



Himatsingka

**Himatsingka Seide Limited**

**Q2 FY 14 Earnings Conference Call**

**October 30<sup>th</sup>, 2013**



**Participants:** **Mr. Shrikant Himatsingka, Executive Director**  
**Mr. KP Pradeep, President- Finance and Group CFO;**  
**Mr. Ashok Sharma, GM -Treasury, Taxation and Company Secretary**

**Moderator:** Good afternoon, ladies and gentlemen. I am Tanmoy Mukherjee, the moderator of this call. Thank you for standing by, and welcome to the Himatsingka Seide Limited Second Quarter Financial Year 2014 Earnings Conference Call. Today, we have our speakers Mr. Shrikant Himatsingka, Executive Director; Mr. KP Pradeep, President- Finance and Group CFO; and Mr. Ashok Sharma, GM- Treasury, Taxation and Company Secretary. During the presentation, all participant lines will be in listen-only mode. After the initial presentation, we will have a question-and-answer session at the end. I would like to now hand over the conference floor to Mr. Amit Mishra who will take you further to introduce the speakers. Over to you, Mr. Mishra. Thank you.

**Amit Mishra:** Thank you, Tanmoy. Good afternoon, everyone. It is our pleasure to host the post results conference call today. And thank you very much all of you for participating on it. As Tanmoy mentioned, we have Mr. Shrikant Himatsingka, Executive Director to represent the company. Along with him, Mr. KP Pradeep, President Finance and Group CFO; and Mr. Ashok Sharma, GM Treasury, Taxation and Company Secretary. I would now like to hand over the call to the management team. Over to you, sir.

**K.P.Pradeep :** Good afternoon everybody. Thank you for joining the call. I would like to give you a brief summary of our second-quarter results for FY14. I will walk you through the performance of the manufacturing divisions and then retail and distribution divisions followed by the consolidated performance of the Group.

For the Second quarter ended September 2013, manufacturing posted Revenue from operations of Rs. 251.22 crores, a growth of 35.1 % over Rs. 185.94 crores during the same period last year. The growth was led by higher volumes in Bed Linen, improved constant currency realisation per meter for both the manufacturing units and higher exchange rates.



For Bed Linen, the average realisation increased by 25.0% to Rs. 416 per metre from Rs. 333 per metre same quarter last year. In the Drapery and Upholstery division, average realisations increased by 10.5% to Rs. 1,251 per metre from Rs. 1,132 per metre.

The EBITDA (including other income) increased by 32.0% to Rs. 31.76 crores from Rs. 24.06 crores during the same period in the last year.

The capacity utilisation for Bed Linen plant was 92% and that for Drapery and Upholstery plant was around 55 %.

The distribution business which includes Divatex and DWI clocked a growth of 13.7%. Revenue from operations during the quarter stood at Rs. 452.69 crores versus Rs. 398.23 crores last year. EBITDA for quarter was Rs. 29.44 crores as against Rs. 22.97 crores last year, a growth of 28.2 %. Revenues of Divatex which focusses on the private label business grew 10.9% to Rs. 299.03 crores versus Rs. 269.77 crores last year. Revenues of DWI which manages brands grew 19.6% to Rs. 153.66 crores versus Rs. 128.46 crores last year. We continue to see stable demand for our brands as well as our private label business.

As regards the retail business in India and Asia represented by Atmosphere, Revenues for the quarter were Rs. 14.05 crores versus Rs. 12.78 crores during the last year, an increase of 10.0%. EBITDA (including other income) for the quarter was Rs. 1.27 crores versus Rs. 1.14 crores in the previous year, a growth of 11.40%

The revenues for the distribution division in Europe came in at Rs. 30.26 crores for the quarter versus Rs. 21.89 crores in the previous year, a growth of 38.2 %. EBITDA for the quarter was a negative Rs.2.03 crores as against a negative of Rs.2.13 crores in the previous year.

The Group clocked consolidated Revenues of Rs. 549.79 crores versus Rs. 472.66 crores in the previous year, a growth of 16.3%.

The consolidated EBITDA (including other income) for the quarter stood at Rs. 56.33 crores versus Rs. 42.78 crores in the previous year, a growth of 31.7 %.



Interest and finance charges increased to Rs. 19.13 crores from Rs. 16.64 crores in the previous year

The consolidated Profit before tax is at Rs. 23.33 crores vs Rs. 14.77 crores in the previous year same quarter, a growth of 57.9 %. The consolidated Profit after tax and minority interest was Rs. 18.05 crores for the quarter versus Rs. 11.48 crores during the previous year, a growth of 57.2%.

For the half year ended 30 Sep 2013, our consolidated revenues were Rs. 1027.49 crores as against Rs. 855.11 crores in the previous year, a growth of 20.2%. Consolidated EBITDA ( including other income ) was at Rs. 106.89 crores as against Rs.82.35 crores in the previous year; a growth of 29.8 %.

Finance costs increased by 16.6% to Rs.38.47 crores from Rs. 32.98 crores.

Consolidated net profit of the current year is Rs. 34.59 crores, versus Rs. 21.88 crores in the previous year, a growth of 58.1 %.

The total debt outstanding as of 30<sup>th</sup> of September 2013 is at Rs. 753 crores, the term debt being Rs. 550 crores and the working capital debt at Rs. 203 crores. Implicit in the Rs.753 crores number is Rs. 24 crore foreign exchange translation on account of debt held in the overseas companies. This is a non-cash item as we expect the earnings of the overseas entities to service the debt. So after reducing the translation the gross debt stands at Rs. 729 crores. We have a Treasury of Rs. 19 crores and therefore net of treasury, our net debt stands at Rs. 706 crores. During the half year ended 30<sup>st</sup> September, 2013, debt repayment was Rs. 39.97 crores. Debt repayment as per existing schedule is Rs 88.64 crores for 2013-14 and Rs 126.14 crores for 2014-15.

We invested Rs. 2.90 crores on fixed assets during the half year ended Sep 2013

The order book for the manufacturing division is 334 crores i.e 312 crores for the bedding division and 22 crores for Drapery and upholstery.



On the foreign exchange front, we are currently covered at an average rate of approximately Rs. 60.58 per dollar for the next two quarters.

So this sums up the performance for the quarter and the half year ended 30<sup>st</sup> of September, 2013.

**Moderator:**

Thank you. Any participant who wish to ask any question can press "0" "1" on their telephone keypad now and we will unmute your line. The first question is coming from Ruchita Maheshwari from Nirmal Bang Securities. Ruchita, your line is unmuted now.

**Ruchita Maheshwari:**

Okay. Hello.

**Shrikant Himatsingka:**

Yes.

**Ruchita Maheshwari:**

Good evening, sir. Sir, I just wanted to know, you have posted a growth of 17½% year-on-year. If you can tell me in 17½%, how much was it through volume-led price hike translation?

**K.P.Pradeep :**

6% exchange-led and 11 ½ % volume-led.

**Ruchita Maheshwari:**

Okay. And, sir, in other expenses it has been up by 45.6%. And I assume it's because of currency translation and some selling expenses included. If you can give a break up of other expenses?

**K.P.Pradeep :**

The main item is, of course, the Forex translation. It comes to around Rs. 17 crores followed by increase in manufacturing expenses amounting to Rs. 5 crores and Administration and Selling expenses amounting to Rs. 6 crores.

**Ruchita Maheshwari:**

Okay. And, sir, if you can – Because in the last quarter, you have given the break up of your segmental business in million-dollar and in this quarter you have given in rupees-core. So if you can help me with the number for Q1 FY14 in the rupees-core?

**K.P.Pradeep :**

Ruchita, can we take that offline, please? You can write to us.



- Ruchita Maheshwari:** Okay. I will do that. And I miss your number. You have given the EBITDA numbers for the segmental business, if you can give me it again?
- K.P.Pradeep :** Send us a mail on specific number based queries and we will reply to each of them
- Ruchita Maheshwari:** Okay. Okay. Fine. Any guidance for FY14?
- K.P.Pradeep :** We don't normally give guidances, but you can – On the top line, we are estimating a growth in the region of 18 to 20%.
- Ruchita Maheshwari:** Okay. And margin?
- K.P.Pradeep :** We don't give guidance on margin.
- Ruchita Maheshwari:** Okay. Fine. Okay. Thank you, sir.
- Moderator:** Thank you, Ms. Maheshwari. Any other participant, if you wish to ask any question, please press "0" "1" on your telephone keypad and we will unmute your line. Any other participant, if you wish to ask any question, please press "0" "1" on your telephone keypad and we will unmute your line. We have Hitej from Span Capital who wants to ask a question. Sir, your line is unmuted.
- Hitej:** Thank you for giving me the opportunity. First of all, congrats for having a very good set of numbers. Sir, my first question is regarding the North America division business, like, you distribute about 6 brands there. So I want to understand, is it like you are the exclusive distribution or many other players who also distribute those brands? And my second question is a follow up on that. Which are the top brands in that segment and what is their size in North America?
- K.P.Pradeep :** Can you repeat the first question? Your voice is breaking.
- Hitej:** Okay. My first question is – The brand which you distribute in North America, do you hold exclusive distribution of those brands or are there many other players also who distribute those brands in North America?
- Shrikant Himatsingka:** Yes, we do hold exclusive licenses for these brands as far as North America is concerned. And as far as the size of



brands are concerned, we cannot comment on the size of other brands, but our portfolio is definitely a strong portfolio because it includes brands like Calvin Klein and Barbara Barry and Espirit and so on. But what I can tell you in context to size is, Calvin Klein is the second-largest selling home brand in department stores in our segment.

**Hitej:** Okay. And how that segment growth has been in North America?

**K.P.Pradeep :** Sorry?

**Hitej:** How the segment growth has been in North America over the last two-three years?

**K.P.Pradeep :** Well, we've been growing at a fairly healthy organic growth rate in the region of 17 to 18% compounded over the last three years. So the momentum has been fairly strong.

**Hitej:** Okay. And, sir, my second question is on your Bellora brand. Any roadmap for your Bellora brand? What is the roadmap of next two-three years?

**Shrikant Himatsingka:** Well, we are actually focusing on looking at new geographies for the brand over the next two-three years. And at this point, we have a concentrated presence in Italy, which we would like to diversify into other geographies given the strength of the brand. So that really in essence is what we are focussing on as far as that brand is concerned.

**Hitej:** Okay. And any purchase of the remaining 30% stake?

**Shrikant Himatsingka:** Well, nothing in the immediate future.

**Hitej:** Okay. Okay, sir. Thank you for answering my question. All the best for the full year.

**Shrikant Himatsingka:** Thank you.

**Moderator:** Thank you. The next question is coming from Niraj from Span Capital. Niraj, your line is unmuted now. Please go ahead and ask.

**Niraj:** Hi, Shrikant and, hi, Pradeep on a very good set of numbers. My first question was your utilization has reached



almost 95%. And last time you explained that you require just 60 crores if you expand your capacity. Can you throw some more light? I mean, what is the management thinking in terms of bedding to expand the capacity? And part to that question would be that once you reach about 90% utilization, you said margin could expand anywhere from 100 to 600 basis points. Could you just throw some more light on the whole scenario?

**Shrikant Himatsingka:**

Sure, Niraj. As far as the utilization is concerned, you are right; it's in the early 90s. And the company is looking at its options on expanding its process capacity. We do not have any certainties as far as debts or quantum of capacity is concerned at this point, but it's been explored and studied. And while we are doing that, we are still being able to clock an organic growth rate from the division by marginal de-bottlenecking, by enhanced product mix and by superior efficiency productivity and cost optimisation measures. Unfortunately, we weren't able to realize the entire upside on the recent volatility that we saw in the currency which would have helped us see that margin expansion, you know, quite substantially, which I hope will normalize over the next three to six months because we are playing catch-up with our forwards. So I think we should continue to see potential upside on expanding margins and driving organic growth until such time that we form up our expansion plans.

**Niraj:**

Could you throw more light, how much it would have been due to ForEx on the margins in this quarter, some idea, rough idea, maybe, 100-basis points or some rough idea impact of the foreign exchange?

**Shrikant Himatsingka:**

Just to give you an idea by virtue of having locked into forwards and sort of lagging behind these portraits, that impact itself was – Just for the linens division was in the region of Rs.13-14 crores for the quarter.

**Niraj:**

Oh, that was significant. Well. Okay. That was significant. So that means 300-basis points. Wow. Okay. And in terms of your other part of your division where the utilization is about 45%, how do you plan to take it up to somewhere, like, 60, which you discussed in the last call? Any management has taken any steps? And to the first question, your CapEx of Rs.60 crores, it stands true if you expand your bed linen capacity?





**Shrikant Himatsingka:**

As far as the other division is concerned, it is true that we are seeing some sluggishness in the utilization. And to counter that, we are really looking at entering new price points across global markets, stepping down the pyramid on pricing, getting a new fibres into our product mix, including fibres like Nylon and Polyester which were historically not substantial in context to our product mix. So we are doing some things on the product front, that's clearly one area. And that action should open doors in various other segments of the market in the medium-term, which we should be able to capitalize on and therefore pull revenues and utilizations as far as that division is concerned. And as far as the bedding capacity expansion of processing, you know, this number of Rs.60 crores is not entirely accurate. It will depend on the specifications of the expansions; it will depend when we consider that initiative.

**Niraj:**

Fine. And the debt in this quarter has increased compared to last quarter. Is it because of working capital or translation I understood is Rs.24 crores. In your target of repaying Rs.88 crores, does it stand hold, I mean, 88 this year, 120 next year? Is there any change in terms of, you know, cash flow management?

**K.P.Pradeep :**

That's right, Niraj. The difference is on account of working capital and that should normalize as we go through the year. And we are on target on repayment.

**Niraj:**

Fine. So at the end, you would go for the 88 crores which you had talked in the last call of repayment, right? So you would end up with the same number? My one question would be, you know, one is you have created the assets internationally and which has created some goodwill in the balance sheet and that brings a return on equity to somewhere in the range of 10 to 12% because, of course, you know – Would you look at ways to, you know, take impairment of the goodwill or what step should management take to improve return on equity on a very broad phase, maybe, two years, three years from now or how would management, you know, bring the return on equity closer to, like, 15% from the current 10 to 12% on the long-term basis? I am not asking one year, one quarter, three quarters. And where would the management take this company in the next three to five years? If you could throw



some light both in terms of ROC, ROE and in terms of as a corporate where would you like to be?

**Shrikant Himatsingka:**

Right. Fair question, Niraj. So as far as looking at the return on equity and capital employed statistics, our focus has always been to spread our assets. So, you know, if I look at FY11's EBITDA was in the region of Rs.96 crores. FY12, we were in the region of 147; FY13, we were 166; FY14, H1, we are tracking a 105. So, you know, the kind of range that we are looking at is quite clear from H1 numbers. So why I am saying this is, our team is absolutely focused on sweating our assets and we feel that there is a significant scope going forward to continue to sweat assets across our manufacturing and distribution businesses which will enhance both the ROC and ROE ratios. We do not have any particular view that we have taken, as far as the goodwill is concerned. As you are aware, as per standards, the goodwill is put to an impairment test annually and we have been tracking well. So we will remain focused on sweating value from our existing asset base going forward. And as far as the overall three to five year plan is concerned, of course, I cannot share very specific details on this, but if I look at the...

**Niraj:**

No. Just very broad, if you could.

**Shrikant Himatsingka:**

If I look at the last four to five fiscals, we have basically doubled in five years. So we are running at a current CAGR in the region of 15%. I would reckon that we will definitely want to continue to hold a growth rate in the region of 15 plus percent going forward as far as our organic growth is concerned. And the company will look at or should look at, I would say, and explore further de-bottlenecking of certain manufacturing capacities that we spoke of earlier depending on market conditions, which will be able to scale our manufacturing businesses further. And we will continue to look for opportunities in the distribution space given our leadership, especially, in the North American geography.

**Niraj:**

And then, I mean, if I am looking once – You know, you have almost an EBITDA – If you just analyse it of 200 crores, you know, and your debt most of it is 225 crores of US low cost debt. You throw up so much cash. What would you do? Would you pay a dividend payout or what would be the management because in a year or so, you already have ForEx. The gain, losses are gone and, you know, what



would you do with such huge amount of cash flow which you would have from a year down the road? Would it be more a dividend payout policy that the company have or would the company go for expansion? Because there will be significant cash throw out in the year, year-and-an-half and with such low cost of debt which you have in the US which you would not like to repay in the current stage. What would the management do in terms of cash flow which would come in the next, maybe, 18, I mean, maybe, I am not predicting anything, but somewhere down the road?

**Shrikant Himatsingka:**

Well, it's difficult to sort of box in an answer for you, but broadly and typically speaking, historically we've had better payout ratios than we currently clocked. So I wouldn't be surprised if we get an upside on the payout ratios. And, obviously, there will be some capital that we would require to sort of keep the growth engine running. So we will have that allocation going depending on the opportunities that come our way. And, of course, you know, free cash beyond these two measures will always be available to either correct capital structure if required or continue to scout for opportunities. But I would definitely feel that the current payout ratios are not in line with what we've historically averaged and we should see a gradual upside on that.

**Niraj:**

Shrikant, wish you and your whole team all the best and see you soon and hope you have such great quarters going forward. Thank you. I will stand in the queue. Bye.

**Shrikant Himatsingka:**

Thank you so much, Niraj. Thank you.

**Niraj:**

Thanks.

**Moderator:**

Thank you. Any other participant, if you wish to ask any question, you can press "0" "1" on your telephone keypad. So we've seen question coming from Mr. Sharad Ruparel, an individual investor. Mr. Ruparel, your line is unmuted now.

**Sharad Ruparel:**

Yeah. Good evening. In last two quarters, we have added stock of something like Rs. 147 crores. Is it that we are expecting the demand and for that demand to come here accumulating stock or is it that we are not able to sell?



- K.P.Pradeep :** This is in line with expected inventory levels given our order book and demand . And this should sort of normalize as you go through the next two quarters. This is not unusual for the type of business we are in.
- Sharad Ruparel:** Okay. Because last year, we had hardly added any stock during these two quarters. Is this year the stock is very substantial? You know, last year, it was net. In two quarters it was something like Rs. 4-5 crores per lead.
- Shrikant Himatsingka:** The stock reflects the growth in manufacturing activities over the last six months and, in addition, it also reflects the growth that we are seeing in the distribution businesses. And there are certain build-ups that have taken place this fiscal prior to the incoming Christmas season in North America and it should normalize in the next three to six months.
- Sharad Ruparel:** Okay. Is it cotton yarn prices are very strong as we read in the media? Will it affect our profitability?
- Shrikant Himatsingka:** Well, cotton yarn prices have been robust. We've been able to absorb it. So far, as I had mentioned earlier, you know, some of it has impacted us in higher proportion than we had envisioned because of the volatility in foreign currency that we witnessed in the first half of the year. However, I do agree that there has been strong under currents in cotton pricing over the last six months, but nothing that should affect us materially at this point.
- Sharad Ruparel:** Do you cover in forward, you know, buying in advance or contact with some people to supply us at a particular rate?
- Shrikant Himatsingka:** I cannot comment on our sourcing strategies.
- Sharad Ruparel:** Thank you very much and best of luck.
- Shrikant Himatsingka:** Thank you.
- Moderator:** Thank you. The last question is coming from Mr. Sunil Jain from Nirmal Bang Securities. Mr. Jain, your line is unmuted.
- Sunil Jain:** Yeah. Good evening, sir. My questions relate to, again, on the other expenses. Even if we reduce, maybe, around 13-14 crores from that on account of ForEx-related charges,



still that looks a bit higher compared to the previous quarters where you were in the range of around 65 crores. Anything else which I am missing in this?

**K.P.Pradeep :**

When I gave you the split-up, Sunil, there were 17 crores on account of the ForEx translation loss apart from...

**Sunil Jain:**

17?

**K.P.Pradeep :**

17 crores

**Sunil Jain:**

Fine. Fine.

**K.P.Pradeep :**

Apart from Rs. 5 crores in the manufacturing expenses line RS. 6 crores in Administration and Selling expenses If you need more details, feel free to write to me.

**Sunil Jain:**

Okay. No, I was just looking at it, like, not from the break up point of view, but I was just seeing we got a benefit in gross margin, but that was not able to get transferred into EBITDA. So...

**Shrikant Himatsingka:**

Primarily, because of the...

**Sunil Jain:**

Whatever the expenses which has happened is one of our -- It's a consistent, I mean, they are more of a regular nature?

**K.P.Pradeep :**

The gross margin gain is negated by the foreign exchange translation loss at the EBITDA level.

**Sunil Jain:**

Okay. Okay. Okay, sir. Great. Thank you.

**Moderator:**

Thank you, Mr. Jain. We do not have any more questions at the queue, sir. Sir, I would like to hand over back to you.

**Shrikant Himatsingka:**

Well, I would like to just thank everybody for taking the time to join our conference call and look forward to interacting with you during the third quarter results. Thank you again.

**Moderator:**

Thank you, sir. Thank you, Mr. Mishra and thank you all speakers. Thank you all participants for your participation. With this, we conclude the conference call for this evening. You may all disconnect your lines now. Thank you and have a very nice evening.