Himatsingka Seide Limited

10/24, Kumarakrupa Road, High Grounds, Bangalore 560 001

2Q FY12 Earnings Conference Call

November 08, 2011

SPEAKERS: Mr. K.P.Pradeep, Senior Vice President and Group CFO
Mr. Ashutosh Halbe, AVP – Corporate Accounts
Mr. Ashok Sharma, GM – Treasury Taxation and Company Secretary

Moderator: Good afternoon, ladies and gentlemen. I am Varun Puri, the moderator for this call. Thank you for standing by and welcome to the 2QFY12 Earnings Conference Call of Himatsingka Seide Limited hosted by Macquarie Capital Securities. For the duration of presentation, all participants' line will be in a listen-only mode. There will be a presentation followed by a question-and-answer session. I would like to now hand over the conference to Mr. Priyaranjan from Macquarie. Over to you, sir.

Priyaranjan: Thanks, operator. Hello everyone. It's our pleasure to host Himatsingka post 2Q result conference call and thank you very much all for your participation on it. We have with us Mr. KP Pradeep, Senior Vice President and Group CFO; Mr. Ashutosh Halbe, AVP – Corporate Accounts; and Mr. Ashok Sharma, GM – Treasury Taxation and Company Secretary, who will represent the company. Mr. Pradeep, I would now like to hand over to you for the first brief background to the results and then followed by Question-&-Answer session. Mr. Pradeep?

KP Pradeep: Thank you, Ranjan, and good afternoon everyone. Thanks for joining the call. I like to give a brief summary on our second quarter FY12 results. As we have done in the past, we will take you through the performance on the manufacturing division and then we go to the performance on our retail and distribution divisions. And finally, we will have a look at our consolidated performance of the group.

For the second quarter ended September, our manufacturing revenues came in at 158.64 crores versus 151 crores during the same period last year. On a year-on-year basis, manufacturing has shown a steady performance growing approximately 4.7% on revenues. The EBITDA in the manufacturing division has come in at 18.84 crores for the quarter vis-à-vis 11.2 crores in the last year, a growth of 68.2%. The manufacturing division has seen significant improvement during the quarter on account of higher plant utilization which was in the region of about 85%, improved product mix in the drapery and upholstery manufacturing division and also bedding manufacturing division resulting in an enhanced realization and the impact of the softening of our raw material prices. However, given the volatility of the rupee-dollar, we have also had an impact of around 6 crores during the quarter.

To recap once again, on the second quarter we closed the manufacturing with 158.6 crores in revenue and 18.84 in EBITDA vis-à-vis 151 crores in revenue and 11.2 crores in EBITDA during last year.

On the distribution business, we categorize our distribution into North America, Europe and India-Asia. On the distribution business, we have clocked steady growth in the North American market which includes the United States, Canada and Mexico. Our total revenues for North America during the quarter is at 297 crores versus 282 crores last year, a growth of 5.4%. The Divatex division which addresses the private label business grew 2.2% to 195 crores versus 191 crores last year, and our DWI division which is in the branded segment grew to 102 crores versus 91 crores last year, a growth of 12.3%. We continue to see stable demand of brands Calvin Klein, Barbara Barry and Esprit as well as our private label business across the United States, Canada and Mexico. The EBITDA and pre-tax earnings for our North American division continue to be stable, the EBITDA came in at 19.07 crores versus 21.91 crores during the last year, and pre-tax earning was at 17 crores versus 18 crores during the last year. The small impact is on account of higher raw material price of the past which has resulted in a slight compression of margins.

As regard the distribution business across India-Asia, the revenues were at 11.7 crores versus 10.4 crores during the last year, a growth of 12%. The EBITDA stands lower at 9.29% versus 12.12% on account of the advertisement and launch expenses for the Atmosphere bed linen. The India-Asia business as represented by Atmosphere is mainly in the curtains and upholstery space. We launched the Atmosphere bed linen range in the Atmosphere stores in October and the response has been encouraging.

The distribution division in Europe has come in at 24 crores versus 25 crores last year. EBITDA has been flat for the quarter in Europe. European demand continues to be weak given the state of the economies in those geographies. So the retail and distribution division across North American, Europe and India-Asia have given us a total revenue of 333 crores for the quarter versus 318 crores last year. The EBITDA from retail and distribution has come in at around 19 crores versus 23 crores during the last year.

On a consolidated basis, the company has clocked 365 crores in consolidated revenue versus 359 crores during the last year, a growth of 1.59% year-on-year and a growth of 12% versus the sequential Q1 if you look at the Q1 consolidated revenue of around 326 crores. The consolidated EBITDA for the quarter stood at 35.57 crores versus 37.15 crores during the last year. Consolidated pre-tax earnings from operations stood at 10.75 crores for the quarter which is 11.74 crores during the last year. And consolidated pre-tax earning last year from exceptional items stood at 12.97 crores versus 11.74 crores during the last year. The consolidated profit after tax stood at 10.26 crores for the quarter versus 10.1 crores during the last year.

On the balance sheet front, year-on-year gross debt has corrected by approximately 100 crores. Total gross debt outstanding as of 30th September stands at 783 crores and the comparative figure over the same quarter last year was at 683. The servicing cost has come down in line with the reduction in debt but the interest rates are up in the last quarter. We have seen the effective cost of debt for the company move up to 6%.

The company has decided to adopt accounting standard 30 and you must have seen this in the press release and in the accounts which we had circulated. The company has decided to adopt the accounting standard 30 with effect from first of April 2011. The standard covers accounting for forwards and derivatives. The company books forwards to hedge its receivables in foreign currency.

You may be aware that the company has one outstanding derivative whose Mark To Market as on 30th September is 22.99 crores. The Mark To Market has been accounted in line with this standard and 19.73 crores have been adjusted in the opening reserve as on 1st April 2011 and the incremental loss during the six months amounting to 3.26 crores has been accounted in the six months' performance as an exceptional item. During the quarter ended 31st September 2011,the exceptional item on the same account is a gain of 2.22 crores.

To sum up, the overall performance is steady and our manufacturing order book continues to be strong. The manufacturing order book for Q3 and Q4 on the bedding division is at around 220 crores and the upholstery and drapery division order book stands at around 20 crores. So in all we have 240 crores order book position on the manufacturing side. Across the retail and distribution divisions in North America, Europe and Asia, the order book also appears steady. Given our anticipation of a stable raw material scenario over the next few quarters, our focus on strong organic growth across our division aided by the good order book position and the positive impact of reduction in overall debt, we expect the benefit will reflect in the performance going forward. With this I would like to close my comments on the quarter and I will be glad to take any questions that you may have.

Moderator: Thank you. Participants, if you have a question for today's speaker, please press "0" "1" on your telephone keypad and wait for your name to be announced. I repeat, if you have a question for today's speaker, please press "0" "1" on your telephone keypad and wait for your name to be announced. Thank you. The first question is from Rajesh Pherwani from HDFC Mutual Fund. Rajesh, your line is unmuted, please go ahead.

Rajesh Pherwani: Just wanted to understand the forex loss of 6 crores, what does it pertain to?

KP Pradeep: **T**his forex loss is loss on account of hedges taken in the past. Hedges have been taken in the past basis an anticipation of sales and as and when the sale and collection realizes the impact either positive or negative is taken in the P&L.

Rajesh Pherwani: What's the current outstanding on the forwards and what rate is it?

KP Pradeep: Currently, we have forwards in the region of roughly $24 million and we have average rate in the region of around Rs.48 to a dollar.

Rajesh Pherwani: The second thing is, you know, last year post the first half, we had a weak second half because of the raw material prices and low margins. So how do we see things going forward in the current year?

KP Pradeep: We are anticipating stable raw material prices, Rajesh, in the second half.

Rajesh Pherwani: So you should be able to measure in the margins from the second half.

KP Pradeep: That's right.

Rajesh Pherwani: Okay. Thank you so much.

Moderator: Thank you, Rajesh. Participants, I repeat, if you have a question, please press "0" "1" on your telephone keypad and wait for your name to be announced. Thank you. There is one question which came from Rajesh again. Rajesh, your line is unmuted, please go ahead.

Rajesh Pherwani: What is the CAPEX are we looking at going forward?

KT Pradeep: We should have organic CAPEX , in the region of 10 to 15 crores at the most.

Rajesh Pherwani: For the current year?

KT Pradeep: For the year.

Rajesh Pherwani: And next year?

KT Pradeep: For the next year, anticipated in the of 10 to15 cr

Rajesh Pherwani: No plan to spend on the retail side?

KT Pradeep: On the retail side, if it is specifically related to a project, that would be appropriately funded. But then in the normal course, I don't anticipate more than this figure.

Rajesh Pherwani: What sort of tax rate are we looking for the current year?

KT Pradeep: You can take anywhere between 18 to 20%.

Rajesh Pherwani: Sir, what was our average cotton realization for the quarter?

KT Pradeep: Cotton realization, in the sense?

Rajesh Pherwani: Cost of cotton, sorry.

KT Pradeep: Rajesh, that's a difficult question to answer because we buy cotton yarn, not cotton, one. Two is that, in the cotton yarn side, we have a mix of four or five varying accounts and the product mix vary within that range.

Rajesh Pherwani: This is just to understand the trend in the cotton prices for you.

KT Pradeep: You can say that prices have reduced from the previous quarter. We are seeing corrections in the region of anywhere between 15 to 20%

Rajesh Pherwani: Would you say the average cost of cotton in the current quarter is lower than even the second quarter?

KT Pradeep: That would be a correct assessment.

Rajesh Pherwani: Okay. Thank you so much.

Moderator: Thank you, Rajesh. Participants, I repeat, if you have a question, please press "0" "1" on your telephone keypad and wait for your name to be announced. Thank you.

Priyaranjan: I have a question from the management team. What kind of order book position do you have for the next six months or for a year, whatever, comfortably?

KT Pradeep: Our order book position in the bed linen side is around 220 crores and on the curtain upholstery division is around 20 crores. So in total, we have 240 crores order book at the moment.

Priyaranjan: Now this will be delivered in what timeframe?

KT Pradeep: The order book generally is covering around six months. That's on the bed linen side but on the curtains and upholstery side, it's a month or a month and a half at most.

Priyaranjan: Okay. And the cost outlook, I guess things will improve from here on. So the margins look good in the second half at least.

KT Pradeep: Yes, that's the assessment.

Priyaranjan: Any repayment as of now for the debt in near term?

KT Pradeep: In the near term, no significant repayments other than that which we have already positioned.

Priyaranjan: Okay. That's all from me.

Moderator: Thank you, Priya. Participants, I repeat, if you have a question, please press "0" "1" on your telephone keypad and wait for your name to be announced. Thank you. I am sorry. Priya, there are no questions coming up. Should I hand over the floor to you? Priya?

Priyaranjan: Okay.

Moderator: Alright. At this time, there are no further questions from the participants. I would like to hand over the floor back to the speaker for final remarks. Over to you ,sir.

PK Pradeep: Nothing more to add in the context. We are expecting a stable second half in line with the stable performance in the first half. We will see you again back on the Q3 call. Thank you.

Priyaranjan: Thank you very much, Mr. Pradeep, and the management team of Himatsingka Seide. It was a pleasure to have you on the call. Thank you all and the participants.

Moderator: Thank you. Participants, that does conclude our conference for today. Thank you for your participation. You may all disconnect now. Thank you.