Himatsingka Seide Limited

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Q 3 Financial Year 2017 Results Conference Call

February 02, 2017

Participants: Mr. Shrikant Himatsingka - Managing Director and CEO
Mr. T.G.S. Gupta – VP- Finance
Mr. Ashok Sharma – VP- Treasury, Taxation and Company Secretary
Mr. Sachin Garg – AVP Treasury and Investor Relations

Moderator: Ladies and gentlemen, good day and welcome to the Himatsingka Seide Limited 3Q FY2017 Post Result 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. Prerna Jhunjhunwala from Batlivala & Karani Securities India Private Limited. Thank you and over to you Madam!

Prerna Jhunjhunwala: Thank you. Hi good evening everyone on behalf of Batlivala & Karani Securities, I would like to welcome you all for Q3FY2017 results to conference call for Himatsingka Seide Limited. From the company we have with us key senior management including Mr. Shrikant Himatsingka, the Managing Director and the CEO, Mr. T.G.S. Gupta, VP Finance, Mr. Ashok Sharma, VP Treasury, Taxation and Company Secretary and Mr. Sachin Garg, AVP, Treasury and Investor Relations. I would now like to handover the call to the management for their comments. Thank you and over to Mr. Shrikant Himatsingka!

Shrikant Himatsingka: Thank you Prerna for the introduction. Good evening everybody. As usual we will go through the consolidated operating performance for the third quarter followed by nine months and then go on with some other comments.

Consolidated revenues for the quarter were healthy and came in at 547.64 Crores versus 436.17 Crores during the last year, an increase of 25.6%. Consolidated EBITDA for the third quarter increased 40.1% to 104.21 Crores versus 74.40 Crores in the corresponding quarter of the previous year.

EBITDA including other income margin stood at 19% this quarter versus 17.1% in the corresponding quarter of the previous year. The consolidated EBIT was up 53.7% to 87.69 Crores versus 57.07 Crores in the corresponding quarter of the previous year. The EBIT margin stood at 16% versus 13.1% in the corresponding quarter of the previous year.

The interest in finance charges for the quarter increased to 27.36 Crores versus 21.27 Crores in the corresponding quarter of the previous year primarily on account of higher term debt towards new capacity commissioning and working capital debt.

The PBT on a consolidated basis for the quarter stood at 60.33 Crores compared to 35.8 Crores in the corresponding quarter of the previous year, a growth of 68.5%. The consolidated profit after tax stood at 45.08 Crores for the quarter compared to 29.26 Crores during the previous year, a growth of 54.1%.

Consolidated performance for a nine-month period, the consolidated revenues for nine months stood at Rs. 1554.14 Crores versus 1441.75, a growth of 7.8%. Consolidated EBITDA came in at 289.57 Crores versus 226.48 Crores, a growth of 27.7%. The consolidated EBITDA margin came in at 18.6% versus 15.7% and the consolidated EBIT for the nine-month period stood at 247.2 Crores versus 175.04 Crores during the last year.

The EBIT margin for the nine-month period came in at 15.9% versus 12.1% during the previous year. The interest and finance charges for the nine-month period increased to 70.67 Crores versus 66.04 Crores in the corresponding period of the previous year.

The PBT for nine months came in at 176.53 Crores compared to 109 Crores during the corresponding period of the previous year, growth of 62%. PAT for the nine-month period grew 58% to 136.52 Crores versus 86.42 Crores during the corresponding nine-month period of the previous year.

I would just like to say at this point that the consolidated numbers are unaudited and the limited review has not been carried out by the auditors; this commentary is not for legal purposes and compliance.

The manufacturing and standalone performance for the third quarter, the manufacturing revenues came in at 414.17 Crores versus 259.82 Crores, a growth of 59.4% and EBITDA from manufacturing activities came in at 94.83 Crores versus 69.17 Crores during the last year.

EBITDA including other income as a margin stood at 22.9% for manufacturing activities versus 26.6% during the corresponding period of the previous year. On a nine-month basis, the manufacturing revenues grew by 28.6% and stood at 993.59 Crores versus 772.51 Crores during the corresponding period of the previous year.

The EBITDA margin from manufacturing operation came in at 25.9% and stood at 257.9 Crores versus 26.8% and an EBITDA of 206.86 Crores during the corresponding period of the previous year. For the third quarter, consolidated retail and distribution revenues grew by 18.3% to 444.4 Crores versus 375.7 Crores during the last year.

EBITDA from consolidated retail and distribution operations increased by 30.2% to 15.94 Crores versus 12.24 Crores during the last year. The consolidated EBITDA margin from retail and distribution operations came in at 3.6% versus 3.3% during the last year.

On a nine-month basis, retail and distribution revenues inched up to 1339.27 Crores versus 1287.53 Crores during the previous year. The EBITDA during the nine-month period from retail and distribution came in at 49.84 Crores versus 38.87 Crores, an increase of 28.2%.

The consolidated EBITDA margin for the nine-month period from retail and distribution businesses stood at 3.7% versus 3% during the previous year.

Moving on to the tax, the tax provision for the quarter stood at 15.25 Crores as against 6.54 Crores during the corresponding quarter in the previous year and for the nine-month period, the total tax provision stood at 40.01 Crores as against 22.58 Crores during the corresponding period of the previous year.

A few comments on the debt and treasury front, the gross consolidated debt as of December 31, 2016 stood at 1303 Crores of which 743 Crores was term debt and 560 Crores was working capital debt.

The consolidated gross debt as of September 2016 stood at 1122 Crores of which 666 Crores were term debt and 456 Crores was working capital debt. The gross debt as on December 31, 2016 includes an amount of 87 Crores, we will come back on this number. The cash and cash equivalence for December 31, 2016 stood at 156 Crores as against 135 Crores on September 30, 2016.

Consequently the Company's net debt as of December 31, 2016 stood at 1147 Crores versus 987 Crores as of September 30, 2016. The Company's effective cost of debt at the end of the third quarter stood at 5.9% per annum.

Some key leverage ratios that we track and share, the debt service coverage ratio on a trailing 12-month basis stood at 3.11 at the end of the third quarter as against 3.07 at the end of the second quarter of FY2017.

The interest service coverage ratio on a trailing 12-month basis stood at 3.23 at the end of the third quarter FY2017. The net debt to equity ratio stood at 1.10 at the end of the third quarter FY2017.

The net debt to EBITDA excluding debt on projects stood at 2.81 at the end of the third quarter FY2017.

Some critical return ratios, the return on capital employed, net of project spends on a trailing 12-month basis stood at 15.9% at the end of the third quarter of FY2017. The return on equity also on a TPM basis at the end of Q3FY2017 stood at 20.4%, so we have seen an improvement in most of our operating parameters.

Moving on to a brief business update, we remain focused on executing our expansion plans that we are in midst off that we have announced in July 2015, so I have informed in our previous earnings call, the Company has commenced commercial production of its expanded sheeting capacity at its facility in Hassan on October 3, 2016.

Consequent to the expansion, the capacity has doubled from 23 million meters per annum to 46 million meters per annum. During the quarter, the expanded capacity operated at the utilization levels that we had spoken about during our last call where we had indicated that we are confident of placing approximately 40% to 50 % of the incremental capacity on a going forward basis.

The construction activity on our new spinning project is satisfactory and we are currently in line to make our spinning project operational by the middle of FY2018. The installed capacity for the spinning project is 211580 spindles as shared with you earlier.

With this I complete my update on the quarterly performance and some developments on the business front. I would be happy to open the floor to questions. Over to you!

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Dhruv Agarwal from Crescita Investment. Please go ahead.

Dhruv Agarwal: Good evening Sir. Congrats on a good set of numbers. Basically you have not reported consolidated numbers because of the reason you stated at the start of the call?

Shrikant Himatsingka: Yes, we have not because of the SEBI. We will begin conducting the requirements.

Dhruv Agarwal: Okay. So, when could we expect the numbers to come out for consolidated numbers for Q3?

Shrikant Himatsingka: The consolidated unaudited, not limited reviewed numbers are available in the press release and what I read out to you today is also pretty much from that, so it is not like it is not available but it will be published from Q4. Obviously Q4 is the end of the year, so therefore it is audited for consolidated purposes also but nevertheless the company will be ready to publish consolidated numbers that has been limited reviewed starting Q4.

Dhruv Agarwal: Okay and Sir also in the press release some numbers…

Shrikant Himatsingka: From that earlier simply because it was not required but since the SEBI circular was out recently on this, we will make sure that will be ready by Q4.

Dhruv Agarwal: Sir what should be the tax rate for the full year?

Shrikant Himatsingka: Shall we come back to you on that off line?

Dhruv Agarwal: Okay. No problem Sir. Thank you.

Moderator: Thank you. We have a next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Sir, good evening and congratulations on the great set of numbers. Just first question on the standalone numbers that you have published. If I look at gross margins Q-on-Q we have seen at 8% to 9% fall, so on an incremental or additional sales of around 116 Crores that we have seen are cost of increased by around 100 Crores, so gross profit on this incremental sales is lower than our past trends. So I just wanted your comments on that and secondly you mentioned that the bed sheet unit has clocked utilization similar to the 40%, 50% that you are guiding. I just wanted your thoughts on going forward also you expect this to improve and to what extent?

Shrikant Himatsingka: So let me answer both your questions. First of all on the reduction in gross margin, your observation is correct. We will see gross margins go back up and they have been impacted primarily by two things; a) The plant, this is the first quarter that the plant has operated, its new commissioned capacities and therefore typically we will see slight increase in consumption until the plant stabilizes, so that is one reason. Second the looms that were also commissioned during the quarter, the fresh capacities of loom came in on a staggered basis through the quarter and therefore that also contributed to a lower gross margin. Thirdly, the topline reflects about 22 Crores of yarn that we have supplied to third party suppliers for our global product requirements in other categories other than what we manufacture and therefore that has diluted the margin profile a little. So these are the three factors I repeat as new capacities have been commissioned beginning the October 3, the new capacities typically take a little while to tune in vis-à-vis efficiencies on consumption. B) The looms that we commissioned was staggered through the queue and therefore impacted the gross margin number because that quantum of grey had to be outsourced and c) the topline includes approximately 22 Crores of yarn that we have had to supply to third party global suppliers to the group for categories that we do not manufacture in-house and that has diluted the gross margin profile as well. Corrected for that our gross margin should be fairly range bound and now with regard to the second leg of your question, which was to do with the capacity utilization levels, I would like to clarify that I did not make a statement saying we are tracking 40% to 50% utilization levels. I said that we are tracking incremental utilization 40% to 50% and we are likely to see upswing on the operating margin profile even if the utilization level going into Q4 are ranged marked.

Nihal Jham: Absolutely Sir just one, follow-up question on that. What were the gross margins for a consolidated entity?

Shrikant Himatsingka: The gross margin for consolidated was 41.5% versus 42.7% during the corresponding period of the last year.

Nihal Jham: Sir, have we seen an increase in our capital consumption?

Shrikant Himatsingka: We have.

Nihal Jham: I will get back in the queue. Thank you so much.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Good evening Sir. My question relates to Forex gain this quarter. How much of that in the consolidate region.

Shrikant Himatsingka: Can we take it offline please?

Sunil Jain: Sir out of total manufactured products how much we outsourced to our retail and distribution percentage wise?

Shrikant Himatsingka: About close to off the group’s consolidated requirement of product approximately 60 plus percent is now made in house and the rest is outsourced.

Sunil Jain: You mean to say whatever the retail requirement is there out of that?

Shrikant Himatsingka: Out of group's gross requirement of production approximately 60 plus product percent is made in house and the rest is outsourced. This ratio was lower earlier. Now with the commissioning of new capacity that has inched up, which is why you are seeing an increase in manufacturing revenues, so it should be in the early 60s we will be happy to take that question offline as well, but my preliminary reaction is it should be in that region and some of the products that we outsource we do not even manufacture in house as yet.

Sunil Jain: Sir post this sheeting expansion and even yarn expansion how much additional working capital loan we will be needing?

Shrikant Himatsingka: That is not something we can accurately comment on, but we will be broadly tracking as a percentage we will be broadly tracking what we required earlier. So as the revenues expand that same percentage will apply on an expanded revenue base.

Sunil Jain: But in the yarn I think the whole yarn will be consumed internally, so that will not get reflected into the sales whereas the working capital will be required in that?

Shrikant Himatsingka: Yes, but that will get compensated in the value chain because our yarn inventories might come down and raw fiber inventories will come in, etc. So I do not think it will materially change the overall working capital profile.

Sunil Jain: That is all from me.

Moderator: Thank you. We have the next question from the line of Dhwanil Shah from IWealth Shrikant Himatsingka. Please go ahead.

Dhwanil Shah: Congrats on a good set of numbers. Just coming back to the question, which earlier participant had asked Sir the gross margin as you were saying has come down? Sir when do we see again I mean it can come back to the same level, which we did before or you think that it can take some more time?

Shrikant Himatsingka: I mean it can. As I said it should back to range bound levels as far as percentages are concerned and I highlighted the three predominant reasons that you see for a compression. So other than that I do not see any other reason for it to be compressed.

Sunil Jain: Sir one more question was on the utilization front as you said that on the incremental capacity we have done almost 50% Sir when do we think Sir that we can reach 100% on this Sir?

Shrikant Himatsingka: That is a good question, but I will not be able to comment on that. We are striving towards it, but we would like to sort of organically move in that direction. Right now we are delivering what we had indicated and as and when we have firm indication and reason to believe that we will see the next jump in utilization, we will share the same with you, but at this point we are tracking what we have delivered in Q3.

Sunil Jain: Okay, but Sir just on the timeframe Sir if you could just help us I mean because we as of now as you said that some of the components we are still outsourcing and will it be how difficult or how easy will it be to make it in-house?

Shrikant Himatsingka: See the group will always outsource certain things because we will not be making every single thing that we tell and distribute in house, but it would be fair to assume that our in house production ratio of total requirements will continue to step up, which is also a part of the reason we went in for a capacity expansion because it was latent demand within the system and so the next bus stop for in house production would be 75%.

Sunil Jain: Sir to reach the optimum level as we were saying before what are the things, which you are looking for in terms of the demand per se if you could just help us to understand what is the current scenario?

Shrikant Himatsingka: I think the demand scenario is fairly stable to be very honest. It is not like there is a great expansion on demand. So both the demand and supply situation has not changed during this fiscal in any material form and shape and I would be wrong to say that there is not enough supply. There is enough supply in the global ecosystem and demand is range bound. I do not see fresh supply of any consequence coming into the system whatever had to be commissioned in context to fresh capacity in the industry has been witnessed over the last year so now it will be quite honestly an area where the focus will be on capturing market share. As far as Himatsingka is concerned with the new capacities on board, we will also remain focused on tapping other geographies, which we would like to expand as well.

Sunil Jain: One last question Sir we have seen that yarn prices are moving up, so how that will impact us going ahead. Do we see any major impact on the margin front because of the yarn prices or has it is c completely pass through?

Shrikant Himatsingka: Pass through has never been the case. I would say organic movements in the price of raw material are either retained and/or absorbed the benefit retained or the pain absorbed as the case may be if the movement is organic and I repeat the industry is structured such that should there be organic movements on the raw material front any reduction and gain and increase and pain is to be absorbed if the movements are organic and at this point I see movements to be organic, so small movements between quarters and raw material will happen in this industry and I do not see any material movements to talk home about at this stage and therefore earlier in response to a question earlier I stated that our gross margin should be range bound.

Sunil Jain: Thank you Sir and all the best.

Moderator: Thank you. We have the next question from the line of Resham Jain from DSP Blackrock. Please go ahead.

Resham Jain: Thank you. Sir just one question. In the distribution side of the business we have seen topline remaining like 5% to 7% and in certain quarters we have degrowth also. This is the first quarter after a long time we have seen a significant growth of around 25%. Sir just if you can comment what has led to this growth and how sustainable is this absolute number or growth going forward so that is the only question I have?

Shrikant Himatsingka: Good question Resham. Partly the growth percentage looks a little better that it should because of the low base of last year. You know 25% year on year in my assessment is not sustainable as we have indicated earlier. So definitely growth rate should be more organic and muted, but the reason that we are seeing this is all the seeds that we have planted over the last year in preparation for our new capacities to come through and the initiatives we have taken on the various brands that we have and so they have all culminated and there has been time dwell and then so we are seeing fresh product introduction in the market, but I would temper the growth rates from what we have clocked YOY. These are not sustainable, but they will be tempered going forward.

Resham Jain: Sir if you can give us the total branded revenue of the total distribution business you have?

Shrikant Himatsingka: We will have to come back to you on that Resham. We request you to take that offline please.

Resham Jain: Okay and this growth is coming from private label business or from the branded business?

Shrikant Himatsingka: This is largely branded platforms.

Resham Jain: Okay and from US, North America.

Shrikant Himatsingka: North America that is correct.

Resham Jain: Thank you Sir.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Good evening Sir how are you? Sir just one basic question the growth that we have seen in the standalone operations that growth is completely has come because of flying to the distribution business in the US or these are new customers altogether.

Shrikant Himatsingka: Some new customers, but largely growth in the US through existing channels, but as I said you have to remove from that number approximately 22 Crores, which is nonproduction based revenue streams, but other than that 22 Crores the rest is what I just said.

Nisarg Vakharia: Okay so a lot of it is actually our sourcing of our existing business only?

Shrikant Himatsingka: No new business.

Nisarg Vakharia: No new business okay. Great Sir thank you so much.

Shrikant Himatsingka: Earlier to Resham's question we were working on these new businesses for a year in preparation for our new capacities and therefore it was dovetailed and well timed.

Nisarg Vakharia: Thank you Sir.

Moderator: Thank you. We have the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Sir just wanted an update on our towel capacity. We started a spinning expansion right now, but in case of towel are we looking at starting in FY2019 or any guidance of when we are looking at getting it commissioned?

Shrikant Himatsingka: Good question. So I repeat our status on expansion activities so the sheeting expansion stands completed and commissioned as you have taken note of with affect from the October 3, 2016. The spinning expansion, which entails a capacity of 211 thousand spindles is under construction and we are scheduled to commission the asset in the middle of FY2018 vis-à-vis our terry expansion we have not announced any dates for the commencement of construction. The projects under study and we will come back to you with dates on the commencement of construction on the terry facility. I would also like to add that we had stated earlier that we will be grading our capital expenditure over roughly three financial years and so we started our fresh capex in November 2015.

We commissioned our plant off shooting broadly on schedule on October 16, 2016. Our spinning plants running broadly on schedule from the middle of next year and therefore the terry to come in is in line with the grading of capex over the timeframe that we explained earlier.

Nihal Jham: That should be it from my side. Thank you.

Moderator: Thank you. We have the next question from the line of Resham Jain from DSP Blackrock. Please go ahead. Mr. Resham Jain your line in talk mode. Please go ahead with your question.

Resham Jain: Sir just one question, this recently announced additional duty drawback advantage any comments on that how it will impact Himatsingka?

Shrikant Himatsingka: Well there was an announcement, but there is no notification as yet, so we are waiting for the same. If it is in line with the announcement obviously like with the case of other players it is a positive. Maybe it will help us bite some inflation Resham.

Resham Jain: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Manju Bhashini from Sundaram Mutual Fund. Please go ahead.

Manju Bhashini: Good evening Sir. I wanted to know on this border tax agreement that we have been hearing of late from the Trump's regimen. If you can help us understand in what way can it affect our businesses it will be great?

Shrikant Himatsingka: Actually if you can help me understand I will be grateful Manju. The answer to your question is that there is no clarity on the matter globally. There are several views on the same and therefore it is very, very difficult to make any conclusive inference from what is going on. I do not see any particular movement towards imposing any border tax vis-à-vis our category of product, but you never know Mr. Trump in context to the views that his government may or may not take. So as we all as stakeholders become a little wiser over the next months as to what is in store for us, we will definitely communicate that with our investors.

Manju Bhashini: Thank you Sir.

Moderator: Thank you. The next question is from the line of Akhil Kalori from Franklin Templeton. Please go ahead.

Akhil Kalori: Thanks a lot for the opportunity. Sir I joined in a bit late. Sir apologies if I am repeating this. The first question is on gross margins. You explained the three broad reasons why the gross margins are a bit low during this quarter, but I just also wanted to understand in terms of the product mix. Is the product mix from the incremental from the new capacities same as the product mix for the entire earlier capacities or is there some difference as well?

Shrikant Himatsingka: I would say that the product mix on an overall basis should be slightly inferior. Just on a simple basis of expanded operation, so natural to climb down a little on product mix to widen reach and enhance utilization levels, so on an ongoing basis I would put it a notch lower, but nevertheless I expect that given the three factors that I spoke about and you are on the same page, we should range bound in gross margins.

Akhil Kalori: Understood Sir. Sir on the gross margins again so how much of a gross margin compression would you attribute to the change in product mix if you could give ballpark number just for an understanding?

Shrikant Himatsingka: That is difficult to predict and it could even vary from quarter-to-quarter because there are seasonal quarters or I would say relatively seasonal quarters in this business. Sometimes there are launches, sometimes they are promotions, so it would not be consistent through the fiscal broadly speaking, but that is why I just sort of stick to the range bound definition where a few hundred basis points movements I would consider normal and I would expect that.

Akhil Kalori: Sir in terms of the targets, so I think the next incremental target would be 75% utilizations over the next couple of years, so would you say that the product mix or what is the kind of product mix that you are targeting while expanding the overall utilization?

Shrikant Himatsingka: I think there is an error in your interpretation. I did not say that our next target is 75% utilization for the plant. Someone asked me a question on what percentage of in-house production vis-à-vis will be the group's total requirement would be made in-house. I said currently we are making a little over 60% and the next bus stop would be to make 75% of the group's requirements in-house. That is a different statement vis-à-vis the total utilization levels. As far as total utilization levels are concerned, we are currently at the region of 70% to 75% and we would like to go north from here. I would not be able to give a timeline as to how long it will take to go north from the current utilization levels, but presently we will let us say in the foreseeable quarter or so be range bound and focus on getting our gross margin profile improved, stabilizing our especially commission capacities, fine tuning it, and then continuing the journey to place further.

Akhil Kalori: Thank you. Sir on the Pima Cott, which is a new initiative that we have started if you could throw some light on how the client response has been and how has been the offtake on the Pima Cott side without shedding any numbers, but at least on the qualitative side?

Shrikant Himatsingka: Well if I were to use just one word I would say satisfactory. Our brand Pima Cott is a strong brand and the response we have seen from clients has indeed been satisfactory and some of the traction that we are seeing is attributable to that.

Akhil Kalori: The traction on the distribution side.

Shrikant Himatsingka: Both manufacturing and distribution.

Akhil Kalori: Sir finally on the distribution revenue run rate in INR terms we clocked about close to 450 Crores of distribution revenue this quarter, which is broadly before the restructuring exercise maybe a couple of years back. So do you see a possibility of distribution revenues ramping up from current levels going forwards?

Shrikant Himatsingka: Sure.

Akhil Kalori: The growth on an absolute basis?

Shrikant Himatsingka: Sure I do. To answer your question I do see potential for growth clearly, but as I said earlier it would be more organic in nature while the current quarter has seen good traction because of a slightly lower base year, etc. The group has also been careful to proliferate the right product and the right brand, there might be a little off vis-à-vis aggressive growth rates, but I think we are as focused on driving the right complexion of growth. At the same time, as our balance expands with the increment that we have made on sheeting assets and with the increments that we will be making on spinning assets and as we will follow through with enhancing our terry towel assets we will also see a growth coming in from the addition of these new businesses as well as we remain focused on enhancing our ROCE and being more capital efficient. So some of it that might come from growth, some might come from integration, and some might come from addition of new revenue streams and new categories like towels for example, so I think a combination of these factors should give us organic growth capabilities that are broadly sustainable, but the steadfast and super focused on making sure that we are capital efficient.

Akhil Kalori: Sir with the final question would be on the other expenses besides the gross margins. I think we have shown tremendous cost control and that has been happening over the last couple of years and even during this quarter. Just want to understand the sustainability of the other expenses. Do you think that the kind of margin expansion that we have got just because of lower other expenses as well as relatively lower employee cost, so as a percentage of topline that can continue going forward?

Shrikant Himatsingka: I think it is a fair observation. We have been fighting expenses hard in order to stay efficient, but it is no secret that there is always an inflationary push when it comes to operating expenses, so I think we will continue to see the inflationary push and we will continue to fight it. Overall, we should see some organic growth in our operating expenses, but as a percentage maybe we should be able to fight it on a reasonable basis and I think the operating margins again should be range bound until the commissioning of spinning assets.

Akhil Kalori: Understood operating margins at current levels this quarter's levels?

Shrikant Himatsingka: It should be range bound, so we could see some uptick or we could see some correction, but in a range bound basis and manufacturing and distribution businesses when looked at separately, which I spoke about on the commentary also should see and are seeing range bound tendencies. So the next bus stop for a change in operating margin profile will come when the spinning assets are commissioned because of its nature of business. It is a backward integration initiative, which will not impact net topline, but will come in a manifest in the results in the form of EBITDA, etc., so that will change the operating margin profile.

Akhil Kalori: Understood Sir. Just to probe a bit further on this in terms of the absolute run rate as well. Last year in FY2016 we were talking about roughly 32 Crores a quarter of other expenses. Now despite doubling our capacity on the sheathing side our operating expenses or the other expenses have not gone up meaningfully. So is there anything specific that we have done, which has resulted in such improvement.

Shrikant Himatsingka: We have done several, several things. I will be happy to take that offline, but being several, several things is not to be interpreted as something that is beyond common sense. We have just ensured that if we are adding certain expenditure on the manufacturing front, we have tried to offset it in other parts of the group broadly speaking, but apart from that we have just had tight control basically.

Akhil Kalori: Fair enough Sir. Thank you Sir. Thank a lot.

Moderator: As there are no further questions from the participants, I now hand the conference back to Mr. Shrikant Himatsingka for closing comments.

Shrikant Himatsingka: Well, I would like to thank everybody for taking the time to join us on this call. Do feel free to contact us as usual. Mr. Sachin Garg, AVP, Treasury and Investor Relations may be contacted. We are all at your disposal should you have any questions and I look forward to interacting with you again shortly. Thank you.

Moderator: Thank you very much. On behalf of B&K Securities that concludes this conference. Thank you for joining us ladies and gentleman, you may now disconnect your lines.