



Himatsingka

Earnings Call Transcript  
Bengaluru, May 29, 2019

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**Q4 FY19 Earnings Conference Call**

**May 29, 2019**



**Moderator:** Good evening ladies and gentlemen, I am Priyanka, moderator for the conference call. Welcome to Himatsingka Seide 4Q FY19 post results conference call hosted by Batlivala & Karani Securities India Private Limited. At this moment all participants are in the listen-only mode. Later we will conduct a question and answer session. At that time if you have a question, please press \* and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Ms. Prerna Jhunhunwala. Thank you and over to you ma'am.

**Prerna Jhunhunwala:** Thank you Priyanka. Good evening everyone. On behalf of B&K Securities, I would like to welcome you all for 4Q FY19 and annual FY19 post results conference call of Himatsingka Seide Limited. From the company we have with us the senior management, including Mr. Shrikant Himatsingka, Managing Director and CEO of the Company, Mr. Ashok Sharma, Senior VP and CFO – Strategic Finance, Mr. K.P. Rangaraj, President – Finance and Group CFO and Mr. Ashutosh Halbe, Executive Vice President, CFO – Operations. I would now like to hand over the call to Mr. K.P. Rangaraj for the initial comments. Thank you and over to you sir.

**K.P. Rangaraj:** Thank you B&K. Thank you Priyanka. Good afternoon ladies and gentlemen. On behalf of the company, I wish to extend a very warm welcome to all participants for the Q4 earnings call. So, as in the past, I would give you updates on the business side to start with, followed by financials and any key observations on the financials is the last update. And after that I will hand it over to our Managing Director, Mr. Shrikant Himatsingka.

So, to start with the business update, in line with our strategy to enhance brand led revenue streams, we acquired the home textile portfolio of Global Brands Group Holdings Limited. The home portfolio includes the exclusive licensing rights for the Tommy Hilfiger home brand, the Copper Fit brand and other brands. We also assumed global rights for the Calvin Klein Home Brand. This was further strengthened by the brand portfolio; the entire brand portfolio was strengthened by entering into an exclusive licensing agreement with the Iconix Brand Group, for the Royal Velvet brand. The licensing rights to the Royal Velvet brand is for the territory of North America.

We launched a new brand, Himeya, for bedding and bath products to focus on addressing the Indian market. The revenue contribution from brands continued its upward trend in FY19. During the year, revenue from brands stood at Rs. 2255 crores as compared to Rs. 1610 crores in FY18. The integration of acquired brand licenses, including the Tommy Hilfiger was completed in March 2019. We commenced trial production at our new Greenfield Terry Towel Plant, located in Hassan, effective February 20<sup>th</sup>, 2019. The new Terry Towel Plant will have an installed capacity of 25,000 Tonnes per Annum. The plant is expected to commence commercial production during H1 FY20.

During the year, the Company completed the capacity de-bottlenecking initiative at the Sheeting plant. The Sheeting capacity now stands enhanced at 61 MMPA verses a capacity of 46 MMPA, earlier. The enhanced utilization levels during Q4 FY19 were offset by reduction in realizations on account of product mix. Himatsingka continues to be a leader in the Cotton Track & Trace space with its exclusive DNA tagging technology along with its branded Cotton platforms –



PimaCott, HomeGrown Cott, OrganiCott and GizaCott. This completes the business update.

I will now move on to the financial performance of the company for FY19, for the full year FY19.

The consolidated total income increased by 17.1% for FY19 and stood at Rs. 2,654.26 crores versus Rs. 2,266.69 crores for FY18.

The consolidated total EBITDA, excluding the non-recurring expense, for FY19 increased by 25.9% to Rs. 586.92 crores versus Rs. 466.23 crores in FY18. The EBITDA Margin, excluding the non-recurring expense, stood at 22.1% as compared to 20.6% in FY18, an increase of 154 bps. The non-recurring expense of Rs. 6.99 crores was incurred in Q1 FY19 towards the brand license acquisitions.

The Consolidated EBIT, excluding the non-recurring expense, was up by 21.3% to Rs. 478.15 crores versus Rs. 394.28 crores in FY18. Consolidated Profit before tax, excluding the non-recurring expense, was up by 8.5% to Rs. 315.03 crores versus Rs. 290.48 crores in FY18. Consolidated PAT for FY19 stood at Rs. 196.84 crores versus Rs. 201.64 crores in FY18. Consolidated Cash Profit after Tax for FY19 was up by 11.7% to Rs. 305.61 crores versus Rs. 273.59 crores in FY18.

I now move on to the consolidated financial performance for the quarter ended March 2019. The Consolidated Total Income increased by 21.4% during the quarter and stood at Rs. 692.74 crores versus Rs. 570.63 crores in the last year. The Consolidated EBITDA for Q4 FY 2019 increased by 7.1% to Rs. 140.43 crores versus Rs. 131.15 crores in Q4 FY 2018. The EBITDA margin was 20.3% as compared to 23.0% in Q4 FY18. The Consolidated EBIT for the quarter ended March 2019 was up by 0.8% to Rs. 111.61 crores versus Rs. 110.67 crores in Q4 FY 2018. The Consolidated Profit Before Tax for the quarter ended March 2019 stood at Rs. 66.72 crores versus Rs. 78.82 crores in Q4 FY 2018. The Consolidated Profit After Tax for Q4 FY 2019 stood at Rs. 48.37 crores versus Rs. 50.34 crores in quarter ended March 2018. Consequently, the Consolidated Cash Profit after Tax for the quarter ended March 2019 stood at Rs. 77.19 crores versus Rs. 70.82 crores in the previous year.

I will now move on to the debt profile. The Consolidated Gross Debt as of March 2019 stood at Rs. 2,790 crores. The total term debt stood at Rs. 1,812 crores and the working capital debt stood at Rs. 978 crores. The cash and cash equivalent and the current investment stood at Rs. 368 crores as at March 2019. Consequently, the Company's net debt outstanding as of 31<sup>st</sup> March 2019 stood at Rs. 2,422 crores.

Leverage Ratios computed on TTM basis. The net debt, excluding the project work in progress debt, to EBITDA improved to 3.52 times at the end of FY19 as against 4.20 times at the end of FY18. The DSCR stood at 1.97x at the end of FY19 as against 2.34x at the end of FY18. The net debt to equity ratio stood at 1.70x at the end of FY19 versus 1.63x at the end of FY18. The net debt, excluding the project work in progress debt, to equity stood at 1.46x at the end of FY19 versus 1.59x at the end of FY18.



Capital efficiency ratios computed on TTM basis. The Return on Capital Employed, excluding the capital employed on project work in progress, at the end of March stood at 13.6% compared to 13.9% at the end of FY18. The Return on Equity ratios stood at 14.9% at the end of FY19, compared to 17.6% at the end of FY18.

I will move on to the last section, which is comments on results. The tax rate is lower during the quarter and the year, due to better than estimated tax benefits, including reduced disallowances. Going forward we anticipate the effective tax rate to be range bound at the normal tax rate levels. With this, I conclude my update. I will now pass on the Q&A session to our Managing Director Mr. Shrikant Himatsingka.

**Moderator:**

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing \* and 1 again.

I repeat, ladies and gentlemen, if you have a question, please press \* and 1 on your telephone keypad.

The first question comes from Mr. Rajesh Kothari. I am sorry, he has withdrawn the request. Next question comes from Ms. Shradha Agarwal from Asian Market Securities. Please go ahead.

**Shradha Agarwal:**

Hello. Good afternoon to the management team. A couple of questions; firstly, could you highlight what all went into the margins for this quarter? Margins were down on a YOY basis on the EBITDA front, so some highlight there would be appreciated.

**Shrikant Himatsingka:**

The margin movements are just a result of some ordinary course product mix variations. These factors in a product mix be any ordinary course raw material movements during the Q. But, if you look at the annual gross margins, they are range bound and I guess that is what one should look at. But, for Q it is reflective of ordinary course movements and underlying profits.

**Shradha Agarwal:**

Sorry sir, I was more coming from the point that gross margins are up 150 bps YOY, but EBITDA margins are down. So, the product mix dilution in margins would have got reflected at the gross margin level more than at the EBITDA level. So, between the two what are the moving factors?

**Shrikant Himatsingka:**

The EBITDA as well ma'am has been impacted. If you see over the last Q for example, we have had a slight dip on the EBITDA front by approximately 200 basis points, which is reflective of this ordinary course product mix change that we have witnessed, which might be reflective on a YOY basis as well and the reason remains the same.

**Shradha Agarwal:**

Sure; and sir, and could you help us with the non-operating income number for FY19.

**Shrikant Himatsingka:**

The non-operating income is largely treasury income.

**Shradha Agarwal:**

Sir, the other operating income, the other operating income.



- Shrikant Himatsingka:** Yeah, the other income is largely treasury income with the exception that we shared with the investors during the Q2 FY19 of some FX gain, again on the account of restatement. There is nothing else in other income.
- Shradha Agarwal:** No, I was more keen on getting the incentive number, the export incentive numbers and other numbers, other operating income numbers.
- Shrikant Himatsingka:** The export incentives ma'am are in public domain. We do not disclose separately what the export incentives are. We are entitled to the same export incentives as any other company that exports these categories of products. So, I would urge you to just have a relook at what those rates are. But, we do not disclose separately what the exports benefits are vis-à-vis as a component of our total income.
- Shradha Agarwal:** Sure. And sir, would it be possible for you to spell out how much revenue should we be building in from the Royal Velvet brand acquisition in FY20?
- Shrikant Himatsingka:** Fair question. But, unfortunately ma'am we do not disclose and or share any guidance by brand. But, what I would like to add or what I would like to reflect on vis-à-vis your question is, the Company remains focused on enhancing its brand led revenue streams. As our Group CFO outlined earlier, we have taken several initiatives during the year to strengthen our revenues from brands. They have gone up substantially from approximately Rs 1610 crores in FY18 to Rs. 2,255 crores during FY19. This is a result of the various additions we have done to our brand portfolio and the growth we are seeing from the existing brands, all put together. So, it has been an encouraging show on the brands front and we will continue this focus going forward. The Royal Velvet brand was a very well known brand over the years in the North American markets. We saw value in taking this brand, rights to this brand for the home segment. It has been a recent acquisition in terms of rights. And we will hope to add to our revenue streams from the contribution from this brand as well going into FY20.
- Shradha Agarwal:** And sir just last question from my end. How is our captive yarn requirement is met by the spinning plant currently?
- Shrikant Himatsingka:** As outlined to investors earlier, our spinning facility is largely for backward integration purposes. We did outline that we are open and exploring limited third party opportunities, because of our track and trace platforms. But, other than that it is pretty much only for captive use. So, you should in a normal scenario over 85%-90%, somewhere in that range and sometimes even higher than that would be dedicated for captive purposes. I would say 90% plus.
- Shradha Agarwal:** That is it from my end. Thanks.
- Shrikant Himatsingka:** Thank you.
- Moderator:** Thank you ma'am. The next question comes from Mr. Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.
- Rajesh Kothari:** Good afternoon sir.
- Shrikant Himatsingka:** Good afternoon.



**Rajesh Kothari:**

My first question is in FY19 you have mentioned that brand revenue has increased from 1600 crores to 2200 crores plus, which is about close to 40% growth. And I really appreciate the Company's focus to keep increasing the brand revenue. But, my sense was when you focus more on brand revenue that will result into probably even better profitability, which has not happened. That is number one. Number two, if I look at quarter on quarter, that is the December quarter compared to March quarter, while your revenue has increased little bit QOQ, there is a significant drop in margins from 25% to 20%. While I surely again appreciate your answer that it is related to product mix, I would appreciate if you can give little bit more detailed (not clear) into it that why such a significant drop and whether the product mix which is there in fourth quarter, that is what is the normal base which we will assume from here on. I will come back to the third question, once I get the answer of the first two.

**Shrikant Himatsingka:**

Thank you for your questions. I would again urge you not to over interpret a quarter's results, any quarter's results. One should look at it slightly broader span of time. But, a Q is a Q and I accept your observations. I would just take a step back and look at our annual numbers again. So, the 17% annual revenue growth that we have witnessed during FY19 is largely driven by brands. And we saw an expansion of EBITDA from approximately 20.57% to 22.1%. So, we have seen an expansion on the EBITDA front. This was both driven by our integration efforts and our branded platforms. So, they did indeed contribute to a better operating performance during the year. The fourth quarter in particular saw a dip on account of product mix as I explained. There are several products which are seasonal in nature and sometimes marketing spends are not necessarily linear vis-à-vis the product. So, the product mix sometimes also dictates certain other expenditure that is incurred during the Q. But, all in all I think our belief in the fact that brand platforms create more sustainable models or pave the way for more sustainable models in our industry seems to be holding true. And overall we are pleased with the expansion on the operating margin front for the year.

**Rajesh Kothari:**

So, when you started the CAPEX and the backward integration when the project was started, there was an expectation and that has been guided by that interest and depreciation, ultimately the backward integration is going to add hugely to your margins. But, even if I look at it on full year basis, then your interest depreciation cost definitely eats away whatever gain you had because of some maybe backward integration. And therefore your PBT growth and PAT growth as well, I am sure is less than satisfactory compared to probably even your internal estimates. Any comments which you would like to make?

**Shrikant Himatsingka:**

Yeah, the observations on interest and depreciation are not inaccurate. But, there are other reasons and some of these we had shared with investors during our last call, where I had highlighted that we are facing some headwinds from some of our niche businesses, namely our luxury brand business in Europe and our luxury drape and upholstery segments, which have also dented our operating performance. So, that is also a factor that has to be taken into consideration. Of course we don't disclose numbers by divisions and so on. But, we are facing some challenges and they are eating into our operating performance numbers. But, I must reiterate the fact that vertical integration has helped us tremendously. The investments in spinning have yielded fantastic results. They are absolutely in line with our expectations. And we feel that the integrated model remains a very strong sort of platform that we want to build on. So, all in all I wouldn't look at the numbers exactly the way you mentioned. There has been some



reduction in numbers also because of the niche divisions not performing as we desired. Now, the total revenues that the niche divisions contribute are not very large. One of them is about 3½% and the other is about 3%. But, their EBITDAs and other profitability numbers are weak. So, they are net-net eaten away from the other businesses, which we are trying to address.

**Rajesh Kothari:**

And outlook, my last question was on outlook, if you can give color on outlook that how do you see them, because most of the markets in which you are present are quite matured market. So, as you rightly mentioned some divisions are not doing well in line with your estimates, so how one should look at the business in FY20?

**Shrikant Himatsingka:**

I think FY20 should be a year of consolidation because we have just commenced our trial production on Terry. So, we look forward to starting commercial production during FY20. As we indicated earlier, the commercial production is likely to begin during the H1 of FY20. So, our estimate is, we should be ready to flag off commercial production more towards the end of H1, after completion of trials. So, that will be the theme to sweat our new Terry capacities that come on stream, continue to place additional capacities on the sheeting front, sweat our spinning assets as we have in FY19, look at growth opportunities for our various brand platforms and we will continue to be on the lookout for strategic opportunities with regard to the intellectual property portfolios. So, these will be our areas of focus. And it should drive our top line. These areas of focus should drive our top line and I would say more on an organic basis. Our EBITDA numbers should be consistent, as we have seen during fiscal 2019. Of course there will be ordinary course fluctuations between quarters, but largely we should be range bound. And we also want to be focused on driving capital efficiency ratios, because of the assets that we will be on boarding in terms of commercial production of Terry and other working capital increases associated with Terry. We would also like to counter that with some working capital decreases on other divisions in terms of optimizing certain other current assets. So, overall captive efficiency will remain a theme in addition to what I mentioned earlier.

**Rajesh Kothari:**

Thank you sir. I will come back in queue.

**Shrikant Himatsingka:**

Thank you.

**Moderator:**

Thank you sir. Ladies and gentlemen, if you have a question, please press \* and 1 on your telephone keypad. I repeat, ladies and gentlemen, if you have a question, please press \* and 1 on your telephone keypad.

The next question comes from Mr. Hem Agarwal, an Individual Investor. Please go ahead.

**Hem Agarwal:**

Good afternoon sir. Great to see the consistency of the management in meeting the significant expansions and debottlenecking initiatives sir, it is fantastic.

**Shrikant Himatsingka:**

Thank you.

**Hem Agarwal:**

Sir, my first question is on the dividend strategy sir. Sir, why a special dividend has been declared and why has the dividend been increased from Rs.2.50 to Rs. 3.50 with similar net profit and the similar net debt level profiles? Can I read into this that this is a signal of much better times ahead sir?





- Shrikant Himatsingka:** Thank you for your observations. Of course Himatsingka is not the best at publicizing certain events. But, this year on a quiet note we were celebrating thirty years of operations, so hence this special dividend. And the movement from Rs.2.50 to Rs. 3.50 per share was just an ordinary course movement, because we have been pretty much at Rs. 2.50 for the last three years. So, the management thought it prudent to step it up a notch. The special dividend is just in recognition of what I mentioned, nothing else beyond that.
- Hem Agarwal:** Yes sir. Thank you so much sir. Sir, another little bit some concern which I had is always upon, if there is a slowdown in the USA that it could impact us quite badly because the finance cost is say, approximately 165 crores and the net profit is approximately 200 crores and the finance cost doesn't go down; so, that always concerns me. What are your thoughts on that sir?
- Shrikant Himatsingka:** We are intricately linked to the US in terms of revenue it is a major market for us. Macroeconomic movements in growth rates will not significantly affect revenue streams. It could organically affect revenue streams. So, I wouldn't attribute any sense of panic or any significant movements that one needs to be worried about, at least we don't see any such signs on the US front. But yes, the North America continues to be the largest market for the Group. We are taking several initiatives to enhance the revenue streams from Europe as we have outlined earlier. We are taking some steps to increase revenue streams from the domestic market as well and other Asia Pacific markets. But, overall North America still is a major contributor and we are working on reducing its share by increasing revenue streams from the other geographies. But, I don't see any specific worry.
- Hem Agarwal:** Okay sir. Sir, how are we entering the Indian market with the Himeya brand in terms of distribution sir?
- Shrikant Himatsingka:** We are in initial stages of having entered the market. We are testing various channels and platforms, including being more digitally focused that will be a theme for the Company going forward as well to enhance our digital presence and so the brand will be visible across channels. We think India has a promising demand quotient. It remains a fragmented market. Up until last year we pretty much had nothing in India and we were taking baby steps into entering the market. This year we have the Himeya brand. We are also servicing private label demand emanating out of this region more aggressively. The Company might be looking for branded opportunities in India as well. So, overall I think if I take three to five years perspective, India should be an important theme for the Company.
- Hem Agarwal:** Okay, great sir. And sir by when do you start expecting our European operations to start contributing more in terms of revenue and profitability?
- Shrikant Himatsingka:** From a revenue standpoint, I think FY20 should be the year, where we see contributions trickle in from Europe. It should be much, much greater than we saw in FY19. Although we don't discuss these numbers separately, but still internally I can share that 2020 should see some meaningful contribution from Europe and India as well.
- Hem Agarwal:** That is very, very good news. And lastly sir, I just wanted to know if by chance you can share the operations cash flow figure for the year ended 31<sup>st</sup> March sir.





- Shrikant Himatsingka:** I am not sure what you mean by operations cash flow, but the EBITDA is Rs. 580 crores, the PAT was Rs. 197 and the cash was Rs. 305 crores. So, that was cash flow, basic cash flow. Of course there are other movements including working capital and debt and so on, which we will be happy to take offline.
- Hem Agarwal:** Yeah, no problem sir. Thank you very much. Thank you very much and really appreciate about the dividend increase. It shows us lot more confidence that the management is having in the Company. Thank you very much sir.
- Shrikant Himatsingka:** Thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Vikas Jain from Equirus Securities. Please go ahead.
- Vikas Jain:** Hello. Thanks for the opportunity sir. Sir, my first question is referred to how have we played in terms of our hedges? Because of some volatility earlier in the forex, so we had some higher rate hedges versus the spot rate, lower rates hedges versus the spot rate. How are we placed in terms of hedges now, means is the spot currently matching what we have?
- Shrikant Himatsingka:** So, basically as shared with you earlier, as shared with investors earlier, our forex policy is plain vanilla. We typically book order books ten to twelve months out on a forward basis. And so it is as simple as that. That is what we have done this FY19. So, on an average, the forward premiums range from about approximately 6% in terms of forward premiums, 5% forward premiums. So, that is what one would typically expect to have in terms of realization movements in terms of net exposure. And when I say net exposure, I am netting off any imports that are required.
- Vikas Jain:** Sir, my next question would be, sir can you quantify what was the CAPEX figure for FY19?
- Shrikant Himatsingka:** Approximately 600 crores.
- Vikas Jain:** And sir, going ahead in FY20, sir the commercial production of the Terry plant is about to happen in H1, so are we seeing any CAPEX of larger magnitude now onwards or will the cash flow generated for the business will be towards the debt repayment? What is the strategy here?
- Shrikant Himatsingka:** It is a fair question. What we had outlined to the stakeholders was we are in the last stage of, while the trial production has commenced, there are certain areas that are still undergoing completion and including common campus assets. So, we should see tad bit more CAPEX, but obviously it will be nowhere near what we have seen during FY19. It will be substantially lower, because we are completing the project in terms of certain areas of infrastructure and so on. So, post which we don't see any further CAPEX on these projects and I think this should stand concluded by H1 as well.
- Vikas Jain:** Right sir. So, cash flow generated would be directed towards the debt repayment, correct?
- Shrikant Himatsingka:** Among other things.
- Vikas Jain:** Among other things, okay. Thank you. Thank you sir.



- Moderator:** Thank you sir. The next question comes from Mr. Pankaj Kumar from Kotak Securities. Please go ahead.
- Pankaj Kumar:** Thanks for taking my question. Sir, my question pertains to the working capital side. So, what are the steps that we are taking to reduce the inventory or inventories to continue in the future?
- Shrikant Himatsingka:** Pankaj, if you see finally this inventory increases stopped. For the quarter there has been a decrease in FG and work in progress. Overall vis-à-vis the numbers we declared in H1, we have seen a small 20 crores movement from approximately 1,157 crores to 1,175 crores and that 20 crores is attributable to some cotton purchases, because of its seasonal nature and inventory buildups. But, we have actually net-net begun to see the decrease beginning Q4. And we will continue to work on this number during FY20. That remains as I said part of our capital efficiency focus will include optimizing our current asset buckets, which includes inventories.
- Pankaj Kumar:** And how much is the finished goods inventory out of this 1,176 crores.
- Shrikant Himatsingka:** Pankaj, we don't, we haven't yet, you can see that in the annual report. We normally don't share splits of that. We can take that offline.
- Pankaj Kumar:** And sir, can you comment on this increase of duty incentives which the Government has announced in March. So, do you see that will help us in terms of improving margins in FY20 as well?
- Shrikant Himatsingka:** Yes. That will certainly help. I must also share that we are also witnessing cost inflation across the board. So, some of that will be mitigated with the cost inflation as well, which is why I felt that on an annual basis, EBITDA should be range bound in terms of percentage.
- Pankaj Kumar:** Okay. And sir, lastly on this acquisitions that we did in FY19 TH Home, so what kind of revenue contribution that we had from this?
- Shrikant Himatsingka:** As outlined earlier, the size of portfolio we acquired was approximately USD 60 million. We acquired in May 2018. And so pro rata its contribution was aligned with those numbers approximately.
- Pankaj Kumar:** And lastly on the capacity utilization on the sheeting side, so what utilization you opted in the year?
- Shrikant Himatsingka:** Our utilization levels remain stable. We did see an uptick in the utilizations during the second half, which we see continuing going into FY20. We expect to see little enhanced levels on utilizations during FY20. But, as we shared, we have also seen realization reductions that we are witnessing on our product mix, which was expected as we are expanding our base. So, we are seeing that getting set off a little.
- Pankaj Kumar:** Okay sir. Thank you sir.
- Moderator:** Thank you sir. Ladies and gentlemen, if you have a question, please press \* and 1 on your telephone keypad. I repeat, ladies and gentlemen, if you have a question, please press \* and 1 on your telephone keypad.



The next question comes from Mr. Animesh Yadav from Satco Capital. Please go ahead.

**Animesh Yadav:** Thank you for the opportunity. Sir, two questions, more or less you have answered most of the questions. First is, sir what would be the top line expectation in terms of the increase in percentage for FY20?

**Shrikant Himatsingka:** We don't give guidance. I wish we did sometimes, because it will help answer a lot of questions, but we don't give guidance. But, what I can share is, as I have shared earlier during the call we will be looking to sweat our current brand platforms, some recent additions included. We have a new Terry plant coming up, which is going to go into commercial production pretty much during FY20. As I indicated, we are likely to be ready by the end of H1. With Terry coming on board, some brand additions that we want to sweat, we should be driving a strong organic growth for the next year as well.

**Animesh Yadav:** Alright, thank you. Can it roughly be in the same, what we expected in FY19?

**Shrikant Himatsingka:** I can't make specific comments on percentages. But it would be fair to assume that the Terry plant will start contributing from H2 and while we sweat assets on the sheeting front, so it could pave the way for pretty strong organic numbers.

**Animesh Yadav:** Alright. And the same, the margins would be better, like the PAT margins we can expect it to be better than what we saw in FY19?

**Shrikant Himatsingka:** As I said, some organic growth, EBITDA percentages should be range bound. So, I will leave the rest of the computation to you.

**Animesh Yadav:** Alright. Thank you sir. Sir, last question is regarding the trade receivables. There has been a significant increase in the trade receivables in the last year. So, we would like to get some color on that.

**Shrikant Himatsingka:** It is very simple. Going forward you might see further increase in some cases, during some quarters. And the reason is, if we do certain sales direct ex India versus the US and certain sales streams are not factored, then it will show up in the form of higher receivables. And that is the reason that you see increases in receivables.

**Animesh Yadav:** Thank you sir.

**Moderator:** Thank you sir. The next question comes from Ms. Manjubhashini from Sundaram Mutual Fund. Please go ahead.

**Manjubhashini:** Good evening sir. The Himeya brand which you talked about for the Indian markets, how do we propose to popularize this? Will we launch our own stores in which it will be available or how are we looking to market this brand? And what is the realization for this brand likely to be? Is there some idea about the expectations around this brand?

**Shrikant Himatsingka:** It is a fair question. Addressing India can't be a single recipe model. Addressing India is a multi recipe model. And this is one of the various recipes that will be at play. It is little early on in the game for us to make credible comments on how this will pan out. So, I request for a little more time and



patience. We have just launched the brand. But, our outlook is that this brand caters to a specific audience. Its brand essence appeals to a specific audience, with specific price points and specific aesthetic signature and so on. And there will be other offerings that cater to other voids and opportunities in this market. So, Himeya is a brand as I said that it will be available across channels. It is also going to be visible, substantially visible on the e-commerce front. It caters to the urban youth. And I think we should be in a position to share greater pulse with you in the next few months.

**Manjubhashini:** Sure. With some output coming through from the Himeya brand as well, the overall utilization on 61 MMPA, should we assume around 80% plus before FY20, is that a fair assumption to make?

**Shrikant Himatsingka:** Manju, first of all Himeya cannot swing our utilization numbers just as yet. So, Himeya has its position amongst our brand portfolios, global brand portfolios and it is our new addition vis-à-vis utilization, which is a mutually exclusive subject. As you know we don't share specific percentages. But yes, we should see an uptick on the utilization front going into FY20 because of the various initiatives that I outlined earlier. I will be happy to discuss it in greater detail in terms of what I shared earlier except offline; otherwise it might just be too detailed for the call.

**Manjubhashini:** Sure sir. Thank you.

**Moderator:** Thank you ma'am. The next question comes from Mr. Lovelesh Manocha from SKS Capital. Please go ahead.

**Lovelesh Manocha:** Hi. Sir, just wanted to check what is our organic growth this year FY19, excluding the acquisition we did?

**Shrikant Himatsingka:** About in the mid single digit approximately.

**Lovelesh Manocha:** Okay. So, it is in line with the industry?

**Shrikant Himatsingka:** I cannot comment sir on what the industry has clocked. But, this is what we have clocked.

**Lovelesh Manocha:** Okay, but in line with our expectation?

**Shrikant Himatsingka:** Yeah, it is range bound. We have seen quarters of low double digit and sometimes mid single digit. It averages out in the mid to high single digit on a sustainable basis. But, strong organic growth can be beyond that or should be beyond that.

**Lovelesh Manocha:** Okay, somewhere in double digits, this sustainable organic growth?

**Shrikant Himatsingka:** Not sustainable, I said strong organic growth would underline potential double digit opportunities. But, what we have clocked is mid single digits. So, that is where we see sustainable numbers on a like to like basis on existing buckets. But, given the initiatives that I outlined and there was an investor who asked about the growth for FY20 and I have said that it should signal strong organic growth momentum. So, it should be better than the kind of growth that we have clocked during FY19 on an organic basis.



- Lovelesh Manocha:** Okay. But was there any specific challenges you saw during the year, because of which it was up and down during the year or it is something business as usual?
- Shrikant Himatsingka:** Yeah, we have been pretty consistent. We have clocked 17%. We have acquired the Tommy brand along with few other brands. We completed the Terry Towel project from a standpoint of commencing trial production. We stabilized our spinning assets. We also signed up the Royal Velvet brand. We launched the Himeya brand. We debottlenecked our sheeting capacities. We have also been pretty consistent on the revenue front across the Qs. Our operating margin profile has been pretty consistent through the year, with the exception of Q4. So, all in all it is a good stable year with the strong revenue uptick given our initiatives.
- Lovelesh Manocha:** Nothing on the demand side, because of which it was mid single digit and it was more of the way we had planned probably and other expansion that we were doing, so probably because of that?
- Shrikant Himatsingka:** Yeah, taking market share through various routes, including buying portfolios that are IP led, as I outlined to investors earlier as well, the underlying markets, it is not like the underlying markets are seeing buoyant growth. The underlying markets are relatively stable. The growth is really driven by market shares being exchanged between players. And so on an organic basis, it would be aggressive to assume greater than mid to high single digit growth. And therefore there will be quarters and or years with a little higher than that and some which will be range bound. So, I don't see any worry on the demand side. It should remain stable.
- Lovelesh Manocha:** Okay. So, from currency perspective, that didn't impact or benefitted us during the year, if volume wise, it would be similar 5%, if I have to, while the product mix impacts the overall thing, but if I have to.....
- Shrikant Himatsingka:** No, actually volume wise we were much higher than the revenue organic growth that you are seeing. It was unfortunately offset by some realization impact that we saw, which I also shared. So, we have had volume growth which is greater than this 5 odd percent that we discussed. That volume growth, especially in H2 has been offset by lower realizations. And this volume uptick is something I expect to continue in FY20 as well, given the initiatives.
- Lovelesh Manocha:** Okay. And on the new capacity Terry Towel side...
- Shrikant Himatsingka:** All in all let me just say, our bedding portfolio should continue to see strong organic growth. Our bath portfolio will come into commercial production during the end of the first half of the year. So, it will be visible during H2. And the Company continues to be on the lookout for strategic opportunities as I outlined. And our theme will be to sweat our brands across bedding and bath to drive growth.
- Lovelesh Manocha:** Great. Three geographies you had mentioned between Europe, US and India, what is your overall outlook from the demand perspective? How are these geographies placed in terms of absorbing what we plan to market over there?
- Shrikant Himatsingka:** North America will continue to remain the largest geography obviously, given its sheer appetite and our presence there. Europe should see an improvement vis-à-vis what we clocked in FY19, given all the initiatives we have been taking in the



geography over the last year, we should see more fruits during 2020. And India and Asia Pacific remain an opportunity as well. But, given its low base, we should see some growth coming out of these regions as well.

**Lovelesh Manocha:** Okay, so probably India given that there is huge scope to penetrate would be probably the fastest growing. Europe again you have set up, you have put your energies during the year, that should help and then probably US will be more mature from your perspective. Would that be the right order?

**Shrikant Himatsingka:** Yeah, but just be mindful of the fact that growth rates vis-à-vis India and Europe, while the percentages look aggressive, the base is very low. So, just keep that in mind please.

**Lovelesh Manocha:** Sure. Now, coming to your bath products, capacity which will come on stream in later part of first half, now you have any utilization targets for FY20, FY21?

**Shrikant Himatsingka:** It is a good question. I am sorry I can't disclose at this point any specific utilization levels that I foresee. But, I think we should be off to a good start. We have had a pretty satisfactory trial production commencement. And going into commercial production later on in the year, we should be off to a healthy start. Let me put it that way. We are confident of extrapolating our brand presence and its benefits into the bath genre as well. And we hope that bath shouldn't disturb our operating performance during the second half of the year.

**Lovelesh Manocha:** Okay. So, you mentioned that some CAPEX is to be incurred, is being incurred in the first half. Would it be possible for you to quantify how much of the CAPEX is remaining?

**Shrikant Himatsingka:** The CAPEX that remains is not very large. It should be approximately another 100 crores-120 crores, in that region.

**Lovelesh Manocha:** Okay, so that is what you are earmarking for H1 and then we are done with it.

**Shrikant Himatsingka:** Then we are done with our projects CAPEX. Organic CAPEX always continues, which is a separate bucket, but we don't see much of that either. So, other than this we should be pretty light on CAPEX.

**Lovelesh Manocha:** Okay. How much is our maintenance CAPEX, annual maintenance CAPEX?

**Shrikant Himatsingka:** I would say our annual maintenance CAPEX; of course it could vary, maybe between 2% and 4% of net fixed assets.

**Lovelesh Manocha:** Okay, got it. And lastly, you said about working capital reduction that you planned to do and there will be some working capital additional requirement from the growth perspective and new capacity coming on stream. So, would it be fair to assume that whatever additional capacity comes in will be served through the reduction and it will not drain cash flows, from the working capital perspective?

**Shrikant Himatsingka:** That will be a fair assumption. Of course our endeavor will be to better that. But, that is a fair assumption.

**Lovelesh Manocha:** Okay, sure. Many thanks sir.



**Shrikant Himatsingka:** Thank you.

**Moderator:** Thank you sir. We have a follow up question from Mr. Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

**Rajesh Kothari:** Sir, first question is with reference to goodwill, if I look at goodwill number in balance sheet, it increased in September and again reduced in March quarter. Can you please clarify?

**Shrikant Himatsingka:** It is just FX translation. There is nothing more to it.

**Rajesh Kothari:** Sorry?

**Shrikant Himatsingka:** It is driven by FX translation, foreign exchange translation.

**Rajesh Kothari:** Okay. And what are the total one off charges which are incurred in FY19 and what is the policy for goodwill amortization?

**Shrikant Himatsingka:** So, just let me clarify. The goodwill is essentially arising out of any intangible asset purchases that the Group makes. So, we made a purchase during Q1 and subsequently any changes to that is driven by translation. Can you repeat your second question?

**Rajesh Kothari:** My question is basically what are the total one off charges, brand related acquisitions charges, which are there in FY19 in the part of EBITDA?

**Shrikant Himatsingka:** Rs 6.99 crores incurred during Q1 FY19.

**Rajesh Kothari:** Okay. My second question is with reference to, since significant amount of CAPEX will come on stream, commercialization of towel plant and you mentioned that it will come by end of first half, can you please guide us what you think will be the total interest cost and depreciation for FY20?

**Shrikant Himatsingka:** I am sorry I can't specifically share the total interest and depreciation. Are you asking that in context with the new project of Terry or just overall consolidated?

**Rajesh Kothari:** Overall, overall.

**Shrikant Himatsingka:** I see debt to be range bound, net debt to be range bound / reduce during FY20. So, I guess that could be a cue on the interest front. You see the capital with numbers in the balance sheet, which should come into play by the end of H1. So, it would be fair to assume that the depreciation rates are consistent with what we are clocking today in terms of percentages overall, plus, minus a few 100 basis points. And so I think that should give you your number.

**Rajesh Kothari:** Sir, what is the current cost of funds. Total debt right now we are having in balance sheet is 2400 crores. What is the cost of fund?

**Shrikant Himatsingka:** Just under 7%, about 6.7% to 6.8%.

**Rajesh Kothari:** Around 7%.

**Shrikant Himatsingka:** It is not 7%. It is just under 7%, around 6.8%.





- Rajesh Kothari:** Around 6.8%. Just a minute. And you mentioned that the Terry Towel plant, while the ramp up, it is difficult to disclose what kind of number you are looking for, but in terms of the overall margins of the company, you do not think that it will dilute your margins, am I right?
- Shrikant Himatsingka:** Yeah, we hope to ensure that it doesn't disturb our operating performance. But, our operating performance itself is subject to ordinary course movements on the EBITDA front, including any disturbances that come from the Terry. So, that is what we hope for sir. But, obviously we will have to see how that pans out.
- Rajesh Kothari:** Sir, do you think at some point of time, the operating leverage, if I look at your employee cost has gone up by 40% YOY in the fourth quarter. You mentioned that while there are incentives given by Government, which will help your margins, but at the same time there will be cost inflation on an annual basis and therefore it may offset any gain. So, which kind of costs are going up to this extent that there is no, we are not able to see operating leverage on the business even in FY, because FY19 has also gone as a consolidation year. We are seeing one more year of consolidation. Interest and depreciation are also going to hit you. So, what is actually happening? What are the different cost curves which are, is it too much of marketing spend, is it too much of brand spend? Can you give some color on that? Because we always thought that as backward integration will move up, it will help your operating leverage, but clearly that is not working out.
- Shrikant Himatsingka:** Sir, actually it is. But, we will be happy to take you through this in detail. You have to look at our numbers from a particular lens. Your questions and observations are very fair. But, we will take some time to sort of put across our thoughts. So, please do get in touch after the call or anytime during the week and we will be happy to take you through this.
- Rajesh Kothari:** Thank you sir. Thank you very much.
- Moderator:** Thank you sir. I apologize, due to time constraints; we can take the last question from Ms. Prerna Jhunjhunwala. Please go ahead.
- Prerna Jhunjhunwala:** Thank you for the opportunity. Sir, I just wanted to understand your hedging status now, because you have a dynamic hedging strategy. I would like to understand what is the status of how much percentage of annual revenue, are these hedged and what would be our hedge levels like?
- Shrikant Himatsingka:** Prerna, our hedge policy is simple as I outlined earlier, ten to twelve months of order visibility is booked out on a net basis, netting off any FX imports that we foresee. And these ten to twelve months forward hedging brings us the average forward premium rates that exist. And it is as simple as that. And so, on an average, we would be maybe 4% higher or 4½% higher than that range of the average prevailing spot during FY19.
- Prerna Jhunjhunwala:** Okay. Sir, cotton prices have been very volatile in the last year, one year. And now that the international cotton prices are at far lower level, around ICE futures prices around 65 cents we don't know the PIMA cotton prices, because they are not frequently traded and that is the only parameter that we can see. So, will there be any positive impact on our cost structure, because of the lower cotton prices in the recent times?



- Shrikant Himatsingka:** No Prerna, don't just go by these fluctuating futures. Real time markets are that different than these daily future movements, if at all we are actually seeing some inflationary impacts emanating from cotton. The gentleman just before you was asking about operating leverage and why certain buckets seems to be going north, so we are seeing mild inflation as far as our product mix is concerned. On the cotton front we are seeing it in other raw materials for example, in dyes and chemicals, we saw inflationary impacts. We have seen it in energy. We have seen it in raw materials like coal. We have seen it in interest rates, but that is below the line, but nevertheless it is an input and so on. And therefore the inflation does exist across the board. If someone is telling you otherwise, it is just not at least what we are witnessing. And so, we have countered all of that, plus driven a healthy EBITDA growth given our model and maintained a pretty stable EBITDA margin profile during the year. But these inflationary impacts have come and hit us during the year.
- Prerna Jhunjunwala:** Okay. Sir, quick question on the strategy front, largely how are we seeing for the next five years vision kind of a thing for Asia, India strategy or new geographies strategy? How are we seeing the opportunity actually moving ahead? And what kind of percentage mix can we see in five years, like what do we foresee for India, Asia, Europe as a strategy perspective from the next five years perspective?
- Shrikant Himatsingka:** Fair question Prerna. Let us take this offline, because it is a vast subject. I would be happy to chat with you on this, but I will need to ask you a lot many more questions to really understand what you need to know, because this is a broad subject. So, we would be happy to take it offline.
- Prerna Jhunjunwala:** No problem sir. I am done with my questions. Thank you.
- Shrikant Himatsingka:** Thank you.
- Moderator:** Thank you ma'am. That will be the last question for the day. Now, I hand over the floor to the Mr. Shrikant Himatsingka for closing comments.
- Shrikant Himatsingka:** Thank you all for taking the time this evening. As always it is a pleasure to interact. If I have not answered any of your questions to your satisfaction, please do get in touch, we will be happy to take you through any doubts that you may have and make sure that you have your questions answered. Thank you again and talk to you all soon. Bye.
- Moderator:** Thank you sir. Ladies and gentlemen this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a pleasant day.
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