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TRANSCRIPTION REPORT

Conference	21463811
Company	Arvind Limited
Date:	Oct 24, 2011

Operator:

Good morning. Thank you for standing by and welcome to the conference call for analysts and investors for Q2 – Arvind Limited 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.

Very quickly I will take you through the numbers which most of you would have possibly been able to read by now.

As you know we had a good Q2 like Q1 of this financial year. Our target revenue of 1250 odd crores for quarter was reached this quarter, our turn over growth was 23%, EBIDTA grew to 178, more heartening was the EBIDTA margin that significantly rose in textile business. PAT of course grew in line with what happened to EBIDTA. We had high interest income in Q1 as well, the interest income rose in Q2 primarily, in fact fell, but rose in Q2 only to the extent of marked to market loss of about 19 crores on the foreign currency loans that we have taken. This is as you know is an accounting entry and does not affect either the cash flow or the profitability. As far as profits are concerned, our net profit was 62 crores, primarily coming from growth in EBIDTA during the quarter.

Our textile business as such grew by 18%. The volume growth in shirting and khaki business was about 3% and then about 8 in terms of its capacity. Capacity expansion is coming-in in Q4, it will be starting end of December and will kick-in in Q4.

Denim business saw an 8% decline, as I was mentioning in the last year quarter call that we are seeing inventory corrections taking place in denim across the globe and the people were expecting the price fall, which has happened now. So, prices are now already come down, you will see that Q2 prices are low, Q3 will be further lower in line with what has happened to quarter.

As far as brand and retail is concerned we had once again an excellent growth of 46%, both it came about 25-30% of the growth came on account of volume and balance came on account of price increase. The major, one of the things which we measure is our B2C business, which is now at close to 40%. This includes all brands and retail business and it includes our effort to sale fabrics in the retail market through our own channels and distributors. Our domestic sale was about 70%. As you will see that and that you would have read from our review note that our textile margin grew from close to 16 to 17.6% and our brand and retail margin actually fell from 9 to 7%, this is because the unit value of our brand and retail sharply went up though contribution per piece has not fallen but it is pure the arithmetic of very high price of garment because of, a, fabric increase, and then followed by an excise increase. So, that is the reason why the percentage margin you will find that were lower. Our net profit was as I again explained. Standalone I am not taking you through, but as you will see that the textile business standalone was very good, 17% top line growth and profit of 52 crores against 28 crores in Arvind alone.

We have this quarter again we had EPS of about 2.4, which meant we have an H1 EPS of 4.8. This quarter our ROCE rose to 14.5, this was 11% in Q2 last year and 13.5% in Q1. So, with this we have an annual H1 ROCE of 14%, our return on equity is 14 and of course we grew at 23% in top line as you know, for H1 the top line growth has been 30%. Now, this growth of 30% is unlikely to be continued in H2, and the reason is that are two; one is that in the last year in part of Q3 and whole of Q4, the fabric prices had shot up very high because of cotton, and that they have started coming down. So, whilst we will achieve volume growth of some percentages, the price drop not necessarily the margin or the profit drop but the price drop will mean that our growth in top line will be slower compared to what we have seen in Q1 and Q2. So, in the next quarter you will see that our top line may grow quarters and not the next quarter but both the quarters, on an average our top line may grow between 10 and 15% rather than 20 and 30%. On the whole we should as a result achieve about 20% top line growth.

As far as cotton is concerned, as you know that the cotton prices have been now stable at a reasonable level. We think that this year cotton will remain under control, because the consumption in the world is unlikely to grow, in fact it may be marginally lower than what it was last year whilst the world production is likely to be significantly higher, resulting into significant over closing stock after end of the season.

In terms of brand and retail as we talked about a 46% growth which came in our brand business 63% and retail business 27%, and the like to like growth overall was about 10%, which was the break up of 15% in brand and 3.6% in our Megamart channel.

Our total number of stores have grown from 400 odd to 500 now, and our key account counters have grown from 250 to about 300.

So, with this I will like to just give an outlook that we think that our brand and retail growth will continue, in fact October has been an excellent month because it is a festive season as you know in India and this is one of the largest month as far as our brand and retail is concerned, and we think and we are hopeful that one more week is left but it will go as well as the three weeks have gone and we would achieve what targets we have set for ourselves. Our capacity expansion will happen in H2 of our woven fabric, shirting, and khaki, and we think that in Q4 with the new fabrics demand will go back to its normal levels and we should achieve 100% utilization, which is about 92-93% right now. With this and cotton remaining constant, I think we should be able to maintain or improve our margins. For textile it should improve, but overall because brand and retail share will improve, increase in our total portfolio, overall our margin should remain constant or slightly better.

This is in nutshell we are quite confident that we should achieve our target of close to 5000 crores top line this year.

So, with that I will hand over to you guys to ask whatever questions you might have.

Operator:

Shall we start for the question answer sir?

Mr. Jayesh Shah:

Yes.

Operator:

Thank you.

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

First question comes from Mr. Maulik Patel from Ahmedabad. You may go ahead sir.

Mr. Maulik Patel:

Congratulations sir on good set of numbers.

Mr. Jayesh Shah:

Thank you.

Mr. Maulik Patel:

Sir, couple of questions; one is on, you have already mentioned the outlook in the denim, but you also mentioned that the Q4 will see some growth in the volume, can you put some color on that that how the demand will be in subsequent months for the denim?

Mr. Jayesh Shah:

Sure. Any question you had?

Mr. Maulik Patel:

Yes, the other one is on I think brand business particularly on JV with VF, so that JV was for 5 years and we understand that the agreement is about to get renewed, so if you could give some status on that, that will be fine. And third thing is on the pledge of the promoter, recently promoters pledged some of their shares, so if you give some details on that, the purpose of the pledging, it will be great.

Mr. Jayesh Shah:

As far as denim is concerned, we are seeing the demand for denim fabrics actually starting to become normal, because the prices of fabrics have become stable on account of stable cotton prices and we don't see cotton prices now going down further. Typically when the cotton is on a slide the demand of people kind of try and buy as less as possible expecting prices to further fall. That is now no longer valid, #1. Number two, as people bought less the inventories have come down to normal levels. They had bought significantly high when the prices were in fact rising every week. So, with those corrections, we see the inquiries and demand from our customers becoming normal. So, we think that we should be going back to our 100% utilization of denim some time in December onwards, so starting December through March we should see a significant growth in our denim volume going up to about 8.5 to 9 million every month.

As far as the second question you asked is about VF, that is correct that we have a 5-year contract and it is likely to end, but it is not that it is a 5-year contract which ends, it is a 5-year contract where we would kind of either continue or we may have a JV may get extinguished and one party may buy the other party. Now, that is something which is right now nothing more than I can talk about that, but as it happens we will of course keep you posted if there is anything that is significant for us to discuss.

As far as promoters are concerned, well I believe that there was some financial arrangement for which they needed to provide some guarantees and what I am told that this shares may get unbound over a period of next 30 days, but that is as far as promoters are concerned, I wouldn't have anything more to add to that.

Mr. Maulik Patel:

Okay fine sir. Sir, on this JV, what is the time line, like by what time we will have to renew or probably dissolve the JV?

Mr. Jayesh Shah:

I wouldn't be able to say anything more than that, because it is a confidentiality agreement between us two parties, we will not be able to talk more about that.

Mr. Maulik Patel:

Okay, and sir one more question on your debt, because it is right now around 2500 crores rupees and we were earlier talking about reduction in the debt, but looks like because of working capital our debt has also increased.

Mr. Jayesh Shah:

Let me explain to you about debt. See, the debt in working capital is a typical situation where in the earlier months of this year the cotton was at a very high level. So, in fact in Q4 also of the last year. So, what happens is that as a result all our sales…, our sales also rose on account of that, so not only we had higher cotton inventories, we had higher WIPs, finished good value, as well as account receivables, because we sold at 160-170 rupees a meter. Now that prices have come down, it is not only going to affect our lower inventory cost or lower inventory levels but also our valuation of inventory as well as account receivable will fall. So, we see that between now and March we should be able to knock off close to 500 crores between asset sales and working capital reduction, and possibly I don't know whether you heard Mr. Sanjay Lalbhai on the TV just a while ago where he said that we should be able to bring down our debt close to 2000 crores by end of March.

Mr. Maulik Patel:

Okay, fine sir, and wish you all the best.

Mr. Jayesh Shah:

Thank you.

Operator:

Thank you sir. Next question comes from Ms. Prerna Jhunjhunwala from Mumbai. You may go ahead madam.

Ms. Prerna Jhunjhunwala:

Good morning sir. Congratulations for a good set of numbers.

Mr. Jayesh Shah:

Thank you Prerna.

Ms. Prerna Jhunjhunwala:

Sir, a few questions. You said there is price level should now correct in Q3 and Q4 for all the businesses may be, so what do you think that will they be in line with what …, what are the current levels of prices, that would help me in denim and shirting.

Mr. Jayesh Shah:

The prices, for example, in denim were 166 in Q2. We think that they will fall to close to 155 or 157 in Q3, because the cotton has fallen in Q3 as you know from 119 the cotton may be close to 100 in Q3, so something like that or 110-105. So, as far as shirting is concerned, from 162 in Q2 it should go down by about 4-5 rupees.

Ms. Prerna Jhunjhunwala:

Okay. And sir the volume growth you said over that 100% utilization shall be achieved in may be Q4 of FY12, so can we expect a decline as well in volume, the way it has been in this quarter despite the festive season?

Mr. Jayesh Shah:

I think, decline meaning, I didn't get you the point.

Ms. Prerna Jhunjhunwala:

There was a volume decline in denim this quarter.

Mr. Jayesh Shah:

Expected volume decline this quarter, we think that we will be stable in Q3 and we should grow in Q4.

Ms. Prerna Jhunjhunwala:

Okay. Sir, the next question is….

Mr. Jayesh Shah:

Only thing is that the Q3 you will see a very significant growth in our brand and retail business, retail a festive season is there, October-November-December are very large month for our brand and retail business and you will see a very sharp increase of proportion in our total turn over of brand and retail in Q3.

Ms. Prerna Jhunjhunwala:

Okay, and sir your branded retail which is Arvind Retail Limited has a single digit, less than 5% like to like sales growth. Was it on your expected lines or it is something lower than what you had expected?

Mr. Jayesh Shah:

It is on a lower side, this is because as you know that our Megamart store is a value retail format, and as the excise impact came in as well as the impact of cotton price increase came in, all of that got factored in July onwards, inventories that were available in retail store. So, because it is a value format the increase in prices which we had to do because of the cost push were significant which kind of reduced the demand to some extent. October onwards again as the prices have come down of cotton as well as everything, as well as the inventory level, I mean the sales prices have come down of our output in retail store, we think that and as the month has gone I think you will see much better growth in Megamart in Q3.

Ms. Prerna Jhunjhunwala:

Sir, what about the margins in this Megamart stores, how have they been in this quarter as compared to what they were in last year?

Mr. Jayesh Shah:

Stable, as you know this is just a growth in the like to like store, but we have opened significant number of stores, so overall the top line growth has been 27%, and margins are in line, so there is no ….

Ms. Prerna Jhunjhunwala:

Okay, so new stores have contributed much more that is what I can gauge.

Mr. Jayesh Shah:

Exactly.

Ms. Prerna Jhunjhunwala:

Okay, and sir how have been the rentals for the new stores that you have entered, because now you have opened approximately 75 stores in this two quarters. So, rentals, do you expect that they could harm some kind of margin in….

Mr. Jayesh Shah:

You know our value format operates on a very simple principle that unless and until rental is below a threshold that we have agreed on our expected top line, we don't sign up the store, because this is a rent is a very sensitive item of cost in the retail format, and so we don't sign unless it meets with our criteria of a percentage which is single digit or just about 10% of our top line.

Ms. Prerna Jhunjhunwala:

Okay, and sir my last question would be on Bangladesh unit expansion. What is the status of the same?

Mr. Jayesh Shah:

In a sense we have not invested so far in Bangladesh. But because of two reasons, one was that we did not get the gas line in time, and even now we don't have the gas connection. At the same time we saw this volatility in denim coming in, so we did not want to get the volumes at that point in time. So right now we have not put in capital or investment that we had planned. Right now we are keeping it on hold for some more months before we can take a call because we don't still have the energy connections available.

Ms. Prerna Jhunjhunwala:

Okay. Thank you and I'll come back if I have further questions.

Mr. Jayesh Shah:

Thank you.

Operator:

Thank you, madam.

Next question comes from Mr. Manish Soni from Mumbai. You may go ahead.

Mr. Manish Soni:

Good Morning, sir. Congratulations for the good set of number. Sir, I wanted update on the realty business part, about your Tata joint venture.

Mr. Jayesh Shah:

As you know the joint venture is in the process of launching the scheme. About 1800-2000 crores of total project, sales value project which will get over in 5 years. It is likely to be launched, I mean, in terms of physical availability or the sale is likely to open in the first week of December.

Mr. Manish Soni:

And sir, how much profit you are expecting from this venture? Any….

Mr. Jayesh Shah:

As much as they can make, but we think that it is on an overall 1600 crores top line, it should have at least 30% margin.

Mr. Manish Soni:

And sir, the profit which was included in this quarter result, was it on behalf of the land sold to the joint venture?

Mr. Jayesh Shah:

Yes, in fact you know we take only to the extent of what goes to Tata's because we have 50% of our sale does not get reflected in sale or profit but only the balance which comes in from counter party that we book. Apart from that, there were some other parcels of land, smaller parcels of land that got sold. That's the profit. This may keep happening every quarter. We think that you know because we keep selling land, every quarter you will see anything between 10-20 crores of profit getting booked.

Mr. Manish Soni:

Okay, sir. Sir, another thing I wanted to ask about the power costs, sir. Last time the gas cost was 17 per kg. This has come down to 16 per kg, this quarter. And since the prices of gas are rising, so I was wondering why it has come down for the current quarter?

Mr. Jayesh Shah:

See, it's a mixture of different streams of gas - PNG, RLNG, all that comes. So one rupee difference would keep happening based on what sort of gas comes, because it is just an allocated item. But it's not a significant difference from what it was. We don't see this gas also changing in the next quarter significantly. It will remain steady.

Mr. Manish Soni:

So, it will remain same range.

Mr. Jayesh Shah:

Yes.

Mr. Manish Soni:

Okay sir. That's from my part, sir.

Mr. Jayesh Shah:

Thank you.

Operator:

Thank you, sir.

Next question comes from Riken Gopani from Mumbai. You may go ahead.

Mr. Riken Gopani:

Hello.

Mr. Jayesh Shah:

Yes.

Mr. Riken Gopani:

Good morning, sir. Firstly, I would like to understand what has been the reason for the improvement in the margins for the textile business sequentially?

Mr. Jayesh Shah:

Basically, as you see that you know, we continuously are looking for, for example, in our shirting and khaki business which is nearly at 100% utilization, now the effort has been continuously try and improve the product mix because we are selling 100%. So continuously we try to get into a market segment or a product segment that gives you better margin because we don't have anything more to sell. That is one reason. The second reason is of course that the cost whilst the fabric, I mean the cotton cost as well as yarn cost are falling, the sales price have not been reduced to that extent by us. So as a result our margin is better.

Mr. Riken Gopani:

Okay. And have they consequently towards the end of the quarter been reduced, I mean have the fabric prices also been reduced towards the end of the quarter which should bring the margins again back to the normal or you think this is a sustainable margin level?

Mr. Jayesh Shah:

It kind of changes period to period, but we think that these are the margin that we should be able to maintain plus or minus 1%.

Mr. Riken Gopani:

Okay, and this is taking into account the rupee impact or that would also help out in…

Mr. Jayesh Shah:

We will not benefit this financial year to the rupee because we have a hedged position.

Mr. Riken Gopani:

Okay. Can you tell me how much is the hedge that you have as on date?

Mr. Jayesh Shah:

100% for the current financial year.

Mr. Riken Gopani:

And, have we started booking for the next year or that's not yet done?

Mr. Jayesh Shah:

We do on a very dynamic basis, but currently it is not significant. We've done about 20-25% of our next year sales.

Mr. Riken Gopani:

Okay.

Mr. Jayesh Shah:

Thank you.

Mr. Riken Gopani:

Sir, secondly I would like to understand the JVs that we have of with VF and THF, those revenues are booked under the ALBL?

Mr. Jayesh Shah:

No, I mean if you have a review note of ours, you will find that there is a pie chart, which will show JVs revenue of 5%.

Mr. Riken Gopani:

Okay. So is it a line by line consolidation of the revenues that we do or it is put under specific head in the consolidated numbers?

Mr. Jayesh Shah:

No, it is line by line, our share is booked.

Mr. Riken Gopani:

Okay, and sir though you said that there is nothing to clarify right now on the VF Corp JV, but is there any arrangement whereby this can also be extended or there can only be a buyout?

Mr. Jayesh Shah:

No, it can be extended.

Mr. Riken Gopani:

It can be extended as well. Okay, and sir lastly, just like to know, in denims we have an average realization about 166 for the quarter, what would have been our exit realization?

Mr. Jayesh Shah:

We will not like to give specific our sales price.

Mr. Riken Gopani:

Okay. Thanks a lot.

Operator:

Thank you sir.

Next on line we have a question from Mr Manas Majumdar from Mumbai. You may go ahead, sir.

Mr. Manas Majumdar:

Hello.

Mr. Jayesh Shah:

Yes.

Mr. Manas Majumdar:

Yeah, good morning, sir. Congratulations on a good set of numbers.

Mr. Jayesh Shah:

Yes, Manav, where are you from? Can I have some details?

Mr. Manas Majumdar:

Sir, SPA Securities.

Mr. Jayesh Shah:

Okay.

Mr. Manas Majumdar:

Sir, coming down to the textile margins only, we can see that the margins have increased from 15.9 to 17.6%, but can you just give me the margin breakup in terms of its segments, like what have been the margins in denims, wovens, garments and….

Mr. Jayesh Shah:

I am sorry, I'll not be able to give, because it's not our policy to give specific details of our business.

Mr. Manas Majumdar:

Okay, and sir, can you just give me the volume number for the garments?

Mr. Jayesh Shah:

Garments?

Mr. Manas Majumdar:

Garments under the textile section?

Mr. Jayesh Shah:

You mean the garment export number?

Mr. Manas Majumdar:

Yes, sir.

Mr. Jayesh Shah:

Okay, I will have to give it to you. Can I have your e-mail id please?

Mr. Manas Majumdar:

Yeah, sure sir. Its manas.majumdar@spagroupindia.com.

Mr. Jayesh Shah:

Okay.

Mr. Manas Majumdar:

Sir, I wanted to know, has there been any capacity expansion in these two quarters of FY12, or all the expansion will come in the last quarter only?

Mr. Jayesh Shah:

For our shirting and khaki business?

Mr. Manas Majumdar:

Yes, sir.

Mr. Jayesh Shah:

It is kind of you know plant is under set up, so it will start in second half of December.

Mr. Manas Majumdar:

Okay, and the 9.6 million meters capacity of denim that was about to come, so any….

Mr. Jayesh Shah:

We have now 108 million capacity. It's all in place. So we would be able to sell up to 108 million.

Mr. Manas Majumdar:

Okay sir, yeah that's it.

Mr. Jayesh Shah:

Thank you.

Mr. Manas Majumdar:

Thank you, sir

Operator:

Thank you, sir. Next question comes from Mr. Rajesh from Hong Kong. You may go ahead, sir.

Mr. Rajesh:

Hi. Good morning. Thanks a lot for organizing the call and also congratulations on good set of results. I wanted to just understand on your guidance that you had given that 15-20% growth, is that for the second half or for the full year? If it's for the full year, it means basically some sort of a moderation in the growth. I wanted to understand what is the thought process behind the guidance, can you give us some idea about what you are seeing in the market?

Mr. Jayesh Shah:

Yes. It is for the whole year. We have grown by 30% in first half and we think that we grow between 10 and 20% or more like 15 or thereabout % in second half. The reason is the base effect. Last year, the second half, particularly Q4, there was a significant increase in prices of our output because of cost increases. As a result, and that now is kind of coming down, not margin but the prices. So, because of that base effect our growth in Q2 or H2 will be lower than what you saw in Q1 or H1.

Mr. Rajesh:

Yeah, but since you grew so strongly in first half, in order to achieve say 15% growth for the year, that basically means your second half will be flat, that is you know 1200 crores roughly each quarter. Is that what you are looking at or you see that you can grow 10% in each quarter in the second half, what's your thinking?

Mr. Jayesh Shah:

Actually, if you see the H2 last year, we achieved a turnover of 20-100 crores.

Mr. Rajesh:

That's right.

Mr. Jayesh Shah:

In last year. And if I were to do 2400 - 2500 crores, which we hope we will do, it would be about 10% growth.

Mr. Rajesh:

Yeah. So that's what you are looking at, about 200 crores roughly each quarter, which is about 10% for the whole half.

Mr. Jayesh Shah:

That would mean about 20% overall.

Mr. Rajesh:

Yeah, and you know, there's been a certain moderation in volume, if we look at what you have disclosed for Q2, exports have fallen but the domestic also has fallen in volume, which I was a bit surprised given how strong the domestic market has been. So can you give me some understanding of what is the driver behind that in terms of why is the domestic volume down year on year?

Mr. Jayesh Shah:

Same logic which holds true that everyone bought significantly high in Q4 and part of H Q1 because the prices of fabrics were shooting up every week. So, when the prices started falling, everyone started halting their purchases and waiting for prices to fall. So I think its all inventory correction taking place. It's all as I said earlier in the call, it's all kind of got and done and we are done with the inventory correction. We think that the demand has now become stable and it should start going up as we progress over next few months.

Mr. Rajesh:

So you expect the volume growth to be positive in the second half?

Mr. Jayesh Shah:

Yes.

Mr. Rajesh:

How has the season been for the festival season, for Durga Puja and Diwali, so far?

Mr. Jayesh Shah:

For the brand and retail business of ours, I think we have achieved what we had set ourselves to do, and I think we are very happy with that.

Mr. Rajesh:

Okay. And you are saying that your customers' inventory in the textile business is corrected and they are ordering again?

Mr. Jayesh Shah:

Well, they will not order now, right now they are all busy selling, but I think the indications we are getting is that they are all correcting their sales and they should be ordering some time in November.

Mr. Rajesh:

And what about the export business, how is the market, how is the slow down affecting your customers, they also went through inventory correction, I presume, so can you give us some color there?

Mr. Jayesh Shah:

I think it's our understanding is that the inventory correction phase is over.

Mr. Rajesh:

For the US and Europe as well?

Mr. Jayesh Shah:

Yes.

Mr. Rajesh:

And are you seeing that they are coming back with strong orders for the fall season or not yet?

Mr. Jayesh Shah:

The order placement happens sometime in the third week onwards of November. But we think that based on the inquiries and discussions, we think that that should be and that's the reason why I said that the Q4 should be good because we think that it is kind of looking quite positive.

Mr. Rajesh:

And what is the impact of say China and Bangladesh on the market? What sort of competition are you seeing from there? What has been the trend over the past few months and what do you expect?

Mr. Jayesh Shah:

Nothing particularly, it doesn't move so much month to month. But our customers continue to buy from us. We haven't lost any customer and I think we are looking at we don't see that affecting in a very significant manner in any way. I think they are also their volume seem to be now picking up like ours.

Mr. Rajesh:

Okay. So are you seeing that their price-based competition from China is no change or more competitive or less competitive?

Mr. Jayesh Shah:

It depends on product to product. I mean, our product and our customer base, we don't really have so many mills, textile mills, from China competing with us. And not a single mill from Bangladesh would compete with us.

Mr. Rajesh:

But you yourself are setting up some capacity in Bangladesh, right?

Mr. Jayesh Shah:

We are, I mean, I think that you just heard that we are currently…, we have not invested so far because we don't have the energy connections right now.

Mr. Rajesh:

Okay. So that will take time, you are basically saying?

Mr. Jayesh Shah:

It will take some time.

Mr. Rajesh:

And, you know, one of the reasons your working capital went up was because of the higher cotton price and so forth. Now that cotton price is moderating, do you expect that your working capital requirements will come down, what will be the effect of that on your debt, because you are having some inflow from your land sales as well; so can you give us some visibility on that?

Mr. Jayesh Shah:

That's correct. We are looking at reducing debt from current levels of September by about 400-500 crores by end of the year.

Mr. Rajesh:

So you are roughly about 2500 crores, right now?

Mr. Jayesh Shah:

That's right.

Mr. Rajesh:

So you'll be down to 2100 crores by March?

Mr. Jayesh Shah:

Around that or slightly lower than that.

Mr. Rajesh:

Assuming cotton prices stay flat.

Mr. Jayesh Shah:

That's correct.

Mr. Rajesh:

Okay, sounds great. And in terms of you had a foreign currency loss of about 19 crores this quarter. So we expect a similar amount to recur or assuming the currency stays flat or it's done from here?

Mr. Jayesh Shah:

No, there would be smaller than this amount which will come in Q3, if rupee remains flat.

Mr. Rajesh:

Okay, and in terms of the retail business, there was some loss in margins because you didn't pass on the excise duty. Is that done with now that you are going into the next season, so from here on we shouldn't see that?

Mr. Jayesh Shah:

Actually it will, part of this quarter will be again the same thing. But Q4 we would be in fact improving our margins.

Mr. Rajesh:

Okay, last question, since I'm hogging so much time, one is, you know, if we look at the break up of your retail sales versus the same stores sales, the ALBL and ARL the same store sales was quite different. One was robust 15.6, the other was 3%. So what is the reason for such a strong difference? Are we seeing any problems with the Megamart format or is there something that I should look into that result?

Mr. Jayesh Shah:

No, I think you should look at it from two points of view. One is that like to like growth will also depend upon the base effect, that is number one. Number two, if you see the ARL drop overall you will see that it is growing at 27%, which is quite healthy. Second point is that it is a value format and a significant increase in prices has happened because of cotton, resulted in a drop in the demand or drop in the growth in demand of our value format sale. Now that the fabric prices have corrected and as a result MRPs are getting corrected, including as we see in the month of October the way it has gone, I think it is back on track in terms of its growth momentum.

Mr. Rajesh:

So are you guys going to reduce prices of clothes now or you are going to keep the prices?

Mr. Jayesh Shah:

It is already reducing. As the fabric prices correct all across there would be a reduction in MRPs.

Mr. Rajesh:

So you'll pass it on.

Mr. Jayesh Shah:

I wouldn't want to say pass it on. It depends upon what traffic can bear, so it will be all you know individual decisions as we take, but I would say that prices in general would fall.

Mr. Rajesh:

And there's this talk of VAT being imposed, so you think that'll again affect margins next year?

Mr. Jayesh Shah:

So long as, you know, it is a offset against the say the excise that has been levied, it may not. We don't know how it will go, pan out, so very difficult to say, but anyway..

Mr. Rajesh:

Because there is an important thing there, because you know if you, it's a question of sales practices as well, because if they keep charging these things on MRP, but we have a system of promotions which is you know based on say giving discounts off that for the end price, then there will be a problem because we'll be selling at a lower price and MRP but keep paying taxes in MRP. So are you preparing to change your sort of internal systems to allow for this change in government system or taxation policy?

Mr. Jayesh Shah:

Two things; one is that government has already recognized that this discounts have to be taken care, so that is lot of guidelines which have been given which help you still give discount and not pay the tax, number one. Number two, basically, you know, how you price and there is abatement already available as you possibly know on MRP.

Mr. Rajesh:

That's right.

Mr. Jayesh Shah:

So it doesn't really matter, you know, and we have of course modified lot of things already because excise came in last year. So right now, I mean model went through peaking in the first half but it is now all set.

Mr. Rajesh:

Okay. Sounds good. Wish you best of luck and hopefully you will continue with the strong growth that you have shown over the past two years.

Mr. Jayesh Shah:

Thank you.

Operator:

Thank you, sir. We have a follow-up question from Mr. Riken Gopani. You may go ahead, sir.

Mr. Riken Gopani:

Hello. Sir, one thing I wanted to understand, given that there had been pricing that was been passed on over the last 6 months or so on the government side, what would be the volume growth on a like to like basis if you could share on both ALBL and ARL?

Mr. Jayesh Shah:

About 30%.

Mr. Riken Gopani:

30%?

Mr. Jayesh Shah:

Yeah.

Mr. Riken Gopani:

No, I was actually talking about like to like numbers for both brands and Megamart.

Mr. Jayesh Shah:

What do you mean like to like growth in volume?

Mr. Riken Gopani:

You have given like to like revenue growth for brands and Megamart?

Mr. Jayesh Shah:

Yeah.

Mr. Riken Gopani:

What would be the like to like volume part out of it? Because I think there would be lot of pricing in it as well?

Mr. Jayesh Shah:

That would be true, but I don't have the data. I will have to give it to you.

Mr. Riken Gopani:

Oh, okay. But do you fear that there was a volume degrowth both in brands and Megamart, given the kind of….

Mr. Jayesh Shah:

Absolutely not, because there has been a significant volume growth overall. So absolutely not.

Mr. Riken Gopani:

Okay. That's it.

Operator:

Thank you, sir. Next question comes from Manas Majumdar. You may go ahead, sir.

Mr. Manas Majumdar:

Hello.

Mr. Jayesh Shah:

Yeah.

Mr. Manas Majumdar:

Sir, just a follow-up question from my side. Megamart stores, I believe, we had around 204 Megamart stores at the end of FY11, and currently we are having around 218 stores as in data given in the presentation. Can you just give me a bifurcation among the large Megamart and small Megamart that have been opened new?

Mr. Jayesh Shah:

Large only one has been opened, balance are all small.

Mr. Manas Majumdar:

Okay. Sir, another thing, on the key account counters, in FY11, at the end of FY11, we had key account counters of around 304, while in the presentation it is around 300, so has there been any closure or you know decrease in the shelf life?

Mr. Jayesh Shah:

No, there may be some mistake. I'll have to check that out.

Mr. Manas Majumdar:

Okay, that's it sir, thank you.

Mr. Jayesh Shah:

Thank you.

Operator:

Thank you, sir.

Once again I repeat, participants if you wish to ask any question, please press *1 on your telephone and wait for your name to be announced.

Next on line we have Mr. Rajesh from Mumbai. You may go ahead.

Mr. Rajesh:

Hi, I just wanted to know what sort of tax rates do you have this year in FY12?

Mr. Jayesh Shah:

We won't be paying any tax this year.

Mr. Rajesh:

Okay. And any figure on Capex for the current year?

Mr. Jayesh Shah:

Yeah, it's about 375 crores.

Mr. Rajesh:

Thank you so much.

Mr. Jayesh Shah:

Okay, so can we close now?

Operator:

Thank you, sir. Shall we conclude the call now, sir?

Mr. Jayesh Shah:

Thank you everyone. Thank you very much.

Operator:

Thank you, sir. That does conclude our conference for today. Thank you for participating on Reliance Conference bridge. You may all disconnect now.