



Himatsingka Seide Limited

10/24, Kumara Krupa Road, High Grounds, Bangalore – 560 001

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Q 1 Financial Year 2017 Results Conference Call

August 10, 2016

PARTICIPANTS : Mr. Shrikant Himatsingka - Managing Director and CEO
Mr. K.P. Pradeep – President- Finance and Group CFO
Mr. T.G.S. Gupta – VP- Finance
Mr. Ashok Sharma – VP- Treasury, Taxation and Company Secretary

Moderator: Ladies and gentlemen, good day and welcome to the Himatsingka Seide Limited Q1 FY 2017 Post Results Conference Call, hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Perna Jhunjhunwala. Thank you and over to you!

Perna Jhunjhunwala: Thank you. Good evening ladies and gentlemen. Welcome to the Q1 FY2017 conference call of Himatsingka Seide Limited. We have with us today the management team represented by Mr. Shrikant Himatsingka who is the Managing Director and CEO of the company, Mr. K.P. Pradeep, President Finance and Group CFO, Mr. T G S Gupta who is VP Finance and Mr. Ashok Sharma who is VP Treasury, Taxation and Company Secretary. I now hand over the call to the management and for their comments. Over to you Mr. Shrikant Himatsingka!

K.P. Pradeep: Thank you Moderator. Good evening Ladies and Gentlemen, on behalf of the Company we would like to welcome you to the earnings call for Q1 FY 17. As you all are aware the new Accounting Standards Ind AS are effective beginning this fiscal. The new standards require the restatement of the opening balance sheet as of 1st April 2015. The accounts for the comparable quarters are consequently prepared in compliance with the new Ind AS. Details of movements in results and related explanations, due to adoption of new Ind AS, have been provided in the results submitted to Stock Exchanges and we will explain the significant aspects during the course of our call. Moving on to the results

Consolidated performance – Q1 FY’17

Consolidated Revenues – Q1 FY 17

The consolidated revenues increased by 2.0% and stood at Rs. 480.48 crores vs. Rs. 471.05 crores in the same quarter previous year.

Consolidated EBITDA – Q1 FY 17

The consolidated EBITDA (incl. other income) increased by 20.9% to Rs. 92.23 crores vs. Rs. 76.29 crores in the same quarter previous year.

EBITDA (incl. other income) margin stood at 19.2% this quarter vs. 16.2% in the same quarter previous year. The increase in margins was on account of better operational efficiencies, stable raw material prices and exchange rates.

Consolidated EBIT – Q1 FY 17

The consolidated EBIT increased by 32.9% to Rs.79.25 crores compared to Rs. 59.61 crores in the same quarter previous year.

EBIT margin stood at 16.5% this quarter vs. 12.6% in the same quarter previous year.

Interest and Finance Charges – Consolidated

Interest and Finance Charges for the quarter was range bound at Rs. 23.30 crores from Rs. 22.13 crores in the same quarter previous year.

Profit before tax

The consolidated Profit before tax for the quarter is Rs 55.95 crores compared to Rs 37.48 crores in the same quarter previous year an increase of 49.30%

PAT

The consolidated Profit after tax is Rs. 45.35 crores for the quarter compared to Rs. 26.78 crores during the previous year a growth of 69.4%.

For Q1 FY'17 - Manufacturing & Standalone performance

Revenues from Manufacturing Activities

For the quarter ended June 2016, Revenues from Manufacturing Operations grew by 10.7% and stood at Rs. 281.47 crores this quarter vs. Rs 254.17 crores during the same period previous year.

EBITDA from Manufacturing Activities

The EBITDA (incl. other income) from manufacturing operations increased by 21.4% to Rs. 82.76 crores this quarter vs. Rs. 68.15 crores during the same period in the previous year.

EBITDA (incl. other income) margin stood at 29.4% this quarter vs. 26.8% in the same quarter previous year.

For Q1 FY'17-Quarterly Retail and Distribution performance

Revenue – Consolidated Retail and Distribution

Total revenues from the Retail and Distribution divisions for the current quarter stood at Rs. 427.06 crores vs Rs. 422.60 crores in the same quarter of previous year, an increase of 1.05%.

EBITDA – Consolidated Retail and Distribution

The consolidated EBITDA (incl. other income) for the Retail and Distribution divisions increased by 17.6% for the current quarter and stood at Rs. 14.70 crores vs Rs. 12.50 crores in the same quarter previous year.

The consolidated EBITDA Margin for the Retail and Distribution divisions stood at 3.44% this quarter vs. 2.96% in the same quarter previous year.

Tax Position

The tax provision for the quarter is at Rs. 10.60 Cr as against an amount of Rs. 10.70 Cr being the tax provision for the same quarter in the previous year.

Ind AS position

I would like to mention two adjustments in the financials for the year ended 31st March 2016.

1. As per the requirement of the Ind AS the opening balance sheet as of 1st April 2015 has recognised a Deferred Tax asset on the unabsorbed depreciation as well as the adjustments arising on account of Ind AS adjustments for an amount of Rs.30.06 crores. The credit for the Deferred Tax created as on 1st April 2015 is in the opening Reserves instead of P&L account. Consequently the tax impact in the previous year ended 31st March 2016 is Rs. 40.41 crores. Therefore, the tax provision of Rs. 10.70 Cr for Q1 FY 16 reflects the reversal of deferred tax assets as explained.

- As per the requirement of the Ind AS the opening balance sheet as of 1st April 2015 has recognised certain items as intangibles which were earlier a part of goodwill. Consequently, the impact of depreciation on intangibles recognised at the time of acquisition as per the Ind AS amounting to Rs. 16.22 crores are reflected in the previous year ended 31st March 2016.

Treasury & Debt Position

In line with the requirements of Ind AS we now disclose the Bills discounted as part of Gross debt. This was earlier shown as Contingent Liability in line with the earlier Indian GAAP. Consequently, the Gross Debt and Net Debt as on 31st March 2016 and on 30th June 2016 are higher by Rs. 72.18 cr and Rs. 86.82 cr respectively.

The Gross debt as of 30th June 2016 stood at Rs. 1,063.00 crores; Rs.620 crores being the Term Debt and Rs. 443 crores being the Working Capital Debt.

The Gross debt as of 31st March 2016 stood at Rs 1,014 crores; Rs 568 crores being the Term Debt and Rs 446 crores being the Working Capital Debt.

The Gross debt as on 30th June 2016 includes an amount of Rs. 123.72 crores being the Project debt. The comparable number as on 31st March 2016 was Rs. 73.5 crores

The Cash and Cash equivalents stands at 113.68 crores as of 30th June 2016 as against Rs. Rs.114.35 crores as of 31st March 2016.

Consequently the company's Net Debt outstanding as of 30th June 2016 is Rs. 949.32 crores against Rs. 899.65 crores as of 31st March 2016.

The Company's effective cost of debt is at 6.01% p.a.

Leverage Ratios

I wanted to share some key leverage ratios that we track on TTM basis:

The debt service coverage ratio stood at 2.82 for the Q1 FY 2017 as against 1.91 2015-16.

Interest coverage ratio stood at 2.79 in Q1 FY 17 as against 2.82 in 2015-16

The Net Debt to equity stood at 1.03 for Q1 FY 17 vs 1.01 in 2015-16

The Net Debt (Net of Project Spend) to EBITDA (incl. other income) stood at 2.5 for Q1 FY 17 as against 2.63 in 2015-16

Return Ratios

The Return on Capital Employed stood (Net of Project Spend) stood at 14.8 % in Q1 FY 17 vs 14.3 % for 2015-16.

The Return on Equity stood at 16.8% for Q1 FY 17 vs 13.6% for 2015-16

So in general we see an improvement in all our operating parameters.

BUSINESS UPDATE FOR Q1 FY 17

- The Company has commenced trial production of its new sheeting capacity at its facility in Hassan. The new sheeting capacity will enhance the installed sheeting capacity from 23 MMPA (Million Meters per Annum) to 46 MMPA.
- The Company has commenced construction of its Spinning facility at Hassan. The new Spinning facility will have an installed capacity of 211,584 Spindles and is part of the backward integration initiatives of the Company.
- We envisage placing approximately 40% to 50% of the fresh sheeting capacity by end of FY 17.
- The above projects are part of the Rs.1281 Crore expansion plan as announced earlier.

This is the business update we have for you and I will hand it over to you Prerna that is all from me for now. Thank you.

Moderator: We will now begin the question and answer session. We have the first question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Good evening and congratulations for good set of numbers. My first question relates to your retail and distribution segment. We have seen a positive growth after two quarters where you had mentioned that the segment was under restructuring, so just wanted to understand what should be the trajectory going forward and what is the growth we can expect and which all segment has seen an improvement in margins so just wanted your comments on that and how it has been?

Shrikant Himatsingka: Nihal, good question, I think as the year pans out we will continue to see improvement on that front, as you are aware we do not give specific numbers in terms of the growth rate that we expect, but I think it is fair to assume where on the back of the fresh capacities coming on stream retail and distribution divisions will also have more capacity to place and if we are looking at placing 40% to 50% of the incremental capacity during the rest of 2017 more specifically in Q3 and in Q4 and then I think we should continue to see improvement on the retail and distribution portfolio.

Nihal Jham: Improvement in margins anything specific on that?

Shrikant Himatsingka: Yes, I think when I talk about improvement I look forward to looking at some volume improvement to drive revenues, which will also aid positive movement on the EBITDA margin front.

Nihal Jham: Just one more question, you mentioned that our sheeting capacity is near running and we are expecting to reach 40% utilization by end of FY2017, so at this point do we have any commitment, can you just share approximately we have committed any capacity specifically from the brands in the retail and distribution segment?

Shrikant Himatsingka: Could you repeat your question please?

Nihal Jham: I was saying that we mentioned that we are looking at reaching 40% utilization by the end of FY2017 for new sheeting capacity, so just wanted to understand that at this point do we have any specific commitments or we have already got a certain commitment for certain utilization, specifically any commitment from a retail and distributions brands in the US?

Shrikant Himatsingka: The number of 40% to 50% is tracked by specific commitments and the commitments include commitments for our brands and private label products. In this particular case it is quite heavy on the brand side.

Nihal Jham: It is heavy on the brand side. I will get back on the queue. Thank you so much.

Moderator: Thank you. The next question is from the line of Ridhesh Gandhi from Discovery Capital. Please go ahead.

Ridhesh Gandhi: Just a question, the India growth market share in terms of home textiles is now reaching pretty high levels and with the expansion now done, so I mean do you just see incremental growth opportunity coming, given the America market is growing only at couple of percentage points a year?

Shrikant Himatsingka: Yes there we have a three-pronged strategy Ridhesh, strategy one is to enhance the integration levels within the group, so as you are aware the group has retail and distribution portfolios, which are larger than our manufacturing portfolio and are currently sourcing from third party sources from across the world, so when our incremental capacities come in play as far as sheeting is concerned we will look at increasing the integration levels within the group, i.e., the quantum of sourcing that the group retail and distribution dividend from our own facility will stand enhanced, so that integration level increase has nothing to do with incremental market share in the US, so that is to aid our manufacturing growth that is strategy number one, strategy number two this is not in order for preference, these are just three-pronged strategy that we are pursuing. The second one is I do see scope for further increase in share specific to our brands and also select private label programs in that geography and when I talk of the US market actually once you take a larger view of North American market which would include Canada and Mexico and therefore when you look at the three market combine there is space for enhancing share, second point and the third point is we are currently operating at very high levels of utilization, given the fact that we have just announced commencement of trial production today and we will in the near term announce our commencement of commercial production, which is welcome because we

can then have capacities to allocate to other global markets as well, so we will pursue the pan European market and the other Asian markets in due course, but I think Europe will be also in market that we would look to allocate some capacities too, so I think all these three aspects will work in tandem and as far as your questions on Alok is concerned or your statements on Alok is concerned rather there is nothing specific I can comment on.

Ridhesh Gandhi: The other question is along the capex on spinning how much is your internal hurdles in terms of either equity IRRs or return on equity or payback per year you guys have?

Shrikant Himatsingka: We evaluate projects from various lenses as is customary, but we do focus on the ROCE piece and we would like to look at on-boarding initiatives that are not of 15% ROCE.

Ridhesh Gandhi: North of 15%, all this incremental to spinning capacity actually coming online you do not think it would be efficient just to purchase your requirement from the open market as opposed to having it in house and being integrated?

Shrikant Himatsingka: Well, I would like to add to what I just said on our internal benchmarks on ROCE vis-à-vis our manufacturing activities for that matter other initiatives, so when I say north of 15% I do not mean spinning is coming in a 15.5, it could be substantially higher point number one, point number two the reason for our backward integration is both financial and strategic, financial from a standpoint that we still get a prudent investment to make and we feel good return because I have always shared with colleagues in the investing world that spinning is sort of overused term in the industry, there are many kinds of plants with various kinds of products specification and things like that and not all plants are low yielding plants, specifically in the case of backward integration initiatives, so given our product profile and given our plant specification and also given the economies of scale to the best of our knowledge this will be the world's largest spinning plant under single roof with 2,11,584 spindles and therefore, there are some benefits to be reached on that front itself, so all in all I think spinning will positive contribute to our return ratios, along with the fact that our sheeting business and the terry business, which will come along in the medium term I think three together will definitely have a superior ROCE sort of performance coming in.

Ridhesh Gandhi: As you look at ROCE I would assume that your ROEs would be significantly higher because you would also get some interest rate benefits from the government from any other scheme or do you have them?

Shrikant Himatsingka: We have not been the biggest fan of state shopping. We have not sort of landed up going to states who offer the largest subsidy, we are in dialogue with the Government of Karnataka and all our projections and statements are on the assumption that we do not get anything incremental from this state which is plus-plus.

Ridhesh Gandhi: And Sir just in terms of opex, if you can give a guidance around the scale of incremental revenue and EBITDA that your kind of capex would draw, would it be close to 1000 Crores of revenue, with about 20% EBITDA margin, 18% to 20% EBITDA margins, is that roughly would you guys would be targeting?

Shrikant Himatsingka: But I cannot respond to that specifically, what I can say is that our manufacturing portfolio yielded revenues of just north of 1000 Crores in FY2016, and that number did not have any impact of the fresh capex of 1281 Crores that is under implementation. So I would say that at a gross level which is our new sheet, our total sheeting plant, our terry plant and/or spinning plant at a growth level could triple our manufacturing revenue base at a gross level and consequently I have given you a fair idea of how the EBITDA margins pan out, you also have a benchmark vis-à-vis what we are talking on an exiting basis, so I think the rest of the computation is something that you could carry out.

Ridhesh Gandhi: Thanks.

Moderator: Thank you. We have a question from the line of Dhwani Shah from iWealth Management. Please go ahead.

Dhwani Shah: My question was regarding the new manufacturing capacities which are coming in, so as you said that we would be putting around 21 million meters of the sheeting capacity and in that this year we would be commissioning around 12 million and out of that we will be utilizing 50% is that understanding correct Sir?

Shrikant Himatsingka: No, understanding is incorrect; the number that will be commissioned is 23 million meters of which we will utilize approximately 40% to 50%.

Dhwani Shah: Of the 23 million?

Shrikant Himatsingka: Of the 23 million because one cannot partially commission capacities. The capacities are not entirely modular in nature and therefore cannot be partially commissioned and therefore they will be entirely commissioned and the utilization percentage is of that capacity.

Dhwanil Shah: Right, got your point and Sir with the increase in the utilization are we able to maintain the margins or with that also again there would be an incremental cost to it, so for example as of now we have got around 33 Crores of employee cost, so with the increase of the doubling the capacity, can that be a linear or we cannot look at it that way?

Shrikant Himatsingka: It is a good question, I think in the first 40% to 50% basement that we are looking at and we do not have visibility beyond that at this point because it is little earlier on in the journey, I think the product mix looks fairly encouraging and once we hit that kind of a number it should broadly be linear in margin profile.

Dhwanil Shah: So what you are trying to say till the 50% the utilization we get in there would be a higher employee cost and once that you are able to achieve then it will be the similar?

Shrikant Himatsingka: No, I am saying if we have in theory Rs.100 of revenues today we add Rs.50 of revenue just as a broad example, if the incremental Rs.50 revenue should come at margin profiles, which are broadly comparable to what we clock today.

Dhwanil Shah: Okay, so you are trying to say that these margins, which we are doing as of now in a manufacturing, should be maintainable going ahead also with the incremental capacity?

Shrikant Himatsingka: I would add the word broadly maintainable.

Dhwanil Shah: Broadly, fair enough Sir, thank you.

Shrikant Himatsingka: I would also say that this is vis-à-vis the first 40% to 50% that we are looking to play, if the product mix changes beyond the 50%, it could have an impact positively or negatively on the margin as the case may be.

Dhwanil Shah: Okay, but Sir as of now from our existing manufacturing this margin are very much sustainable with the product mix and with the order book we have for five months?

Shrikant Himatsingka: The term very much is a little strong, but it is reasonable to assume that it will be range bound.

Dhwanil Shah: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Dhruv Agarwal from Presida Investment. Please go ahead.

Dhruv Agarwal: Good evening Sir. I actually missed the debt level numbers if you could please give it again Sir?

Shrikant Himatsingka: The growth there for June 2016 is 1063 Crores and the net debt for June 2016 is 949 Crores.

Dhruv Agarwal: Okay and the proportion of long term debt and short term debt?

K.P.Pradeep : The gross debt as of June 30, 2016 stood at 1063 Crores and 120 Crores being the term debt and 443 Crores being the working capital debt.

Dhruv Agarwal: If also you could give me the ROCE and ROE numbers?

Shrikant Himatsingka: ROCE stood at 14.8% in Q1 FY2017 this is net of project spend. This is 14.3% for 2015-2016. The ROE stood at 16.8% Q1 FY2017 versus 13.6% for 2015-2016, again this is net of project spend and it is on a trailing 12-month basis.

Dhruv Agarwal: Okay, thank you Sir.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from First Global. Please go ahead.

Abhilasha Satale: Sir I would like to know whatever the margin improvement has come during the quarter this is on which account, I mean, is it because of the volume growth or some sort of backward integration benefit we have got or what is the reason behind this margin expansion?

Shrikant Himatsingka: Margin expansion Madam has come on the back of the manufacturing portfolio, the share of manufacturing in the consolidated revenue has gone up, our product mix remains rich, the company has continued to focus on the asset sweating theme that it has been for a while, so our operating expenditures very much in control and in addition we have also seen some movements on the exchange front which has been a little favorable, but I think the reasons are a confluence of all the things I mentioned and all in all we have clocked better performance. You used the term backward integration; the backward integration is not yet kicked in because as we had said earlier we have commenced construction on our spinning plant is complete, it will then give us the ability to spin our own yarn and hence backward integrate. In the meanwhile, we continue to remain an integrated organization, obviously spinning will add to that factor. And I think the point that I just mentioned have all contributed to richer margins.

Abhilasha Satale: Sir you mentioned the revenue contribution segment has gone up, but actually our manufacturing margins have also improved around 200 basis point or so the improvement is there in the manufacturing margins also. So this is in spite of raw material cost going up during the quarter on year-on-year basis. So what are additional factors, which are helping?

Shrikant Himatsingka: Manufacturing has gone up and manufacturing has a richer operating margin profile. Hence the consolidated margins have also moved north. In addition, our distribution businesses also saw an improvement in their operating margins. So I think both of these contributed to the consolidated EBIDTA margin going north. As far as raw material prices impacting our manufacturing activities are concerned, I think we would like to wait a little, because a lot of our raw material is covered for the next six months on some fronts and some raw material which is open will have a marginal impact on our operating performance which we would like to offset by richer product mix and our greater efficiencies and absorb some of that impact as well.

Abhilasha Satale: So, I mean, you are certain that this increased cotton or yarn prices will not have an impact on the margin going forward?

Shrikant Himatsingka: I am not certain that it will have any impact. I said that I am reasonably sure that a) we are covered for some of our raw material over the next 6 months, b) the raw material that will have some inflationary impact, we will try to mitigate by certain measures such as richer product mix and greater operating efficiency and some we will absorb. Therefore, in my earlier statement I said, that while we are confident of our margins being sustainable, they would be range bound, as in, they might swim in a small bank.

Abhilasha Satale: Fine Sir. When spinning kicks in then how much do we see margins improving from these levels?

Shrikant Himatsingka: I think the easiest way to capitulate that for the purpose of your internal calculation is not to look at how it will impact the total manufacturing portfolio, but what I would say is, spinning again, as I was saying earlier, has many kinds of products to it. There are plants in India where it is seen very coarse count; there are plants in India where it is seen very fine count. Our plant happens to be an ultra-fine count plant and in an ultra fine plant, the asset turnover is between 0.8 and 0.9 times. That is one factor you can consider for spinning and we had also spoken about and shared publicly the fact that we are looking at investing a little over 600 Crores in our spinning foray, approximately, over 600 Crores. So with that kind of asset turn in ultra fine count, the EBIDTA profile in that zone of spinning from a industry benchmark perspective, is anywhere between 26 and 32%.

Abhilasha Satale: Just last question. We have said that 400 Crores for toil expansion and 200 Crores for sheeting expansion. So does it include only processing or weaving as well?

Shrikant Himatsingka: I am sorry Madam. Can you repeat your question?

Abhilasha Satale: We have spent 200 Crores for sheeting expansion and likely to spend 400 Crores for toil expansion. So does it include only processing or it has sheeting as well in that? Weaving, I mean, sorry.

Shrikant Himatsingka: It has to have weaving. Only processing plants are not something we are looking at. We have always been an interior organization, even our current sheeting unit has its weaving facility, its processing facility and its sowing facility, along with other ancillary requirements. And so will be the case with Terry towel.

Abhilasha Satale: Thank You.

Moderator: Thank You. The next question is from the line of Srinath M from Motilal Oswal Asset Management. Please go ahead.

Srinath M: Yes. Good evening. My first question was now that, the spinning project construction has started; can we indicate when we intend to commission it?

Shrikant Himatsingka: Commission what?

Srinath M: The spinning project.

Shrikant Himatsingka: I think it is fair to take a 15-month to 16-month horizon.

Srinath M: That is fine.

Shrikant Himatsingka: At this juncture, if there are any changes to our schedules, we will notify you accordingly.

Srinath M: Similarly, any visibility on the Terry towel project?

Shrikant Himatsingka: Not at this point, Sir. We will be making our investments in phases. Just to remind the audience on the call, we had commence our construction on our sheeting plant in November 2015, today we have announced the commencement of trial production at our processing facility on sheeting. And we have also announced the commencement of construction on our spinning facility. So this is not to be interpreted, as once we are ready for trial production in spinning, we will announce Terri. But I think somewhere

around the line, once we are ready and confirmed on the dates of terry towels, we will share it with the market.

Srinath M: The other question is on the placement of 40 to 50% of the fresh sheeting capacity. So that will be about 400 to 500 Crores going by FY2016 manufacturing turnover of about 1000 Crores and in FY2016 itself, our purchases were about 600 Crores. So in the initial phase, do you think, we will be cutting down our purchases, or will we be adding to our external turnover?

Shrikant Himatsingka: Sir, Point No.1; do not look at total manufacturing throughput, and deduce of 50% number from that, because that number also includes the number of our drapery upholstery division. So, approximately 130 Crores has to be subtracted from the 1000 odd Crores. That multiplied by 0.4/0.5 is the right

Srinath M: We have got it.

Shrikant Himatsingka: With regard to your second question, on purchases, which I presume, you mean, purchase of tailored goods, our consolidated statement. The fresh placement will be a hybrid of both higher integration level and absolute fresh placements.

Srinath M: Right. Is there a sense of, how much it could be, or that is not something, that is clear?

Shrikant Himatsingka: It will be premature for that. I would say, about, this could change, but I would say, in the region of about 50% will be fresh placements and the rest will be integration enhancement. But our assessment would be the majority would be coming from fresh placements in the near term.

Srinath M: Any colour you would like to throw on the progress on the Pima Cott value chain and the whole thing about Pima Cott?

Shrikant Himatsingka: The colour I would like to throw is white. It is a very interesting initiatives pass. We are whereby pleased with what we have bought to market. It is a strong technology and we hope to place it prudently on global shelf. So that is one initiative. But our other brands are also doing well.

Srinath M: So, can you give us a sense of how much of current revenue would be Pima Cott and what is your intention to take it to?

Shrikant Himatsingka: I am sorry, I cannot answer that question, but I can answer a question with regard to a brand portfolio in general, we have indicated that we will go to approximately 1200 Crores by FY2018 and we are on course.

Srinath M: So, Pima Cott will be one of our brands, is that how it is finally?

Shrikant Himatsingka: Not will be. It is.

Srinath M: Yes. I will get back in the queue if I have further questions. Thank you very much.

Moderator: Thank You. The next question is from the line of Arjun Sehgal from Reliance Mutual Fund. Please go ahead.

Arjun Sehgal: Good evening Sir. I just had one question. Like you said before, you have cotton stock till this cotton season ends, but post that we will be buying cotton from the new season. My question is that, if cotton prices happen to stay at similar levels, what kind of impact would that has on your margins?

Shrikant Himatsingka: It was fair question. There are certain parts of our business where we take we have sort of long term visibility on prices. So to that extent, that part is insulated and certain other parts where we are market driven and are exposed to volatility, as I said, that will be dealt with in 3 ways, some will be neutralized by the exchange factor, some will be neutralized by inherent improvements that we are looking at the operating front and some of it will be absorbed. And therefore I came to a broad conclusion, that if there were to be an impact, which I am sure there would be, it should be range-bound.

Arjun Sehgal: So just to look at it hypothetically, let us say that, like cotton prices are 40% compared to last year, so in terms of sharing impact of this, is it something like a 50:50 kind of sharing with the retailers, broadly speaking? Is it something like that or it is that can be completely passed on?

Shrikant Himatsingka: No, no. I am happy to take this offline, Arjun. But, broadly I think what you should conclude is what I just said. I mean it is difficult to predict such things in terms of how much will be shared and so on.

Arjun Sehgal: From this side, we will get a broad this thing, because you know, this can be quite a significant development.

Shrikant Himatsingka: Right. So I do not see any signs of worry, as far as we are concerned at this point vis-à-vis FY2017. Even if we do see movement, which I am sure, we might, the movement at this juncture looks range-bound. If there are more significant developments along the way we will be happy to share it with our investors.

Arjun Sehgal: Thank You Sir and best of luck.

Shrikant Himatsingka: Thank You.

Moderator: Thank You. The next question is from line of Hem Aggarwal from Individual Investor. Please go ahead.

Hem Aggarwal: Good evening. I just want to congratulate you on the numbers and the whole business strategy seems to be all coming together really well. Sir, my question to you is, that the tax expense for the first quarter is 19% versus 28.5% for the corresponding quarter last year in the consolidated figures. So will this lower rates and this advantage continue for the next 3 quarters, Sir?

Shrikant Himatsingka: I would like the Group CFO to address that.

K.P. Pradeep: Hem, given what we are seeing, you can expect these tax rates to be little higher than what we have projected for in the first quarter and these tax rates will continue in this fashion over the next 3 quarters at least, a little higher than last year.

Hem Aggarwal: That means, it will be little higher than 19%, which we have done, in the first quarter, right?

K.P. Pradeep: Yes.

Hem Aggarwal: Thank you.

Moderator: Thank You. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Just wanted to understand that, spinning capacities recently been started and we are saying it will take 15-16 months. So we can expect it to come by mid FY2018. Is that right assessment of that?

Shrikant Himatsingka: Nihal, what I would do is, I would take today's month and it is the month we are in, add 15 and in fact comes to that month, you are right.

Nihal Jham: Thank you so much for the clarification. One more clarification would be, when you mentioned on the asset on part being 0.9, and that was for an integrated facility, which had an ultra fine counts spinning, we would try.

Shrikant Himatsingka: Yes. The 0.8, 0.9 up to even 1.0, is pretty much depends on the count, right? Given our present forecast of the count range that we will be in, the asset turn should be 0.8 and 0.9 is what we estimate.

Nihal Jham: Finally, what would be your tax guidance rate, can we expect this 18-19% to be the rate in FY2018 also for us?

Shrikant Himatsingka: Like I mentioned a little earlier, it is slightly higher than this particular rate, as given what we are seeing over the next year.

Nihal Jham: Thank You so much.

Moderator: There are no further questions in the queue. Ok. We have one more from Sitaraman Iyer from CRISIL. Please go ahead.

Sitaraman Iyer: Thanks for the opportunity. Just wanted to have a bit of clarity on the re-classification front on the India result you say that the land and building has been re-classified, so just wanted to understand the implications of that?

K.P. Pradeep: Sorry, land and building have been re-classified?

Sitaraman Iyer: It says, "as per the new Indian Standards, the land has been reclassified and certain other intangible assets have been reclassified"

K.P. Pradeep: what it was referring to was the value of land and building being recorded at a value different from what it was historically. That is what has been mentioned in the Note, that you have been referring to.

Sitaraman Iyer: Yes.

K.P. Pradeep: If you want greater detail on this, Sitaraman, we can take this offline.

Sitaraman Iyer: Thank you.

Moderator: Thank you. As there are no further questions, I would like to hand it over to management for closing comments.

Shrikant Himatsingka: Thank you all for taking the time. As always, it has been a pleasure to interact and answer your questions. If we can throw greater clarity on anything, do not hesitate in reaching out to any of us. We are available to answer your question. Thank you very much again and we look forward to our next interaction.

Moderator: Thank you. On behalf of Batlivala & Karani Securities, we conclude this conference. Thank you follow up for joining us. You may now disconnect your lines.