Himatsingka Seide Ltd

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AUDIO CONFERENCING SERVICE

TRANSCRIPTION REPORT

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Operator:

Thank you for standing by and welcome to Himatsingka Seide Ltd., 1Q FY12 earning conference call hosted by Macquarie Capital Securities.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question please press *1 on your telephone. Please be advised this conference is being recorded today.

I would like to hand the conference over to Mr. Amit Mishra. Over to you sir.

Mr. Amit Mishra:

Hello everyone, it is our pleasure to host Himatsingka Seide's post result conference call and thank you very much all of you for participating on it.

To represent the company, we have with us Mr. Shrikant Himatsingka, Executive Director, Mr. K.P. Pradeep, Chief Financial Officer, Mr. Amit Jain, Associate Vice President and Mr. Ashok Sharma, General Manager, Finance.

Mr. Himatsingka, I would now like to handover to you for first brief background to the results and then followed by the question and answer. Over to you sir.

Mr. Himatsingka:

Good morning everyone. Thank you for joining in. I would like to give a brief summary on our first quarter FY12 results. We can follow that with a session on questions. I would first take you through the performance on the manufacturing divisions, then we will go through the performance on our retail and distribution divisions, and finally we will look at our consolidated performance of the group.

For the first quarter ended June, our manufacturing revenues came in at 158.5 crores versus 153 crores during the same period last year and 91.7 crores during the Q4 of FY11. On a year on year basis, the manufacturing has shown a steady performance growing approximately 3.3% on revenues and on a sequential basis revenues have jumped 73% from 91.7 crores to 158.5 crores. The EBITDA in the manufacturing division has come in at 17.84 crores for the quarter versus 6.5 crores last year and 1.75 crores during the fourth quarter of financial year 2011. On a year on year basis, the EBITDA in manufacturing has shown a 173% growth and of course on a quarter basis on a sequential basis it has grown approximately nine folds.

The manufacturing division has seen significant improvement during the quarter for a few reasons;
(a) The plant utilizations have been fairly healthy versus Q4. Our utilization percentage is in the region of 80%;
(b) Our product mix has improved year on year and realizations both in our drapery and upholstery manufacturing division and our bedding manufacturing division stand enhanced; and
(c) We have begun to see the impact of softening raw material prices during the first quarter. Clearly the first quarter does not reflect current prices of raw material that prevail, but on a weighted average basis from Q4 we have seen softening.
(d) And as far as the fourth reason for a better performance is concerned, our focus on cost initiatives continue to be robust and are showing up in our operating results.

So, once again, on the first quarter we closed manufacturing with a 158 crores with 17.8 crores in EBITDA versus 153 crores and 6.5 crores in EBITDA during the last year.

Moving on to our distribution business, we have clocked handsome growth in the North American markets which include the United States, Canada, and Mexico. Our total revenues for North America during the quarter stood at 256 crores versus 220 crores last year, a growth of 16%. Our Divatex division grew 14% to 195.7 crores versus 171 crores last year and our DWI division grew to 60.3 crores versus 49 crores last year, a growth of 23%. So, all in all 256 crores versus 220 crores, this really reflects the demand pulse for our products across our brands Calvin Klein, Barbara Barry and Esprit, that operate in these geographies, as well as our private label businesses that cater to programs of major retailers across these geographies. We have seen strong demand in the United States, we have seen strong demand in Canada and Mexico, and we have also expanded our distribution channel and reach during the quarter. We have had healthy client additions during the quarter and as a result the revenues have shown significant improvement.

The EBITDA and pretax earnings have come in stable from our North American divisions, the EBITDAs came in at 11.1 crores versus 13.2 crores during the last year, this reflects some slight margin compression on the back of higher raw material prices. And pretax earnings came in range bound at 9.2 crores versus 10 crores during the last year. So, all in all revenues continue to show growth, earnings have come in stable from our North America business, and we forecast the demand to continue to be robust going forward.

As far as our Asia revenues are concerned, India-Asia, the revenues have been range bound at 11.6 crores versus 12.7 crores during the last year. The slight decrease in revenues is to do with other operating income as there had been a change in certain sewing related activities that took place in that division. Retail revenues stand stable. EBITDAs came in at approximately 16.5% versus 17% as far as our retail India-Asia is concerned, and continue to show stability.

The distribution division in Europe came in at 26 crores versus 29 crores last year and EBITDAs have been flat for the quarter in Europe. We are seeing a slight weakness in demand as far as our Italian business is concerned. However, on a consolidated basis, as it is less than 8% of our consolidated revenue streams, the weighted average impact is not material.

All in all, our retail and distribution division across North America, Europe, and India-Asia have notched up revenues of 293 crores for the quarter versus 262 crores last year and EBITDA from retail and distribution have come in at 12.4 crores versus 15.5 crores during the last year. The slight decrease in EBITDA has been due to margin compression on account of high raw material prices that still have a slight impact on the retail and distribution divisions predominantly in the North American market.

On a consolidated basis the company clocked 326 crores in consolidated revenues versus 302 crores during the last year, that is a growth of 8% year on year and a growth of 18% versus Q4 which came in at 275 crores. The consolidated EBITDA for the quarter increased to 30.3 crores versus 21.97 crores during the last year, a growth of 38% year on year and has seen a significant increase versus the fourth quarter which came in at 11.23 crores. Consolidated pretax earnings from operations stood at 7.3 crores for the quarter versus a loss of 6 crores during the last year, and consolidated pretax earning after exceptional items stood at 18.6 crores versus 6 crores of loss during the last year. The consolidated profit after tax stood at 15.03 crores for the quarter versus 7.08 crores of loss during the last year.

On the balance sheet front, year on year our gross debt has corrected by approximately 100 crores, our total gross debt outstanding as of 30th June 2010 stood at 790 crores and that has now corrected to 691 crores as of the first quarter ended FY12.

The overall performance as we see it has begun to show gradual improvement, our manufacturing and retail and distribution order books continue to be robust. At this point, our manufacturing order book for Q2 and Q3 on the bedding division stands at approximately 200 crores. Our upholstery and drapery division order books stand at approximately 30 crores. So, all in all we have 230 crores in terms of order book on the manufacturing front. We also have a robust order book across our retail and distribution divisions in North America and Europe and in Asia.

As far as performance going forward is concerned, we will continue to see a positive impact on results arising out of the softening of raw material prices during the second quarter and during the third quarter. Do bear in mind that there will be a lag in terms of positive impact vis-à-vis current market prices of raw material as there will be 60 to 90 days of inventory that will be in the system at higher weighted average prices, but we will definitely continue to see a positive impact of raw material.

Our exceptional item during the quarter was arising out of surplus real estate that the company had at the Apparel Park, Doddabalapur. This asset was disposed off and the gain on sale of assets of 11.28 crores was booked during the quarter. The reason for the sale was that the activities that were executed in this facility shifted to our mother facilities, and as a result we had a surplus piece of real estate. It was industrial in nature, the company did not require it for its core activities and hence disposed.

So, I think we will continue to focus on strong organic growth going along. The order books look robust, positive impact coming in from raw material prices, reduction of debt, all in all should enable us to focus on driving optimum results. I would like to say that during the quarter Atmosphere opened its 15th store in Amman, Jordan. This is the third international store. So, at this point we have 12 domestic stores in India and three international stores, one in Dubai, one in Singapore, and one in Amman, Jordan. The fourth international store will open during the third quarter of this financial year and that will be in the city of Riyadh in Saudi Arabia. The importance of that market for these kinds of luxury products is very high and we therefore consider it appropriate to launch our brand in that geography as well.

So, with this I would like to bring my summary to a close. Please come up with any questions that you might have.

Operator:

Thank you sir. At this time, participants if you wish to ask any question, please press *1 on your telephone keypad and wait for your name to be announced.

The first question comes from Mr. Harsha Chauhan from Nayanwala Securities. You may go ahead please.

Mr. Harsha Chauhan:

Good morning sir.

Mr. Himatsingka:

Good morning.

Mr. Harsha Chauhan:

Sir, I would like to know the average cost of debt?

Mr. Himatsingka:

It is 5%.

Mr. Harsha Chauhan:

5%, okay. Sir, and your guidance for the FY12 and 13.

Mr. Himatsingka:

We do not give earnings guidance but our revenue should be in the region of 1320 to 1350 crores.

Mr. Harsha Chauhan:

Okay, sir. Thank you sir.

Operator:

Thank you. Once again, participants if you wish to ask any questions, please press *1 on your telephone keypad and wait for your name to be announced.

Next question we have Mr. Rajesh Phelwani from HDFC Mutual Fund. You may go ahead please.

Mr. Rajesh Phelwani:

Good morning.

Mr. Himatsingka:

Morning.

Mr. Rajesh Phelwani:

Just wanted to check the employee cost is down current year.

Mr. Himatsingka:

That is right.

Mr. Rajesh Phelwani:

Do we see this run rate for employee cost going forward and even the other cost items like admin, SG&A, we have cut down on these costs. How do we see them going forward?

Mr. Himatsingka:

Well, yes, the costs have been rationalized arising out of synergies and so on. So, there will be movements between quarters definitely depending on utilizations and so on, but overall the trend should be subdued in terms of the costs. In other word the costs as far as the trend is concerned and what you are seeing in Q1 should continue overall.

Mr. Rajesh Phelwani:

Sir, can you give flavour of the RM cost, I mean what was the average cost last year for silk and cotton and what is it today?

Mr. Himatsingka:

I mean there are various ways of measuring RM costs, but I would say as far as the silk prices are concerned, filature silk is quoting in the region of 55 dollars per kg up until Q4 , and as of today it stands corrected in the region of 47 dollars per kg. We have not seen any of this impact us as far as silk is concerned during the first quarter as I said our weighted average prices continue to be high but we will start seeing impact from Q2 and Q3. As far as cotton is concerned, the raw cotton prices of Shankar-6 the most common variety which stood at in the region of 45,000 to 48,000 rupees per candy during the Q4 and approximately 55,000 to 60,000 candy during the Q3 of FY11, today stands at approximately 33,000 to 35,000 rupees a candy, and as a result yarn prices have corrected more or less proportionately.

So, once again our impact on Q1 is still high as far as raw material is concerned but we will start seeing another 20% or so upside, 20 to 25% during the second quarter and perhaps even higher during Q3.

I would like to mention at this point that cotton for a period of 30 to 40 years remained range bound in the region of 22,000 to 26,000 to 28,000, 30,000 rupees a candy. So, you know it was a very stable commodity and it was first time in history that during the last 18 months it had gone up like this, so even with this correction in cotton it is still higher than prevailing averages during the last 20 to 30 years.

Mr. Rajesh Phelwani:

So, this 20 to 25% if you can more elabrate on this, where is the benefit going to come, and how will it come?

Mr. Himatsingka:

It will come in the form of raw material consumption.

Mr. Rajesh Phelwani:

20 to 25% over . . .

Mr. Himatsingka:

It depends on the product mix prevailing in that quarter but if yarn as a component of total raw material consumption was at 50%, you know then we will see in the region of 20% correction on 50%.

Mr. Rajesh Phelwani:

Quarter-on-quarter basis?

Mr. Himatsingka:

Quarter-on-quarter basis.

Mr. Rajesh Phelwani:

And with these costs coming down I mean you may be able to retain the benefit for some time, but do you think that this benefit can be retained until the last mile in your distribution side, or will it be difficult to negotiate price?

Mr. Himatsingka:

As far as retaining the benefit is concerned, as we see it is a benefit vis-à-vis Q4 or earlier quarters, but in terms of an optimum model, it is still not a benefit, it is still on the higher side. So, as we see it we will be able to retain a large portion of the current swing in raw material prices unless the raw material prices increase themselves, but assuming that it continues to be stable, we are only going back to normalcy over the next couple of quarters in terms of raw material percentage as a percentage of sales. So, I do believe that in most cases we should be able to retain it quite appropriately.

Mr. Rajesh Phelwani:

So, RM cost like which was 65% last year as a percentage of sales, where can it settle on a normalized basis going forward?

Mr. Himatsingka:

You are referring to the 65% which division or . . .

Mr. Rajesh Phelwani:

I am just talking about an overall I mean blended basis, RM cost of 65% on a consolidated basis.

Mr. Himatsingka:

On blended basis, you know, because you are including . . .

Mr. Rajesh Phelwani:

Silk as well as cotton, yes . . .

Mr. Himatsingka:

Only on manufacturing or including retail and . . .

Mr. Rajesh Phelwani:

Including distribution, yes.

Mr. Himatsingka:

Yes, it should come down to approximately 61 to 62.

Mr. Rajesh Phelwani:

This is on an incremental basis, right?

Mr. Himatsingka:

Correct.

Mr. Rajesh Phelwani:

Yes, your interest cost is also down significantly this quarter.

Mr. Himatsingka:

Yes, as I said you know, may I request our CFO to answer it.

Mr. K.P. Pradeep:

Rajesh, the interest cost is down on account of (1) there has been a reduction of debt by at least around 50 crores vis-à-vis the last year, (2) and we have also changed our mix of financing because we currently source our working capital size in foreign currency, so the differential rates are giving us the beneficial impact, (3) and we have seen the benefit of lower factor commissions along with reduced interest rates in the US, so all in all the swing is roughly around 3.5 crores and is accounted by these three factors.

Mr. Rajesh Phelwani:

And any particular figure for capex going forward?

Mr. K.P. Pradeep:

We should have organic capex in the region of upto a maximum of 10 crores.

Mr. Rajesh Phelwani:

And what about the other inorganic capex.

Mr. K.P. Pradeep:

If there is anything specific, it will be project funded in any case, so there is nothing at the moment.

Mr. Rajesh Phelwani:

Okay, thank you.

Operator:

Thank you. Next question we have from Mr. Hitesh Godhani from Spam Capital. You may go ahead please.

Mr. K.C. Suri:

Yes, hi, this is K.C. Suri. Just wanted to reconfirm the debt number that you gave that was on a standalone basis or consolidated basis?

Mr. K.P. Pradeep:

That is on a consolidated basis.

Mr. K.C. Suri:

Okay, so, I mean and your cost of debt is about 5%, so what constitutes the other finance charges?

Mr. K.C. Suri:

You would have also the mix of financing, so interest rates are also….

Mr. K.C. Suri:

I was just looking at your consolidated numbers. The interest in finance charges are like 10.84 crores.

Mr. K.P. Pradeep:

We would have other bank charges, LC charges, we would have factor commissions, all of them are booked in this.

Mr. K.C. Suri:

Okay, and on your derivative, do you have any cash outflow happening or how was it when the dollar moves in favor or against the rupee?

Mr. K.P. Pradeep:

On the structure, there are two parts to the structure. So, there is one aspect of this structure where you do have a small cashflow every month, receipt or payment as the case may be, because the structure is in two parts. The one that you see in the notes to the published results, is the unprovided portion.

Mr. K.C. Suri:

Right, thank you so much.

Operator:

Thank you. Once again, participants who wish to ask any more questions, please press *1 on your telephone keypad and wait for your name to be announced.

I repeat participants if you wish to ask any question, please press *1 on your telephone keypad and wait for your name to be announced.

Next question we have from Mr. Harsha Chauhan from Nayanwala Securities. You may go ahead please.

Mr. Harsha Chauhan:

Hello sir, I wanted to know about the right issues like somewhere in mid-October last year you had announced that you would be coming out the right issues, I wanted to know the status for the same.

Mr. K.P. Pradeep:

It was not a right issue, it was a QIP that we were looking at, and the market condition of course at that point of time was not conducive. We would come back to the market at an appropriate time in the future.

Mr. Harsha Chauhan:

Okay, thank you sir.

Mr. K.P. Pradeep:

Welcome.

Operator:

Thank you. I repeat participants if you wish to ask any more question, please press *1 on your telephone keypad and wait for your name to be announced.

Next question we have from Mr. Vijay Kumar. You may go ahead please.

Mr. Vijay Kumar:

Sir, this is Vijay Kumar speaking, good morning.

Mr. Himatsingka:

Good morning.

Mr. Vijay Kumar:

Raw material prices of cotton have come down but now that it has been allowed to be exported to an unlimited quantity, how do we view the prices of cotton going forward during the remaining season this year.

Mr. Himatsingka:

That should be fairly stable, there could be some minor movements, but this is the end of the cotton season, Mr. Vijay Kumar, and as you know the new crop will be out in October. So, I do not think there is any cause of worry from our side with the new announcement of cotton exports being freed. The new crop is estimated to be over what we had in the crop size last year, so the supply side should be fairly healthy as we see it, and do remember that other than from India we source cotton yarn from other geographies as well, so we will be ensured of optimum prices on the supply side.

Mr. Vijay Kumar:

Okay, sir. I do not have any other question.

Operator:

Thank you. I repeat participants if you wish to ask any question, please press *1 on your telephone keypad and wait for your name to be announced.

At this time, there are no further questions from the participants. I would like to hand floor back to Mr. Amit Mishra for final remarks. Over to you sir.

Mr. Amit Mishra:

Mr. Himatsingka would you like to make any final comment?

Mr. Himatsingka:

I look forward to interacting with everyone at the end of Q2.

Mr. Amit Mishra:

Thank you very much sir. It was a pleasure to have you on the call and thank you all participants.

Mr. Himatsingka:

Thank you.

Operator:

Thank you sir. That does conclude our conference for today. Thank you for participating on Reliance Conference Bridge. You may all disconnect now.