Himatsingka Seide Limited

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Q4 FY12 Earnings Conference Call

May 28, 2012

Moderator: A very good morning ladies and gentlemen. I am Souradeep Sarkar the moderator for this call. Thank you for standing by and welcome to the Himatsingka Seide Limited Fourth Quarter Financial Year 2012 Earnings Conference call. For the duration of the presentation, all participants' lines will be in the listen only mode and we will have a Q&A session after the presentation. I would like to now handover the conference to Mr. Amit Mishra from Macquarie Capital Securities. Over to you, sir.

Amit Mishra: Good morning, everyone. It is a pleasure to host Himatsingka Seide post results conference call today. And thank you very much all of you for participating on it. We have with us Mr. K.P. Pradeep, SVP Finance and Group CFO; Mr. Ashutosh Halbe, AVP Corporate Accounts; Mr. Ashok Sharma, GM Treasury, Taxation and Company Secretary; and these gentlemen will represent the company. Mr. Pradeep, I would now like to hand over to you for the Q4 results, and then followed by Q&A. Over to you, sir.

K. P. Pradeep: Good morning, everybody. Thank you for joining the call. I would like to give you a brief summary on our fourth quarter results FY12. I will take you through the performance on the manufacturing division and then we go through the performance on our retail and distribution divisions. And finally we will look at the consolidated performance of the group.

For the fourth quarter ended March '12, our manufacturing revenues came in at 149 crores versus 92 crores during the same period last year. On a year-on-year basis, manufacturing has shown a steady performance growing approximately 62% on revenues. The EBITDA in the manufacturing division has come in at Rs.23.81 crores for the quarter versus Rs.1.75 crores during the same period last year. On a year-on-year basis, the EBITDA from manufacturing has shown a 1260% growth. The EBITDA margin for the quarter was 15.98% as against 1.9% in the previous year. I go through the reasons briefly.

The improvement in the EBITDA in our manufacturing business has been on account of higher capacity utilisation. To give you some numbers, in the drapery and upholstery division which deals mainly in silk and silk blended fabrics; our capacity utilisation was in the region of 48%, and at the bed linen plant, the capacity utilisation was around 76%. The improved product mix at our drapery, upholstery and bedding manufacturing division and enhanced realisation added to the EBITDA. At the bed linen plant, the average realisation has increased by 29% to Rs. 289 a metre from Rs. 224 per metre same quarter last year. The sales volume has increased from 2.35 million metres to 3.86 million metres, a 63.89% increase. In the drapery and upholstery division, average realisations have increased by 5% from Rs. 1019 per metre to Rs. 1069 per metre.

So to recap on the fourth quarter, we closed manufacturing with Rs.149 crores in revenue and Rs.23.81 crores in EBITDA versus Rs.92 crores in revenue and Rs. 1.75 crores in EBITDA during the last year.

On the distribution side of the business, we have clocked steady growth in the North American markets which includes the United States, Canada and Mexico. Our total revenue for North America during the quarter stood at 270.85 crores versus 190.54 crores last year, a growth of 42.1%.

Divatex division which addresses the private label business grew 52% to 192 crores versus 126.30 crores last year. And our DWI division which is in the branded side of the business grew to 78.84 crores versus 64.20 crores last year. A growth of around 23%.

The EBITDA for the North American distribution divisions have come in stable for the quarter at Rs. 8.33 crores versus Rs. 6.43 crores during the corresponding quarter of the last year, a growth of 29.5%. The EBITDA margin at 3.1% for the quarter is relatively stable as against 3.4% in the previous year. We continue to see stable demand for our brands, Calvin, Barbara, Esprit, as well as our private label businesses across the North Americas.

As regards the distribution business across India and Asia as represented by the “atmosphere” brand , the revenues for the quarter were 12.03 crores versus 10.65 crores during the last year, a growth of 12.9%. The EBITDA margin for the quarter was lower at 6.1% versus 8% in the previous year, the lower EBITDA on account of higher advertising and promotion activities during the quarter.

The revenues of the distribution divisions in Europe came in at 36.77 crores for the quarter versus 36.55 crores in the previous year. The EBITDA for the quarter was at Rs. 7.58 crores as against Rs. 1.65 crores in the previous year. The European demand continues to be weak; and we anticipate some stress at least for the next few quarters in this division.

On a consolidated basis, the company clocked revenues of 334.76 crores versus 275.34 crores in the previous year, a growth of 21.6%. The consolidated EBITDA for the quarter stood at Rs. 36.58 crores versus Rs.11.39 crores in the previous year, a growth of 221%. The EBITDA margins stood at 10.9% for the quarter versus 4.1% in the previous year. Consolidated pre tax earnings from operations stood at Rs. 5.24 crores for the quarter versus a loss of Rs.15 crores during the previous year, a positive movement of around Rs. 21 crores. The consolidated profit after tax, and minority interest, stood at Rs.2.04 crores for the quarter versus a loss of 11.51 crores during the previous year. This sums up the consolidated quarter performance .

For the year ended 31st March 2012 we have a consolidated revenue of Rs. 1428.69 crores versus Rs.1232.67 crores in the previous year, a growth of 15.9%. EBITDA is at Rs. 144.47 crores versus Rs. 91.43 crores in the previous year, a growth of 58%; and EBITDA margin at 10.1% versus 7.4% in the previous year. The PAT is Rs. 33 crores versus a loss of 16.57 crores in the previous year. So roughly a positive Rs. 50-crore swing .

This sums up the situation over the quarter and the full year on a standalone and consolidated position.

The total net debt outstanding as of 31st March 2012 stood at Rs. 681 crores; a reduction from Rs. 738 crores as of 31st March 2011. The total reduction of debt in the year is Rs. 57 crores. The company's effective cost of debt is 5.74% versus 5.49% in the previous year

On the CAPEX side, manufacturing CAPEX in a normal organic sense is estimated to be around 10 crores over the next 12 months. And the retail and distribution Capex is expected to be in the region of around 3 crores for the next 12 months.

Our overall performance is steady and our manufacturing order books continue to be strong. The manufacturing order books for the bedding division stood at around 140 crores. And on the upholstery and drapery side of the business, our order book is around 18 crores. So in total we have an order book position of around 158 crores on the manufacturing front. Businesses across retail and distribution also are steady at the moment.

On the raw material front, we expect a continued stability. As you are aware, in the last year substantial correction has been witnessed in cotton prices coupled with lesser volatility. This has had a positive impact on the performance for the year.

As part of our overall sourcing strategy we will need to very closely monitor government policy. We continue to optimise the cost of our raw material purchase by tapping other geographies like China, Pakistan and Egypt. We will continue to source critical raw-material either through imports or local purchases depending on the price and availability. Price of other fibres such as Linen, polyester viscose, acrylic, continue to be stable.

We have seen volatility in the last four to five weeks on the foreign exchange front. We cover our foreign exchange inflows and outflows in line with our Risk Management Policy. On the foreign exchange front we are covered for the next five months at an average rate of Rs.51.50.

We have one derivative still remaining and that is expected to close in August 2012. This derivative has been fully provided for -- MTM as of 31st of March 2012 was Rs. 21.33 crores. The incremental provisions in the derivative are disclosed under the head of exceptional items in the published results.

This sums up the performance for the year. As you can see there has been a significant positive swing in the performance for the year ending 31st March 2012, as against the last year. We expect relative stability in our performance as we go forward. Our distribution businesses across North America, Europe and India, Asia, continue to be steady.

I would like to close with this, and I will be glad to take any questions that you may have.

Moderator: Thank you so much. 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 questions, please press “0” “1” on your telephone keypad and wait for your name to be announced.

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Here comes the first question from Mr. Nitai Vijay from Brahma Capital. Mr. Vijay, you can go ahead and ask your question, your line has been un-muted.

Nitai Vijay: Hi Pradeep, how are you?

K. P. Pradeep: Fine, Nitai, how are you? Good morning.

Nitai Vijay: Good. Pradeep, can you break up the growth that we are seeing in the US markets in terms of translation gains if any versus volume growth?

K. P. Pradeep: Approximately 9% would be from translation gains and the remaining should be on growth.

Nitai Vijay: 9% you said is from translation?

K. P. Pradeep: Yes, that is right.

Nitai Vijay: Another question I have is on the interest cost if you look at on a previous quarter basis, it sort of moved up from – shot up by 6 crores roughly Q-o-Q; previous quarter not previous year.

K. P. Pradeep: That is right. You are talking on a sequential basis?

Nitai Vijay: Yes.

K. P. Pradeep: There has been reclassification of some costs on Packing credit taken in foreign currency. The fluctuation in foreign currency as against the rupee of around Rs. 3.5 crores has been classified as Finance Costs in line with the requirements of the accounting guidelines. Other finance costs include one-time write off of upfront charges.

Nitai Vijay: How much is the quantum for that?

K. P. Pradeep: That will be in the region of around Rs.1 crore,

Nitai Vijay: Thanks, Pradeep. That is all.

Moderator: Thank you Mr. Vijay. Here comes the next question from Mr. Yogesh Doshi from Aquarian Share Broking Company. Mr. Doshi, you can go ahead and ask your question, please.

Yogesh Doshi: Sir, I would like to have an overall picture of 2012-13 on a consolidated basis, how does the management see the overall performance of the group considering the Eurozone crisis and everything.

K. P. Pradeep: Sorry, this line is not audible, can you repeat again? .

Yogesh Doshi: I would like to ask for financial year 2012, 2013, considering the global scenario, Eurozone crisis, Asia-Pacific crisis, rupee depreciation, everything. How does the management conceive the overall performance of our company?

K. P. Pradeep: Our expectations for the year are based on the visibility we have on future business and assumptions around relative stability in critical input prices.

With the exception of our Distribution businesses in Europe where we expect some stress in this year ,we look forward to a stable performance across all our divisions.

Yogesh Doshi: Thank you.

Moderator: Thank you, Mr. Doshi. I would request once again to all the attendees and the participants, if you wish to ask any question, please press "0" "1" on your telephone keypad and wait for your name to be announced.

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As there are no further questions from the participants, I would like to handover the call back to the panellists for the final comments.

Male Speaker: Mr. Pradeep, would you like to make any final comment?

K. P. Pradeep: Firstly, I would like thank everybody for joining us on this call. This year was a significant year for the company backed by a very stable performance. We are confident about the future, we see performance relatively stable and we will continue to keep driving performance through better utilisation of our manufacturing and distribution assets.

Thank you once again and we look forward to interacting with you after the first quarter results for FY 13.

Amit Mishra: Thank you sir and it was a pleasure to have you on the call, and thank you all participants.

Moderator: Thank you, Mr. Mishra and thank you Himatsingka team. With that, we conclude the conference for today. Thank you all for your participation and you may all disconnect your lines. Thank you so much.

Amit Mishra: Yes, thank you. Bye, bye.