadvantages. But, it will be safe to assume that as one scales, there will be a broad basing of product mix. I think it is healthy. And it is not something that we were not aware of. It is unfolding as we speak and therefore, we highlight it.
- Rukun Tarachandani:** Understood. And final question on the tax rate which has been higher. You alluded to the fact that your subsidiary has not been able to claim the deferred tax as such. How do you see that going forward?
- Shrikant Himatsingka:** I think we might see some improvements on the effective tax rates going into FY20. So, we could see a reduction on the ETRs going into FY20.
- Rukun Tarachandani:** Right. Because this year it is close to around almost 38%-39% for the nine months.
- Shrikant Himatsingka:** I think it is safe to assume that there could be potential correction on that front going into FY20.



- Rukun Tarachandani:** Okay, fine. Thank you.
- Shrikant Himatsingka:** And being more aligned with the statutory tax rates.
- Rukun Tarachandani:** Understood. Understood.
- Moderator:** Thank you sir. The next question comes from Mr. Hem Agarwal, an Individual Investor. Please go ahead.
- Hem Agarwal:** Good evening sir. Good to know about the debottlenecking facility job and about the Terry towel project being on stream.
- Shrikant Himatsingka:** Thank you.
- Hem Agarwal:** Sir, today my question is more on, after the Terry towel manufacturing comes on stream, what will be the company's focus and strategy? Will it be sir to consolidate what we have to improve the margins, reduce debt and increase revenue from existing operations or would we go into some other expansions or acquisitions?
- Shrikant Himatsingka:** Good question Hem. As our investors know, over the last two and a half - three years, the company has successfully completed three projects, namely our Brownfield Sheeting expansion, our Greenfield Spinning plant and now we are putting finishing touches to our Greenfield Terry Towel plant. We see our CAPEX cycle vis-à-vis these three projects coming to a close by the end of maybe Q1 FY20. And thereafter our first priority will be to consolidate our home textiles portfolio on the one hand and sweat our new capacities. We will start taking down the debt levels immediately post the CAPEX cycle completion. With the exception of some organic CAPEX that we foresee, our home textiles platforms will not need any further CAPEX at this point. And we would like to reduce debt levels post our CAPEX completion on this front. Having said that our cash generation is healthy and we will be on the lookout for new strategic opportunities as we have in the past. But I think our first priority will be to complete our Terry Towel plant, commission it and deleverage going into FY20. We would also be focused on bringing down our working capital requirements in FY20. So, I think there is already a growth theme, because of our Terry towel coming into stream. So, we will try to make sure that the project ramp-up is smooth. As our investors would appreciate, a new project could cause some turbulence in the initial time, but our focus would be to try and see that it is least turbulent, the ramp up and the growth coming from Terry. The second and the third priorities, not in the order of preference, but the second and the third buckets that we would be focused on is deleveraging commencing FY20 and reducing our working capital requirements in the chain.
- Hem Agarwal:** Okay. Sir, thank you so much. It is very encouraging to hear sir.
- Shrikant Himatsingka:** Thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Resham Jain from DSP Mutual Funds. Please go ahead.
- Resham Jain:** Thank you for the opportunity. Sir, I have three questions. First is on the manufacturing integration. I think in the initial remarks you have mentioned about the manufacturing integration will get completed by March 2019, with respect to the

Tommy Hilfiger execution. If you can just elaborate more on that front in terms of how it will impact our overall profitability because of that?

Shrikant Himatsingka: When we bought the brand portfolio, obviously it is not something that we manufactured in-house. And so the in-house manufacturing of this portfolio in terms of making sure that we are capable of manufacturing a substantial portion of what is required, will stand completed by March 2019. Resham, one may or may not see all its benefits depending on how the sales portfolio behaves during the Q. But, from our standpoint the integration efforts will be complete.

Resham Jain: So, basically on that front, on the manufacturing side, we have not yet seen the benefits. We will see that only in FY20, is that the right assumption?

Shrikant Himatsingka: You are partially right. Partially we have seen, but it has been offset by other things. So, it is difficult to carve that out specifically to showcase that this is the benefits that is derived out of this acquisition. But, definitely the benefits are also accruing parallelly, some of which get offset by other impacts. As we all know this year has been, has seen some headwinds. Not only are we behind on forex realizations, there has been a 2% YoY headwind on Central Government incentives. And we have also had onetime expenses incurred on our acquisitions. We have had integration expenses during the year. So, some of these initiatives, including a ramp up in spinning which we saw during the last three Qs, some of these have eaten away some benefits. So, it is difficult to carve it out. But, let me assure you that the benefits that we sought from manufacturing these products definitely are accruing to us.

Resham Jain: Okay. Sir, my second question is regarding these headwinds which you talked about in terms of the change in product mix. Is it, you have said that realization will slightly be lower, but volumes will be higher. So, on absolute EBITDA basis, what kind of impact are we seeing? Is it completely offsetting each other or are we seeing positive or negative impact because of these product mix changes?

Shrikant Himatsingka: No, overall as you see the numbers, we are faring better I should think. If you look at our YoY EBITDA, we are looking at a growth of 37.7%. So, while this is largely, coming from vertical integration, but we are holding fort despite product mix changes, despite forex headwinds, despite Central Government initiatives to the tune of 200 bps being taken away and so on. Despite these headwinds, we are clocking a healthier EBITDA. I think it is indicative of intrinsic developments vis-à-vis our model.

Resham Jain: Okay. And sir finally my last question is on the inventory. Will you be able to share the absolute amount of inventory at the end of this quarter, quarter three?

Shrikant Himatsingka: I think it is range bound vis-à-vis quarter two. I just wanted to point out that this is also quarter where there was some inventory increases, because of getting into the cotton season. So, we have seen some increases on that front. And we have some translation impact as well. But other than that I think inventory is something that we are extremely focused on and we should start seeing the working capital in its entirety, we should start seeing to correct in the short to medium term.

Resham Jain: Okay. Sir, any near term targets on the inventory which you want to set for yourselves, let's say next one year, because last three-four years vis-à-vis revenue, we have seen inventory going up, so any short term guidance which you would like to tell to investors on this front?

- Shrikant Himatsingka:** We definitely have targets Resham. Obviously it wouldn't be appropriate for me to share inventory targets at this point. But, directionally we are wanting to take our working capital cycles down. There is no doubt in the matter. We, as some of our investors feel as well, are of the opinion that we should be doing a better job on the total working capital requirements that our model currently envisage. And so we are working on that. We would like to aggressively reduce this. That is one. Second, if I look at the last three to four years, we have approximately with the two new plants having been commissioned plus increase in utilization levels plus brand acquisitions plus the translation, so these four buckets have added to our inventory requirements. Plus we have also had underlying change in model, which has become a little more replenishment oriented, which has caused the inventories to go up. Having said that, there is also scope to streamline it, which is what we are working on. And we should going forward begin to see results of that as well.
- Resham Jain:** Okay. Thank you sir and wish you all the best.
- Shrikant Himatsingka:** Thank you.
- Moderator:** Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. I repeat, if you have any questions, please press * and 1 on your telephone keypad.
- The next question comes from Mr. Krishna Hegde, an Individual Investor. Please go ahead.
- Krishna Hegde:** Hi, good evening. We have been talking about the Track and Trace progress within your different earnings updates. As an investor, how do I understand what is the scale of the business and what is the kind of progress you are making within Track and Trace? Thank you.
- Shrikant Himatsingka:** Good question Krishna. We do not specifically spell out how a particular segment and or a sub segment performs. The reason is this part of our update is, it is a current subject in the global textile space. Traceability is a current subject. And Himatsingka currently runs substantial portfolios that are based on this technology. We believe that we have leadership in this space. And that gives us an edge globally vis-à-vis the traceability requirements the clients may have. So, it is a little difficult, I agree, for you to put numbers to this. But, from an investor's standpoint, it is another part of a strong brand portfolio that we possess.
- Krishna Hegde:** Thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Bhavesh Joshi, an Individual investor. Please go ahead.
- Bhavesh Joshi:** Good evening. Thanks for taking my questions. Sir, the stock has corrected significantly and there were concerns with regards to the debt and the working capital going higher and as you said that you are working on to it and things would be rightly on the track in the coming few quarters. But, there is a suggestion. Won't it be sensible if you increase the stake in the company a bit to give a strong message to the investor community and protecting the minority shareholders?
- Shrikant Himatsingka:** Good observation Bhavesh. Why the stock has corrected or not corrected is something I cannot comment on obviously, because it is beyond me, we are more focused on delivering performance. How the capital markets take it or don't take it



is really not our forte. As far as their observations on our inventory and on our debt is concerned, we always shared how we look at leverage and how we want to look at working capital cycles on our models, so that is really nothing new. Our endeavor would be to streamline it going forward. And as far as our stake is concerned, we would definitely take your point and we will keep that in mind.

Bhavesh Joshi:

Fine. Thank you very much.

Moderator:

Thank you sir. The next question comes from Ms. Manjubhashini from Sundaram Mutual Fund. Please go ahead.

Manjubhashini:

Hello, good evening to the management members. Sir, to the point on the working capital reduction, does going down the realization chain have any impact on the working capital there? And since there was a mention about we resorting to a replenishment model going ahead, how do we see that impacting the working capital requirements in the future?

Shrikant Himatsingka:

Manju, the first part of your question, the broad basing the product mix, while in theory it could have some impact on the working capital being negligible. It is not really material. And as far as becoming more replenishment oriented is concerned, it is something that has transpired over the last couple of years. So, we have seen it increase to the degree that we think it is now sort of reached a point where it wouldn't see further growth in terms of enhanced replenishment from here. So, I think from here on our streamlining efforts should bear fruit.

Manjubhashini:

Okay. And is there a possibility of, on this enhanced capacity of 61 odd million meters that we are currently working with, what is the possibility of us again getting some share from the earlier realization levels? Is there any probability of that coming through in the next one or two years?

Shrikant Himatsingka:

I am not sure I understood what you mean.

Manjubhashini:

No, we have further expanded the capacity from 46 to 61, but on the realization curve we have gone a little lower than before. So, all that I am trying to understand and the utilization levels are range bound currently as well. So, in future does it mean that there is an expectation of getting the erstwhile realization products as well into the stream?

Shrikant Himatsingka:

No, I think the portfolio is made up of some very high realizations, some moderately high realizations and some low realizations products. And that together form a portfolio. We now have a portfolio let's say sized X. We have capacities in hand and that we will be focused on trying to grow that X sized portfolio. During the growth journey once again we might have a blend of all these three buckets of products that form a part of the growth.

Manjubhashini:

Sure, okay. Thank you. Thank you sir.

Moderator:

Thank you. The next question comes from Mr. Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham:

Hi sir. Good evening. Sir, just wanted to know what has been the CAPEX that we spent on increasing this capacity from 46 to 61 million meters?

- Shrikant Himatsingka:** Nihal, we can't specifically share that, but I did share with investors that it was a marginal capital expenditure to debottleneck our capacities. So, it is not really anything of any material consequence.
- Nihal Jham:** Okay, sure sir. Sir, just continuing on this point of getting into a category which you said, different from what we are currently servicing, so is our long term thought, despite acquiring brands and using up the capacity in the current segment that you are targeting that it is more or less saturated and that is why you want to go and target a different segment now?
- Shrikant Himatsingka:** No, absolutely not. The market, I just stated a point vis-à-vis what we were clocking earlier, our realizations are a little lower on account of broad basing our product mix. That does not in any way outline that we are at the edge of capturing market share. There are opportunities out there and we would like to identify profitable opportunities to enhance our market share across price points. So, I wouldn't read into this in any way, it is just a fact that the realizations have corrected, but as I said earlier, it does not necessarily have any negative implications, other than the fact that it eats up a little bit of capacity.
- Nihal Jham:** Sir, just wanted to know that on that you have mentioned that there is a focus on repaying it further, but any specific plans on what level do you want to get the debt down during the coming one year?
- Shrikant Himatsingka:** No, we wouldn't share those specifics Nihal, but directionally as I said by the end of Q1, our CAPEX cycle is probably coming to a close vis-à-vis these three projects. The only CAPEX that we will see during FY20 other than this is some maintenance mode CAPEX. And therefore by virtue of the CAPEX cycle vis-à-vis these three projects coming to a close, we will aggressively look at deleveraging from there.
- Nihal Jham:** Sure. Just one last question. Would it be possible for you to share the operating cash flow number for the nine months of this year?
- Shrikant Himatsingka:** I think it is self explanatory. So, if you have any specific doubts, we would be happy to take it offline.
- Nihal Jham:** Sure, I will get back for that then. Thank you so much.
- Moderator:** Thank you sir. The next question comes from Mr. Janakiraman Rengaraju from Franklin Templeton. Please go ahead.
- Janakiraman Rengaraju:** Good evening Shrikant.
- Shrikant Himatsingka:** Good evening.
- Janakiraman Rengaraju:** This acquisition of Calvin Klein, the global rights for Calvin Klein Home, in relation to the existing size of your business, is this meaningful?
- Shrikant Himatsingka:** So, we acquired those rights Janaki, but it is not like it is a large existing stream of business or anything. It is something we would like to grow globally. So, it is not meaningful, to answer your question.
- Janakiraman Rengaraju:** Okay, does that mean you need to stand behind the brand?



- Shrikant Himatsingka:** No, no, unlike in the world of fashion where the cash burn is pretty high in taking brands to new geographies and categories and etc., Home is a much more contained universe Janaki and so one wouldn't incur those kinds of expenses. But, I think what one could conclude is, while we have this global rights and the assumption of this global rights complement our direction of thinking in context to enhancing brand led revenue streams, one would have to build on this rights that we have assumed and take these revenue streams forward from where they are currently. And where they are currently are really not material to our current revenue streams.
- Janakiraman Rengaraju:** Okay. Now that you have already built a global scale integrated capacity, which can supply to brands like CK, in terms of incremental capital allocation, would you prefer to acquire more of these brand rights, so that the capacity that has been created will be put to its optimal use?
- Shrikant Himatsingka:** Yes, we have always had an integrated approach to allocating capital. So, and the company has developed, because it is not just a function of allocating capital, it is also sort of a knowhow of sorts. So, the Group has developed this knowhow to have a balanced approach on the capacities and manufacturing infrastructure on the one hand and intellectual property portfolios and brands on the other hand. And we like to grow this in tandem,
- Janakiraman Rengaraju:** Do you disclose the realized FX rates for the quarter?
- Shrikant Himatsingka:** We do not. And while we are on that subject, we did disclose that our current realizations are below spot, substantially below spot. And we have a one-year hedging policy on a rolling basis. And we just prefer to be very conservative and safe when it comes to the FX front. And so, at this point we would have to wait it out to catch up with our realizations on the FX front.
- Janakiraman Rengaraju:** Okay. Would the current quarter see a better realization compared to the December quarter?
- Shrikant Himatsingka:** Very marginally. I think that will really start flowing through gradually from the first quarter of FY20.
- Janakiraman Rengaraju:** Okay. And quite a few questions have been asked about debt. I just wanted to get a view on the peak levels. So, today you are at about roughly 2500 crores net debt and probably from the middle of next year onwards, you said the deleveraging may start. In between would the debt remain at these levels or would it peak at a higher level than where we are today?
- Shrikant Himatsingka:** We will see this going a little higher Janaki, only because we have some CAPEX that remains. So, net-net I think it should go a little higher than where it stands today and post which we will see the correction commence, both on the term front and on the working capital front.
- Janakiraman Rengaraju:** Great. Thanks Shrikant. That is all from my side.
- Shrikant Himatsingka:** I will be happy to take any further questions offline. Please do get in touch or we would be happy to get in touch.
- Janakiraman Rengaraju:** Sure. Thank you. Bye.



- Moderator:** Thank you sir. The next question comes from Mr. Sumant Kumar from MOSL. Please go ahead.
- Sumant Kumar:** Hi sir. Sir, my question is regarding the geography wise growth in nine months, like how is the growth in North America, Europe and India?
- Shrikant Himatsingka:** I am sorry. Could you repeat your question please?
- Sumant Kumar:** The growth across geographies like North America, Europe and India?
- Shrikant Himatsingka:** Good question. Europe, work in progress, could do better, but we are working on it. India, antennas are up and about for opportunities as to how we should position ourselves to grow in the Indian market in the years to come, but nothing concrete at this point. We will be happy to share it at an appropriate time. North America is a stable market, incremental, organic growth rates on existing businesses, also fueled by our acquisition of our recent brand portfolio.
- Sumant Kumar:** How is the growth in ROW?
- Shrikant Himatsingka:** Nothing to report home about.
- Sumant Kumar:** Is it growing at higher than, the pace of growth is higher than the North America, Europe and India?
- Shrikant Himatsingka:** No.
- Sumant Kumar:** Okay. And regarding when the expansion of (not sure) sheets will be completed from 46 to 61 million meters?
- Shrikant Himatsingka:** It is already completed.
- Sumant Kumar:** Already completed. And what about towels?
- Shrikant Himatsingka:** H1 2020.
- Sumant Kumar:** H1 2020. Okay. And sir, what is the top five customer contribution in say nine months of FY19?
- Shrikant Himatsingka:** We cannot disclose that sir.
- Sumant Kumar:** Okay. Thank you so much sir.
- Moderator:** Thank you sir. We have a follow up question from Mr. Resham Jain from DSP Mutual Funds. Please go ahead sir.
- Resham Jain:** Thank you sir. Sir, just one question on Government incentives and GST input credit. Has there been any substantial increase in the amount outstanding from Government vis-à-vis last year, let's say December quarter?
- Shrikant Himatsingka:** There has been some increase. There has been some increase Resham, because of the timing of the filings vis-à-vis the Government of Karnataka. But, it is ordinary course, nothing to specifically reflect on. But, it has increased, yes.
- Resham Jain:** Okay. Thank you.



- Moderator:** Thank you sir. We have a follow up question from Mr. Krishna Hegde, an Individual Investor. Please go ahead.
- Krishna Hegde:** Sir, could you comment about the ongoing US-China tensions and any effect it will have on Himatsingka's prospects?
- Shrikant Himatsingka:** It has no direct impact on Himatsingka's prospects at this point Krishna, at least we haven't seen any. In pure theory as a result of the ongoing trade tensions, there could be some opportunities for the Indian textile sector. Has Himatsingka seen anything specific that has risen with that challenge in mind? No, we have not. So, at this point I cannot share that there are any positives and or any opportunities that are on the table for Himatsingka specifically because of those issues.
- Krishna Hegde:** Thank you sir.
- Moderator:** Thank you sir. Again we have a follow up question from Mr. Resham Jain from DSP Mutual Funds. Please go ahead.
- Resham Jain:** Sir, one broader question, on the raw material side cotton in the last three-four months specifically, we have seen a good correction in the US cotton specifically from 90 cents to almost now 72-73 cents. And on the realization front in fact as you have mentioned, next year will be a much better realization. So, given a slightly lower raw material prices and a better realization, broadly should one expect slightly better margins than what we have reported this year? And also we had certain one-offs and all which are in built in the current year's numbers. So, just directionally is these assumptions, right?
- Shrikant Himatsingka:** Yes, I have seen directionally the thinking is right. On the raw material front Resham, it is not that we service the spot markets. So, any small corrections up and down vis-à-vis the raw materials won't affect us, because we are little further hedged out. But yes, any formula wherein you have better realizations on account of FX and raw materials remain range bound and or stand reduced a little will cause absolute earnings expansion. It remains to be seen whether that is driven also by revenues and how that translates to margin. But on an absolute basis, it is a recipe for enhanced earnings.
- Resham Jain:** Okay. Thank you, sir.
- Moderator:** Thank you sir. There are no further questions. I now would like to hand over the floor to the management for closing comments. Over to you please.
- Shrikant Himatsingka:** As always it has been a pleasure to interact with everybody. Do reach out to us if you have any further questions. I hope we have answered your questions to the best that we could. We look forward to our interactions in the near term. Thank you very much.
- Moderator:** Thank you sir. Ladies and gentlemen this conclude 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 have a wonderful evening everyone.
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