

AUDIO CONFERENCING SERVICE

TRANSCRIPTION REPORT

Arvind Limited

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Operator:

Thank you for standing by and welcome to the analysts and investors for Q3 Arvind Limited conference call presented by Mr. Jayesh Shah.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question please press *1 on your telephone. Please be advised this conference is being recorded today.

I would like to hand the conference over to Mr. Jayesh Shah. Over to you, sir.

Mr. Jayesh Shah:

Good morning everyone and thank you for coming over for the call.

I trust you would have all got the information about the Q3 results. It was a 19% growth in the top line and we had a very healthy margin coming, thanks to both brands and retail business as well as textile business margins improvements, the margin was 15%. We had some good amount of land sale taking place, it is an ongoing activity which took place where we are selling some parcels of land to our joint venture with TATA and some other pieces of land, and we had very high amount of assets loss of about 38 crores that we had to write off. As a result our profit grew by about 8% in a sense non-comparable basis, on a comparable basis where we exclude VF sale, it grew by about 14%. We have this quarter as reported earlier an extraordinary income of about 191 crores. We actually had 257 crores of revenue and after knocking off tax liability the net gain was 191 crores, that has significantly augmented our net worth in this quarter. Again, there is a merger which took place, though it doesn't change the numbers, but we merged our subsidiary Arvind Products. So, to the extent of minority interest now there would be a small change, but otherwise there is no significant change in our numbers. Our capital will go up in Q4 by 1.41% when we issue the shares to the minority share holder.

As you would have seen our textile business top line grew by 21% and brands grew by 32%, it is the brand and retail business actually did extremely well during Diwali and after Diwali but slowed down afterwards. What we would have expected the business to

grow by about 36-37%, actually grew by 32%, as the business as you would have noticed that the retail sales all over India slowed down, and our business also slowed down in the last month of the Q3. Having said that, the business has in general done well. Our brands and retail business grew by 32%, our like to like sale, which possibly as you would have seen in most companies that have reported the results in this quarter, most companies have either shown flat or a degrowth in like to like sales, whilst our company recorded 11% like to like growth, about 16% in brands and about 5% in our retail business. So, which was a very healthy thing that happened, like to like growth gives you straight additional margin which is what happened in our case.

As far as some of the key ratios are concerned because we got a substantial amount of cash flows our debt fell, from September level it has fallen by about 300 crores, though from March level it doesn't show a significant drop, however, from September level the debt has come down sharply. Our debt to EBIDTA now stands at 2.7, if I take the 9 month period. Our ROCE for 9 months is about 15.5. this quarter of course was 17%, and return on equity now is at 12.4 compared to 8.4 in the previous. Our expectation is that we would be looking at about 18% top line growth for the year which would mean that our Q4 will be practically flat compared to what it was last year. I wanted to just highlight a few things that Q4 of last year was an exceptional quarter, it was a exceptional quarter where we had a 59% top line growth, it was exceptional because it was a period in which cotton prices were going up practically every day by about 1000 rupees. So, the end result was that there was hurried activity from the buyers to buy fabrics, and we were able to kind of sell from the inventory and make higher margins, we were able to sell more volume because all the customers feared price increases and kept on buying, that of course gave us some impact in the subsequent quarter from Q2 and Q3 of current were not as rosy as far as volumes are concerned. So, last year Q4 was exceptional, next year we think that Q4 of this year would be more or less flat with a marginal drop in the EBIDTA margin because we had dropped selling prices and in line with the current cotton prices where the inventory would be at a higher levels. But that is a temporary phenomenon of about one quarter, we may have 1 to 1.25% drop in our EBIDTA margin. We are continuing with our objective of achieving a CAGR of about 18% in next 3 years. Our business plans for the next year are under way in terms of preparation, but we think that we should be looking at a CAGR growth of about 15 to 20% in next 2-3 years. I don't want to give guidelines for the next year, because we have still not prepared business plan and we are also not sure of the price levels because of the cotton fluctuation and excise fluctuation that may impact the value, not the business or the profit but the values.

So, with that I would like to thank you once again and I will want to take any questions that you might have.

Operator:

Okay. At this time, participants if you wish to ask a questions, please press *1 on your telephone keypad and wait for your name to be announced.

The first question comes from Mr. Manish from Antura. You may go ahead.

Mr. Manish:

Yes sir, good morning. Good set of numbers. Sir, actually I wanted some clarity on the loan funds, currently it is at 2174 crores, so sir I wanted to know how much of it is the foreign debt?

Mr. Jayesh Shah:

17% is foreign currency.

Mr. Manish:

One-seven?

Mr. Jayesh Shah:

Yes.

Mr. Manish:

Okay, and sir what are the interest rates you have raised these loans?

Mr. Jayesh Shah:

You mean the foreign currency loan?

Mr. Manish:

Yes sir.

Mr. Jayesh Shah:

Foreign currency loan is at average of 4.5%.

Mr. Manish:

And sir what is your current hedging strategy against it?

Mr. Jayesh Shah:

Currently we are honoring on a dynamic basis we continue to hedge about anything between 30 – 50% of our 12 months sale, depending upon the view that our treasury would take, that is what they would do.

Mr. Manish:

Sir, no hedging on the loan part sir?

Mr. Jayesh Shah:

We take the loans on I mean we hedge the net exposure, so loans gets accounted for.

Mr. Manish:

Okay sir, that was the question from my side. I will join the queue.

Mr. Jayesh Shah:

Thank you.

Operator:

Thank you sir. Next question comes from Ms. Perna. You may go ahead please.

Ms. Perna:

Good morning sir and congratulations on good set of numbers. Sir, first question would be on the volumes, you have seen a marginal growth in volumes this quarter and price realizations have dropped also marginally, but how is it likely to behave going forward for you as well as for the industry as a whole, both for denim and shirting segment?

Mr. Jayesh Shah:

Perna, like for example we had our denim volume of about 23 odd million, we are looking at higher about 5-10% increase in the volume compared to Q3 for Q4 as far as denim is concerned. However, it will not be as much as Q4 of last year, because it was an exceptional quarter. As far as shirting volumes are concerned, we think that because of our capacity enhancement has now been completed, our volume is likely to grow, it was about 16.5 million, it should be at least about 8-10% higher for Q4.

As far as prices are concerned, they would drop, I wouldn't want to give a number, but I think they will drop by at least 5 – 10 rupees.

Ms. Prerna:

Okay, for both the segments?

Mr. Jayesh Shah:

That is right.

Ms. Prerna:

But how is the demand scenario right now?

Mr. Jayesh Shah:

As far as exports are concerned, the demand is good. We continue to witness higher off take from our customers globally. As far as domestic market is concerned, the brands in India the growth rates of these companies has slowed down ever since December, and there is a sluggishness, so the growth that we were expecting of about 25 to 30% is lower than that right now. On the whole our volumes are likely to be higher.

Ms. Prerna:

Okay, sir we attended the conference calls of various retail companies and they said that the demand is there for the domestic business but at a given price point. If the price is called and the demand must be faster. So, what do you think like can it reach 2009 levels or it has to be higher than FY11 levels, because it is very difficult to call for us to take one pricing and demand looking at the volatile scenario in the consumer behavior.

Mr. Jayesh Shah:

You know the situation was at some time last year this time when the budget got announced, the excise duty came in, and subsequently there was a significant cotton increase, so all the brands and retail they were forced to increase retail prices of their product. Now, when that started actually hitting market some time in July-August the demand for the product started to kind of become less than what we would have liked it to be. Now with the cotton prices having come down, everyone have started dropping the prices and we have also dropped the prices. Now it is a separate matter that some of our inventory would still be of the old prices as a result our margins would drop, but that would be for say 3 or 4 months, but as we have started dropping the prices we are seeing the traction back in the market, so to say that whether the demand at a particular price point whether it would go back to what it should be and what should be the pricing, that is a very-very difficult call, as you very rightly said it is very difficult and we are also in a sense experimenting at different price points to see what kind of consumer demand that we could generate, but one thing is certain as we are dropping prices consumers are

buying more. But where it is going to be now because you know the end of season is just getting over, and the fresh goods are going to enter from next week, so we will know only after that as to at new price points how is the demand going to behave.

Ms. Prerna:

Okay. Sir, what is your expanded capacities in now denim and shirting segment?

Mr. Jayesh Shah:

Our capacity in denim continues to be about 108 million meters, and our shirting capacity would be now 84 million meters.

Ms. Prerna:

Okay, any plans for further capex in any of the segments now?

Mr. Jayesh Shah:

As of now for the next year we have the room for us to utilize the capacity fully, so we wouldn't add anything for selling in the next year.

Ms. Prerna:

Okay, and Bangladesh capacity addition that you were eyeing has been halted or it is as earlier or there is fresh improvement in that?

Mr. Jayesh Shah:

We are not looking at producing in Bangladesh in near future.

Ms. Prerna:

Okay, and sir why has your interest cost be so higher, I mean this is something which is beyond expectation, so just wanted a clarity on that.

Mr. Jayesh Shah:

Total interest if you were to compare taking out the foreign exchange cost, the losses on both sides, there was a gain in the comparable quarter and there was a loss here. If you were to then remove everything and compare our interest cost is about 15 or 17 crores higher compared to the Q3 of last year, and the reason why that is higher is that because whole of this period our working capital needs have significantly shot up because of higher inventory costs on account of higher cotton prices. Now that it has come down,

first of all the inventories have come down, secondly, the prices have come down, thirdly, we have got our debt reduction in place because we prepaid some of the term loans, at the end of course interest rate has gone up in the past, last one year whole of last year total interest rates that we witnessed 3% increase in our borrowing cost, now that has started coming down, a, because primarily not because interest rates have started falling but because our ratings have improved, possibly you know that we get three notches improvement in last 6-8 months, so our interest cost has now started coming down, in fact I think it has already come down by about on an average 1% in last one month.

Ms. Prerna:

Sir, what is your average cost of interest now?

Mr. Jayesh Shah:

11%.

Ms. Prerna:

And these are floating?

Mr. Jayesh Shah:

Yes.

Ms. Prerna:

Okay, so as soon as the interest rates cut start happening, you might see the benefit of it going forward.

Mr. Jayesh Shah:

Yes.

Ms. Prerna:

Okay sir, I will come back in case of any follow up question, thanks a lot and congratulations on good set of results.

Mr. Jayesh Shah:

Thank you.

Operator:

Is the question answered sir?

Mr. Jayesh Shah:

Yes I have.

Operator:

Next question comes from Mr. Riken Gopani from Infinia. You may go ahead.

Mr. Riken Gopani:

Hello.

Mr. Jayesh Shah:

Yes.

Mr. Riken Gopani:

Hi, sir. Congratulations for a good result. Sir, firstly, I wanted to understand within your costing for cotton that you have given this quarter, there seems to be a sequential though marginal but increase in the cotton cost, can you help us understand as to why would have increased if cotton prices have come down?

Mr. Jayesh Shah:

This is an old inventory that we used. So, that completely gone of course from, we used up in October, November, December, the old inventory that we had bought in the previous season, so that is the cost. Whatever is the actual cost we spent on that. So, you will see a significant drop in Q4.

Mr. Riken Gopani:

Alright sir, the average cotton cost should come down, because realizations have already come down, but cotton cost seems to have increased, so that needs to get reversed in the next quarter is it?

Mr. Jayesh Shah:

Yes.

Mr. Riken Gopani:

Okay, and secondly sir if you could help understand what could have been our average realization in I mean dollar conversation what would have been for Q3?

Mr. Jayesh Shah:

Q3 dollar would be around an average at about 48.

Mr. Riken Gopani:

Okay. Because there seems to be a good gross margin improvement this quarter, so is it purely because of dollar-rupee or is there anything else to it, if you could explain?

Mr. Jayesh Shah:

The gross margin improvement is on account of course higher dollar realization helps, but apart from that our shirting business is with a higher margin. Now as and when we see increase in volumes there you will see the margins improvement taking place, so that is the reason why you will see the gross margin improvement because our volumes there are now rising. The other is of course our brand and retail business this is the quarter, because this quarter is the Diwali season quarter and that is where our growth on this business at the highest and since we sell significant volumes and the values beyond break even margin significantly shoots up, you will see that the margins there as compared to last year there is an improvement of about 1%.

Mr. Riken Gopani:

But still I mean that being a small portion and you know when cotton cost has gone up more than what your denim realization has come down by, actually is this kind of a gross margin sustainable or what do you envisage this to be, because other than your raw material cost there seems to be a sharp escalation on all your other cost items, so that has helped you this quarter, but wanted to understand where exactly these margins at the gross level sustainable?

Mr. Jayesh Shah:

I think the margin for textile business anything between 16.5 to 17.5 is a good number to take for our business. This quarter was about 18%, but 17.5 – 16.5 in that range is a good number to take.

Mr. Riken Gopani:

Okay. On the brands business, specifically for ALBL, I wanted to understand what is contributing to this kind of a strong growth, I mean in a quarter where all the other

retailers would have seen softness you seem to have done quite well, so if you could highlight key brands or key drivers for this growth and also it seems that the retail expansion in terms of square foot there you have added quite a lot, I think that is even more than what you had earlier guided, so anything in terms of strategy over there?

Mr. Jayesh Shah:

Nothing, I think our key brands in our portfolio are Arrow, US Polo, and Flying Machine, across the board there has been a growth of anything between 25 and 40%, the highest growth of course is in US Polo where the growth was 44%. I think the brands we have got the traction and I think the product range is fantastic, their distribution is good, the brand image is good, and that is where I think we would continue to do well, and there our pricing also seems to be working in our favor in terms of consumers liking of our price points at which we are offering these products. As far as retail distribution set up is concerned, we haven't really done significantly different, in fact we have slowed down in fact if you ask me on retail....

Mr. Riken Gopani:

Not on retail, on brands, that is why I specifically asked for ALBL, I mean there you have added some 35,000 – 36,000 sq.ft. this quarter as well, so there seems to be I mean

Mr. Jayesh Shah:

Actually if you ask me personally also I mean that business so far has been ahead of our own internal targets, as far as brands are concerned, and particularly our brand US Polo where the growth rates are where we had internally targeted about 35% growth, we are currently doing over 40-45% growth, so that requires us to also increase the foot print as we have grown. The reverse is true in retail. Our retail has been not doing as well as we had thought, the reason is the price point, and as someone asked me, Prerna asked me just some time back as to about because it is a value retailing price increases beyond a point has halt the growth, so we have brought down the prices, we are going to take a hit on the margin in Q4 and bring back the growth to levels that we wanted it to be, so that is where we are.

Mr. Riken Gopani:

Okay. Is there any number as to what portion of all these brands which we report under ALBL, the sale comes through these Megamart formats, is there an increasing proportion of sales happening through those formats?

Mr. Jayesh Shah:

It cannot, because it is a value retailing. All our brands are not classified in value retailing, so it won't really sell much, I think the sale it will be less than 5 or 7 or 10% at max that would get sold from Megamart. Whatever is found surplus that are left, not beyond that.

Mr. Riken Gopani:

Okay, alright. Sir other question was mainly you know on the balance sheet part, from whatever improvement we have seen this quarter on a sequential basis, some loan funds have come down by about 355 crores, now what portion of this is reduction in term loans versus working capital?

Mr. Jayesh Shah:

It is about 230 crores is reduction in term loans.

Mr. Riken Gopani:

Okay, and this would be from whatever money we received from the sale is what we would have used to repay this term loan?

Mr. Jayesh Shah:

That is correct.

Mr. Riken Gopani:

Okay, because you know if I adjust on a sequential basis between Q2 and Q3 the interest cost for the forex amount, there still seems to be an increase in the interest cost on a sequential basis I am saying. So, is it that we have repaid the money towards the end and therefore the entire impacts will be visible in Q4....

Mr. Jayesh Shah:

That is absolutely correct, because the funds came some time ..., we repaid some time in November mid, and also you know the interest rates have actually gone up in terms of percentages in the month of October, now it has come down again in December after the rating improvement, but in October we actually saw a rate increase.

Mr. Riken Gopani:

But sir directionally will Q4 look at least say lower interest cost for you, because of....

Mr. Jayesh Shah:

It should.

Mr. Riken Gopani:

Okay, and capex also should not be much, is what you are trying to say right?

Mr. Jayesh Shah:

That is correct, I think our expansion program for our shirting or the woven fabric is over, so we don't have currently any projects underway other than normal capex.

Mr. Riken Gopani:

Okay, sir just last one thing, I was a bit surprised by the kind of gas cost increase that you saw this quarter. Anything that you would like to highlight what is happening?

Mr. Jayesh Shah:

The gas cost increase is directly proportional to the dollar rupee rate, because you know there the currency it is denominated in dollars, so if the dollar rate for that quarter was very high as you know, so that is the reason.

Mr. Riken Gopani:

Okay, so that would again look lower in the next quarter.

Mr. Jayesh Shah:

It should.

Mr. Riken Gopani:

Alright, that is it right now. Thanks sir.

Mr. Jayesh Shah:

Thank you.

Operator:

Thank you sir. Next question comes from Mr. Nitesh Godani from Span Capital. You may go ahead.

Mr. K. C. Suri:

Good morning, this is K. C. Suri here. Just a couple of questions. Could you throw some more light on your real estate portfolio in terms of how much land we have, how much is sold and what you are developing?

Mr. Jayesh Shah:

Yeah, actually it is part of our presentation in the past you would see it in our web site in general, but I don't have right now all the details with me; however, in general we have about 400 acres of land that we are trying to sell, and about 150 acres of land is right now under development in partnership with some of the companies including two partnerships with one with TATA group and one with Safal group.

Mr. K. C. Suri:

Okay, and your press release mentions about focusing on advanced materials and technical textile segment as a new growth engine, could you help us with some more light on that.

Mr. Jayesh Shah:

Yes, you know these are technical fabrics we have investments in a small way and experimenting on some of the industrial fabrics, some of the functional fabrics, which go for things like fire retardant fabrics or bullet proof fabrics, those are the technical fabrics. We are also looking at we have signed a joint venture, and which was announced I think two months back, for making fabric out of glass fiber which is primarily used for making wind blades, which the wind mill blades are being made out of glass fabrics, so we have tied up with one German company and where we have 51 and they have 49, and we are going to commence production in a small way sometime in April. So in nutshell we are looking at several industrial and technical and fabrics which are the woven category, we are also studying currently a project of non-woven fabrics, which are used for making tissues and other things, which is currently underway in terms of study. We are looking at this as a next one extra area of growth for us.

Mr. K. C. Suri:

I mean by when do you see these segments contributing a significant sum in terms of how long do you think so that will be?

Mr. Jayesh Shah:

Our plan is that this business should become about in three years time about 500 crores.

Mr. K. C. Suri:

Okay, right. Thanks a lot.

Mr. Jayesh Shah:

Thank you.

Operator:

Thank you sir. Next question comes from Ms Grishma Shah from Envision. You may go ahead.

Ms. Grishma Shah:

Good morning sir.

Mr. Jayesh Shah:

Good morning Grishma.

Ms. Grishma Shah:

Sir, you have mentioned a forex loss.

Mr. Jayesh Shah:

Sorry.

Ms. Grishma Shah:

The forex loss during the quarter that you mentioned. Are there any likelihood of some parts getting reversed in Q4?

Mr. Jayesh Shah:

Small portion may get reversed if the rupee remains where it is right now.

Ms. Grishma Shah:

And post the price correction that you would have taken during this Q4, have you seen the domestic volume growth pick up in the denim segment?

Mr. Jayesh Shah:

Denim segment in the domestic segment – No.

Ms. Grishma Shah:

So compared to Q3, is it flat?

Mr. Jayesh Shah:

Compared to Q3 it will be always higher, because Q4 typically you know Q2 for the denim is high, Q4 for denim is high. Q3 is the consumption quarter, in a sense that actually retailers sell rather than produce. So they do not buy so much of fabrics in Q3. They actually buy in Q2 for Diwali in Q3 and they buy now in Q4 for the spring, summer, the new collection that would come. So as far as demand in India is concerned across the board it is sluggish.

Ms. Grishma Shah:

So, what is the sense that you get for the 1st half of this year. High single digit in terms of growth?

Mr. Jayesh Shah:

In coming year, you mean?

Ms. Grishma Shah:

Yeah, for FY13.

Mr. Jayesh Shah:

For Arvind?

Ms. Grishma Shah:

Yeah, for Arvind, for denim.

Mr. Jayesh Shah:

I think for us, we are gunning for and we have our capacity or head room for another 10% growth in denim volumes. That would take us to a full utilized. And we would gun for 8 to 10% growth next year.

Ms. Grishma Shah:

Okay. And what would be your maintenance capex, given that we do

Mr. Jayesh Shah:

In the next year, we are still not ready for our discussions on next year, our budgets are not ready, but it will be as a company as a whole including for growth, including some of the brands and retail business, it may be a couple of 100 crores.

Ms. Grishma Shah:

Okay. May be we will clarity in Q4 results.

Mr. Jayesh Shah:

That is correct. Absolutely.

Ms. Grishma Shah:

Thank you and good luck.

Mr. Jayesh Shah:

Thank you.

Operator:

Thank you sir. Next question comes from Mr Rajesh from HDFC. You may go ahead.

Mr. Rajesh:

Yeah, good morning.

Mr. Jayesh Shah:

Good morning, Rajesh.

Mr. Rajesh:

This other operating income is negative this time. Just wanted to understand what it is?

Mr. Jayesh Shah:

That actually should be ignored, and I will tell you why, because typically when we do hedging, we sell in forward market the dollars to hedge our exposure in for that given period. Now typically all those hedges we cancel on a given date, because they are they are done in a lump sum amount, one million dollar, two million dollar, and actual exports happen at the market rates on a given prevailing rate. So the exports got booked at a higher rate in the sales and the losses on foreign exchange cancellation in this quarter because of the rupee moved, got booked as other losses. So sum total of that is what we realized in dollar terms.

Mr. Rajesh:

Okay. So these are hedging losses basically.

Mr. Jayesh Shah:

Yeah, these are hedging losses, but compensated by higher dollar realization which got booked in sales.

Mr. Rajesh:

Okay. So what is the net realization of the dollar for you?

Mr. Jayesh Shah:

48.

Mr. Rajesh:

48 is the net. Okay. And what it would have been last year same quarter?

Mr. Jayesh Shah:

47 something.

Mr. Rajesh:

Okay. It has not really moved up so much. And what is the 9 months volume growth for you in the textile business?

Mr. Jayesh Shah:

Nine months would be about 7 or 8%.

Mr. Rajesh:

The rest of it would be price growth.

Mr. Jayesh Shah:

In textiles, yes. Brand and retail business would have grown by about 15%.

Mr. Rajesh:

15% in volume terms.

Mr. Jayesh Shah:

Yeah.

Mr. Rajesh:

Okay. And what would be the capex now, current year and next year, if I missed the figure?

Mr. Jayesh Shah:

This year total capex we would end up with about 350 crores, which included about 200 crores investment in our capacity expansion in shirting business. Next year, we do not have the numbers as yet, but may be couple of 100 crores.

Mr. Rajesh:

And tax rate for the current year as well as next year?

Mr. Jayesh Shah:

This year, we do not have taxes. Next year, it could be about on book profit, if I were to simplify and tell you, about 5 to 7%.

Mr. Rajesh:

And next year where do we see the volume growth coming from other than shirting, and what it will be like?

Mr. Jayesh Shah:

We expect about 10% to 12% growth in volumes both in denim and shirting put together.

Mr. Rajesh:

That is the textile business.

Mr. Jayesh Shah:

That is right.

Mr. Rajesh:

Okay. Thank you so much.

Mr. Jayesh Shah:

Yes.

Operator:

Thank you sir. Next question comes from Mr Nikhil Upadhey from Euqirus. You may go ahead.

Mr. Moulick:

Sir, I am Moulick sir.

Mr. Jayesh Shah:

Hi, Moulick

Mr. Moulick:

Sir I have couple of questions. Can you say what is your average hedge rate right now on the forward, at what rate you have hedged?

Mr. Jayesh Shah:

Around 49+

Mr. Moulick:

Okay, that is one. And sir in last quarter we were supposed to launch our Tata JV, if you can highlight that.....

Mr. Jayesh Shah:

We are expecting it to be done end of the month.

Mr. Moulick:

End of this month?

Mr. Jayesh Shah:

Yeah.

Mr. Moulick:

Okay. Sir, you mentioned about in your earlier question that we looking at around 10% of volume growth in textile next year. I understand that because this woven capacity or shirting capacity expanded in the second half, so that probably will take a full year and next year.

Mr. Jayesh Shah:

That is correct.

Mr. Moulick:

So large part of that, but are you seeing like any improvement in volume in denim? Because denim we are running almost at around 100% capacity utilization.

Mr. Jayesh Shah:

Actually we are not. We are at about 91 or 92%.

Mr. Moulick:

Okay, so we can go till 100% capacity utilization.

Mr. Jayesh Shah:

That is correct.

Mr. Moulick:

And sir on this gas cost, I think, it is on one year contract with GAIL and every year we revise the prices?

Mr. Jayesh Shah:

No, prices get revised every month.

Mr. Moulick:

That I understand. So it is linked with dollar.

Mr. Jayesh Shah:

Apart from that there is a RLNG prices which get declared every month.

Mr. Moulick:

Okay, I understand that sir. So every month you will see little bit increase in dollar pricing.

Mr. Jayesh Shah:

Yes, that is correct.

Mr. Moulick:

That I understand sir. I think that is all sir. Thank you.

Mr. Jayesh Shah:

Thank you.

Operator:

Thank you sir. Next question comes from Vineet Tambare. You may go ahead.

Mr. Vineet Tambare:

Good morning sir. This is Vineet from DSP Black Rock.

Mr. Jayesh Shah:

Hi, Vineet.

Mr. Vineet Tambare:

Sir, just a clarification on what you mentioned about the margins. Sir you said that you are taking some price drops now and since you have high cost inventory, there will be some impact on the margins. So my question is, is this applicable to the denim business or it is also applicable to the shirting business?

Mr. Jayesh Shah:

The inventories gets valued on a weighted average cost basis. So it would apply across the board.

Mr. Vineet Tambare:

So this will have an impact even on the branded garment segment?

Mr. Jayesh Shah:

Actually it would be not too much in textiles, but it would be higher in retail business, because in retail the inventories are in the warehouse, inventories which we have ordered and goods are yet to come, and inventories which are in the store. All of those inventories when you take up price correction, like last year we took up a price correction which helped us significantly on margin improvement in Q4 of last year. The reverse will happen in at least in one quarter which is the Q4 of this year, coming year, I mean this quarter.

Mr. Vineet Tambare:

Yeah, so we will see impact on the EBIT margins for Q4 in the branded garments more than the textiles segment. Is that correct?

Mr. Jayesh Shah:

That is correct.

Mr. Vineet Tambare:

Okay. And is this process already on as in have you already seen some impact in 3rd quarter?

Mr. Jayesh Shah:

We have planned that. We have done that.

Mr. Vineet Tambare:

But if I look at 3rd quarter EBIT margin as is...

Mr. Jayesh Shah:

3rd quarter you mean, I am sorry. It is 4th quarter. I am sorry.

Mr. Vineet Tambare:

Large part of it will come in 4th quarter.

Mr. Jayesh Shah:

Absolutely yes in 4th quarter. Not in 3rd quarter. There was no change in Q3.

Mr. Vineet Tambare:

Okay. And textile business margins which is about 18.5%, EBIT margin I am talking about.....

Mr. Jayesh Shah:

18%

Mr. Vineet Tambare:

18.4%, so what is the thought there that will also remain similar levels or will that also...

Mr. Jayesh Shah:

Q4, I would think that it may drop marginally, may be by less than a percentage point.

Mr. Vineet Tambare:

Okay. And you feel that Q4 lot of this inventory which we hold....

Mr. Jayesh Shah:

Practically all of that.

Mr. Vineet Tambare:

That will be cleared.

Mr. Jayesh Shah:

Yeah, because 3 months is the lot of inventory.

Mr. Vineet Tambare:

First quarter onwards probably we will start afresh and then we can look at.....

Mr. Jayesh Shah:

Absolutely.

Mr. Vineet Tambare:

But then that will also depend upon how the cotton prices are moving. So what is the.....

Mr. Jayesh Shah:

We know now for what is going to happen to cotton for Q1. We have hedged some of the positions already.

Mr. Vineet Tambare:

Okay. That is it from my side. Thank you.

Mr. Jayesh Shah:

Thanks Vineet.

Operator:

Thank you sir. Next question comes from Mr. Jignesh Kamani from Nirmal. You may go ahead.

Mr. Jignesh Kamani:

Congratulations for good set of numbers sir.

Mr. Jayesh Shah:

Thank you.

Mr. Jignesh Kamani:

Sir, I just wanted to know about how is the working capital cycle particularly in brand and the retail business and the way we are planning to go aggressively, how the working capital with business will step up?

Mr. Jayesh Shah:

You mean working capital cycle?

Mr. Jignesh Kamani:

Yeah, in brand both in a absolute term and cycle, in brand and our retail venture.

Mr. Jayesh Shah:

As far as brand and retail business is concerned, we are on a model where we buy ready goods. Since last six months we have stopped buying fabrics and buying trims and getting job work done. We nominate vendor from where some of our garment suppliers buy fabric trims etc., but we buy entirely ready package through our design, and we generally have about inventory in warehouse and in stores of about 5 months, and we typically get about two and a half to three months of credit.

Mr. Jignesh Kamani:

So net-net around two and half months to three months....

Mr. Jayesh Shah:

About two and two and half to three months, two and half would be more appropriate not three.

Mr. Jignesh Kamani:

Okay. It will be higher than our textile business?

Mr. Jayesh Shah:

Textile business typically changes based on the situation on cotton. So in some years where like last year when cotton was running away in terms of prices, the inventory levels went up and practically till the end of November we had that inventory levels. However, on a long-term basis say if I take two or three years stand, prices, our textile business net inventory would be about one and half months and our debtors would be about one and half months.

Mr. Jignesh Kamani:

Okay. So my question is right now where the incremental volume and revenue will come from the brand and retail, so we will see that our consolidated working capital requirement may go up over a period of time, even though.....

Mr. Jayesh Shah:

In terms of, you mean the inventory levels in absolute terms?

Mr. Jignesh Kamani:

Inventory cycle I am talking about.

Mr. Jayesh Shah:

No, it is actually you know there are lot of things which are being done. This is like for example one of the key change which we made which was buying ready goods, which was not the case last year. Now we are looking at replenishment model where we are looking at buying every 15 days instead of buying once in two months. So there are lot of changes which are being planned at our brands and retail business to kind of improve the inventory turns.

Mr. Jignesh Kamani:

So currently from two and half months what level it can go down say two years down the line in brand and retail business.

Mr. Jayesh Shah:

We are hoping to bring it down to at a net working capital level at 1.5 months. At a gross level, it will be 4 months.

Mr. Jignesh Kamani:

Okay. Sir currently what kind of capex you are planning in the retail business since it is not moving in line which we are expected.

Mr. Jayesh Shah:

Brand and retail business typically is taking about 60 to 80 crores annually.

Mr. Jignesh Kamani:

Okay. Then sir currently out of Megamart store we hold, how much are making loss and profitability.

Mr. Jayesh Shah:

I did not get you, sorry.

Mr. Jignesh Kamani:

Out of Megamart stores we hold, how much are making loss since they are opened in one to one half years only.

Mr. Jayesh Shah:

How many of them are making losses?

Mr. Jignesh Kamani:

Yeah.

Mr. Jayesh Shah:

At the store level EBIDTA not more than 10% of the stores would be negative.

Mr. Jignesh Kamani:

Okay sir, 90% have run into positive right now.

Mr. Jayesh Shah:

Yes.

Mr. Jignesh Kamani:

Okay. Thanks a lot sir.

Mr. Jayesh Shah:

Yeah.

Operator:

Thank you sir. Next question comes from Mr Rahul Bhangria from Lucky Securities. You may go ahead.

Mr. Rahul Bhangria:

Thank you for taking my question sir. I am sorry if this has been answered, but out of the forex losses that you have declared, how much of it is actually already realized and how much is still on the books in terms of marked to market or something.

Mr. Jayesh Shah:

As at the end of, I think, about 40% would be marked to market.

Mr. Rahul Bhangria:

And the remaining is realized already.

Mr. Jayesh Shah:

That is correct.

Mr. Rahul Bhangria:

And sir you also mentioned that your denim volumes you are not exactly seeing uptake, is it.....

Mr. Jayesh Shah:

In India.

Mr. Rahul Bhangria:

Yeah, in India. So is it reflecting....

Mr. Jayesh Shah:

Now it is increasing, yeah.

Mr. Rahul Bhangria:

And you also mentioned, you also explained the cycle in the way it works, in the sense that you sell more in December quarter so your customer would buy more in the September quarter. Is it also, this quarter's slow down in up take is also a reflection of what the customers are expecting on the retail side for the next six months probably? Is that the way to look at it?

Mr. Jayesh Shah:

No, the way to look at it would be that in general there has been typically for most, I mean, we are an exception honestly as far as our brands business is concerned, but for most brands and most retailers have not done well in Q3. So obviously they are holding more inventory. They would take an inventory correction. So that is the reason why the Q4 in India is looking sluggish. But, I mean if I were to say compared to Q3 will we sell more in India in Q4, the answer is yes. But whether it would be significantly more and would it be as much as what we did in last year, the answer is no.

Mr. Rahul Bhangria:

Okay, and sir finally on the export side with all this Yuan appreciation and talk about Chinese cost effectiveness and all, do you actually see something on the ground? Do you see you getting market share against Chinese?

Mr. Jayesh Shah:

Absolutely.

Mr. Rahul Bhangria:

So, how do you think your exports are going to pan out over the next two, three, four years? How do you look at them in that scenario?

Mr. Jayesh Shah:

Well, we do not really look at exports and India, it is depending upon where we see the market growth coming and our firm view is that Indian market will see an exponential growth. It is just a slow down for some short period of time, and we would want to continue focusing on Indian market because in India all the international brands that we are currently catering to, all of them have started coming into India, and all of them because we have been selling to them globally they all have wanting to buy from us in India. So we would like to in fact take that market and not let that go and eventually try and capture more market share in the more domestic focused. It is again an aberration of some sort where rupee has been so weak right now, the trend again over a period of next two or three years one would say that rupee would appreciate. Having said that, we would like to focus on Indian market rather than looking at export market. But right now export markets are doing brilliantly.

Mr. Rahul Bhangria:

Okay. Thank you for those answers. Thank you so much.

Operator:

Thank you sir. Next question comes from Mr Riken Gopani from Infinia. You may go ahead.

Mr. Riken Gopani:

Hello.

Mr. Jayesh Shah:

Hi.

Mr. Riken Gopani:

Thanks for the opportunity again. Sir one thing I wanted to understand what would be the impact on the consolidated numbers, because of now VF Corp numbers not being present, if you could give the EBIDTA and the sales level?

Mr. Jayesh Shah:

You have our quarterly review notes with you?

Mr. Riken Gopani:

Yes sir, I have it.

Mr. Jayesh Shah:

Please turn to page 4. We have given for the Q3 comparable numbers excluding VF.

Mr. Riken Gopani:

Okay comparable excluding VF you have given sir.

Mr. Jayesh Shah:

I think that is the way you should look.

Mr. Riken Gopani:

Alright. Sir secondly directionally from hereon by the end of next quarter and may be by second quarter of next year, do you see further reduction in your term loans, what is the outlook over there?

Mr. Jayesh Shah:

I do not want to say term loans, but I would say total debt. So we are looking at reducing debt for sure, in fact by March also.

Mr. Riken Gopani:

Okay. This is mainly because even cotton prices would have now come down and so your requirements for working capital would come down?

Mr. Jayesh Shah:

That has already happened actually by December, but over and above that we also currently our investment program is over. So obviously our cash flows would go towards, I told you we have surplus cash, we have been investing in capex till December.

Mr. Riken Gopani:

Okay. I just missed on this number. This merger of this company which you have Arvind Products Limited, what kind of dilution does it make?

Mr. Jayesh Shah:

Again if you go to slide #3 of our review note, it has given a number, 3.41 crores capital, so 1.41% of dilution.

Mr. Riken Gopani:

1.41% of dilution. Okay. And in terms of minority interest, there is actually nothing, I mean is there any incremental profit that comes on account of this merger or nothing?

Mr. Jayesh Shah:

Not much, it was a small company, but critical for our operations.

Mr. Riken Gopani:

Okay. There is no debt from those books? Or is there any?

Mr. Jayesh Shah:

It has already been consolidated..

Mr. Riken Gopani:

Yeah, already been consolidated, alright. Yeah that is it. Thanks.

Operator:

Excuse me sir, question answered?

Mr. Riken Gopani:

Yeah.

Operator:

Okay. Next question comes from Mr Yudhvir from Arch Finance. You may go ahead.

Mr. Yudhvir:

Good morning sir.

Mr. Jayesh Shah:

Good morning.

Mr. Yudhvir:

First I would like to congratulate you for good set of numbers.

Mr. Jayesh Shah:

Thank you.

Mr. Yudhvir:

Sir, Actually I would you like to please throw some light on your raw material prices like cotton or cotton yarn Q on Q?

Mr. Jayesh Shah:

What kind of, throw light means, I did not get you.

Mr. Yudhvir:

Like some idea about that, what was the cost of cotton yarn.

Mr. Jayesh Shah:

I will not be able to give you because we buy some 200 varieties of yarn.

Mr. Yudhvair:

Okay. Sir just 10 to 15 minutes ago you were talking about technical textiles. Arvind Limited just wanted to commence them by April. Am I right sir?

Mr. Jayesh Shah:

?

Mr. Yudhvair:

Sir, Arvind Limited is just going to commence a facility in technical textile.

Mr. Jayesh Shah:

That is correct.

Mr. Yudhvair:

Sir what sort of applications of this fabrics used in industries, like this will be used in the auto fabric industry or?

Mr. Jayesh Shah:

See we make different kinds of fabrics, all of them are very small right now because we are just beginning. But fabrics which are used for making say fire retardant fabrics, then there are some fabrics which are used for defense which is for making bullet proof fabrics, then we make industrial fabrics for making conveyor belts that is conveyor belt fabric, then they are used in making filters, the filtering fabrics, and we are looking at making glass fabrics, but right now we are not making it.

Mr. Yudhvair:

Okay. Sir with which company Arvind Limited tied up?

Mr. Jayesh Shah:

There is a company called PD Glass Industry of Germany where we have formed a joint venture.

Mr. Yudhvir:

Okay. Thank you sir, that is all from my side.

Mr. Jayesh Shah:

Thank you.

Operator:

Thank you sir. Next question comes from Ms. Prerna Jhunjhunwala from HSBC Investments. You may go ahead.

Ms. Prerna Jhunjhunwala:

Thank you for giving me an opportunity again. There are two more clarifications I would like to know. One is on the other income portion which has more than doubled this quarter as compared to the previous quarter.

Mr. Jayesh Shah:

Correct.

Ms. Prerna Jhunjhunwala:

And as part of this question only, on the extraordinary item of 197 crores, there is some missing figure of 6 crores, would it be land sale portion which is included here or what would that be. That is the first question.

Mr. Jayesh Shah:

Where did you see 197 crores, I did not get?

Ms. Prerna Jhunjhunwala:

Extraordinary item of sale of JV.

Mr. Jayesh Shah:

Yeah, it is 191 cores on consolidated basis.

Ms. Prerna Jhunjhunwala:

Okay 191 crores on consolidated basis, wherein you have reported earlier in November that was 257 crores the deal that you have fetched approximately. So if I just remove 53 crores of tax from this.....

Mr. Jayesh Shah:

Okay, I will explain to you. See if you look at the figure of difference between 197 or whatever number you have and 191, typically it is more of an accounting issue because for 7 months of the current financial year we had taken profit at EBIDTA level and net level of the VF joint venture in our accounts. For Q1 and Q2 we had reported the profits, it was consolidated. Since that company off our balance sheet now, these profits that we had booked in the Q1 and Q2 to the extent of I think 6 crores or something, we have removed it from the profit that we are reporting on sale of those shares, because it will otherwise amount to double accounting.

Ms. Prerna Jhunjunwala:

Okay. That is one thing, and the other income?

Mr. Jayesh Shah:

Other Income is 29 crores out of this is sale of land which we have done. Now this land sale is part of our some of the contract that we have entered in the past where we are selling those land parcel as and when they are ready for sales. This is the high number, you do not expect such high number happening in Q4 or Q1 of the next financial year.

Ms. Prerna Jhunjunwala:

Okay. Sir this contract meaning with Tata or Safal Group or it is something else?

Mr. Jayesh Shah:

These two groups and there is some other land also which we have sold but very small, so they are not any groups, other small pieces of land that we have contracted to sell. But mainly this is to these two groups.

Ms. Prerna Jhunjunwala:

Okay. And sir my second question would be on comparison of your standalone and consolidated numbers, at the net profit level your standalone and net profit are almost same at 52 crores, which means may be at the net levels retail business is not earning in this quarter as compared to the last year's quarter or the previous quarter Q2. Could you please throw some light on that front, if I am right in comparison at all.

Mr. Jayesh Shah:

If you look at it at a PBT level, the difference will look higher, because what has happened is that practically the entire profit that our brand and retail business made, we ended up making a provision for tax in the current quarter. So when you look at the PBT level and PAT level, last year for example and this year, I mean even at both levels you will find that there is a 7 crores of tax provision. In standalone company we have not tax, it is entirely paid by our brands and retail business. So, it so happens that some of the even because the brand and retail business did better than what we had thought, we ended up making a provision for tax and we are hoping that there would not be any significant tax this year. So it is partially also some tax liability of the past two quarters which has come in.

Ms. Prerna Jhunjhunwala:

Okay. It is not pertaining to majorly this quarter.

Mr. Jayesh Shah:

No, so 7 crores we have made a provision of tax in brands business in this quarter.

Ms. Prerna Jhunjhunwala:

Okay. And sir then at the net level what would be like brand and retail, can we just find out that through the numbers or it will be difficult for me to find out.

Mr. Jayesh Shah:

We do not want to specifically give separate numbers, but only then I can say that they are paying taxes.

Ms. Prerna Jhunjhunwala:

Okay fine. That is it from my side. Thank you

Mr. Jayesh Shah:

Thank you.

Operator:

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

Mr. Jayesh Shah:

Thank you very much for all of you for coming over for the call, and looking forward to talking to you soon. Bye, bye.

Operator:

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