Himatsingka Seide Ltd.

10/24 Kumara Krupa Road, High Grounds, Bengaluru - 560080

AUDIO CONFERENCING SERVICE

TRANSCRIPTION REPORT

Conference	68469412
Company	Himatsingka Seide Limited
Date:	May 20, 2011

Operator:

Thank you for standing by and welcome to the Himatsingka Seide Limited 4Q FY11 earnings 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. Priyaranjan. Over to you, sir.

Mr. Priyaranjan:

Thank you operator.

Hello everyone. This is Priyaranjan from Macquarie Capital Securities. It is our pleasure to host Himatsingka Seide 4Q post result conference call, and thank you very much all of you for participating on it.

We have with us Mr. Shrikant Himatsingka, Executive Director Himatsingka Seide, Mr. K.P. Pradeep, Chief Financial Officer, and Mr. Amit Jain, Associate Vice President and Company Secretary who will represent Himatsingka Seide.

Mr. Shrikant, I would now like to hand over to you sir for the first brief background to the results and then followed by the question and answer session. Over to you sir.

Mr. Shrikant Himatsingka:

Well, good morning everyone. We would like to take you through our results for FY11. It has been an interesting year. We have had some positives and some negatives during the year. I would like to begin with our performance on the manufacturing front, then I will take you through our performance on the retail and distribution front, and then a consolidated picture of the company.

On the manufacturing front, we ended the year with total revenues of Rs.508 crores versus Rs.465 crores clocked in the previous year. This is a growth of approximately 9.2%. The Rs.508 crores number constitutes revenues from the silk and blended fabrics division and the bedding division. On the silk and blended fabrics front, we closed the year with Rs.112 crores versus Rs.98 crores during the last year, a growth of 14.3%, and the bedding manufacturing division closed the year at Rs.396 crores versus Rs.367 crores, a growth of approximately 8%. Therefore, at Rs.508 crores representing 9.2% of growth, we did continue to see organic growth momentum in the manufacturing division for the year. EBITDA from manufacturing operations came in at Rs.25.5 crores versus Rs.59.9 crores during the last year representing a drop of 57.4%. As a percentage, the EBITDA percentage for manufacturing operations stood at 5% versus 12.9% during FY10. I would like to explain our performance in manufacturing operations and the reason for the decrease in EBITDA. As you are well aware both cotton prices and raw silk prices among other fibres, have been at unprecedented levels during the financial year. While the operations have managed to pass on the price increases to customers at constant currency levels the increase in prices have not kept pace with the increase in raw materials. Consequently, we have had a severe raw material impact during FY11 which has reflected very clearly in our operational performance in manufacturing operations. The estimated impact of raw material vis-à-vis stable state operations of manufacturing activities wherein we normally take average raw material rates prevailing of these products i.e. cotton and silk yarn, the impact is estimated in the region of 95 to 100 crores for the financial year FY11. I would also like to explain why manufacturing operations during the fourth quarter came in at 91 crores versus 122 crores during the last year, and this is only because there were some timing differences in revenues in the bedding division which came in at 64 crores during the quarter. Normally, bed linen manufacturing revenues are in the region of 100 crores for a quarter, but we have had some timing differences in some new programs which caused the air pocket in Q4 and stands normalized as we go into Q1. So that explains the dip in standalone revenues for particularly Q4 since that stood out in our results. So, this is a synopsis of the manufacturing operations and once again I would like to highlight the specific impact we have had on operating performance given the raw material prices.

I would also like to share with you the current situation as far as raw material prices go. Raw cotton prices over the last shall I say 30 to 40 days have seen a fair amount of correction. Raw cotton prices of fibres like Shankar-6 which is an important indicator of raw cotton prices that prevail for medium counts has corrected from around Rs.61,000 to Rs.62,000 per candy to approximately Rs.45,000 to Rs.46,000 a candy, and consequently, while we have not seen a proportionate dip in yarn prices, yarn prices have corrected in the region of 10 to 15% depending on the count. So, this is after over a year now, this is after year and half of extraordinarily high prices, average rates of Shankar-6 normally hover in the range of 22,000 to 27,000 rupees a candy and had gone up to 61,000 to 62,000 rupees and has corrected to 45,000 to 46,000 rupees. This will have a positive impact going forward on our operating results for manufacturing operations.

The company continues to endeavor to price its products to ensure that the impact of raw material has been gradually passed on. During the last financial year, we passed on approximately 25 to 27% of price increases to our customers, and with the correction in raw material prices having begun, hopefully we will see a more reasonable raw material percentage going forward.

Coming to retail and distribution operations of the group, I would like to begin with our performance in North America for the year FY11, total revenues in North America came in at Rs.913 crores versus Rs.803 crores in FY10, a growth of 14%. EBITDA increased to 55 crores versus 28.3 crores, a growth of 94.6%. EBITDA as a percentage stood at 6.1% versus 3.5%, which also saw some significant improvement on that front. The growth in North America has been robust for over a year now. We have seen strong demand in United States, in Canada, and in Mexico. So, all three geographies have given us strong demand signals and we continue to see strength in those markets. As far as our pre-tax earnings from our North America operations goes, our pre-tax earnings came in at 43.12 crores versus 17.02 crores during FY10 which has also seen a multi-fold jump.

On the distribution operations in the European region, revenues came in at Rs.116 crores versus Rs.129 crores during the last year. I would like to state that at constant currency, we clocked 19.4 million Euro versus 19.2 million Euro. So, the difference in revenue has been driven by the Rupee–Euro exchange rate and not constant currency. So, revenues like I said came in at Rs.116 crores versus Rs.129 crores. EBITDA came in at 2.7 crores versus 0.3 crores, and the operations reflected a stable year in Europe. We have had some improvement in operating costs and margin control for the company and therefore the overall performance seems a little better than the last year. As far as distribution activities in India and Asia are concerned, we clocked Rs.47 crores versus Rs.51.4 crores. This is a decrease of 8.3%; however, I would like to point out that pure retail revenues came in at Rs.43 crores versus Rs.45 crores during the last year, a decrease of 4.7% year on year. Please note that we had other operating income of 6.3 crores in FY10 versus 4.2 crores clocked in FY11. This was because of certain manufacturing activities of cutting and sewing having shifted from Himatsingka Wovens, which is the retail subsidiary to the bedding operations at Hassan ,during the year.

Retail EBITDA margins were range bound in the region of 14% for the year and EBITDA came in at 6.6 crores versus 7.6 crores during the last year, and the performance in India and Asia has been relatively stable. We have not opened any new stores during the year FY11, and during FY12 I will share our plans on store openings once we are done with all the results. Overall, our total retail and distribution businesses clocked revenues of Rs.1076 crores for FY11 versus Rs.983 crores during the last year. EBITDA from retail and distribution operations came in at 64 crores versus 36 crores during FY10. So, this is the synopsis for our retail and distribution operations across North America, Europe, and India and Asia, and I have already shared with you our manufacturing operations.

On a consolidated basis therefore, our total revenues for FY11 came in at Rs.1232 crores versus Rs.1075 crores during the last year, a growth of 14.6%. EBITDA for the year came in at a shade over 91 crores versus 99 crores during the last financial year. Our point of view is that given the significant impact of raw material prices incurred during FY11 this has been a stable performance for the year and going forward clearly with cotton yarn prices starting to correct, our increase in prices on product coming in for this financial year and overall organic growth momentum sustaining, we are positive on the outlook for the coming financial year.

As far as our total debt is concerned, for FY11, we closed with a debt of Rs.744 crores, this is the total debt including long and short term debt versus Rs.792 crores during the previous year. We estimate to retire approximately 110 to 120 crores of debt during FY12 and we estimate our closing debt position in terms of total debt for FY12 to be in the region of 630 crores. The gross block in terms of increase in fixed assets has not been substantial. As you know, all our capital expenditure for manufacturing activities stands completed, our power plant stands commissioned, and we do not have any capital expenditure other than organic capital expenditure incurred in the ordinary course of business. So, we do not foresee any addition in fixed assets other than ordinary course. We see 120 crores of retirement of debt during the year. Our working capital stands reduced from FY10 marginally. We do not see any expansion in working capital requirements during the year. So, all in all with nothing large in terms of balance sheet expenditures and with strong demand in North America, stability in Europe, and reduction in cotton yarn prices which will help our bed linen manufacturing, we anticipate some positive impacts for FY12.

With this I would like to close my observations on our results and if there are any questions we would be more than happy to answer them for you. I have with me Group CFO Mr. K.P. Pradeep who will join me in answering the questions. Thank you.

Mr. Priyaranjan:

Operator, can we please take the question and answers?

Operator:

Certainly sir.

At this time, if you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press hash or the pound key.

First in line, we have Mr. Harsh Chauhan from Nayan Wala Securities. You may go ahead please.

Mr. Harsh Chauhan:

Good morning sir. This is Harsh here. I wanted to know the revenues from power, like the company has some sale of power to the utility, right?

Mr. Shrikant Himatsingka:

Yes, the sale of power is marginal Harsh, because these are captive power plants and we have very small surplus power. So, the sale of surplus power will be in the region of 12.9 crores.

Mr. Harsh Chauhan:

And so what would be the margins for the same, EBITDA?

Mr. Shrikant Himatsingka:

For the sale of surplus power?

Mr. Harsh Chauhan:

Yes.

Mr. Shrikant Himatsingka:

The absolute EBITDA on the sale of surplus power would be around 2.8 crores.

Mr. Harsh Chauhan:

Okay sir, thank you so much.

Operator:

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

Once again, participants who wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced.

Second on line, we have Mr. Rajesh Pherwani from HDFC Mutual Fund. You may go ahead please.

Mr. Rajesh Pherwani:

Hi, this is Rajesh Pherwani from HDFC Mutual Fund. Just on this, you made a statement that you would be repaying about 120 crores of loans. So, if you can just walk us through as to have how much profit and cash profit and you know how much saving in working capital that you are looking at next year?

Mr. Shrikant Himatsingka:

I would request Mr. K.P. Pradeep to answer that question.

Mr. K.P. Pradeep:

We are looking at EBITDA in the region of anywhere between 130 to 140 crores and with disposal of some non-core assets we should look at addressing the loan and interest requirements over the next year.

Mr. Rajesh Pherwani:

This EBITDA is at current cotton prices, right?

Mr. K.P. Pradeep:

EBITDA is not at the current cotton prices, but would average out little higher.

Mr. Rajesh Pherwani:

Okay. Cotton prices are higher than the current prices?

Mr. K.P. Pradeep:

Marginally.

Mr. Rajesh Pherwani:

Okay, fine. Thanks.

Operator:

Thank you sir. Next in line we have Mr. Vijay Kumar from Himatsingka Limited. You may go ahead please.

Mr. Vijay Kumar:

Hello, should I proceed?

Operator:

You may go ahead please.

Mr. Vijay Kumar:

Sir, I am Vijay Kumar speaking from Delhi. My question is regarding our private placement of Rs.150 crores. Have we made any progress on that score?

Mr. Shrikant Himatsingka:

On the placement for 150 crores, the company is waiting for the right time to enter the market. Little earlier this year, we saw volatile conditions in the capital market. We also especially saw volatility in the textile space, and we feel that we will wait for the right time to place equity.

Mr. Vijay Kumar:

And one more question sir, regarding our derivative process. This derivative process do you think last two months perhaps has had grown up further than what you stated as of 31st March.

Mr. K.P. Pradeep:

Sir, which derivative? You are talking about the . . .

Mr. Vijay Kumar:

Our own transaction derivative for which you said that it is about 19 point something crores.

Mr. K.P. Pradeep:

That is right, that is an MTM and that is the situation as of 31st March 2011. We are of course watching this position very closely. We believe that we may see some positive movements over the next 4 to 5 months but we will have to wait and watch.

Mr. Vijay Kumar:

Right sir, my question is over.

Operator:

Thank you. Next in line we have a Ms. Urvashi Gupta from BNK Securities. You may go ahead please.

Ms. Urvashi Gupta:

Yes, hi. Good morning sir. I have two questions. First I wanted to know that interest cost has gone up significantly in this quarter, any specific reason in your working capital loan has increased or what has happened? Second thing I want to know, going forward how many new stores you are planning to add going forward in FY12 or FY13, what you have planned?

Mr. K.P. Pradeep:

I will answer this interest cost figure. The nine months figure would be Rs 32.95 crores in your sheet.

Ms. Urvashi Gupta:

Right.

Mr. K.P. Pradeep:

We have done some reclassifications of some items to arrive at the interest figure. We have taken items like LC charges, factoring fees etc and we have positioned it under the interest line. So, in essence there is no change. So, if you look at the reconciliation between the 9-month figure as of December 2010 and your 12-month as of March 2011, you have Rs. 32.95 crores as of December 2010, you have adjustments of roughly 7 crores for the past three quarters that takes you to 39 crores. You have the fourth quarter interest at roughly 10 crores with another 3 crores on account of these classification of items that I mentioned for the fourth quarter , which makes it 13 crores in total for the fourth quarter .

So, that is how we have arrived at a consolidated Rs.52 crores which is Rs. 39 crores for the first three quarters and Rs. 13 crores for the fourth quarter making it Rs. 52 crores in total for the year. In essence, no interest rates have significantly changed, it is steady. We still continue to maintain an interest rate of 5.6 % to 5.7% p.a and as discussed there are other incidental charges that are now being aggregated towards interest and financial charges. This is also in line with changes to come about with effect from 1st of April, 2011. So, you will get used to seeing the numbers being presented in this fashion.

Ms. Urvashi Gupta:

Okay. Going forward means we will see such kind of financial charges.

Mr. K.P. Pradeep:

Yes, this is the requirement now under the revised scheduled six with effect from 01/04/2011.

Ms. Urvashi Gupta:

Okay sir. And going forward your plans to add new stores?

Mr. Shrikant Himatsingka:

At this point, for FY12 the brand atmosphere is planning to add approximately three stores in the Middle Eastern region as they are important markets for the brand. We will be adding them through the year. The other brands in North America are looking to expand their point of sale reach by approximately 150 point of sale, and Europe is looking to expand its point of sale reach by approximately 35 points of sale. So, all in all approximately retail and distribution divisions should add in the region of 180 to 200 new points of sale. When I say points of sale, it does not mean all stores. As far as the India-Asia distribution division goes, they are stores as I mentioned, as far as North America and Europe goes, these will be shopping shops in important departmental and other retail formats.

Ms. Urvashi Gupta:

Okay, sir. One more thing sir, like if you can tell me out of your total RM how much cotton you procure, what percentage, a broad percentage, how much cotton you procure and how much silk yarn is out of your raw material?

Mr. Shrikant Himatsingka:

Well, overall we procure approximately….., hold on just one second please.

Mr. K.P. Pradeep:

Urvashi, normally we track this as a percentage of our top line. So, currently it is at roughly around 67 to 68% in terms of cotton purchases in the bed linen side, and in the silk side we are in the region of 29 to 30%.

Ms. Urvashi Gupta:

Okay. Sir, actually I just wanted to know, out of your total RM, what do you procure more, this silk yarn you purchase more or the cotton you purchase more?

Mr. K.P. Pradeep:

Cotton will be purchased more.

Ms. Urvashi Gupta:

Okay, and sir your outlook on silk prices going forward?

Mr. K.P. Pradeep:

Stable.

Ms. Urvashi Gupta:

Stable, okay, thank you so much sir.

Mr. K.P. Pradeep:

Thank you.

Operator:

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

Once again, participants who wish to ask a 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.

Mr. Priyaranjan:

Excuse me operator?

Operator:

Yes sir.

Mr. Priyaranjan:

There is a question from my side.

Operator:

You may go ahead please.

Mr. Priyaranjan:

Sir, this is Priyaranjan from Macquarie. What kind of Capex guidance you have for the next couple of years and what will be your comfortable debt level going forward, debt to equity, net debt to equity, something like that?

Mr. Shrikant Himatsingka:

As far as Capex is concerned, Priyaranjan, like I said our expansion stands completed, so we have not had any material Capex during the year and we do not foresee anything during FY12 at this point. And as far as our debt is concerned, you know, I would like our CFO to take that question.

Mr. K.P. Pradeep:

From the debt equity standpoint, I am looking at a sub one over the next one or two years.

Mr. Priyaranjan:

So, it is better to assume like 0.5 or something near about that or little bit higher on?

Mr. K.P. Pradeep:

You can look at anywhere between 0.5 and 1.

Mr. Priyaranjan:

Okay, and on your employee cost, I have seen it is a year on year decline if you compare it from FY10 to FY11. Is there anything which we can draw from that?

Mr. K.P. Pradeep:

you are looking at the consolidated right?

Mr. Priyaranjan:

Yes, correct.

Mr. K.P. Pradeep:

There has been cost optimizing which has been going on in the last year, it is reflecting in the numbers.

Mr. Priyaranjan:

Okay, even on the other expenditure side also?

Mr. K.P. Pradeep:

Very much.

Mr. Priyaranjan:

Yes. And about the derivative, I guess the foreign exchange loss is basically from the derivative?

Mr. K.P. Pradeep:

There is no foreign exchange loss. There is a gain here.

Mr. Priyaranjan:

Yes gain, sorry, about the gain.

Mr. K.P. Pradeep:

The earlier question was referring to the one remaining foreign exchange derivative and has been explained in the note. The number in the profit and Loss account is a foreign exchange gain.

Mr. Priyaranjan:

Okay, from your exports and . . .

Mr. K.P. Pradeep:

That is right.

Mr. Priyaranjan:

Okay, thanks. That is all from my side. Operator, you can take the question from the queue.

Operator:

Sure. Next in line we have followup question from Ms. Urvashi Gupta from BNK Securities. You may go ahead please.

Ms. Urvashi Gupta:

Sir, one more question. Like you said this year your price realizations are up by around 25 to 27%. I just wanted to know if you can give me an idea on the volume side, that means there is a huge decline on the volume side because overall revenues have gone up by 14% only.

Mr. Shrikant Himatsingka:

But I was referring to price increases only X manufacturing, and which has happened through the year, so 27% is not for the whole year, it is the total quantum of increases in prices we had passed on by the end of FY11, some of which will have effect in FY12, and the number you are referring to is consolidated revenues of 1232 crores which is not comparable to the manufacturing revenues of 508.

Ms. Urvashi Gupta:

Okay, so this price increases on the manufacturing front you are saying and that is also not for the whole FY11?

Mr. Shrikant Himatsingka:

Yes, like I said at the end of FY11, manufacturing operations had increased prices by approximately 25 to 27%, the full effect of which was not seen in FY11 and will spill over into FY12.

Ms. Urvashi Gupta:

But sir now when the cotton prices have shown correction, so much significant correction cotton prices have shown, so now you will correct your realizations as well I guess?

Mr. Shrikant Himatsingka:

No, because the cumulative inflation in raw material prices is still higher than the cumulative increase in prices that we have passed on. So, any corrections in raw material unless and until it reaches a certain level wherein you know which comes close to the amount of prices we have passed on, until then we will not have any correction in realizations.

Ms. Urvashi Gupta:

Okay, fine. Okay sir thank you so much.

Operator:

Thank you madam. Certainly, there are no further questions from the participants. You want me to announce once again?

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

Mr. Priyaranjan, you may go ahead please.

Mr. Priyaranjan:

Mr. Shrikant, would you like to make any final comments?

Mr. Shrikant Himatsingka:

Well, I just would like to thank everyone and I hope we have answered your queries. If you have any other queries, we will be more than happy to answer them. Please get in touch with us, all contacts available on the web sites, and that is it from our side.

Mr. Priyaranjan:

Okay. Thank you very much Mr. Shrikant. Thank you all for participating in the post FY11 results conference call. It was our pleasure to have you on the call. Thank you all the participants.

Mr. K.P. Pradeep:

Thank you.

Operator:

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