



Himatsingka

Himatsingka Seide Limited

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Q4 FY 14 Earnings Conference Call

May 15th, 2014

Participants:

Mr. Srikant Himatsingka, Executive Director
Mr. K P Pradeep, President Finance and Group CFO;
Mr. Ashutosh Halbe , Vice President - Corporate Finance
Mr. Ashok Sharma, AVP Treasury, Taxation and Company Secretary
Mr. T G S Gupta, AVP - Finance

Moderator:**CFO – K. P. Pradeep:**

Good evening, everybody. Thank you for joining the call. I would like to give you a brief summary of fourth-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 Q4 FY'14 - Manufacturing & Standalone performance

Revenues from manufacturing Activities

For the fourth quarter ended March 2014, Revenues from Manufacturing Operations stood at Rs. 253.31 crores, a growth of 38.2 % over Rs 183.34 crores during the same period last year.

Capacity Utilisation for Q4 FY'14

The capacity utilisation for Bed Linen plant was 90.0% and that for Drapery and Upholstery plant was 53%.

Realisation for Q4 FY'14

Realisations for Bed Linen products increased by 22.6% to Rs. 407 per metre from Rs 332 per metre during the same quarter last year.

Realisations for Drapery and Upholstery products increased by 2.8% to Rs 1,289 per metre from Rs 1,254 per metre.

Operating Expenses

Total Operating Expenses which include Employee Benefit Expenses, Depreciation and Other Expenses for the quarter increased by 10.6% to Rs. 69.15 Crores vs. Rs. 62.51 Crores in the same quarter last year.

Increase of Rs. 6.64 Crores, attributable as follows: Rs. 2.41 on Employee Benefit Expenses, Rs. 2.73 on CPP



Repairs and Maintenance, Rs. 0.97 Crores on Freight and Commission

EBITDA from manufacturing Activities

The EBITDA (including other income) increased by 26.2% to Rs 42.35 crores from Rs 33.56 crores during the same period in the last year.

EBITDA as a percentage of sales stood at 16.7% this quarter vs. 18.3% in the same quarter last year.

EBIT for Q4 FY'14

The EBIT (including other income) increased by 36.3% to Rs 31.08 crores from Rs 22.81 crores during the same period in the last year.

Interest and Finance Charges - Standalone

Interest and Finance Charges for Q4 FY'14 increased by 49.9% to Rs 11.70 crores from Rs 7.81 crores during the same quarter last year.

I will give you the split up of the interest and finance charges. We have a pure interest of 8.02 crores, finance charges of 98 lacs and we have a ForEx loss of roughly 2.70 crores, which is the AS 16 charge, which is the accounting standard 16 ForEx loss that we have in the interest and finance charges break up. The total of this comes to 11.70 crores. So the finance cost without the accounting standard 16 charge which is a ForEx loss comes to around 9 crores.

Forex losses classified under Finance Charges in the current quarter amounted to Rs 2.70 crores compared to a gain of Rs 0.46 crores in the previous year.

Forex loss is grouped under Finance charges pursuant to requirements of AS16 (Accounting Standard on Borrowing costs).

Excluding grouping of foreign exchange losses under requirements of AS16, interest cost for the quarter stands at Rs 9.00 crores compared to Rs 8.28 crores in the previous year.

Interest charges for the quarter have increased to Rs. 8.02 Crores from Rs. 6.69 Crores during the same period last year on account of



- a. Interest rate on TUF Debt taken for the Bed Linen plant which has been reset after a period of seven years as per interest reset clauses in the loan agreement. Net of 5% TUF subsidy, the net interest costs have moved from 3.60% to 6.60% resulting in higher interest cost by Rs 1.03 crores.
- b. Given the volatility in the foreign exchange rates and as per the Risk Management Policy and initiatives of the Company, we have decided to opt for a larger portfolio of Packing Credit denominated in INR vis-à-vis portfolio of Packing Credit denominated in FC , resulting in a higher interest outflow of Rs 0.32 crores
- c. The enhanced interest outflow on account of interest rates being reset on TUF debt and a larger portfolio of Packing credit denominated in INR has been offset by a reduction in interest cost by Rs. 0.65 Crores due to repayment of loans.

Exceptional items for Q4 FY'14

Exceptional gain of Rs.0.47 Crores includes an income of Rs 12.36 crores on account of a Subsidy under the Industrial Policy of the Government of Karnataka. It also includes an expense of Rs 11.89 crores towards a write off of investment made during the year in Giuseppe Bellora SpA, the European Retail and Distribution subsidiary. The Company invested this amount on account of certain one-time costs of business restructuring incurred by the subsidiary. The restructuring costs were incurred on account of implementation of a new business model.

PAT

Standalone PAT for Q4 FY'14 increased by 32.6% to Rs 19.89 crores from Rs 15.00 crores during the same quarter last year.

Year to date – Manufacturing & Standalone performance

Revenues from Manufacturing Activities

For the year ended March 2014, Revenues from manufacturing operations stood at Rs 983.68 crores, a growth of 37.7 % over Rs 714.47 crores during FY'13.



Capacity Utilisation

The capacity utilisation for the Bed Linen plant for FY'14 stood at 88.8% vs. 86.5% in FY'13

The capacity utilisation for the Drapery and Upholstery division stood at 53.6% vs. 51.6% in FY'13

Realisations for FY 14

Realisations of Bed Linen products increased by 21.3% to Rs. 400 per metre from Rs 328 per metre during FY'13. Of this 21.3% increase, 9.5% was the increase in constant currency and 11.8% was the increase on account of currency translation

Realisations for Drapery and Upholstery products increased by 5.8% to Rs 1,241 per metre from Rs 1,172 per metre.

Total Operating Expenses

Total Operating Expenses which include Employee Benefit Expenses, Depreciation and Other Expenses for the fiscal year increased by 18.7% to Rs. 290.29 Crores vs. Rs. 244.54 in the previous year.

Other Expenses

Other expenses increased over the previous year expenses by Rs 25.43 crores to Rs 147.64 crores mainly on account of increase in Forex loss (Other than AS 16) by Rs 18.84 crores and Rs 0.95 crores on account of freight and selling expenses on account of higher sales.

EBITDA from manufacturing Activities

EBITDA (including other income) increased by 25.2% to Rs 151.54 crores from Rs 120.99 crores during the previous year.

EBITDA as a percentage of sales stood at 15.4% this year vs. 16.2% in the previous year.

EBIT

EBIT (including other income) increased by 40.4% to Rs 105.09 crores from Rs 74.83 crores during the last year.

Interest and Finance Charges - Standalone

Interest and Finance Charges increased by 29.7% to Rs 46.76 crores from Rs 36.04 crores in the previous year.



Forex loss grouped under Finance charges in the current year was Rs 11.47 crores compared to Rs 7.29 crores in the previous year.

Excluding grouping of foreign exchange losses under requirements of AS16, interest cost for the year stands at Rs 35.29 crores compared to Rs 28.75 crores in FY'13.

Interest Charges

Interest charges for the year have increased to Rs. 28.71 Crores from Rs. 24.26 Crores during the same period last year on account of

- a. Higher interest rates on account of interest rate reset, leading to increase in interest cost by Rs 2.50 crores
- b. Higher borrowing costs resulting in a Rs 2.90 crores increase
- c. Packing Credit denominated in INR borrowings in the current year as compared Packing Credit denominated in FC borrowing in the earlier quarter amounting to Rs 0.32 crores
- d. Finance charges have increased in comparison with previous year on account of one time upfront costs of Rs 1.87 crores.
- e. Reduction in interest cost due to repayment of loans is Rs 1.99 crores

PAT

Standalone PAT for the year increased by 38.9% to Rs 58.84 crores from Rs 42.35 crores in the previous year.

Raw Material Outlook

The price of 100s cotton yarn rate increased from Rs. 487 per kg in the previous year Q4 to Rs. 600 per kg this quarter.

Silk yarn purchases during the period have been made at USD 53.40 per kg in Q4 FY 2014 as compared to USD 55.05 per kg in the previous year Q4.

Manufacturing Order Book

The order book for the manufacturing division stands at Rs 197 crores i.e. Rs 181 crores for the bedding division and Rs. 16 crores for Drapery and upholstery.

(Previous year, total order position Rs. 228 Crores, of which Rs. 271 crores of linens and Rs. 17 Crores of Seide)



Quarterly Retail and Distribution performance

North America

Revenues – Retail and Distribution NA

Revenue from our Retail and Distribution business in North America (Divatex and DWI) during the quarter increased by 28.7% to Rs 425.22 crores vs. Rs 330.33 crores during the same period last year.

EBITDA – Retail and Distribution NA

While we witnessed a 28.7% increase in revenues, we have had a challenging quarter on profitability. EBITDA for the quarter saw a reduction of 41.3% and stood at Rs 7.83 crores vs. Rs 13.34 crores during the same period last year.

The reduction in EBITDA is primarily due to the following reasons:

Primarily impacted by an additional Rs. 7.8 crore mark down allowance in order to free up shelf space to facilitate the launch of a major new product line. In ordinary course, this number is Rs. 1 – 1.5 Crores. However, from time to time, in major launches, these expenses are incurred. The amount of Rs. 7.8 crores is over and above the normal expense.

The second reason is that we had incurred Rs. 3 Crores for running parallel operations during the shift to a common warehousing location in US. We have earlier in two locations in Roxboro and in Greenville and we have moved to a common warehousing location in Spartanburg to get the benefit of efficiencies.

Atmosphere

Revenues – Distribution India/Asia

As regards the retail business in India and Asia represented by Atmosphere, Revenues for the quarter were Rs. 11.53 crores versus Rs. 11.37 crores during the last year, an increase of 1.4%.

EBITDA – Distribution India/Asia

EBITDA including other income of Rs. 0.21 crores as against a negative of Rs. 0.97 crores in the previous year.



Giuseppe Bellora SpA

Revenues – Distribution Europe

The Revenues for the distribution division in Europe were at Rs 20.93 crores for the quarter compared to Rs 23.28 crores in the previous year, a reduction of 10.1%.

EBITDA – Distribution Europe

EBITDA for the quarter was a negative Rs. 0.62 crores as against a negative of Rs. 1.99 crores in the previous year.

The financial performance has been impacted due to sluggish Italian economy. Several initiatives to increase revenue from Non-Italian market and also reduce the business complexity are under progress. Various cost rationalization initiatives have been completed.

Consolidated performance – Q4 FY'14

Consol Revenues – Q4 FY 14

The Group consolidated revenues grew 26.3% to Rs. 498.17 crores vs. Rs. 394.32 crores in the same quarter last year.

Consol Operating Expenses

Total Operating Expenses which include Employee Benefit Expenses, Depreciation and Other Expenses for the fiscal year increased by 6.9% to Rs. 135.39 Crores vs. Rs. 126.87 in the previous year.

Total operating expenses up by Rs. 8.72 Crores, of which Rs. 3.51 Crores pertain to employee benefit expenses, 1 Crore on Manufacturing expenses (Repairs and Maintenance) , Rs. 0.75 Crore on Advertisement and Publicity, Rs. 2.42 Crores on Sales Commissions, whereas other increases are in the normal course.

Consol EBITDA – Q4 FY 14

The consolidated EBITDA (including other income) increased by 7.4% to Rs. 41.17 crores compared to Rs. 38.33 crores in the same quarter last year.

EBITDA as a percentage of sales stood at 8.3% this quarter vs. 9.7% in the same quarter last year.



EBIT

EBIT (including other income) for the quarter increased by 2.7% to Rs 27.54 crores from Rs 26.80 crores during the same period last year.

Interest and Finance Charges - Consol

Interest and Finance Charges for the quarter increased to Rs. 21.66 crores from Rs. 15.38 crores in the previous year.

The breakup of Interest and Finance Charges is as under:
Interest is 15.8 crores. Finance charges of 3.16 crores. The ForEx loss under AS 16 is at 2.7 crores totalling 21.66 crores.

Forex losses classified under Finance Charges in the current quarter was Rs 2.70 crores compared to a gain of Rs 0.46 crores in the previous year

Excluding grouping of foreign exchange losses under requirements of AS16, interest cost for the quarter stands at Rs. 18.96 crores vs. Rs. 15.84 crores in the previous year.

Interest charges for the quarter have increased to Rs. 15.80 Crores from Rs. 12.71 Crores during the same period last year on account of

- a. Higher interest rates due to interest rates being reset, leading to increase in interest cost by Rs 1.03 crores
- b. Higher working capital borrowings in our overseas subsidiaries by Rs 2.05 crores
- c. As explained in standalone accounts, effect of Packing Credit denominated in INR borrowings in the current year as compared Packing Credit denominated in FC borrowing in the earlier quarter resulted in a higher cost of Rs 0.32 crores
- d. Higher exchange rates for translation impacting the cost by Rs 0.90 cores
- e. Reduction in interest cost due to repayment of loans is Rs 1.15 crores

Exceptional items

Exceptional loss of Rs. 2.57 Crores includes an income of Rs 12.36 crores on account of a Subsidy under the Industrial Policy of the Government of Karnataka.



It also includes one-time expenses on account of

- Manpower rationalisation, costs of closure of some retail shops and MBOs in Italian subsidiary – Rs 11.52 crores
- Severance and relocation charges on account of consolidation of Warehouses in North America – Rs 3.40 crores

Profit before tax

The consolidated Profit before tax for the quarter is at Rs 3.31 crores compared Rs 10.21 crores in the same quarter last year.

PAT

The consolidated Profit after tax and minority interest is Rs. 11.53 crores for the quarter compared to Rs. 22.45 crores during the previous year. The previous year numbers included tax reversal of 13.63 crores on account of reversal of deferred tax provision of earlier years. PAT for the quarter adjusted for reversal of tax provision would be Rs. 8.82 Crores. The consolidated PAT at 11.53 crores for the current quarter vs 8.82 crores normalised in the previous year showed a growth of 31 %.

Year to date Consolidated performance

Consolidated Revenues

For the year ended 31 March 2014, consolidated revenues grew 20.1% to Rs 2,028.22 crores as compared to Rs 1,689.43 crores in FY'13.

Consol Operating Expenses

Total Operating Expenses which include Employee Benefit Expenses, Depreciation and Other Expenses for the fiscal year increased by 16.6% to Rs. 563.29 Crores vs. Rs. 483.01 in the previous year.

Other Expenses

Other expenses are higher than previous year on account of higher Forex loss of Rs 18.22 crores, (Total increase in other expenses Rs.49.75 crores)

Total increase in operating expenses of Rs. 80.23 Crores, of which Rs. 28.31 Crores increase in Employee Benefit Expenses, Manufacturing expenses Rs. 12.0 Crores, Royalty Rs. 6.47 Crores, Other Selling Expenses up Rs. 6.5



Crores, Freight Costs up Rs. 5 Crores, Rent Rs. 3.51 Crores etc

Consolidated EBITDA

Consolidated EBITDA was at Rs 204.76 crores compared to Rs 166.83 crores in the previous year; a growth of 22.7%.

EBITDA as a percentage of sales stood at 10.1% this year vs. 9.9% in the previous year.

EBIT

EBIT (including other income) increased by 31.1% to Rs 150.38 crores from Rs 114.67 crores during the last year.

Interest and Finance Charges

Interest and Finance Charges increased by 26.9% to Rs 82.83 crores from Rs 65.28 crores.

The breakup of interest and finance charges for the consolidated is as under: We have an interest cost of 56.93 crores, finance charges of 14.43 crores and the ForEx loss and AS16 of 11.47 crores totalling to 82.83 crores.

Forex losses classified under Finance Charges in the current year was Rs 11.47 crores compared to a loss of Rs 7.29 crores in the previous year

Excluding grouping of foreign exchange losses under requirements of AS16, interest cost for the year stands at Rs 71.36 crores compared to Rs 57.99 crores in the previous year.

Interest charges

Interest charges for the year have increased to Rs. 56.93 Crores from Rs. 47.69 Crores during the last year on account of

- a. Higher interest rates leading to increase in interest cost by Rs 2.50 crores
- b. Higher borrowings by Rs 7.47 crores
- c. Higher exchange rates for translation impacting the cost by Rs 3.50 cores
- d. Packing Credit denominated in INR borrowings in the current year as compared Packing Credit denominated in



- FC borrowing in the earlier year leading to increase of Rs 0.32 crores.
- e. Finance charges have increased in comparison with previous year on account of upfront costs of Rs 1.87 crores.
- f. Reduction in interest cost due to repayment of loans is Rs 2.69 crores

Exceptional items

Exceptional loss of Rs. 4.14 Crores includes an income of Rs 12.36 crores on account of a Subsidy under the Industrial Policy of the Government of Karnataka and one-time expenses on account of

- Manpower rationalisation, costs of closure of some retail shops and MBOs in Italian subsidiary – Rs 11.52 crores
- Warehouse consolidation in the North America and resulting manpower rationalisation – Rs 4.96 crores

Consolidated PAT

Consolidated PAT of the current year before exceptional items is Rs. 67.55 crores compared to Rs. 49.39 crores in the previous year, a growth of 36.7 %.

Consolidated PAT of the current year is Rs. 63.34 crores compared to Rs. 57.32 crores in the previous year, a growth of 10.5 %.

Current year's PAT of Rs 63.34 crores has grown by 45% over previous year's PAT of Rs 43.69 crores after adjusting for reversal of deferred tax provision of the earlier years.

Inventory

Consolidated inventory as on 31st of March 2014 stood at Rs 638.25 crores as against Rs. 407.50 crores on 31 March 2013.

The increase is mainly on account of

- a. An increase of Rs 147 crores in inventory in the North American subsidiaries on account of new sheeting programmes
- b. An increase of Rs 35 crores in India
- c. Rs 36 crores on account of translation in foreign exchange.

Debt Position

The total debt outstanding as of 31 March 2014 is Rs 814 crores; Rs 481 crores being the term debt and Rs. 333 crores being the working capital debt. The Company's effective cost of debt is at 5.72 % compared to 5.83% in the previous year.

During the year ended 31 March 2014, term debt repayment was Rs 100.82 crores.

Total Debt repayment for existing loans is Rs 121.08 crores for 2014-15.

The working capital is higher by Rs.172.32 Crores on account of a specific long term sheeting programme at the overseas subsidiaries necessitating higher inventories.

Ratios (Consolidated Financials)

If you look at our overall ratios, we have a net debt to equity ratio of 1.05. Previous year, it was 1.06. Long-term debt to equity ratio at 0.64 versus 0.85 in the previous year. Net debt to EBITDA of 3.84 versus 4.04 in the previous year. Long-term debt to EBITDA of 2.35 versus 3.25 in the previous year. DSCR was at around 1.11 versus 1.34 in the previous year. An interest coverage ratio of 2.47 versus 2.56 in the previous year and a return of capital employed at 10.4% over a previous year of 8.8%.

Capex during the period

An investment of Rs. 43.05 crores was made on fixed assets during the year 2013-14

This included Rs. 25 Crores invested on consolidation of Warehouse and Administrative offices in North America.

This is expected to bring in efficiencies in Warehousing and Administrative expenses.

So this sums up the performance for the quarter and the year ended 31st March 2014.

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



- Moderator:** Thank you so much, sir. With this, we are going to start the Q&A interactive session. So I would request all the attendees and the participants, if you wish to ask any question, you may press "0" and "1" on your telephone keypad, please. I'd like to repeat. Participants, should you wish to ask any question, you may press "0" and "1" on your telephone keypad, please. And here comes the first question from Mr. Resham Jain from B&K Securities. The line is unmuted. You may go ahead and ask your question, please.
- Resham Jain:** Good evening, sir. Sir, two-three first of all bookkeeping questions I couldn't write the things, like, in the manufacturing business what EBITDA you said, sir, for this quarter? Last quarter was 33.6 crores.
- Management:** 42.35 crores versus 33.56 crores in the previous year.
- Resham Jain:** Okay. Okay.
- Management:** Yeah, 42. Yeah.
- Resham Jain:** Sir, one thing which I was not able to understand is this 7.8 crores of Divatex one-time loss which you said what exactly is that?
- Management:** This pertains to essentially some funding allocation we have made to retailers to enhance sale space for some large programmes that we are in the midst of launching and some of which has already launched. So typically, you know, whenever such large programmes launch, this kind of markdown allowances do come our way. So it really pertains to that. In our ordinary course, this typically is \$200,000-300,000 per quarter which is on the ordinary course. Over and above that, we had this expense for these launches, so we highlighted it.
- Resham Jain:** Okay. So what is the margin for Divatex and for DWI separately, if you can break up that?
- Management:** We can take that offline separately because...
- Resham Jain:** Okay. No problem. No problem, sir. Thank you.



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- Moderator:** Thank you so much. We have the next question from Mr. Niraj from Span Capital. The line is unmuted. You may go ahead and ask your question, sir.
- Niraj:** Hello. Hi, Shrikanth and Pradeep. How are you guys there?
- Management:** Hi, Niraj. How are you?
- Niraj:** Yes. I am fine. My first question was, as last year we discussed, how is the strategy in change, I mean, I understand the certain effects of warehouse and certain short-term, but do you think the long-term strategy which you were talking two to three years in terms of debt reduction would continue and the focus to improve utilization which you've already reached, if you could throw broad light on that? It's probably my first question.
- Management:** Yes. You know, I would like to speak on the debt. If you see our closing debt as mentioned by K. P., it stands at 814 crores versus 703 crores during March 31st FY13. So, of course, I am referring to gross debt numbers. So the increase in this debt that has been seen is largely arising of working capital increases because out the term debt of the 703 crores for the year ended FY13, 542 crores is related to term debt. Of the 814 crores, which is FY14 closing debt, 482 crores relates to term debt. So there has been a reduction of approximately 60 crores in the term debt over last year. Adjusted for foreign exchange translation, this 482 crores which is the closing FY14 debt, actually stands at 454 crores, but due to translation, stood at 482 crores. That is as far as term debt is concerned. The reason we've seen debt go up is largely because of working capital increases and that's gone up from a 161 crores for FY13 ended to 332 crores for FY14 ended. As we mentioned during our Q3 call, we do see this normalizing to a large extent over the next three to five months in context to the build up in working capital. So I wouldn't say that it will entirely reduce to earlier levels in this span of time, but it should correct a substantial amount over the next 2Qs. And we are committed to ensuring that our debt equity or debt EBITDA ratios continue to improve. As you have seen, our long-term debt to equity ratio has improved to 0.64 from 0.85 times last year. Our net debt to EBITDA has improved from 4.4 times to 3.85 times for this year. So our leverage ratios continued to see improvement and we are committed to ensuring that debt levels are under control.

As far as the outlook for North America goes and for consolidated group performance goes, we had a good first three quarters. We had a slightly challenging Q4 on account of certain one-time hit and certain restructuring cost that we incurred during the quarter. I do not see this as any sign of weakness in our macro story. I think the story remains robust; our fundamental model remains robust. We are looking forward to continuing a growth momentum going into FY15. We see growth in the region of 12 to 15% on consolidated revenues going into FY15 and I think we should see significant improvement in our operating performance as well. So we continue to invest in our portfolio brands, branded revenue streams during FY14 cross the 600-crore mark. We closed FY14 with branded revenue streams of 636 crores versus 560 crores last year. Our portfolio brands, our suite of brands now stands at eight brands globally and we continue to invest in building our branded revenue streams. We are also parallelly focused on building our private labelled revenue streams, which also show growth during FY14. And, of course, our manufacturing performance has significantly improved as well. It is important to note that this financial year's performance unfortunately was impacted by the volatility in the dollar that we saw. And during the first three quarters of this financial year, the manufacturing export-led revenue streams were unable to capture any upside on the dollar. We estimate the impact of this to be in the region of 40 crores for the financial year. So, all in all, we remain very positive on the manufacturing story. We remain very positive on the retail and distribution story. And I also look forward to seeing substantial improvement in our Italian subsidiary's performance going into FY15, given the various measures we have taken in the Q4 of FY14. So I hope I've answered your questions, Niraj?

Niraj:

Fine. And one more question will be why has this inventory gone up, I mean, could you just explain because I don't know if I have understood you correctly? What is the main reason that our sales were lower because of the weather or something? What was it?

Management:

Yeah. The total inventory for FY14 ended stood at 638 crores consolidated versus 407 crores during FY13 ended. Of this, approximately 35-40 crores comes from translation impact given the dollar. Another 35-40 crores is the impact



that we see because of underlying inflation, so raw material inflation that is being witnessed especially on the manufacturing front. So it does not necessarily imply that the quantum of inventory has gone up. It's a combination of a slight quantum increase given the higher through put in manufacturing, but it's also inflationary in context to the cost of raw material. So that explains around 80 crores of the total delta of approximately 230 crores. And the rest of the 145-150 crores, approximately 70 crores is coming on account of a launch of couple of large programmes in the North Americas, which has caused us to accumulate inventory before launch. Some of it did launch in the last week of February and in March and some of it continues to write-through into the first Q. We did see some deference of shipments on account of poor weather that prevailed in the large part of North America from November through February and this caused a slight amount of cascading in the system in context to off take. So there was a slight glut as far as the inventory is concerned. And approximately 50-70 crores of inventories have increased in our North American subsidiaries predominantly given the product mix and growth that we are seeing in that geography.

Niraj:

And do you see that the long-term ROE is the – you were talking in the range of 15-20% whole through in the next three to five years what we were discussing and do in the long-term to achieve those?

Management:

Yes. I absolutely feel that our group is committed to see maximization of both ROE and ROC. And I feel that if we look at the last three years of performance from FY12 to FY14, we have grown our revenues from 1428 crores to 2028 crores. We have grown our EBITDA from 147 crores to 204 crores and the PAT has doubled from 33 crores to 63.5 crores. This is on account of sweating our assets and I think there is a lot more to come in context to sweating our global asset basis and thereby increasing the ratios of ROE and ROC.

Niraj:

And what is the payout ratio? Anything decided for this year and the long-term payout ratio in terms of dividend?

Management:

See, the board has enhanced the dividend for FY14 by 50% and has declared a dividend of Rs. 1.50 per share versus Rs. 1 per share which is what we did for FY13 and 0.50 paise per share what we had done for FY12. So from 10% in



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FY12, we climbed to 20% in FY13 and we've climbed to 30% in FY14.

Niraj:

My last question. What do you mean by these large programmes of initiatives in the US and they this marketing cost?

Management:

The definition of a large programme is, you know, most of our retail clients who are typically Fortune 500 companies, they have door counts or store counts, as the way you'd like to see it, in excess of anywhere between 1000-2500 stores. So when they want to launch a new product across 2500 stores or 1500 stores depending on which retailer it is, it typically rolls out in within a span of two to three weeks to all stores. So given the share size of the roll out, what typically happens is the quantum and thereby the value is fairly large. And to be able to prepare for a launch of this size, you accumulate inventory in the system for a period of four months prior to get ready for the launch. And once launched, you also keep substantial backup inventories to be able to navigate the programme once it's on the shelves.

Niraj:

Thank you Shrikanth and Pradeep. Wish you all the best and once again thank you. Bye-bye.

Management:

Thank you, Niraj. Thank you.

Moderator:

Thank you so much, sir. Before we move on to further question, I would like to repeat. Attendees, if you wish to ask any more question, you may press "0" and "1" on your telephone keypad, please. We have the next question from Mr. Niraj Mansingka from Edelweiss. The line is unmuted. You may go ahead and ask your question.

Parvez:

Hi. Good evening, sir. This is Parvez here. Hello?

Management:

Yes. Yes.

Parvez:

Sir, a couple of questions. One, what would be the margin profile that we see for our US and Europe operations going ahead because, I mean, as you rightly said, the last quarter has been kind of challenging and Bellora, anyway, I mean, even if you look at last couple of years, there has been challenges on the profitability front, so how do we see the margin trajectory going ahead for both these geographies?



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Management:

You know, we divide the margin profile in context to EBITDA because margin is a broad term, so I will talk about EBITDA margins. And I will divide this answer into three buckets – manufacturing, North American distribution and European distribution. So as for as manufacturing is concerned, our EBITDA percentage for a year came in at 14.1% for the year. And, as I had mentioned earlier, we did see a substantial amount of Forex loss both under AS16 and under other expenses where we weren't able to realize the market rates or close to market rates given our hedged positions. So I see potential substantial improvement in manufacturing margins going forward. As far as the distribution margins in North America are concerned, we closed the year at an EBITDA of 4.6% versus an EBITDA of 4.4% last year. And we feel that given the various consolidation efforts on supply chain management in various other consolidations that we spoke about in the medium term we should see a substantial margin improvement in the North Americas wherein we should start to see in the region of 6 plus percent on the EBITDA front. As far as the Italian operations are concerned, as you correctly pointed out, it's been a dull two years for that division. It's been a challenging environment and a model that we have witnessed. And I think as far as that division is concerned, it will be difficult for me to predict what the optimal margin profile should be. But for now, we think that the revision in the medium term could potentially clock close to 10% to 12% EBITDA margins given its luxury profile.

Parvez:

Sure, sir. Sir, would it be possible to get the capacity utilization for the manufacturing facilities for this particular quarter?

Management:

Yeah. It was around 90% for the bed linen plant and around 53% for the drapery and upholstery plant.

Parvez:

Okay. And, sir, considering that we are closer to the 90% mark, what are we thinking about capacity enhancement? I know you've spoken about this issue in the past, but I would want to get your views on this.

Management:

See, last year, the bed linen division did approximately just over 600 crores. And this year, we have clocked approximately 845 crores for the division. So we saw a growth of 41% in the sheeting division. And the volume



growth in the sheeting division was approximately 20%. What we have done during the year is we've debottlenecked some capacities which will now be available to us. And we are focused on enhancing our product mix which is reflected in the realizations as well which stands at \$6.56 per metre versus \$6 per metre last year on constant currency. So I do feel that, you know, there is scope to continue to grow organically. But to specifically answer your question on expansions on the manufacturing facility at current capacity utilisation, we are still working out the right time for us to get into this expansion. As I said in earlier calls, it will be a processed capacity expansion that we envisaged and being reviewed. We haven't firmed up any dates or timeframes for this expansion just as yet.

As far as the drapery and upholstery manufacturing facility is concerned, since the utilization levels have been range-bound, there is significant scope for an upside in this division in context to availability of capacity. So we don't forecast any capacity additions in that plant.

Parvez: with the improvement particularly in the distribution now it's going ahead, so what would be your guidance for the debt levels, say, at the end of FY15?

Management: Well, I think, you know, as far as debt levels in FY15 go, we should see gross debt in the region of 650-700 crores. The reason I am taking this band is because it's fairly simple to predict the term debt position given repayments. However, there is a translation impact and slight volatility in working capital depending on cycles. So we see it in the band of 650-700 crores going into next year.

Parvez: Hello. Sir, one more question. When you spoke about the large programme that you had launched, how was it different from what you had done in the past and how different can be in the outcome for FY15 or henceforth?

Management: The word large was used in context to an inventory build up. Large programmes in our business are not something we do every quarter and therefore it was highlighted. Typically, such large programmes do come around every six to eight – not six but, you know, every couple of years we see something like this. So the word large was to draw attention to the inventory build up and explain that.



To answer your other question, we have several large programmes and at some point they have all been launched. But these programmes have shelf life of anywhere between four to six years.

Parvez:

Right. Sir, but currently now that you have launched programmes and you have also got a client feedback, in fact, what would be your guidance in terms of how the revenue would be going? I know you have given this thought process in the US, but could you also explain more like how has been the acceptance of the products that you have been showcasing and how you see the visibility the growth coming in?

Management:

I think we have fairly good – First of all, I would like to say we are amongst the five largest home textile suppliers to the United States market, point number one. Point number two, we feel that over the last three years our revenues in the North Americas have grown with a strong organic undertone. And we think that we will continue to clock this organic growth in the North Americas. So going into FY15, while I will not make specific comments on divisions, I have said earlier in this call that we clocked 2028 crores for FY14 consolidated revenues and I think that it is safe for us to look at growth rates in the region of 12 to 15% on a consolidated basis going into FY15.

Parvez:

Okay, sir. And anything about the growth in the brands?

Management:

Yes. The branded revenue streams which was not something we highlighted earlier, but we chose to highlight it just to ensure more clarity on our business model. The branded revenue streams for FY14 came in at 636 crores versus 560 crores, so we saw approximately close to 13-14% in branded revenues which includes our global portfolio of eight brands. So I continue to see this trend on the tone in terms of branded revenue growth.

Parvez:

Sure, sir. Sir, would it be possible to get the break up of debt between domestic debt and foreign debt and more so for it, if you would be further able to break that into term debt and working capital debt?

Management:

We request you to take that offline. Our Group CFO would be more than happy to assist you with the information.



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- Parvez:** Sure, sir. Thank you.
- Moderator:** Thank you so much. We have the next question from Mr. Rajesh from Anand Rathi. The line is unmuted. You may go ahead and ask your question.
- Rajesh:** Sir, if I look at it, I mean, from the inventory perspective, how does the break up between the geographies look like, I mean, the standalone numbers definitely stand for, I mean, that's for the India perspective, but rest of it is largely for the US, is my consideration right?
- Management:** Just hold on one second. Yes. That's correct. So standalone is in the region of 200 crores.
- Rajesh:** 195 crores. Yes.
- Management:** It reflects the manufacturing inventories. Rest of the inventories belong to our distribution subsidiaries which are for the India-Asia subsidiary which is Himatsingka Wovens, which controls atmosphere brand, which probably would have inventories in the region of 20 odd crores. The second is our European division which has inventories in the region 40 crores, so that's approximately 65 crores of the rest of the 438 crores. So, therefore, 365 crores of inventory which is approximately \$57 million will be belonging to the North American subsidiaries. This also includes goods which are on the water.
- Rajesh:** The high seas basically? What was the...?
- Management:** Yeah. I mean, goods which are in transit.
- Rajesh:** Transit? Understood, sir. Sir, you have spoken about the large bedding programming and also about the initiative in terms of the growth which you are talking about from the North American market which particularly you are looking at. So how should we look at when we going forward as we see that 12-15% total consolidated growth what you are talking about how should the inventory movement look like? I mean, sir, do you plan to have any other further sort of this launch programme anything which is planned for this year or it's, you know, the inventory should stabilize at this level, so there would be dropped on further from hereon?



Management:

I think we should see the –The kind of growth rates I spoke about, 15% should be pretty much witnessed across divisions. I wouldn't be able to go to greater details than this, but the underlying momentum that we are seeing, of course, there might be a quarter which might be an exception and so on. But generally speaking for FY15 the 12-15% growth rates I was talking about is applicable to both manufacturing and the retail and distribution divisions of the group. So I do see that kind of growth potentially speaking for FY15.

Rajesh:

Sir, rather if I look at, you know, for we did somewhere closer to around 260-270 million dollar of revenues for our North American business, so what should be, I mean, how do I look at for the inventory for that kind of business or rather whatever number if I assume whether it 15% or 20% or 10%, so how do I look at for a normalize inventory levels for those or what should be the basis for inventory for those kind of business?

Management:

You know, the inventories which are, as I had mentioned in the region of \$57 million with a 360 crores for the North Americas, I think it is higher by approximately 70-80 crores at this point. It is heavier by that amount on account of the launches and so on. So I think it will be fair to assume that corrections in due course. And that may be offset by some quantum if the growth continues the way I have been speaking about.

Rajesh:

Understood. Understood, sir. And, sir, just a very basic question in terms of when you talk of launches in your parlance, does it mean that there would be a new design or there would be some new set of fabrics of those coming into at all of your stores and those are displayed, so that's why there is this inventory build up which happens and then it continues for three to four years?

Management:

We have product launches every month because as a large B-to-B distribution platform into North Americas including our brands new product launches and introductions is part of our daily business. We highlighted this particular launch because very large programmes are launched not in the same frequency as ordinary course of business and therefore there was an inventory build up which I alluded to in context to the quantum of inventory and the attention was drawn to the launch. Launches in the ordinary course



happen all the time. So a typical launch would, by definition, mean a new product is introduced at a retailer or a set of retailers depending on the product and typically have shelf life depending on what the product is. More standard product have long shelf life of four to six years or five year. More seasonal products have sometimes shelf life of a couple of years. And then we also have products which are purely seasonal which has been infused into the retail system for the spring season or the winter season and so on.

Rajesh: Okay. Okay. And, sir, just quickly on the US part. January and February was definitely impacted because of the weather, but March and April numbers at least on their detailed period have been good and April was the strongest. So has that been also witnessed by US?

Management: Yeah. There is a lag because, you know, while retail numbers came in a little better in March and April, their buying lag will cascade by a Q. So, you know, we are going to see a little bit of repulses in Q1 as well of this. But we definitely see it correcting.

Rajesh: Okay. So what's the order book if you can please repeat it regarding your bedding and D&H, drapery and upholstery?

Management: The manufacturing order book is in the region of 330 crores.

Rajesh: 330? Thanks. What's the break up for that for the bedding and drapery?

Management: Bedding is approximately 315 crores.

Rajesh: Okay. Sir, just last question. The drapery you had spoken about that you are looking at ways to increase your utilization levels on hat front. So anything you can talk about that on inside on that how should we look at for the next two years as such?

Management: Just hold on, please. As far as the drapery and upholstery vertical is concerned on the manufacturing front, you know, we've started seeing close to four to five percent increase in the volume uptake for FY14 versus FY13, which is actually a good sign. Given it's luxury in nature, you know, during FY12 and FY13, it was pretty sluggish. In fact, we were seeing some amount of de-growth. So FY14 has finally



begun to see some growth. And as far as the Q is concerned, we saw a total volume growth of 25% for the quarter 4 in the drapery and upholstery division. Now, that doesn't mean that that's what we forecast for the next year. I am just mentioning that to substantiate my argument that we have begun to see a positive trend in volume uptake for that division. So I think I feel confident once again to tell you that the 12-15% growth rates I spoke about that we should witness across divisions largely is our view.

Rajesh: Okay. Understood, sir. It will do. And, sir, just on the raw material side just the spinning rather the yarn prices are softening versus, so does that lower into our margins also or it normalizes over a period of time?

Management: Well, definition of softening is quite broad.

Rajesh: I meant to say, sir, what my understanding was at least from the fabric manufacturing perspective. Last two-three months have been quite good in terms of the pricing power vis-à-vis and the spread which is available to them.

Management: You know, actually the raw material prices typically work with a lag of anywhere between three to five months of including the on-hand and on-water inventories. So I do agree with you that there's been a slight correction in prices largely speaking on this raw material front over the last couple of months. And prior to which we had seen a slight inflation, you know, during October to January period. So largely it's remained range-bound and, you know, I think that there's nothing to worry about on the raw material front if I take a six months' view at this point.

Rajesh: Okay, sir. It will do. Thanks for answering the question, sir. Thank you.

Management: Thank you.

Moderator: Thank you so much. We have the next question from Mr. Sharad Ruparel. He is an individual investor. The line is unmuted. You may go ahead and ask your question.

Sharad Ruparel: Yeah. Good evening. In Q4 consolidated and there is, you know, stock in trade there is a minus figure of 135 crores and quite a large figure of consumption of raw materials, I could not understand. Could you please explain if we sold



some, you know, stock in trade? Usually, we purchase stock in trade, but this is a minus figure.

Management:

That's just a reporting requirement and details. I think what you should just focus on is what we had spoken about earlier. There was a total increase of inventory for the year of approximately 230 crores. We have explained the break up of this 230 crores. This stock in trade is just a classification and grouping. I request Mr. Ashutosh Halbe and K. P. Pradeep to clarify for you this matter offline. They will be happy to give you all the details.

Sharad Ruparel:

Okay. Thank you very much. Okay.

Moderator:

Thank you so much. We have the next question from Mr. Pradeep from ICICI. The line is unmuted. You may go ahead and ask your question.

Pradeep:

Yeah. Hi. Good evening. Sir, just one question I think 90% of the utilization in the bed linen division is that understanding correct?

Management:

That is correct.

Pradeep:

Sir, given such high kind of utilization and, you know, without even increasing or without doing CapEx, would you be confident of achieving this 12-15% growth you are guiding for or, you know, sometimes down-the-line so in second half you would have to incur some kind of CapEx?

Management:

No. We don't envisage any CapEx as early as the timeframes you are suggesting, point number one. Point number two, we've done some de-bottlenecking activities and unleashed some capacities. So for us to clock 12-15% growth will be a combination of two things. A, it will be sweating our assets. B, it will be sweating our product mix. So I think that's quite possible. We have demonstrated it in this fiscal as well vis-à-vis FY13. So we feel that that's not something that will be difficult to achieve. In fact, it will largely be driven by a market conditions and our ability to launch products more than the limitation on capacity.

Pradeep:

And just taking this a one-year forward again, so in FY16, would you need something in terms of CapEx again you believe that sweating your assets and increasing the product mix?



- Management:** No. I mean, you know, this definition of utilization I would like to clarify is technically you can achieve a 100% utilization because the utilization is a net number. So once we are in the higher 90s and we want to continue to grow, sweating our product mix is still a theoretical possibility, but there will be a ceiling beyond the point. And once we are in the higher 90s, you know, it is quite clear that the company will have to look at making the investments in enhancing its process capacity.
- Pradeep:** And this investment would be in the, I mean, I think you talked about this two quarters ago that would be the process capacity which would, you know, generally give you or you could almost double your turnover, is that understanding correct?
- Management:** That's correct.
- Pradeep:** Okay. Sir, second question is what was the rupee realization or, you know, the average dollar rate this quarter which we realized?
- Management:** 61.3
- Pradeep:** 61.3. Okay. And, sir, the demand environment versus last year continues to remain robust; there is no issue in that.
- Management:** So the demand remains – I think, I wouldn't use the term robust. Robust, again, is a very optimistic term. I would use the term that, you know, the environment looks conducive and stable to absorb more product and capacity. It's also a company-specific matter. So, you know, I think that in a context to us, we see a strong demand scenario. We might see a couple of quarters of stable performance and a couple of quarters of much higher growth. But, overall, I think the organic growth rates are possible.
- On the bed linen front, while I have mentioned that we are looking at 12-15% growth across manufacturing and distribution divisions, this two to three month weather issue and its cascading impact does exist. And we are witnessing a little bit of that, but I think that should correct. We do see, however, large positives on the fact that the opportunity loss that we incurred in FY14 on account of the dollar



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could be potentially recuperated during FY15 under stable conditions. But, again, that's a possibility.

Pradeep:

And by stable conditions, you would generally mean a ...

Management:

The definition of stable conditions is the rupees not on a sea-saw, right? That is range-bound. So our positions are hedged, so, you know, we hope to see a more stable environment. It's not that we are planning around it. But if the relatively more stable environment were to exist, we will flock that potential.

Pradeep:

So the 40 crores figure which you mentioned couple of minutes in one of the – Yeah, you would recoup that basically?

Management:

Yeah. We could potentially recoup that.

Pradeep:

Okay. Thank you.

Moderator:

Thank you so much, Mr. Pradeep. So we have one last question in the queue for today's session and that is from Mr. Avinash from Sundaram Mutual Fund. The line is unmuted. You may go ahead and ask your question.

Avinash:

Hi, sir. Just to understand this programme that you were talking about in North America a little later. This programme that we run is for our clients, right, it does not belong to a branded business?

Management:

Yeah. It's not from our branded revenue vertical.

Avinash:

Okay. Okay. And, sir, the risk of any unsold inventory in such programme does it risk with us or does it risk to the client?

Management:

Unsold, typically clients because, you know, we keep backup inventory on their request and in agreement. So you typically wouldn't see any material amounts of inventory which are at risk.

Avinash:

Okay. Okay. So the risk is completely the decline and not with us actually?

Management:

I wouldn't say completely. I would say the risk is with the client because these programmes are on a back of an



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understanding with the client and that's conventional in the industry. The inventory risk is not material when it comes to the end of the shelf life of these programmes.

Avinash:

Okay. Okay. Sure. And, sir, the other question was on the capacity de-bottlenecking that you mentioned. How much capacity in terms of percentage have we added due to this de-bottlenecking?

Management:

We have augmented by approximately 1.5 million metres per annum in the bedding division.

Avinash:

Okay. Sure. Okay, sir. Thank you and all the best.

Moderator:

Thank you so much. At this time, there are no more questions from the participants. I would like to hand it over back to Mr. Amit Mishra and the management for any final and closing comments. Over to you, sir.

Amit Mishra:

Sir, would you like to make any final comments?

Management:

Well, I would like to thank everybody for your time. I hope all of us have been able to answer your questions and queries. As I had mentioned, if there have been any queries that have been requested to be taken offline, do get in touch and we will be more than happy to assist you with all your questions and requests. Thank you for joining us once again and we look forward to interacting with you at the end of Q1. Thank you very much.

Moderator:

Thank you very much, sir. Thank you investors for joining us. Hope you all have spent a useful time. With this, we conclude the call for today. Wish you all a great day ahead. You may all disconnect your lines now. Thank you so much.