Himatsingka

Q4 FY18 Earnings Call Transcript

Bengaluru, May 28, 2018

Moderator: Ladies and gentlemen, welcome to Q4 FY18 post result conference call of Himatsingka Seide Limited hosted by Batlivala & Karani Securities India Private Limited.

We will start call with all participants' lines in a listen-only mode and there will be an opportunity for you to ask questions after the management comments conclude. Please note that this call is recorded and you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. I would now like to hand over the conference to Ms. Prerna Jhunjhunwala. Thank you and over to you madam.

Prerna Jhunjhunwala: Thank you Latika. Good evening everyone. On behalf of Batlivala and Karani Securities I would like to welcome you all for Q4 and annual FY18 post result conference call of Himatsingka Seide Limited. From the company we have with us the senior management including Mr. Srikant Himatsingka, Managing Director and CEO of the company. Mr. K.P. Rangaraj, Group President Finance and Group CFO, Mr. Ashok Kumar Sharma-Vice President Strategic Finance and Company Secretary, Mr. T.G.S. Gupta- VP, Corporate Finance and Mr. Sachin Garg- Assistant VP Treasury and Investor Relations. I would now like to hand over the call to Mr. K.P. Rangaraj for initial comments. Thank you and over to you sir.

K.P. Rangaraj: Good afternoon ladies and gentlemen. Many thanks Prerna for connecting me to the investor call. On behalf of the company we extend a very warm welcome to all the participants who are present on this call to go through the earning call for the quarter and the financial year ended 31st March 2018.

We start with the business update which will be briefly followed by an update of the financial performance after which we will go through a couple of observations and comments on the financial results for the year ended 31st March 2018. Let me just start with the business update for the quarter. As shared with you earlier, commercial production at our new spinning facility commenced on February 5th 2018. The ramp up is progressing as per expectations and we expect the plant to run at optimal level by Q2 FY19. Utilization levels at our sheeting facility remain stable during the quarter and we expect utilization levels to be range prone during H1 FY19. We see an uptick in the utilization levels coming through in the second half of FY19. As disclosed, the construction of our new terry towel facility has commenced during Q4 FY18. The construction progress is as per schedule and the plant is expected to come on stream during the first half of FY20. The facility will have an installed capacity of 25000 tons per annum. In line with our strategy to augment our brand portfolio and enhance market share in the branded home textile space, our wholly owned subsidiary Himatsingka America Inc. has acquired the home portfolio of Global Brands Group Holding Limited. The acquired home portfolio includes the exclusive license rights to the famous and iconic Tommy Hilfiger brand, The Copper Fit Brand and other brands. This brand portfolio is estimated to contribute annual revenues of approximately between USD 60 and 65 million on a consolidated basis. The integration process is under progress and will be concluded during the second half of FY19.

The revenue distribution between quarters of this $60 million to $65 million brand portfolio is non-linear. The revenue streams are more back ended to the second half of the fiscal. Once the integration process is complete we see the EBITDA margins from this portfolio to be in-line with the current consolidated EBITDA margin profiles and expect post tax pay back of less than 3 years. We continued to focus on brand building a strong brand portfolio through owned and licensed brands. As a result, during the financial year ended 2018, we saw robust growth from brands and total revenues from our brand portfolio, so that approximately Rs. 1,610 crores compared to Rs.1,200 crores in FY17. This completes our business updates.

We next move on to the financial performance update for the year ended 2018. Consolidated total income FY18 stood at Rs. 2,266 crores vs Rs. 2,151 crores, which is an increase of 5.3%. The consolidated EBITDA for FY18 increased by 19.3% and stood at Rs. 466 crores, this was Rs.390.89 crores in FY17. EBITDA margins improved to 20.6% compared to 18.2% in FY17. The consolidated EBIT for FY18 was up by 18.4% and stood at Rs. 394.28 crores, this was Rs. 332.88 crores in FY17. EBIT margin improved and stood at 17.4% for FY18 compared to 15.5% during FY17.

Profit before tax: The consolidated PBT for FY18 was up by 21.4% to Rs. 290.48 crores Vs Rs. 239.35 crores in FY17. Profit after tax: The consolidated profit after tax for FY18 was Rs. 201.64 crores compared to Rs. 182.1 crores during the previous year at growth of 10.7%. So, we now move on to the quarter performance for FY18. On the consolidated total income,the income stood at Rs. 570.63 crores vs Rs. 588.93 crores for the quarter ended for the same quarter ended the previous year. The consolidated EBITDA for Q4 FY 18 increased by 29.3% and stood at Rs. 131.15 crores vs Rs.101.43 crores in the Q4 FY17. EBITDA margin consequently improved to 23% as compared to 17.2% in Q4 FY17. Consolidated EBIT: The consolidated EBIT for Q4FY18 was up by 29.1% and stood at Rs.110.67 crores compared to Rs. 85.69 crores in Q4 FY17. EBIT margin improved and stood at 19.4% in Q4 FY18 vs 14.6% during Q4 FY17. The consolidated PBT for Q4 FY18 was up by 25.4% to Rs. 78.82 crores vs Rs.62.83 crores in Q4 FY17.

Profit After Tax: The consolidated PAT for Q4 FY18 was up by 10.4% to Rs.50.34 crores vs Rs. 45.59 cores in Q4 FY17. I now move on to the debt profile section. The consolidated gross debt as of 31st March 2018 stood at Rs. 2,330 crores. The total term debt as at that date stood at Rs. 1,332 crores and a working capital debt stood at Rs. 998 crores. The cash and cash equivalent stood at Rs. 258 crores as of 31st March 2018 compared to Rs. 204 crores as on 31st March 2017. Consequently, the company's net debt outstanding as of 31st March 2018 stood at Rs. 2,072 crores.

We now move on to the ratios sections. We will now focus on the leverage and capital efficiency ratios. Please note that the leverage and capital efficiency ratios have been annualized for the spinning plant operations. As you know we started commercial production on the 5th of February 2018. The Debt Service Coverage Ratio (DSCR) stood at 2.52x at the end of FY18, as against 2.57x for FY17. The Interest Service Coverage Ratio (ISCR) at the end of FY18 stood at 3.54x as against 3.56x for FY17. The net debt to equity stood at 1.62x at FY18 vs 1.13x for FY17. The increase is due to increased debt taken for projects. The Net Debt, excluding project work in progress debt to Equity, which is excluding investments into the project, ratio stood at 1.60x at the end of FY18 vs 1.06x for FY17. The Net Debt, excluding project work in progress debt, to EBITDA stood at 3.35 times for FY18 as against 2.70 times for FY17.

We now move to the capital efficiency ratios. The Return on Capital Employed, excluding capital employed in projects WIP, as at FY18 stood at 17.7% compared to 16.3% for FY17. The ROE stood at 21.6% for FY18 compared to 18.6% for FY17.

I now move on to the last section which is focusing on comment and observation of the financial results. The first observation is on revenue. The standalone Q4 FY18 total revenues stood at Rs. 342.46 crores, compared to Rs.404.04 crores for Q4 FY17. This is primarily on account of the following reasons. As you know, as you are aware that the spinning plant started commercial production in Q4 FY18. The export turnover attributable to the trial productions quantity of spinning has been credited to the capital cost of the spinning plant as per the accounting standards. The corresponding expenditure is also given the same treatment. The impact of this accounting treatment led to a reduction of revenues of approximately Rs. 54 crores. During Q4 FY18, due to appreciation of rupee against US dollar, the realization was adversely impacted by approximately Rs. 8.0 crores as compared to Q4 FY17. This completes the observation on revenue. The second observation is on the fixed assets. During the year the total capital expenditure was Rs. 883 crores, mainly on account of the spinning, terry towel and organic CAPEX. As per the IndAS, the assets have to be accounted at gross value without reducing the government incentives such as EPCG, TUFF capital subsidy and other state subsidy as applicable. The government incentives have to be accounted as deferred revenues and recognized as income over the life of the assets. The other noncurrent liabilities amounting to Rs. 227 crores are fully attributable to the incentives accounted as deferred revenue. With this I conclude my update. We will be happy to take any questions. Thank you for your patient listening.

Moderator: Certainly sir. We will now begin the question and answer session. Participants using speaker phones are requested to please use your hand set when asking questions. To enter the question and answer que, please press '*' and '1' on your phone now. If you would like to withdraw your question and exit the que press '*' and '1' again.

We have our first question from Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Hi sir, good evening! The first question is on the clarification of the Rs. 54 crores revenue. Sir, was it that the trial production was happened before 5th Feb, and was accounted in the earlier quarters, all of it has been adjusted in Q4?

K.P. Rangaraj: Basically, the quantity got exported in the current quarter end Q4. So, what has happened is that in line with the intakes on capitalization of prior production cost. This amount has to be netted off and taken off to revenue and credited to the capital cost. So therefore, the revenues got understated by Rs. 54 crores. Cost side with that you know the cost has also been moved into the capitalization, so therefore you know there is a neutral impact on the overall P&L.

Nihal Jham: So is it right to say that sales or the normalized sales for this quarter was Rs. 330 plus Rs. 54 crores for this quarter specifically.

Shrikant Himatsingka: Yes that's correct.

Nihal Jham: Okay. So even if I take that into account our sales are still falling from Rs. 406 crores last year or say Rs. 430 crores in Q3 to around Rs. 385 crores in this quarter on a standalone basis.

Shrikant Himatsingka: We don't look at q-o-q, and on the y-o-y front, there has been a slight correction but that's in the ordinary course of business. There is nothing specific other than the FX part that we had spoken about.

Nihal Jham: Absolutely. Sure sir. The second question on the numbers is the commissioning of the spinning plant has led to an improvement in our gross margin on the standalone basis. But if I look at the margins of the subsidiaries, so basically on the gross margin side, there has been a fall. So, is this attributed to say, higher sourcing of material for our consolidated business rather than being produced inhouse? Is this the right way to look at it?

Shrikant Himatsingka: No, the right way is not to look at standalone and consolidated. Just look at consolidated number. Yes, our spinning is aided to our EBITDA margins on a consolidated basis as well as it has on a standalone basis, and so, has a positive impact on the EBITDA. I would urge you not to dissect numbers in that perspective. From that perspective look at it as one integrated play.

Nihal Jham: Absolutely. But even if I factor that in I don't see that the improvement in our gross margin has been very sharp, despite we are having the spinning unit on both, for say 2 months or rather 3 months this quarter.

Shrikant Himatsingka: Yes, it's also patch because of this trial production treatment that's required. But overall it's improved. Any further clarifications, we will be happy to take them off line.

Nihal Jham: Okay sure sir, another question on the brand part. I think we have done Rs. 1,600 crores of sales as you mentioned this year. And if I am right the same figure was Rs. 1,200 crores last year. So just wanted to understand that, could we break it say into what has been the contribution from brands that were added this year or towards the later part of the earlier year. And what has been the like to like contribution?

Shrikant Himatsingka: It's predominantly like to like. Because the additions that we have made have not contributed anything this fiscal.

Nihal Jham: Okay and one last question on this new portfolio where we are guiding that the margin will be in line with the console margins that we are doing. So, are we currently producing most of the incremental sales that we are generating from these brands inhouse itself?

Shrikant Himatsingka: There is a sentence that precedes that statement, and that sentence is once the integration process is complete we expect the EBITDA from this portfolio to be in line with the current EBITDA profile on a consolidated basis. Second point, is that the group does not produce any of these products at this point. We do not produce any of the sourcing requirements at this point, which will be a part of the integration process and the quantum of integration and in-house sourcing will be in line with our existing brand portfolio.

Nihal Jham: And how much time will this integration process will take do you think?

Shrikant Himatsingka: We have integrated through FY19. It will progressively pan out through the year.

Moderator: We have our next question from Sunil Rawdhani from Archisis. Please go ahead.

Sunil Rawdhani: We are significantly seeing the rise in the debt part in this year for the CAPEX. How do we see, what would be the proposed rise in the debt in the company?

Shrikant Himatsingka: We can't specifically comment on the expected increase in debt. Still projects are complete Sunil. We had announced three projects so our Brownfield sheeting stands completed as discussed with stake holders. Our spinning now stands complete also. So, we only have the terry towel project in front of us at this point and this project will be on- boarding some fresh debt.

Sunil Rawdhani: Any approximate figure to it, the projects that we have submitted to our bankers?

Shrikant Himatsingka: We can't disclose specific project figures, but the overall CAPEX was scheduled to be approximately Rs. 1,300 crores. And you know, we have completed two projects. One is left. So, we don't see the additional debt to be significantly high or anything of that nature.

Sunil Rawdhani: and the new branded business which we acquired Tommy Hilfiger right, what value we have acquired the same?

Shrikant Himatsingka: We cannot comment on any specific value. Please refer to the statement that Mr. Ragaraj made earlier on how we expect the EBITDA profiles to pan out ones the integration process is complete. We have also shared our thoughts on some payback. I feel that that throws some light on what the consideration can be.

Sunil Rawdhani: We are seeing the proportion of the branded business being increasing on y-o-y basis. how much percentage do we think would be from the branded business from the financial year 2019?

Shrikant Himatsingka: I think we are currently of about 70%. We should be moving further north. So, we should be in a region of 75% to 80%. The 75% to 80% would be the inclusive of the rights which we have taken as of today. All inclusive.

Sunil Rawdhani: Fine absolutely. Thanks, and congratulations for the good set of numbers which you have delivered.

Moderator: Thank you. We have our next question from Mr. Hem Agarwal an individual investor. Please go ahead.

Hem Agarwal: Firstly congratulations to the whole Himatsingka team on the completion of the highly advanced spinning unit. It's really fantastic. My first question is on Tommy Hilfiger, if I can understand a little bit of the history in the last 3 to 4 years, what has been the Tommy Hilfiger growth or something like that for me to get a little idea about this particular brand.

Shrikant Himatsingka: Hem we would be very happy to share those things with you. Unfortunately, it's not something we carry off the calf and we don't have access to specific data. But the brand is iconic, and its world renowned, it has fantastic recall and the acquisition is in-line with our desire to enhance our brand portfolio and market share in the branded home textile space. So, it fits in right with our strategy. We believe that it gives us a great amount of synergy on all fronts most on the sheeting front and on the Terry front. And so, I think it's an interesting new addition for us.

Hem Agarwal: Absolutely. Sir as of now we have not been an OEM supplier to Tommy. Sir whatever revenue which we will get this year, USD 60to 65 million will be an additional revenue to Himatsingka.

Shrikant Himatsingka: That's right. Please note that as our Group CFO mentioned during his update the revenue portfolio of USD 60 to 65 million is not only of Tommy Hilfiger, it's also from few other brands; that's point number one. Point number two is, these revenues are not linear in nature, in other words it's not 65 divided by 4 is equal to quarterly figures. It is back ended given the nature of the product and pricing and so on. And so that's the second thing to keep in mind. And the third thing to keep in mind is the full impact and benefit of this new addition to our portfolio will be visible once the integration process is complete. And as said earlier the integration is underway and will be carried progressively and completed through FY19.

Hem Agarwal: Just one last question. Just on a quarterly basis, the fourth quarter tax rate, depreciation and interest costs, sir can we use that as the running rate for fiscal rating 2019, is there something you can share with us sir.

Shrikant Himatsingka: I think Hem we wouldn't specifically comment on it. Because you know spinning was capitalized midway during the quarter. But yes, in and around that ball park would be safe excluding the Terry-towel project. But you can have movements on working capital and so on gearing this year. So, I think it will be range bound from that number.

Hem Agarwal: Yes sir. Thank you so much. And looking forward to the Tommy Integration and the Terry Towels.

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

Resham Jain: Sir I have 3 questions. 1 is on the subsidy part which you mentioned, that all the other current liabilities are basically subsidy receivables. Can you give a broad breakup of what kind of subsidy are you getting for this whole Rs.1,300 crores projects?

Shrikant Himatsingka: Resham these are not subsidies receivables. These are subsidies that one is entitled to such as EPCG etc. You know, as per the current accounting standards, they have to be accounted in this way. And therefore they are treated as deferred revenue. So, assets are captured separately, and these are captured separately, and they are leased out over the life of assets. So, it's just a change in the way assets have been accounted as per the new accounting standards. So, there's nothing receivable on this.

Resham Jain: Sorry what I meant to say is, this TUFS related subsidy receivables you must be having both on the central as well as on the state side.

Shrikant Himatsingka: That has nothing to do with other current liabilities.

Resham Jain: No sorry sir, I wanted to ask more on that part if you can give a brief of what kind of incentive we are entitled to receive from the state as well as from the central.

Resham Jain: We cannot specifically comment on state benefits. But in line with what we have shared earlier, state offers some interest subsidy and some capital subsidy and some power subsidy. These we have shared with you all earlier. In other than that, we are entitled to central incentives which other companies are entitled to as well. And the other companies have been incentives from their respective states as well. Perhaps Karnataka is a tad lower in other states as we have discussed earlier. There is no other incentive which is unique to Himatsingka. And our statement in our update with regard to incentives vis a vis fixed asset was just to be specifically clear on the nature of capitalization as required under the new standards.

Resham Jain: Second is on the CAPEX, out of 1300 crores of total CAPEX, how much has been completed till now?

Shrikant Himatsingka: Substantial part has been you know, completed because we have completed the sheeting Brownfield expansion and the spinning. So, it could be safe to say that a large part of it is completed and we now have Terry Towels, which is the only remaining investment as part of that outlay that's really left at this stage. We will also incur some organic capital expenditure along the way in the nature of common assets that might have been added over the last 2 to 3 years for our campuses which will be over and above this number.

Resham Jain: So basically, what I wanted to understand is that in FY19 will your remaining CAPEX, will that equal to the cash generation from the business or you would require to take additional debt in FY19.

Shrikant Himatsingka: No. even if our cash generation is equal to that ratio, we will still be financing it separately through a separate debt stream. Because that's how we have financed out projects.

Resham Jain: No so on a net basis?

Shrikant Himatsingka: On a net basis the earnings and the earnings potential going into FY19 as they said will obviously be a tad better than what we have done in FY18. You can do the rest of the calculation yourself. But I think that at a net level there could be a difference vis a vis the 2 numbers. The CAPEX will be a little higher.

Resham Jain: So what I wanted to basically understand is, FY18 net debt, if we exclude the cash portion, if we deduct that from the gross debt, your net debt was roughly around Rs. 2,000 odd crores. Will this be a peak debt? Majority of our CAPEX is over!

Shrikant Himatsingka: We expect some net debt to go up further.

Resham Jain: Okay. So, is it to do with the inventory or the working capital financing or?

Shrikant Himatsingka: No, it could be to do with a confluence of things. Largely from CAPEX and some Working capital movements because there are new projects being on streamed.

Resham Jain: Okay, because if I look at FY17 CAPEX number plus if I add FY18 number….

Shrikant Himatsingka: Let's dig into the details off line. But broadly speaking this net debt number should go a little north because of projects during FY19. Specifically, because of the Terry Towels project.

Resham Jain: Okay fine thank you.

Moderator: Thank you. We have our next question from Mr. Krishna Hegde, individual investor. Please go-ahead sir.

Krishna Hegde: Hi good after noon. On the spinning plant that launched spinning of ultra-fine cotton. Do you have an estimate of what portion of this spinning plant will be utilized and will be utilized for DNA tagged cotton?

Shrikant Himatsingka: We cannot comment on that specifically Krishna. But the group is the leader on the Track and Trace front globally with our exclusive DNA platform. And so, we will be also producing such products inhouse.

Krishna Hegde: One precepted question. We have heard about the comments about the US-China trade issues and the impact it is going to have on raw cotton. Do you see any implications for your operations from what's happening on the trade front?

Shrikant Himatsingka: We have heard the same, but we have not seen any specific impact arising out of such news types and dialogue. We estimate that we shouldn't be seeing any fall out either. This is what we see at this point.

Moderator: Thank you. We have our next question from the line of Ms. Shradha Agarwal from Amsec. Please go ahead.

Shradha Agarwal: Couple of questions. Firstly, can you give us some indication of what the present utilization of the spinning plant?

Shrikant Himatsingka: Current what, sorry Shradha?

Shradha Agarwal: Utilization of the spinning plant.

Shrikant Himatsingka: See, spinning plants utilization is at 100 percent. Its optimal performance parameters may come through by Q4 FY19 is what we have discussed. Because the plant is fully booked, and it's a back-ward integration initiative largely speaking it is running Choco block but when we talk about Ramp-up, we mean ramp up in performance parameters; like productivity and other things.

Shradha Agarwal: And sir we had also indicated that we planned to sell yarn to outside market. Have you taken any call as to what proportion of our total yarn production would be for inhouse use and what portion would be sold to outside market?

Shrikant Himatsingka: We haven't taken any specific decision nor is it going to be a policy of any sort. But we did say that we will be open to on boarding selective clients for our product range and we remain of that view. But to begin with, it will be a very small percentage because we need all the production for our inhouse requirement. So, maybe you know, having nothing more than 10% to 20%.

Shradha Agarwal: So will it be more of a function of what is the inhouse requirement and then we will accordingly decide as to what has to be sold out?

Shrikant Himatsingka: Yes, we are keeping some options open to onboard some new clients. Otherwise the capacity is more than booked out on our internal requirements.

Shradha Agarwal: All right! Sir can you give us any indication on what the current margin for the retail & distribution business is?

Shrikant Himatsingka: Shradha, we do not disclose or encourage all stake holders to look at separate margins for retail and distribution.

Shradha Agarwal: For the full you year basis sir, not for the quarterly number I am looking for. Any indication on that front?

Shrikant Himatsingka: For any fiscal period, it's an incorrect way to look at our numbers. Please look at us as an integrated solution provider. We design develop, manufacture, source, retail and distribute home textile products, as consolidated number reflect that. Please look at us only from that lens. Any attempt to bifurcate numbers between this and that and so on will lead to confusions, which is also the reason why we openly shared with stake holders that we are not going to separately disclose retail and distribution numbers, because it is confusing for everybody. So, as I see it, we produce home textile products and we retail and distribute it under our brands substantially speaking globally.

Shradha Agarwal: Last question on inventory. I mean, in inventory they have shot up to as high as 240 days as per my calculation. So, what should we be expecting for next year?

Shrikant Himatsingka: I think inventories are going to be range bound now from here most of the increases that has had to happen on account of new capacities being commissioned and seeing on account of product mix changes that are more replenishment centric, and we must admit that we also feel we are a little over weight on inventory. So, we are also working to correct it as little as we can be depending on the product and timing and so on. But it will be largely range bound as we see.

Moderator: Thank you. We have our next question from the line Dhwanil Shah from I wealth management private limited. Please go ahead.

Dhwanil Shah: Good evening sir, just a couple of questions from my side. One is on the demand sir. Just an interest to understand how you are seeing the demand, may be sir for a year or two years' time going ahead. And what is our sense and I mean a lot of things have changed in terms of the overall situation in the US also. So, currently sir, how are you seeing and what is our outlook?

Shrikant Himatsingka: Fair question Dhwanil. I think as far as we are concerned we have the following areas of focus. We are focused on enhancing our share of the brand in Home textile space, which we have further enhanced through new brand acquisitions and portfolio augmentation measures that we have recently undertaken. This will help us increase revenues in North American geography. We are also going to extrapolate some of our brands into the European region which we are working on. Europe remains a region of some promise as far as we are concerned because our European market share is pretty low. So as shared with stake holders earlier, the company is focused on trying to increase its share in Europe. We are still working on it. We have got a new leadership team there and we are trying to see what's possible to create sustainable revenue streams. So, I think these new additions will add to our market share in North America, will give us some hold on the European region in the due course. So, I think we grow what is more company / brand specific. At a market level I see things pretty stable. I don't see that there is a great deal of underlying market expansion in these matured geographies. They seem to be grouping. They are either stable and are growing at lower single digits in certain cases. So, I think it's a company centric increase in market share lead initiative that I see panning out over the next couple of years.

Dhwanil Shah: So sir. 70% is branded business as of now. 30% would be private labels which the other companies are also doing. Is that understanding correct.?

Shrikant Himatsingka: Yes, even our brands go to a lot of similar clients but the rest of the 30% is non-branded private label lead businesses. That also will come down as I said, we see the share of branded revenues going to 75% to 80% in the coming year. And so, we will obviously see some element of private label businesses that will continue to exist as part of our portfolio.

Dhwanil Shah: That would be more of a commoditized kind of business compared to the branded, where we have certain pricing power.

Shrikant Himatsingka: Both are, see it's not like brand where branded businesses are non-commoditized, they can also be commoditized. But it could be safe to say that the relative pricing part in branded revenue streams is a little better than private label industry.

Dhwanil Shah: Okay. Got your point. And the second question was on the spinning plant which we have commissioned. When I look at this quarter on a consolidated level, the gross margins have more or less remained same. And few of our other cost and the employee cost have come down. Just trying to understand, has the benefit of the new plant started to come in, or that will come in post first and second quarter?

Shrikant Himatsingka: You know, if you see our EBITDAs, we have had an increase in EBITDA to 23% at Rs. 131 crores, so that's clearly coming. That's been aided by the commissioning of our new spinning plant. Unfortunately, some of these cost of goods sold number has been a little skewed because of this trial production testament requirements. But let me assure you that directionally it will add both the gross margin and to the EBITDA, as it is already visible in the case of EBITDA.

Dhwanil Shah: And sir, on the Q4 side of the numbers which we have done in terms of the cost so that is the other cost and the employee cost. When I see these run rate for last three quarters, this is slightly on the lower side. Is there any provisioning done or any one off or do you think this is kind of run rate would be maintained?

Shrikant Himatsingka: So this certain operating expenditure, mainly raw material cost, because of the trial production treatment, has been removed from P&L and gone into capital. Although it's neutral, because revenues have also gone up. But I think this OPEX expenditure will be in line with what we have seen through the year. In fact, if you ask me, we will probably even see an uptick on opex because the scale of operation will be a bit larger going forward.

Dhwanil Shah: And that would be incremental or marginally go up, we should maintain this kind of margin is what you suggest.

Shrikant Himatsingka: Yes. That's correct.

Dhwanil Shah: When you said that on the integration for the Tommy post integration, means post Terry Towels plant or the spinning integration.

Shrikant Himatsingka: See it's very simple. It's not only Tommy, there are a bunch of other brands as well. The integration by definition means we have acquired a portfolio for which we are going to have to align several things including the sourcing requirements for such portfolios. So, whether it is human capital or whether it is supply chains or whether it is aligning product portfolios, whether it is aligning sourcing requirements, these are all things that have to be done vis a vis with new portfolios. And these activities will be carried through during the rest of FY19 is what we have said and as we progressively complete this integration. We expect that this portfolio will bring EBITDAs that are in-line with our current margins

Moderator: Thank you, we have the next question from Mr. Sunil Jain from Nirmal Bang Securities. Please go-ahead sir.

Sunil Jain: My question relates to acquisitions, Planned integration process will take some time. But whether we will start booking revenue from the next quarter?

Shrikant Himatsingka: Yes, we will start booking some revenues from this quarter Sunil. As I mentioned earlier, the revenue streams are not linear in nature and are likely to be back ended for the fiscal. That's just a nature or timing of revenue streams of this portfolio.

Sunil Jain: Back ended in the sense that it will be more of calendar year.

Shrikant Himatsingka: Yes more Q3 and Q4 heavy vis a vis Q1 and Q2.

Sunil Jain: Q3 and Q4 of financial year.

Shrikant Himatsingka: Yes that's right.

Sunil Jain: Sir second thing this will definitely help us in increasing our sheeting capacity of utilization which the plant which we were running. So how much utilization can improve from this.

Shrikant Himatsingka: I can't specifically comment on how much or anything. It's a fair question and a fair observation. And there for you are correct in your observation that directionally the utilization levels will go up.

Sunil Jain: Okay. We can work on whatever the existing level of sales and the addition of sales the proportionate whatever you are supplying right now from India to whatever, similar type of thing can be worked on.

Shrikant Himatsingka: Yes, we are around those lines yes.

Sunil Jain: Sir, since the planned yarn plant is already started, and you had guided for some margins, so post this start are you confident of reaching to those margins ones they are stabilized.

Shrikant Himatsingka: Yes, that's correct. We will stand by what we have said.

Sunil Jain: Sir lastly a data question, is there any FOREX loss or gain in this result?

Shrikant Himatsingka: It's all in the ordinary course Sunil. There is nothing special to talk about. We have had some adverse impact on revenues as we stated earlier Mr. Rangaraj pointed out that we have lost on some revenues because of the FX. But that's just again in the ordinary course in term of differences in in the rates that's given. The company has a very consistent and stable hedging policy, which won't take any views on any foreign exchange related matters. We have very vanilla sort of approach when it comes to Foreign exchange.

Sunil Jain: Normally as a hedging policy we book for forward how many months we book.

Shrikant Himatsingka: We book a year forwards based on our order books. We have substantially booked a year forward.

Moderator: Thank you. We have a next question from Mr. Hardik Salonke, from Money Bee Investment advertising. Thank you and over to you sir.

Hardik Salonke: My question is, what's our sheeting capacity right now utilization wise?

Shrikant Himatsingka: It is 46 million meters per annum based on utilization.

Hardik Salonke: What's the utilization rate sir?

Shrikant Himatsingka: We cannot be specific on the utilization numbers, But the last that we have said to the stake holders after the commissioning of our Brownfield extension is that we will place 40 to 50 percentage of our incremental capacity that's being bought on stream which we have done.

Hardik Salonke: Any plan to increase share of revenue from Indian markets, are we working on that?

Shrikant Himatsingka: It's a good question. We are working on that. It's a work in progress, but nothing to report home about.

Moderator: Thank you. We have our last question from Mr. Krishna Hegde an individual investor. Please go-ahead sir.

Krishna Hegde: I have a question about the brand acquisition of Tommy Hilfiger and Copper Fit. Going forward, what will be the approach to acquiring other brands. Because I see that global brands remain under lot of stress and they do have a lot more brands to sell. What would be a decision criterion to acquire more brands?

Shrikant Himatsingka: Our decision criteria have nothing to do with somebody's fiscal health. It has to be sensible addition to our existing portfolio. It has to give us reach, it has to give us depth, it has to give us sustainability, and above all Himatsingka does not believe in paying top dollar for any acquisition, unless pay backs and returns are reasonable we will not take risks to acquire something at unreasonable valuations. So, if there are opportunities that fit all these requirements, we will look at it.

Moderator: Thank you. As there are no further questions I now hand over the floor to Mr. Shrikant Himatsingka for the closing comments. Please go ahead sir.

Shrikant Himatsingka: As always, thank you all for joining us. It was a pleasure to interact. If there have some questions that remained partially answered or require further details do give us a buzz and we will take you through whatever you need to know to your satisfaction. Thank you. Bye.

Moderator: Ladies and gentlemen this concludes your conference call for today. We thank you for your participation and for using iJunxion Conferencing Service. You may please disconnect your lines now and have a great day ahead.