



“Himatsingka Seide Limited

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

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4Q Financial Year 2016 Results Conference Call

May 23, 2016

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

Moderator: Ladies and gentlemen, good day and welcome to the Himatsingka Seide Limited Q4 FY 2016 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 and 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 of Batlivala & Karani Securities India Private Limited. Thank you and over to you Madam!

Perna Jhunjhunwala: Good evening everyone. On behalf of Batlivala & Karani Securities, I would like to welcome you all for the full-year FY2016 results conference call for Himatsingka Seide Limited. From the company we have with us the key senior management personnel including Mr. Shrikant Himatsingka, Managing Director and CEO, Mr. K.P. Pradeep, President Finance and Group CFO, Mr. Gupta, AVP Finance and Mr. Ashok Sharma, Associate Vice President of Treasury, Taxation and Company Secretary. I would now like to hand over the call to Mr. K.P. Pradeep, Group CFO for their opening remarks and post that the floor would be open for Q&A session. Over to you Sir!

K.P. Pradeep: Thank you Perna and thank you everybody. Thanks for joining in the earnings call today. We will take you through the Q4 and the annual operating performance of the company.

Consolidated performance – Q4 FY’16

Consolidated Revenues – Q4 FY 16

The consolidated revenues decreased by 1.2% and stood at Rs. 449.55 crores vs. Rs. 455.01 crores in the same quarter previous year.

Consolidated EBITDA – Q4 FY 16

The consolidated EBITDA (including other income) increased by 52.9% to Rs. 85.33 crores vs. Rs. 55.80 crores in the same quarter previous year.

EBITDA as a percentage of sales stood at 19.0% this quarter vs. 12.3% in the same quarter previous year.

Consolidated EBIT – Q4 FY 16

The consolidated EBIT (including other income) increased by 58% to Rs. 71.89 crores compared to Rs. 45.49 crores in the same quarter previous year.

EBIT as a percentage of sales stood at 16.0% this quarter vs. 10% in the same quarter previous year.

Interest and Finance Charges - Consol

Interest and Finance Charges for the quarter increased to Rs. 28.24 crores from Rs. 22.94 crores in the same quarter previous year. Onetime charges of on account of refinancing amount to Rs 5 cr and should be moderated against our overall interest number.

Profit before tax

The consolidated Profit before tax for the quarter is at Rs 43.65 crores compared to Rs 22.55 crores in the same quarter previous year an increase of 93.6%

PAT

The consolidated Profit after tax is Rs. 42.70 crores for the quarter compared to Rs. 25.86 crores during the previous year a growth of 65.1%.

Consolidated performance – FY'16**Consolidated Revenues – FY 16**

The consolidated revenues for the year decreased by 2.9% and stood at Rs. 1886.84 crores vs. Rs. 1943.16 crores in the previous year.

Consolidated EBITDA – FY 16

The consolidated EBITDA (including other income) for current year increased by 40.9% to Rs. 312.06 crores vs. Rs. 221.53 crores in the previous year.

EBITDA as a percentage of sales stood at 16.5% for current year vs. 11.4% in the previous year.

Consolidated EBIT – FY 16

The consolidated EBIT (including other income) for current year increased by 48.9% to Rs. 263.38 crores compared to Rs. 176.89 crores in the previous year.

EBIT as a percentage of sales stood at 14.0% for current year vs. 9.1% in the previous year.

Interest and Finance Charges - Consolidated

Interest and Finance Charges for current year increased to Rs. 94.15 crores from Rs. 85.44 crores in the previous year. Onetime charges of on account of refinancing amount to Rs 5 cr and interest should be normalised to this number.

Profit before tax

The consolidated Profit before tax for current year is at Rs 169.23 crores compared to Rs 91.45 crores in the previous year a growth of 85.1%.

PAT

The consolidated Profit after tax is Rs. 166.60 crores for current year compared to Rs. 95.44 crores during the previous year a growth of 74.6%.

For Q4 FY'16 - Manufacturing & Standalone performance**Revenues from manufacturing Activities**

For the quarter ended March 2016, Revenues from Manufacturing Operations grew by 12.3% and stood at Rs. 252.60 crores this quarter vs. Rs 224.90 crores during the same period previous year.

EBITDA from manufacturing Activities

The EBITDA (including other income) from manufacturing operations increased by 46.4% to Rs. 75.66 crores this quarter vs. Rs. 51.68 crores during the same period in the previous year.

EBITDA as a percentage of sales stood at 30% this quarter vs. 23% in the same quarter previous year.

For FY'16 - Manufacturing & Standalone performance

Revenues from manufacturing Activities

For the year ended March 2016, Revenues from Manufacturing Operations grew by 7.6% and stood at Rs. 1020.66 crores vs. Rs 948.41 crores during the previous year.

EBITDA from manufacturing Activities

The EBITDA (including other income) from manufacturing operations increased by 48.4% to Rs. 281.61 crores in current year vs. Rs. 189.80 crores during the previous year.

EBITDA as a percentage of sales stood at 27.6% for current year vs. 20% in the previous year.

For Q4 FY'16-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. 397.36 crores vs Rs. 409.23 crores in the same quarter previous year, a decrease of 2.9%.

EBITDA – Consolidated Retail and Distribution

The consolidated EBITDA for the Retail and Distribution divisions increased by 78.2% for the current quarter and stood at Rs. 22.92 crores vs Rs. 12.86 crores in the same quarter previous year.

For FY'16 Retail and Distribution performance

Revenue – Consolidated Retail and Distribution

Total revenues from the Retail and Distribution divisions for current year stood at Rs. 1676.55 crores vs Rs.1750.26 crores in the previous year, a decrease of 4.2%.

EBITDA – Consolidated Retail and Distribution

The consolidated EBITDA for the Retail and Distribution divisions increased by 8.4% and stood at Rs. 61.73 crores in the current year vs Rs. 56.94 crores in the previous year.

Tax Position

Going forward for FY 17 we anticipate consolidated effective tax rate of around 30 % given the absorption of past tax losses and change in tax structures for our manufacturing divisions.

Treasury & Debt Position

The Gross debt as of 31 March 2016 stood at Rs 942 crores; Rs 568 crores being the Term Debt and Rs. 374 crores being the Working Capital Debt.

The Gross debt as of 31 March 2015 stood at Rs 756 crores; Rs 443 crores being the Term Debt and Rs. 313 crores being the Working Capital Debt.

The Cash and Cash equivalents stands at 114.35 cr as of 31st March 2016 as against Rs.26.38 cr as of 31st March 2015.

Consequently the company's Net Debt outstanding as of 31 March 2016 is Rs. 828 crores against Rs 730 crores as of 31st March 2015.

The Company's effective cost of debt is at 6.13% p.a.

I wanted to share some of key leverage ratios that we track.

The debt service coverage ratio has stood at 1.89 for the FY ended 2016 as against 1.13 for the FY ended March 2015

Interest coverage ratio has stood at 2.80 in FY 16 as against 2.07 in FY 15

The Net Debt to equity has stood at 0.84 for FY 16 vs 0.91 in FY 15

The Net Debt to Ebitda has stood at 2.65 for FY 16 as against 3.29 in FY 15.

Return Ratios

The Return on Capital Employed has stood at 13.68 % in FY 16 vs 11.33 % in FY 15

The Return on Equity stood at 16.94% for FY 16 vs 11.86% in FY 15

Dividend Payout

The total dividend for FY 16 stand at Rs 2.50 per share. This comprises of one interim dividend of Rs 1 and final dividend of Rs 1.50 per share.

Business Update:

An update on New Projects:

- The 1281 Crore expansion plan entailing investments in expanding the Group's Sheeting Capacity, backward integration into Spinning and foray into Terry Towels are being carried out in phases as being communicated earlier. The company has received an allotment letter for the required land from the Government of Karnataka for the above Projects.
- The Sheeting Project is currently under construction and is likely to be commissioned by the end of July 2016. This Sheeting Expansion will enhance the group's Sheeting capacity from 23 MMPA to 46 MMPA. We envisage placing approximately 40 to 50 % of the fresh Sheeting capacity by end of FY 17.
- We envisage commencement of construction of the Spinning Project by September 2016. The proposed Spinning plant will have an installed capacity of 211584 spindles.

Over to you **MODERATOR**. I would be glad to take questions.

Moderator: Thank you sir. Ladies and gentlemen we will now begin the question and answer session. We have our first question from the line of H.R. Gala from Panav Advisors. Please go ahead.

H.R. Gala: Congratulations for really good set of numbers. I just wanted one book keeping clarification if we look at our P&L the other operating income has doubled from 39 Crores to 78 Crores in this year so is there any one-off item in that or what is the main composition of 78 Crores?

- K.P. Pradeep:** So you would have MEIS and duty drawback MEIS is the merchandise export incentive schemes and duty drawback collection amounting to roughly 32 Crores in that number, so that is the significant number this year.
- H.R. Gala:** From the merchandise export?
- K.P. Pradeep:** MEIS and duty drawback.
- H.R. Gala:** Okay, so that is the main reason so it is all business related.
- K.P. Pradeep:** That is right.
- H.R. Gala:** Do you expect the same magnitude to continue as we go ahead?
- K.P. Pradeep:** Yes.
- H.R. Gala:** My another question will be how many spindles did you say we will install by September 2017 you said right?
- K.P. Pradeep:** No, we said that we will commence construction on the spinning facility by September 2016 and the plant will have a capacity of 211584 spindles.
- H.R. Gala:** So that when do you expect that project to be completed?
- K.P. Pradeep:** We will communicate project timelines closer to the time we commence construction.
- H.R. Gala:** Do you foresee any major structural changes taking place in this terry towel and the associated businesses that we are into following say TPP or maybe some other trade facts etc. that might come up?
- K.P. Pradeep:** No we do not actually. We foresee a fairly stable global market scenario vis-à-vis our product portfolio. As we understand, the TPP is more likely to affect and have implications for the apparel sector and not for our sector at this point.
- H.R. Gala:** For the uploading of this additional capacity, which will do the major, exports markets you will be focusing on?
- K.P. Pradeep:** Well, the current sheeting plant that the group is operating at a capacity utilization of approximately 90%, so the incremental capacity that will be coming on stream during this year will be channeled to the North American and the European market. We will begin with channeling capacities to North America, which includes the markets of United States, Canada, and Mexico. We will also look at placing capacities in the new regions, which we have thus far not done in any material manner.
- H.R. Gala:** And as far as Terry Towel project is concerned, which will be your focussed markets?
- K.P. Pradeep:** As far as the Terry Towel project is concerned, the same two markets the North American and the new markets will be the largest followed by Asian Market, but I think at this point our focus will be to place our sheeting capacity, commence

construction on our spinning facility which will then be followed by the commencement of the terry towel facility.

H.R. Gala: Thank you very much and wish you all the best.

Moderator: Thank you Mr. Gala. We have a next question from the line of Abhilasha Satale from First Global. Please go head.

Abhilasha Satale: Sir our margins in the manufacturing business are highest, make around 30% or so, even on quarter-on-quarter basis like we have posted growth in margin, so I would like to know what is reason for the same and how do we see our margin signing going forward, are this margins sustainable?

K.P. Pradeep: It is a good question. The margin from the manufacturing front are coming through given the swelling of assets, enhancement of efficiency through productivity, improvement of product mix and various other such initiatives that we have been talking about, so the margins that are showing are as a result of this. Now with regard to the fact and question whether they are sustainable, we feel that they are, of course it will be range bound but we will continue to see healthy operating margins from the manufacturing space.

Abhilasha Satale: Sir and I missed the margin for the retail business like how much we have posted margin for the retail business and what is the outlook on that front because there also we are taking number of initiatives to improve our margins?

Shrikant Himatsingka: The global retail and distribution business, we would like to achieve margins more in the region of little lower 6% as stable state operating margins. We are currently hovering in the region of around just under 4%. You have to keep in mind that these are assets like businesses, so what we are targeting is approximately over 6% in operating margin for this global retail and distribution portfolio space.

Abhilasha Satale: Sir what is the road map to achieve that and what is the time duration like do you think you will be able to achieve that much margin?

Shrikant Himatsingka: We cannot be the specific in context to the time duration, the efforts are on, we have seen some improvements for the year, we have seen a sharp improvement as Mr. Pradeep mentioned in his earnings narrated there has been a sharp improvement in the EBITDA profile for the quarter, so we hope to see continuing improvement on the operating front for the global retail and distribution from FY 2017 itself.

Abhilasha Satale: Sir from this year, as you had said that we have already achieved 90% utilization in our sheeting capacity and we are likely to commence 50% of our sheeting capacity in FY 2017 so what kind of volume growth we are looking from that business in FY 2017?

Shrikant Himatsingka: What we mentioned madam was that we are going to commission capacities of the sheeting expansion this year and we envisage placing approximately 40% to 50% of the incremental capacity through the end of FY 2017 now thereabout, so that is the incremental volume that we see being generated in place vis-à-vis fresh capacity. So the current capacity 23 million meters per annum, the new installed capacity post

expansion will be 46 million meters per annum and we envisage placing 40% to 50% of the incremental 23 MMPA through the end of fiscal 2017.

Abhilasha Satale: Okay, fine sir. Thank you.

Moderator: Thank you. We have a next question from the line of Hem Agarwal, Individual Investor. Please go ahead sir.

Hem Agarwal: I just wanted a little clarification on the figure you mentioned of the income tax rate for 2016-2017 and 2017-2018. Right now there is hardly any taxation, which we pay.

Shrikant Himatsingka: Given the past losses and things of that nature and the past structure of our manufacturing divisions being SEZ and EOU respectively, the taxation and effective tax rates were different. So what Mr. Pradeep talked about was that going into FY 2017 we envisage our effective tax rate to step up to 30%.

Hem Agarwal: So like this year we have paid around 2.7 Crores in income tax, what kind of taxation it would be listed, is the effective rate is 1.5% what would be the next year?

Shrikant Himatsingka: 30%. I would also like to add that it is not like it is the pre-tax numbers will also see a substantial growth.

Hem Agarwal: Yes absolutely sir of course we are expecting.

Shrikant Himatsingka: Which will help offset the tax impact.

Hem Agarwal: Thank you Sir.

Moderator: Thank you very much. We have a next question from the line of Rajesh Kothari from ALFAccurate Advisors. Please go ahead.

Rajesh Kothari: Can you give us the EBITDA for manufacturing segment and for retail segment for the quarter and for the full year?

K.P. Pradeep: The EBITDA for the manufacturing segment as a percentage of sales stood at 27.1 % for the whole year versus 20% in the previous year, for the quarter stood at 30% that is 23% in the same quarter previous year.

Rajesh Kothari: And same for the retail?

K.P. Pradeep: Sorry you wanted the quantum or the percentage.

Rajesh Kothari: No problem I will calculate that.

K.P. Pradeep: In the quantum term, the EBITDA including other income from manufacturing operation with 75.66 Crores versus Rs.51.68 Crores during the same period in the previous year that is for the quarter and for the whole year it was 281.61 Crores versus Rs.189.80 Crores during the previous year.

Rajesh Kothari: And for the retail business full year and for the quarter?

- K.P. Pradeep:** For the retail and distribution businesses for the quarter, it was 22.92 Crores versus Rs.12.86 Crores in the same quarter previous year and for the whole year it was 61.73 Crores versus Rs.56.94 Crores in the previous year.
- Rajesh Kothari:** Sir basically in terms of the growth as you are saying the new capacity which will come up and that will be available 50% of that will be available by the end of FY 2017, so do you think from third quarter onwards we will see some volume growth?
- K.P. Pradeep:** Absolutely.
- Rajesh Kothari:** What kind of capex utilization one should assume in the second half of the current year of your new capacity rather?
- K.P. Pradeep:** Sir what we mentioned was that of the new capacity we are envisaging placement of 40% to 50% by the end of FY 2017 but it is very difficult for us to pin it down to by the quarter.
- Rajesh Kothari:** So when you say 50% will be available, so does that mean one should assume 50% to 60% utilization of that 50% and how it works?
- K.P. Pradeep:** No if 100 units of capacity are being commissioned as fresh capacity, we are saying 50 units of the 100 that the new fresh capacity will be placed by the end of FY 2017.
- Rajesh Kothari:** True and that will be placed that I understood but in terms of the actual utilization in terms of the actual sales whether how much of that will you think may convert into sales, that is what I am trying to understand?
- K.P. Pradeep:** That is the same.
- Rajesh Kothari:** And then by FY 2018 you think the full capacity will be available?
- K.P. Pradeep:** Well I think it should go north of what we achieve in FY2017, but whether it will be full or not is something we should probably discuss closer to the end of FY2017 and it will be our endeavour to do so, that is right.
- Rajesh Kothari:** In terms of product mix would you like to add something with the new expanded capacity coming on stream, what kind of product mix you are looking for in terms of the higher value segment versus the middle segment basically the how rich do you think the product mix can be as we move forward?
- Shrikant Himatsingka:** Well I think the product mix is fairly strong at this point, so as far as the product mix is concerned, we will continue our focus in our core bedding, fashion bedding and basic bedding areas that the company currently focuses on. I do not see any other products being added to the product mix. Please remember that group has the largest brand portfolio in the home textile space, our brand portfolio our active brand portfolios anywhere between 10 and 14 brands. We are leveraging our brands to gain more shelf space and protect therefore the product mix that is being manufactured.
- Rajesh Kothari:** Terry Towel project would you like to give some update on that by when you think you will be able to commence.

Shrikant Himatsingka: As I said Sir, we are completing our sheeting project by the end of July for the schedule that we are tracking today. We are looking at commencing construction on our spinning plant no later than September 2016. As far as the schedules on the commencement of construction on the terry towel project is concerned, we will keep the investors updated as we get closer to the date but we have not decided one so far, at this point we are focused on kick starting our spinning construction so maybe next quarter we will give you an update on the terry towel timeline.

Rajesh Kothari: In terms of the capex the breakup of capex will be spinning and the sheeting plant?

Shrikant Himatsingka: We had totally announced the capex outlay of 1281 Crores of which we are investing a little over 200 Crores on the sheeting facility a little over 600 Crores on the spinning facility and a little over 400 Crores on the terry facility.

Rajesh Kothari: Thank you sir.

Moderator: Thank you Mr. Kothari. We have a next question a follow on question from the line of H. R. Gala from Panav Advisors. Please go ahead.

H.R. Gala: I just wanted one clarification, you talked about different types of bedding like fashion, utility, institutional etc., what proportion do they form as of now?

Shrikant Himatsingka: Well, our biggest focus is in the core bedding area, with the commencement of new sheeting capacity the group will also be commencing its ability to do printed products which will enhance our fashion bedding shares of the market and we will also embrace this opportunity to enter into the basic bedding segment which we currently are not operating. So the majority of our portfolio is core bedding, we might be doing about 4% to 5% in fashion bedding which will see a substantial increase and given the new capacities coming on stream we will leverage them to also look at opportunities in the utility and basic bedding areas.

H.R. Gala: What kind of value addition do you expect?

Shrikant Himatsingka: I cannot answer that question. The value addition will be similar/range bound to the core-bedding segment.

H.R. Gala: Sir just some more thought on that 32 Crores duty drawback which you said that has arisen as a result because we moved out of SEZ?

Shrikant Himatsingka: That is right.

H.R. Gala: So just can you explain me how exactly that mechanism works?

Shrikant Himatsingka: We can take that offline with you Sir.

H.R. Gala: No problem I will get in touch with you. Thank you Sir.

Moderator: Thank you Mr. Gala. We have a next question from the line of Purna Jhunjhunwala from Batlivala & Karani Securities India Private Limited. Please go ahead.

Prerna Jhunjunwala: I would like to understand how much is the incremental capacity that is coming in FY2017 would be internal captively consumed and how much would be incremental revenue coming in as a consolidated growth?

Shrikant Himatsingka: I cannot say the number to that, but a good portion maybe around 25%, 30% will be captively consumed as and the group is currently sourcing that quantum of product from third party which the group will source internally going forward and the rest of the 70% of the 50% would be fresh placements is a broad breakup of what could happen.

Prerna Jhunjunwala: Yes broad indication is good enough. Sir second question would be on the brand and retail business we were restructuring our channel mix from lower margin businesses to high margin businesses, what is the current status of this activity and are we complete with that thing?

Shrikant Himatsingka: To my recollection madam, we did not make any statement that we are restructuring our businesses from low margin to high margin. We merely made a statement that we are restructuring our business to ensure that we sweat our assets better. So as a consequence of which, we are likely to enhance our operating margin profile on the global retail and distribution businesses like I said we are clocking a little below 4% at this point, but we estimate the stable state offering margins from the retail and distribution division should be not of 6%.

Prerna Jhunjunwala: Thank you Sir.

Moderator: Thank you madam. We have a next question from the line of Rahul Bangadia from Lucky Investment Managers. Please go ahead.

Rahul Bangadia: Just a small query on the silk side of the business, what was the turnover for the full year FY2016 and in particular for Q4?

K.P. Pradeep: The turnover was 122 Crores for FY2016, we envisage actually strong consolidating undertone in that business going into FY2017 the company has taken several measures to control cost of that division whilst at the same time enhancing the sales footprint, so we feel that we Drapery & Upholstery division which is what it is called is likely to clock a more robust performance in FY2017 than it bid in FY2016.

Rahul Bangadia: That was helpful. Thank you.

Moderator: Thank you Mr. Bangadia. We have a next question from the line of Abhilasha Sathale from First Global. Please go ahead.

Abhilasha Sathale: Sir this is on retail and distribution business, in Q3 we made a statement that we allowed exit to some of our micro clients for better product mix or client mix and therefore like we have taken some hit on our revenue, so going into FY2017 how do we see our revenue growth panning in that section and margin as you have already spoken?

Shrikant Himatsingka: Madam you are right, the statement that we made was let go off micro clients in favour of better client mix and in line with our consolidation measures on that front. As far as growth for FY2017 is concerned, I cannot be specific on the growth rates for the fiscal

but I can say that with the addition of new sheeting capacity the group on a consolidated basis should resume growth in FY2017, maybe I should say will instead of should.

Abhilasha Sathale: Are you also adding any new clients or growth will be mainly envisaged from the old clients getting more business.

Shrikant Himatsingka: No I think we will see a mix of both, we will see some new client additions as well as expanding our footprint with existing clients, we should see both.

Abhilasha Sathale: Sir apart from placing this forward integration of our capacities, are we also looking at other channels of growth for retail and distribution?

Shrikant Himatsingka: Can you substantiate your question madam?

Abhilasha Sathale: Distribution through outsourcing when we are seeing, when we are strengthening.

Shrikant Himatsingka: I understand, there is nothing in particular both the channels will be active both the internal supply chain of the growth from manufacturing through distribution and the group will continue to also outsource products that it currently does not manufacture within the group, but it is little difficult to say how both will individually pan out other than the observations we have made so far.

Abhilasha Sathale: Can we get any guidance in terms of say suppose for manufacturing you are already giving volume guidance but for retail and distribution can you give any guidance?

Shrikant Himatsingka: Unfortunately I cannot give any guidance on retail and distribution other than the fact that we are looking at healthy organic growth rates on that front.

Abhilasha Sathale: Thank you Sr.

Moderator: Thank you Ms. Sathale. We have a next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.

Arjun Sengar: Sir in this new capex that you have planned in which you are setting up around 2 lakh spindles this is for 100% captive consumption?

K.P. Pradeep: Absolutely.

Arjun Sengar: So when you were talking about 25% to 30% captive from this overall new capex can you elaborate on what kind of, what would you use captively when yarn is 100%.

K.P. Pradeep: Two mutually exclusive subjects, the question raised earlier was of the fresh placements of capacity on the sheeting front, how much would be captive to the group and how much would be fresh revenue. The reason that question was asked that is because the group outsource sources from third parties today and therefore if we divert any of the third party sourcing streams to the groups manufacturing divisions it would be construed as captive vis-à-vis fresh revenue streams as a result of new capacity so the response I had made earlier was in context to that on the sheeting front. As far as

the spinning is concerned, comes through the exclusive to sheeting in terms of subject and therefore all production from the 211584 spindle plant bring the captive.

Arjun Sengar: Thank you.

Moderator: Thank you sir. We have a next question a follow on question from the line of Rajesh Kothari from ALFAccurate Advisors. Please go ahead.

Rajesh Kothari: Just wanted to understand that the new capacity which would be available and which you said about 70% or 50% will be freshly placed, can you give us some in terms of the realization how that segment realization looks like, will it be similar to the existing realization or it will be significantly different?

K.P. Pradeep: Well I would say, it is very difficult to take the realization sir but I would say that some products would be very similar to the realizations we have today vis-à-vis whereas some throughput can be at slightly lower realizations. So I would say on a weighted average basis fresh capacities would have maybe 10% to 15% lower realization than what is currently being clocked but that is something we had envisaged.

Rajesh Kothari: So basically in terms of the potential turnover, which the new expanded capacity can add, would you like to throw a number at full capacity utilization whenever that happened?

K.P. Pradeep: I would not like to throw any number.

Rajesh Kothari: And the margins on the capacity which will be selling out, how different that can be compared to your present margin since the realization is lower about say...

K.P. Pradeep: What I must say it is a fair question the difference in realizations is not necessarily going to impact margin, in other words, you can have a same operating margin profile with lower or higher realization. So that is something that will pan out as the products are placed in the market but are not necessarily connected.

Rajesh Kothari: And the captive consumption as that increases that ratio between off sourcing and captive in favour of captive to what extent if you can add to your margin?

K.P. Pradeep: It will not add to our margin, it will just add to our placements.

Rajesh Kothari: I was just thinking that since you are putting up a capital expenditure generally they make versus buy kind of a decision and since you are putting a capital in that business instead of outsourcing is it because of the constrains in outsourcing or because it is a very strategic in nature?

K.P. Pradeep: It will contribute to the group the kind of manufacturing margins the group makes today, so that additional manufacturing margin as a result of new capacity for the products that has been diverted to become captive will be captured by the group. In addition the group will continue to make its distribution spread that it does on outsource.

- Rajesh Kothari:** Net-net suppose if you would have done the outsourcing continued that strategy instead of putting up a plant from ROE perspective and ROC perspective it would have been positive although from margin it might be diluted that is what you are trying to say?
- K.P. Pradeep:** So all I am saying is today a certain we can take this offline in greater detail please get in touch with us and we will be happy to explain you in detail as to what the impact would be.
- Rajesh Kothari:** Thank you Sir.
- Moderator:** Thank you Mr. Kothari. We have a next question a follow on question from the line of Rahul Bangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bangadia:** You just mentioned that for the new capacities the realizations for the sheets are likely to be 10% to 15% lower is it just plain and simple function of the product mix that you are trying to target with the new capacity or is there a general pressure on the prices otherwise in the market?
- K.P. Pradeep:** No there is no general pressure of prices; it is just our conscious targeting of such price points like I said price points are not necessarily correlated to margin profile. So we are consciously targeting certain price points, the weighted average fresh placements might be 10% to 15% lower than our existing realizations.
- Rahul Bangadia:** So to put it the other way would it be fair to say that the market for your existing product profile is not begin up to suffice your new capacities or that is also not correct?
- K.P. Pradeep:** No it is not entirely correct because as I said it is going to be a weighted average so there will be parts of the new capacity, which will also be in fact superior to our current realization. They will be parts of the basket, which are equal to our current realization and they will be parts of the baskets, which are a little lower, I am just being a little conservative and saying that we might be 10% to 15% lower. Also as I said earlier we are foraying rather we are enhancing our focus on the passion bedding and utility bedding areas of the market and these areas of the market traditionally are lower specifications than our core-bedding portfolio. So as a result of being lower specifications overall, the realizations are a little lower but that is just the nature of the product.
- Rahul Bangadia:** Yes, and as you said it does not necessarily compromise with the margin?
- K.P. Pradeep:** Well I would say that it could but it does not necessarily.
- Rahul Bangadia:** Thank you very much.
- Moderator:** Thank you. We have the next question a follow on question from the line of H. R. Gala from Panav Advisors. Please go ahead.
- H.R. Gala:** In this 10% to 15% lower realization, are you factoring in lower realization on the terry towel project when it gets on stream?
- K.P. Pradeep:** Now these are all numbers vis-à-vis FY2017 only FY2017.

- H.R. Gala:** But normally I understand from some of your competitors that the fashion and utility bedding is a value added product as compared to the core bedding or the basic bedding what you are talking about, how come the realization would be lower in that?
- K.P. Pradeep:** Like I said value addition and realizations are not necessarily correlated so you could have greater value addition with lower realizations and vice versa is also possible but we do not see any material dilution in our margin profile with regard to foraying in to the new segments.
- H.R. Gala:** So you mean to say that whatever is the current EBITDA margin we are having say roughly 16% that kind of thing should continue or can we look at 19% what we have achieved in Q4?
- K.P. Pradeep:** What you should do is on a manufacturing front track manufacturing EBITDA margin. Manufacturing EBITDA margin should be range bound, the operating margin should be range bound in the band that it currently is.
- H.R. Gala:** That is between about 28%, 30% type.
- K.P. Pradeep:** No it has been the 25% to 27% bracket.
- H.R. Gala:** As far as R&D is concerned you said that you look forward to higher than 6% right?
- K.P. Pradeep:** That is correct.
- H.R. Gala:** That is much better.
- K.P. Pradeep:** Please remember that this is most of my observations are, of course they also pertain to periods beyond FY2017 in general but more specifically I am focused on FY2017 in most of my responses, this does not include any impact of our spinning operation which will not be seen until FY2018.
- H.R. Gala:** Right okay.
- Moderator:** Thank you Mr. Gala. We have the next question from the line of Mr. Rajesh Kothari from ALFAccurate Advisors. Please go ahead.
- Rajesh Kothari:** Sir just one book keeping question in terms of this other operating income what kind of growth any guidance if you would like to give what kind of growth one should assume because this year it has been significantly higher?
- K.P. Pradeep:** This increase in operating income other operating income is on account of the change in status of the manufacturing facility from an SEZ to DPA unit, so the kind of pattern that we have seen in the latter half of the fiscal should continue into FY2017.
- Rajesh Kothari:** Basically as a percentage of revenue one should take that is what you would like to say?
- K.P. Pradeep:** That is correct.

Rajesh Kothari: Thank you very much.

Moderator: Thank you Mr. Kothari. As there are no further questions, I now hand the floor back to the management for closing comments. Over to you Sir!

Shrikant Himatsingka: I would like to thank everybody for taking the time and joining this call. I hope we have been clear in answering your questions. If you have any doubts, do not hesitate in reaching out to us and we will be happy to give you greater clarity on your questions. I am looking forward to FY2017. We should see optimism on our manufacturing portfolio as well as our retail and distribution portfolio both on the volume front and on the margin front. We are indeed looking forward to commissioning our new capacities later this year and we look forward to our next interaction at the end of Q1. Thank you all again!

Moderator: Thank you sir. Ladies and gentlemen on behalf of Batlivala & Karani Securities India Private Limited that concludes this conference. Thanks for joining us. You may now disconnect your lines.