



Himatsingka

**Himatsingka Seide Limited**

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Q2 Financial Year 2016 Results Conference Call

October 16, 2015

**PARTICIPANTS :** Mr. Shrikant Himatsingka - Executive Director  
Mr. K. P. Pradeep - President Finance and Group CFO  
Mr. Ashok Sharma - AVP – Treasury, Taxation & Company Secretary

**Moderator:** Ladies and gentlemen, good day and welcome to the Himatsingka Seide Q2 FY 2016 Earnings Conference Call, hosted by Macquarie Capital 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 for 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 Mr. Amit Mishra from Macquarie Capital Securities. Thank you and over to you!

**Amit Mishra:** Thanks guys. Hello everyone. It is our pleasure to host Himatsingka Seide post results conference call today and thank you very much all of you for participating on it. To represent the company we have with us Mr. Shrikant Himatsingka, Executive Director, Mr. K.P. Pradeep, President Finance and Group CFO and Mr. Ashok Sharma, Associate Vice President, Treasury Taxation and Company Secretary. Mr. Pradeep I would now like to hand over the call to you for brief background to the results and then we will open the floor for Q&A. Over to you Sir!

**K.P. Pradeep:** Good afternoon. Thank you all for joining the earnings call. The macroeconomic environment in our key markets continues to remain relatively stable. We continue to maintain our operating performance and we remain margin focused and continue to sweat our manufacturing and distribution assets to drive the improved return ratios. This has been an overall theme that we have been seeing this quarter too.

To the results in brief, the consolidated revenues for Q2 FY 2016 increased by 2.9% and stood at Rs.532.73 Crores versus Rs.517.78 Crores in the same quarter last year. Consolidated EBITDA including other income increased by 39.6% to Rs.76.14 Crores versus Rs.54.56 Crores in the same quarter of the last year.

EBITDA as a percentage of sales stood at 14.3% this quarter versus 10.5% in the same quarter last year. The consolidated EBIT including other income increased by 47% to Rs.64.03 Crores compared to Rs.43.56 Crores in the same quarter last year. EBITDA as a percentage of sales stood at 12% this quarter versus 8.4% in the same quarter last year.

The interest and finance charges for the quarter have decreased to Rs.21.25 Crores from Rs.21.66 Crores in the same quarter last year. The profit before tax, the consolidated profit before tax for the quarter is at Rs.42.78 Crores compared to Rs.21.90 Crores the same quarter last year. The consolidated profit after tax and minority interest is Rs.41.58 Crores for the quarter compared to Rs.23.52 Crores during the previous year, a growth of 76.8%.

The consolidated revenues for the six months decreased by 1.9% and stood at Rs.1001.24 Crores versus Rs.1020.46 Crores in the same period last year. The consolidated EBITDA including other income for six months increased by 38.5% to Rs.152.35 Crores versus Rs.109.97 Crores in the same period last year.



EBITDA as a percentage of sales stood at 15.2% for six months versus 10.8% in the same period last year. The consolidated EBIT including other income for six months increased by 48% to Rs.128.94 Crores compared to Rs.87.13 Crores in the same period last year. EBIT as a percentage of sales stood at 12.9% for six months versus 8.5% in the same period last year.

Interest and finance charges for six months increased to Rs.44.3 Crores from Rs.40.78 Crores in the previous year. The consolidated profit before tax for six months stood at Rs.84.64 Crores compared to Rs.46.35 Crores in the same period last year. The consolidated profit after tax and minority interest is Rs.82.37 Crores for six months compared to Rs.45.07 Crores during the previous year, a growth of 82.8%.

Coming to the Q2 FY 2016, the manufacturing performance, the revenue from manufacturing activities for the quarter ended September 2015 grew by 2.5% and stood at Rs.257.36 Crores versus Rs.251.10 Crores during the same period last year. The EBITDA including other income from manufacturing operations increased by 46.1% to Rs.68.87 Crores versus Rs.47.13 Crores during the same period in the last year. EBITDA as a percentage of sales stood at 26.8% this quarter versus 18.8% in the same quarter last year.

The revenue from manufacturing activities for the six months ended September 2015 grew by 6.1% and stood at Rs.509.27 Crores versus Rs.479.84 Crores during the same period last year. The EBITDA including other income from manufacturing operations increased by 54.3% to Rs.137.26 Crores versus Rs.88.92 Crores during the same period in the last year. EBITDA as a percentage of sales stood at 26.9% for six months vis-à-vis 18.5% in the same period last year.

The total revenues from the retail and distribution division for the quarter stood at Rs.489.70 Crores versus Rs.472.27 Crores the same quarter last year an increase of 3.7%. The consolidated EBITDA for the retail and distribution division for the quarter stood at Rs.14.39 Crores versus Rs.9.45 Crores the same quarter last year an increase of 52.3%.

The total revenues from the retail and distribution divisions for the six months stood at Rs.913.19 Crores versus Rs.899.17 Crores in the same period last year, an increase of 1.6%. The consolidated EBITDA for the retail and distribution division for the six months stood at Rs.26.81 Crores in the current year versus Rs.26.89 Crores in the same period last year.

Coming to the debt position, the consolidated growth debt as of September 30, 2015 stood at Rs.756 Crores. Rs.455 Crores being the term debt and Rs.301 Crores being the working capital debt. The company's net debt outstanding as of September 30, 2015 is Rs.709 Crores.

I also wanted to share certain key leverage ratios that we track which have been computed on an annualized basis. The DCR is likely to be 2.29 from 1.28 for FY 2016. The interest coverage is likely to be 2.91 from 2.07 for FY 2016. The net debt to equity is likely to be in the region of 0.83 from 0.91 and the net debt to EBITDA is likely to be in the region of 2.51 from 3.29. This has been done on an annualized basis. The company's effective cost of debt is at 6.08% p.a.



To take you through a small business update - with effect from August 1, 2015 the group's holding company in North America Himatsingka America Inc has been renamed Himatsingka Holding North America Incorporated. In addition the two operating subsidiaries Divatex Home Fashions Incorporated and DWI Incorporated have been merged and has been renamed Himatsingka America Incorporated.

The merger will help consolidate the North American portfolio under one umbrella with approximately USD \$300 million in gross revenue, 12 to 14 brands, a strong private label platform and a strong leadership team.

The group continues to strengthen its intellectual property platform in the home textile space. In this regards the group's operating company Himatsingka America Incorporated has signed a license agreement with the world renowned Aeropostale brand. As per the license agreement Himatsingka will design, manufacture and distribute Bedding and Bath products using the Aeropostale label for departmental stores, big box retailers and wholesale channels across North America.

Himatsingka America Incorporated also entered into an exclusive mutual licensing agreement with Applied DNA Sciences Inc to commercialize the world's first DNA verified cotton supply chain. This initiative will be brought to markets under the Pimacot trademarked brand. The group sees potential opportunities as a result of this agreement.

As disclosed earlier the 1281 Crores expansion plan of the Group entails investments in enhancing the group's current Sheeting capacity, backward integration into Spinning and a foray into Terry Towels.

The investments will be carried out in phases over the next three years. Of these investments the group estimates to commission its enhanced sheeting capacity by June 2016. The group remains extremely focused on margin expansion initiatives across the manufacturing and retail and distribution businesses. We continue to see stability across the various operating divisions.

I will now hand back to the moderator and we will be glad to take questions. Thank you so much.

**Moderator:** Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Neeraj Mansingka from Edelweiss. Please proceed.

**Neeraj Mansingka:** Thank you for giving me opportunity to ask questions. I just wanted to ask question on the US brands as well as the private label side. Can you give us few color on how you are looking at the growth in the brands and how when you see the majority of the brands reaching to levels where the revenues can be on a stable side and secondly on the private label I think you might have launched some new program and when do you see the impact of that launch happening and how much of the cost increase that happened or cost reduction that happened in the quarter because of the launch of the program?



**Shrikant Himatsingka:** Neeraj, so there are few questions bundled into one. I will try to address as much as I can. The group operates a clutch of brands not all the brands are new to the group. A lot of brands we operate are already stable much of the platforms in the market. So the updates and some of the news that we have shared off late pertains to the brands we have signed up recently and have made the way to the markets. I would say most of the times if not all we take brands to market only if they found placement vis-à-vis retailers. So the answer to the maturity profile of brands is I would say of the 12 to 14 brands 7 to 8 brands are well entrenched and have been there for a while, a few brands the names of which we took have just been introduced and typically take a year or two to sort of ramp up and I must also say at this point that with the brand portfolio of this size there is always a few brands that are also in circulation. Some brands do not auger as well as we had expected in which case we continue to circulate brands. So that also happens. So this is the little insight into how brands circulated, the proportion of well entrenched versus new brands. As far as the United States markets are concerned, I think the North American markets are concerned rather they remain stable. It is difficult for us to suggest any growth rates at this point from a standpoint of what we will continue to achieve but considering we have fairly matured platforms and in our business we see movement between cues in the 5% regions is what we estimate. Having said that there could be quarters of growth and quarters of degrowth, as I just mentioned but broadly it will sort of even out at that kind of level.

**Neeraj Mansingka:** Any thought process on I think some time back you had given a press release on your intention to take the brand to 1200 Crores so what is the status right now?

**Shrikant Himatsingka:** For FY 2016 we estimate that our brands will give us somewhere in the region of 800 Crores and we remain on course to ramp this up to 1200 Crores over the next couple of years. All these measures that we are taking to sign on new brands to on board new technologies as in the case of Pima cot etc., will push these initiatives forward. So as we see it we remain on course. Our intellectual properties platform is probably the strongest in the industry and in the segment we operate in and we would continue to work to growing it to 1200 Crores.

**Neeraj Mansingka:** But the growth actually is quite high right and it is not just 5% you are talking of it is like 20%?

**Shrikant Himatsingka:** The way you have to look at it is not necessary this growth will come and sit over and above average rate. This might substitute some shelf space we have on the private label side as well.

**Neeraj Mansingka:** Got it and last question two related questions. One is on Wal-Mart there were some news on Wal-Mart margins getting impacted and there was also news of Wal-Mart sending letters to almost 10000 suppliers in China wanting to reduce the prices because of Chinese Yuan depreciation. So has that impacted you and second related question is on the TPP how you think it will impact you on a slightly longer period?

**Shrikant Himatsingka:** As far as Wal-Mart is concerned the group relationship with Wal-Mart is not significant at this point. So we do not see it impacting us in any material way whatsoever and as far as the TPP is concerned I would request KP to answer.



**K.P. Pradeep:** On the TPP, Neeraj we are studying this closely. Our view is that it is too early for us to comments either ways. There are several other aspects to this agreement which will have to play out in real time for us to take an affirmative call. It is very clearly an interesting development and we will come back to you as the agreement goes through its ratification cycle.

**Neeraj Mansingka:** Thank you very much and congratulation for the good results.

**Moderator:** Thank you very much. The next question is from the line of Dhaval Shah from Siddhesh Capital. Please proceed.

**Dhaval Shah:** Congratulation Sir for good operating performance. Firstly, I want to know you have entered into a new category of towels. So can you give me the way you look at this business the opportunity, which lies ahead for your company and how will be the marketing done, the distribution done for these products. Will it be a private label or the brand which we already have it will be under that and vis-à-vis the players and the capacity which is already existing in the country. So that will be the first question Sir.

**Shrikant Himatsingka:** Good question. As I said earlier the capital expenditure towards our expansion activities and the setting up of new projects including terry towels is going to be phased over three years. There are three projects on the anvil. One project envisages enhancing of sheeting capacities. The other project is backward integration project into ultra fine count yarn production and the third project is the terry towel project. Now vis-à-vis the terry towel project the terry towels and the sheeting products are very synergistic and they sort of address the same client universe .. they have similar buying patterns. It is part of the cotton value chain as it is sheeting, the technical know-how is very similar and the kind of throughput we have on the sheeting side with our brands and private label platforms can plug into what we can do on the terry towel front. In fact the group already sells bath products through its distribution division. Yes it is not as large as our sheeting division because we do not manufacture it as of today but to ramp up our presence in terry towel is a logical extension for us and it is very much within our core competencies.

**Dhaval Shah:** So it would be under the same labels?

**Shrikant Himatsingka:** It would be the same model. It would be private label platforms as well as brands and our brands already sell bath products, terry towel products in the market. The quantum of the sales of such products today is not as large because we do not have a large capacity backing it but ramping it up once the capacities go on stream in a phase manner it should be something that the group can sort of manage with its current competencies.

**Dhaval Shah:** My second question is on the backward integration into spinning. To my knowledge what I have heard is there are many assets in the country in the spinning side which are struggling right now one may be because of the prices have fallen or and so there are various reasons. So does it make a case to buy an existing spinning mill vis-à-vis putting our capacity or directly sourcing yarn from outside and then converting into fabric India house, so how does so what was the economic you saw for putting up a further backward integration.



**Shrikant Himatsingka:** It is fair and good question. The spinning industry or the spinning segment to my knowledge it has various components to it and has also seen a tremendous amount of change on the technology front. I will be happy to answer and take you through the approach we are taking to spinning in greater detail at a later point, but very briefly the kinds of assets available in India or in other geographies for that matter it has no fit whatsoever with the kind of plant that we are specifying. The economies of scale vis-à-vis integrated plants and spinning I repeat vis-à-vis integrated plants and spinning, the definition of economies of scale has changed over the last two to three years. The technology has seen material change over the last two, three years and any integrated versus a standalone spin plant there is a material difference in the operating margin profile. So as I said earlier the group is focused on enhancing our return ratios and I do not see any reason why the group should embrace any segment, which materially dampens our return ratios. So we see significant value both strategic and financial accruing to the group on account of backward integration very specifically for the requirements we have in the ultra fine count space.

**Dhaval Shah:** So this is specific to the kind of fiber you need for the end product?

**Shrikant Himatsingka:** Kind of yarn we need. The economics defers from depending on the product, technology and size of project and things like that. So, one cannot generalize the mathematics that goes behind the spinning project.

**Dhaval Shah:** Lastly you mentioned something on the Pima cotton I did not understand exactly. What was that?

**Shrikant Himatsingka:** That pertains to a mutual exclusive licensing agreement we have got into with a company called Applied DNA Sciences where we will be the first in the world to bring to market and to commercialize the world's first DNA verified cotton value chain . This is something that we would not like to say much about at this point but this is basically technology that helps verify the cotton supply chain globally from a standpoint of authenticity.

**Dhaval Shah:** So this will help you in evaluating the quality of cotton?

**Shrikant Himatsingka:** This will not only help us. This will also help the retailer understand what they are buying.

**Dhaval Shah:** Interesting Sir. I have few more question I will take it offline with you then later.

**Moderator:** Thank you very much. The next question is from the line of Girisha Saraf from Ambit Capital. Please proceed.

**Girisha Saraf:** Thanks for taking my question. Could you please give a breakup of the capital expenditure within the key segments like for spinning, the sheet expansion and the terry towel project and my second question would be that we understand that you have got a lot of brands in your portfolio so when you have an expansion like when you move sideways into terry towel as well you can feed in for your brand portfolio but what about the private labels how are you going to replace other major players such as Welspun and Trident within the private label space?



- Shrikant Himatsingka:** It is a good question. We have been strategizing for a while to capture global shelf space and yes shelf space is not up for grabs constantly. So there are a lot of synergies when you have strong intellectual property to offer customer and the shelf space that you are eying on the private label side. So it sort of goes hand in hand. There might be some timing differences but the leverage the group has by virtue of it offering marquee brands to our clients also gives us strength to get some significant shelf space on the private label front. I hope that answers your question. With regards to the breakup on the investments there are many aspects to these investments which have been shared - from a standpoint of the investments it will be in a single location but broadly speaking we will be investing approximately just over 200 Crores on the sheeting expansion close to 400 to 450 Crores as far as the terry plant is concerned and approximately a little over 600 Crores as far as spinning plant is concerned.
- Girisha Saraf:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Vaibhav Gupta from SKS Capital & Research. Please proceed.
- Chintan:** This is Chintan from SKS Capital. Sir you mentioned about the brands in the 12 to 14 brands you have out of which 7 and 8 are matured. So can you just split between the revenue in terms of how much the matured brand contributes and what will be the growth we can look from the immature brands going forward?
- Shrikant Himatsingka:** Chintan the brand portfolio is approximately 800 Crores is what the estimate is for FY 2016. I am sorry I would not be able to give you this breakup of mature versus fresh on-boarded brands at this stage but it is fair to assume that a substantial portion obviously comes from the established and matured brands while new brands are ramping up but do make a note of the fact as I had mentioned to one of the questions earlier that there is always a small portion within the portfolio that keeps churning since not every brand is a success. I would in fact go on to say that it is inevitable that a couple of brands continue to keep failing and they continue to be circulated, so we onboard fresh brands.
- Chintan:** Correct and you mentioned your terry towel plant investments will be around 400 to 450 what will be the capacity in terms of volume?
- Shrikant Himatsingka:** 25,000 tonnes per annum.
- Chintan:** 25,000 tonnes and on spinning side how many spindles you will that is you will be putting up?
- Shrikant Himatsingka:** 211,584.
- Chintan:** You mentioned about the leverage side for the full year on an annualized basis, it will be sustained at this level going forward after the capex or it will inch up a little higher?
- Shrikant Himatsingka:** What?





**Chintan:** On the leverage side on the borrowing for the capex you need for inflow how are you going to contact?

**Shrikant Himatsingka:** Yes it will go up but as I said earlier the capex will be phased.

**Chintan:** Over the next three years?

**Shrikant Himatsingka:** It will not all just come on in one shot. The enhanced net assets by virtue of enhanced profitability will continue to pitch in on one side and the group will on board some very long gestation, low cost debt on the other hand. The tenure of debt for capital expenditure will be 12 years.

**Chintan:** So it will be well spread out and will get the benefit of the capacity instantly. The current capacity you did mention earlier in the interview that current utilization is around 90%?

**Shrikant Himatsingka:** That is right for the sheeting plant it is 90% odd.

**Chintan:** What you envisage post expansion next year first quarter it will be 70% or on an average we can take it or it will be somewhere much lower than that by the time you capture the market and ramp up takes place?

**Shrikant Himatsingka:** I think by that time we are in Q4 we will be happy to share what we see from a standpoint of commissioning the capacities and the initial placement of capacity and things like that. So it is a little premature this point to estimate what will happen in June but obviously it will start with lower loading and ramp it is way up.

**Chintan:** The timeline schedule is on target that is Q1 of next year?

**Shrikant Himatsingka:** As regards the three investments as I said earlier we will be kicking off the sheeting plant first and that is the smallest of the three projects and we are likely to commission that project by June 2016.

**Chintan:** You did mention about the brands growth and outlook for the next two to three years any light on manufacturing side in terms of guidance?

**Shrikant Himatsingka:** I actually have not given any guidance.

**Chintan:** Not guidance forward kind of internal target you are going to wish your brands to be in next two years, next three years?

**Shrikant Himatsingka:** I think the current portfolio on the manufacturing front is 1000 Crores and lower that may be this year considering we have done 509 Crores in H1 but on the other hand we are high on the utilization front as far as sheeting plant is concerned so we have some assets to sweat and things like that. So we will continue to do that and once the new capacities are on-stream, I think it will be very clear as to how the revenues will pan out because it will be pretty strong organic growth

considering fresh capacities are coming on board. That question will be better answered once we are couple of quarters down the road.

**Chintan:** Can you share the capital employed in the manufacturing sheeting business at this point of time?

**Shrikant Himatsingka:** It is approximately core manufacturing capital employed excluding non-current investments in the standalone balance sheet would be in the region of 900 Crores.

**Chintan:** 900 Crores where we will be adding 200 Crores through new capacity by next year, June?

**Shrikant Himatsingka:** This is the existing capital employed in the manufacturing business with the exclusion of non-current investments which are investments made in our distribution businesses and obviously I am removing current liabilities from a standpoint of trade payables.

**Chintan:** So 900 odd Crores as capital employed?

**Shrikant Himatsingka:** May be a little lower than that for that the exact number is something Mr. Pradeep can share with you offline.

**Chintan:** One more number I missed out the EBITDA for the half year for the manufacturing business that is my last question from my side?

**K.P. Pradeep:** Manufacturing business was 138 Crores.

**Chintan:** 138 for half year right?

**K.P. Pradeep:** Yes.

**Chintan:** Thanks and all the best.

**Moderator:** Thank you very much. Our next question is the follow up question from the line of Neeraj Mansingka from Edelweiss. Please proceed.

**Neeraj Mansingka:** I think my questions have been answered. Thank you for giving this opportunity.

**Moderator:** The next question is from the line of Rahul Khandelwal from Systematix Shares. Please proceed.

**Rahul Khandelwal:** Congratulations on great set of results. I just wanted to know what is the current capacity for sheeting you have before the expanded capacity comes onboard?

**Shrikant Himatsingka:** 23 million meters per annum.

**Rahul Khandelwal:** 23 million meters per annum and any guidance on the export revenue breakup is it all 100% US or are you expanding to new territories as well?



**Shrikant Himatsingka:** On the current business it is North America focused but it will be safe to assume that all considered we do not have much capacity to spare. We really cannot go into other geographies. But once the new capacities are in place North America continue to be very large and important market quite obviously given its size and sheer consumption but once the new capacities are in place we will aggressively look at Europe and Rest of the World as well.

**Rahul Khandelwal:** Just an estimation on that sheeting expenditure the 200 Crores what would that turn the sheeting capacity to from 23?

**Shrikant Himatsingka:** First of all I said approximately just over 200 Crores. Point number two, it will double the capacity to 46 MPA that is million meter per annum.

**Rahul Khandelwal:** Great Sir and if you could just for my own understanding would you happen to know what it would cost to set up a per billion meter full integrated plant if someone new was to come into the market just for my understanding?

**Shrikant Himatsingka:** I do know it but many variations, specifications and various kinds of plant specification. So I cannot generalize it. This is what we are invested.

**Rahul Khandelwal:** Thank you very much and again congratulations.

**Moderator:** Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investments. Please proceed.

**Nisarg Vakharia:** Good evening gentlemen. I just want to understand last year the drapery and upholstery business was 130 odd Crores for the full year. What is it for the first half?

**Shrikant Himatsingka:** It is around 64 Crores.

**Rahul Khandelwal:** So we would end up with the same figure that we had last year for this year also safely assuming?

**Shrikant Himatsingka:** Yes around is what is looking like. We have put out a few strong initiatives on that front whether they pan out in H2 or spill into FY 2017 it is a little difficult to say but I were to take a prudent stance I would say that this year we would track like last year.

**Rahul Khandelwal:** The improved performance that we have seen on the EBITDA and the profitability level had essentially come out of your gross margins. So this is a function of you selling higher value added products or is it because I am assuming that you are a completely vertically integrated player. So lower yarn and all would not benefit you ideally right?

**Shrikant Himatsingka:** What would not benefit us sorry?

**Rahul Khandelwal:** Lower yarn prices or lower cotton prices may or may not benefit you as much because you are completely vertically integrated?

**Shrikant Himatsingka:** No, they would.

**Rahul Khandelwal:** They would, so these gross margins are a higher function of the rupee depreciation or you selling higher value added products what is that exactly?

**Shrikant Himatsingka:** It is actually a confluence of reasons and I will share a few with you. There is an impact from a standpoint of stable raw material prices which have sort of edged down over the last year or so and remained stable and the reason we are seeing greater benefit is because even if it had taken a turn for the lower prices 10 months ago, by the time we realize benefits it is actually takes sometime considering booking. So stable/lower raw material prices, one part. Second part much higher efficiencies, productivity, optimal wastages that have been clogging at the facility that is also a very important reason. Third, a superior product mix, fourth the forex contribution also plays a role and I think these four would probably be the primary drivers of better gross margins.

**Rahul Khandelwal:** Sir when I compare your standalone and consolidated results last year on a PBT level you had done about 15 Crores of loss in the international operations if I compare the two for the first half of this year you have done about 7, 8 Crores of loss. Is this going to structurally change because your US, your international business is supposed to start contributing meaningfully from 2%, 3% EBITDA to 5%, 6% EBITDA. When do we actually start seeing that translating into the numbers?

**Shrikant Himatsingka:** Good question. The total EBITDA from operation so as far as total consolidated EBITDA from the retail and distribution businesses for the quarter are concerned, it actually grew 52% from 9.4 Crores last year to 14 odd Crores this year. So it is beginning to track for the reasons that I spoke about from a standpoint of asset sweating etc. So we are absolutely focused on building this peak anything it is more robust so for which we had on-boarding new brands strengthening our IP platforms, optimizing cost etc. The progress could have been faster I do agree but this is how we are tracking and hopefully we will continue to make gains on this front as we go along.

**Rahul Khandelwal:** Pardon me for this question but when you take a brand like Aeropostale do you have to pay an upfront fee as well or is it just a pure licensing agreement?

**Shrikant Himatsingka:** Not only for Aeropostale but normally speaking we avoid deals where we have to pay upfront and things like that because a lot of the brands we take to market in the home textile space are brands that have a strong appeal and recall in the fashion space and they are not necessarily present in the home space and considering the home world is a very different world. We tend to stay away from cost away deals.

**Rahul Khandelwal:** Have we seen any volume degrowth QOQ there would have been a big factor in from currency. So have we seen any volume degrowth?

**Shrikant Himatsingka:** No we have not. We have seen some organic growth but do remember that our businesses are slightly seasonal quarters cannot be easily compared.



**Rahul Khandelwal:** But generally we would have second half than the first half?

**Shrikant Himatsingka:** Generally Q2 going into Christmas etc., sees some traction and then Q3 and Q4 are broadly stable as well nothing awfully different as such from H1 versus H2 I think cumulatively they are equal or very close to equal in most cases.

**Rahul Khandelwal:** Last question, any comment on several players expanding sheeting capacity in India it is not only you but each and every player is expanding sheeting capacities. Any comment on how that will play out going ahead?

**Shrikant Himatsingka:** Two things, one is I just like to clarify my earlier point. When I say H1 and H2 are sort of equal, I mean equal in intensity on demand pull beyond that it is difficult to predict how each quarter will pan out but from a standpoint of trending the intensities are equal between the halves. So I just wanted to clarify that. As far as the on-boarding of new capacities at a national level, you are right point number one there are capacities coming on stream but at the same time there are also capacities that are exiting the game for a variety of reasons because they have not been competitive enough or they are not geared enough etc. So I think broadly speaking it is not a lop sided phenomenon where only fresh capacities are being commissioned and there is no capacity that is dying. I think it is a healthy mix of the two but it will go in favour of new capacities coming on stream that is true. There will be short-term, medium-term ramifications of this. It will be a very company specific game and we feel that as far as we are concerned we are relatively insulated some just a price arbitrage game that is being played out given the intellectual property that we command in the market place. Having said that yes, competitive pressure might catch up a little but I do not envisage anything worrisome as far as the sheeting is concerned.

**Rahul Khandelwal:** I appreciate your time Sir. Thank you so much.

**Moderator:** Thank you very much. The next question is from the line of Abhishek Gupta from Goldman Sachs. Please proceed.

**Abhishek Gupta:** Thanks for the opportunity Sir. To start with the capex plan and as we are talking about starting the bed sheet capacity from June. So have we commenced the capex? Have you already placed the order where are we in terms of that capex cycle?

**Shrikant Himatsingka:** We are in advance stages of finalizing plant and machinery and commencing construction and I think for the sheeting project so given those developments we shared our commissioning date of June 2016.

**Abhishek Gupta:** So this will be Brownfield expansion I mean is it fair to assume it will come at the existing facility only. So you do not need to create incremental physical infrastructure?

**Shrikant Himatsingka:** Correct.

**Abhishek Gupta:** So that kind of a six-month cycle is good enough from that perspective?

**Shrikant Himatsingka:** That is correct.

**Abhishek Gupta:** Secondly, if I again understand on the capex plan, you mentioned about 580 to 584 Crores towards your backward spending integration. Now this will be completely used in-house or we are again looking for some outside sales from this plant?

**Shrikant Himatsingka:** First of all I did not mention any number of 580 Crores. I said that as far as the backward integration of spinning is concerned, we are likely to have a capex of close to 600 Crores. Second this will be entirely captive.

**Abhishek Gupta:** Captive. The reason for asking is you have mentioned you have currently 900 Crores capital employed, you are doubling your capacity. Now if I look it from incremental capex plan also about 600 Crores let us assume on the yarn side another 200 odd Crores towards the bed sheet side that makes the gross block of about 800 Crores assuming your working capital cycle remains similar you are talking about another 200, 300 Crores of incremental working capital which is deployed. So overall capital deployed of about 1000 to 1200 Crores will it be fair to say then the overall revenue to capex intensity or capital employed intensity will remain 1:1, which is what it is almost right now?

**Shrikant Himatsingka:** Yes two, three things. One is the working capital cycle will not be as intensive when you look at it holistically. There will be a lot of synergies. Point number two there will be some assets, which are much higher asset turnovers than other assets so the asset turnover will be maintained broadly speaking.

**Abhishek Gupta:** So asset turnovers will be maintained broadly?

**Shrikant Himatsingka:** Yes.

**Abhishek Gupta:** Sir third is on the profitability side we have been obviously making efforts towards increasing our profitability most on the distribution side both in US and Europe as a geography, could you talk about few of the steps which they have taken in each of the geography and again where are we on that part I mean if I look at three years out do you believe that double digit aspirational margins which we have been hoping for more so in US. Is it something, which is in achievable range now for us?

**Shrikant Himatsingka:** First of all I would like to say that these efforts we are taking on cost optimization and asset sweating are as much in manufacturing as they are in distribution point number one. The results you are seeing and the benefits you are seeing on the manufacturing front is not just because of higher gross margins which are driven by multiple factors as I explained earlier but also from a standpoint of manufacturing expenses, the personal expenses and other operating expenses we deploy to run those assets. So it is clearly panning out across both manufacturing and distribution. As far as specific steps are concerned, it will be very difficult for me to outline specific steps because there are host of measures but I do assure you that it is being carried out in both verticals. Thirdly, our aspiration is not double-digit EBITDA numbers in the distribution



business. As I have indicated earlier distribution businesses are relatively margin light but interesting on the return ratios because they are also asset light and therefore double-digit operating margins in distribution are unlikely or actually can be ruled out in the medium term as far as I can see. It is more like mixed single digit kind of operating margins that we will aspire to achieve as far as our distribution business is concerned. Obviously manufacturing is relatively much more margin rich vis-à-vis distribution.

**Abhishek Gupta:** That is helpful. Just a last one from my end we have been talking about obviously the brands portfolio which we own and there we end up paying royalty and own those geography right, sectorial right now if you can distinguish between the profitability after paying these royalties and charges between our own brands to the private level which we supply. What would be again a ballpark differential in the profitability or these numbers are similar when you take out the cost of owning those brands?

**Shrikant Himatsingka:** They change from brand-to-brand and things like that. I appreciate the question but I would not be able to immediately throw light on such differences. Broadly speaking we have a premium for brands.

**Abhishek Gupta:** So that will be right to assume that as the brand portfolio increases the profitability should inch up because of that?

**Shrikant Himatsingka:** The logic ties up definitely.

**Abhishek Gupta:** Thanks a lot for your time Sir.

**Moderator:** Thank you very much. The next question is from the line of Abhilasha Satale from First Global Securities. Please proceed.

**Abhilasha Satale:** Sir most my questions are answered. Just couple of, Sir like we have seen this cotton and yarn prices going down more than 5% and even rupee has depreciated. So do you see any passing of this benefit to the end customers in the second half of the year?

**Shrikant Himatsingka:** Madam, like I indicated earlier the raw material prices have remained stable for sometime now and because new programs new bids are constantly out and lot of these new bids are already going on a corrective basis. So is not about H1 and H2 it is sort of digested.

**Abhilasha Satale:** So we see debt margins will be maintained even at newer cotton arrivals?

**Shrikant Himatsingka:** Yes the season has just begun so it is a little early on to say how the pricing will behave but I mean broadly speaking it looks stable. I do not see any worry on the supply or demands side at this point pertaining to us particularly and it is not like customers are going to ask us for some benefit starting H2 some benefits have already been passed on and it is digested.

- Abhilasha Satale:** Sir secondly on this TPP front the member country all together form a part of around 40% of the global trade so how much of that is textile, I mean how much textile trade is coming from these countries?
- Shrikant Himatsingka:** Madam, quite candidly, we are still studying the TPP so I would appreciate if we could get back to you on this in some time as it is under study.
- Abhilasha Satale:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hem Agarwal from Hem Agarwal & Company. Please proceed.
- Hem Agarwal:** Good evening. A couple of minor technical question on the balance sheet, the tax expense for this year continues to be negligible and also for last year it is almost nil because of MAT entitlement. So how long will this continue this year and next year just I would like to get some idea on that? The second one was on the trade payable is now sizable at 333 Crores as opposed to trade receivable of 60 Crores. So how long this difference also will just continue?
- K.P. Pradeep:** Firstly, on the tax provision, given our current run rate our cumulative tax losses can be used. I anticipate this going on for may be another year.
- Hem Agarwal:** One more year, this year and next year?
- K.P. Pradeep:** Yes.
- Hem Agarwal:** Trade payable. It is quite sizable trade payable is 333 Crores and trade receivable is around 60 Crores?
- Shrikant Himatsingka:** Trade payables it has been broadly like this vis-à-vis receivables because we factor our receivables. So we do not see any material change growing by.
- Hem Agarwal:** So this difference will continue?
- Shrikant Himatsingka:** Yes.
- Hem Agarwal:** Just one last final question was these expansion plan when we talk about expansion into terry towels what kind of revenue could be generated in this business say two years from now?
- Shrikant Himatsingka:** I am sorry. We cannot estimate for you the kind of revenue throughputs which these projects can generate but it would be fair to assume that segments like terry towels see high asset turnovers and it is not unknown in industry where asset turnovers are slightly greater than two.
- Hem Agarwal:** Great. Thank you so much.



- Moderator:** Thank you. The next question is from the line of Dhwanil Shah from IWealth Management and Company. Please proceed.
- Dhwanil Shah:** Good evening Sir and congrats great set of numbers. I had couple of quick questions. One, Sir on our distribution business where we said that the consolidation has happened, has the benefit actually come in or it will be again coming in the second half?
- Shrikant Himatsingka:** Can you repeat your question please?
- Dhwanil Shah:** In the distribution business, the steps which we had taken last year in terms of consolidation and overall optimization of cost, has the benefit actually in the entire benefit come in the first half?
- Shrikant Himatsingka:** No. Let me help you understand this better. So I wish the entire benefit had come in because it is a journey and we are working towards it. As I said earlier our EBITDA for the YOY from the global retail and distribution businesses did see a 52% improvement but overall we have some way to go and we are seeing some headwinds in the India Asia space, we are seeing some headwinds from standpoint of time but the positive momentum continues and it has begun so that is definitely something that is visible. I will not be able to give a time as to when the whole benefit will come but I think we are on our way.
- Dhwanil Shah:** Fair enough and sir one question was regarding broader side so now just to understand China currency has been depreciated, so Sir how has that changed for overall industry if you could just explain that?
- Shrikant Himatsingka:** The Chinese depreciation again it is a very company specific situation for us and of course there is a piece of a broader industry impact, but I do not think it is going to be very material from a standpoint of impact because there has been some organic depreciation in the Indian currency as well. I do not see that our competitiveness has deteriorated as an industry out of India in any meaningful manner. So as far as broadly speaking I think it is more in theory and real time impact, I am seeing vis-à-vis us and as far as the industry is concerned, I have not seen any material shifts as of today. The reason I attribute is there does not seem to be any material change in competitiveness but if things were to change in the short-to-medium term and they were going to be a further movements, which are sharper, one would have to revisit the situation at that time.
- Dhwanil Shah:** One last question Sir what would be the capex outgo for the current year?
- Shrikant Himatsingka:** Approximately the organic capex other than the new projects, which I would urge you to track separately the organic capex requirements are very minimal and would be in the region of 10 to 15 Crores.
- Dhwanil Shah:** On the newer plant you said would be 200 Crores for this year?
- Shrikant Himatsingka:** It is something that we commission in June.
- Dhwanil Shah:** Thank you Sir and all the best.



**Moderator:** Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investments. Please proceed.

**Rahul Bhangadia:** Thank you Sir but my questions have already been answered. Thank you very much.

**Moderator:** Thank you very much. As there are no further questions, I now hand the conference over to the management of Himatsingka Seide for closing remarks. Over you to team!

**Shrikant Himatsingka:** Thank you all for participating in our call today. I do hope we answered your questions. If there is anything else you would like us to answer we will be happy to assist you and look forward to our next interaction. Thank you very much.

**Moderator:** Thank you very much members of management. Ladies and gentlemen, on behalf of Macquarie Securities that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.