

# Himatsingka Seide Limited

10/24, Kumara Krupa Road, High Grounds, Bangalore - 560 001, India.

Ref: SEC:0001:2:0804:KGN

November 21, 2016

Listing Department  
Bombay Stock Exchange Ltd  
Phiroze Jeejeebhoy Towers  
Dalal Street  
Mumbai - 400 001

Listing Department  
National Stock Exchange of India Ltd  
Exchange Plaza, 5<sup>th</sup> Floor, Plot No. C/1  
G Block, Bandra-Kurla Complex, Bandra(E)  
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Dear Sirs,

**Sub: Transcript of conference call.**

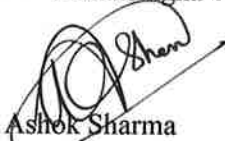
Please find enclosed a copy of transcript of conference call held on 10-11-2016.

Please also note that the transcript of conference will also be available on our website [www.himatsingka.com](http://www.himatsingka.com)

This is for your information & records.

Thanking you,

Yours faithfully,  
For Himatsingka Seide Limited



Ashok Sharma  
Vice President – Treasury, Taxation  
& Company Secretary

Encl: as above



**Himatsingka Seide Limited**

**10/24, Kumara Krupa Road, High Grounds, Bangalore – 560 001**

**CIN: L17112KA1985PLC006647**

**Q2 Financial Year 2017 Results Conference Call**

**November 10, 2016**

**PARTICIPANTS:** Mr. Shrikant Himatsingka - Managing Director & CEO  
Mr. K.P. Pradeep – President, Finance & Group CFO  
Mr. T G S Gupta – VP - Finance  
Mr. Ashok Sharma – VP - Treasury, Taxation & Company Secretary

**Moderator:** Ladies and gentlemen, good day and welcome to the Himatsingka Seide Limited 2Q FY2017 Post Results Conference Call, hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Prerna Jhunjunwala. Thank you and over to you!

**Prerna Jhunjunwala:** Thank you. Good evening everyone. Welcome to the conference call of Himatsingka Seide Limited for Q2 FY2017 results. We have with us today the senior management represented by Mr. Shrikant Himatsingka, Managing Director and CEO of the company, Mr. K.P. Pradeep, President Finance and Group CFO, Mr. T G S Gupta, VP Finance and Mr. Ashok Sharma, VP Treasury, Taxation and Company Secretary. I now hand over the call to Mr. K.P. Pradeep, the CFO of the company. Thank you and over to you Sir!

**K.P. Pradeep:** Thank you Prerna. Good afternoon ladies and gentlemen. On behalf of the company we would like to welcome you to the earnings call for Q2 FY2017. Coming to the consolidated performance for Q2 FY2017, the consolidated revenues are range bound and stood at Rs.526.02 Crores versus Rs.534.53 Crores in the corresponding quarter of the previous year.

The consolidated EBITDA including other income increased by 22.3% to Rs.93.13 Crores versus Rs. 76.15 Crores in the corresponding quarter of the previous year. EBITDA including other income margin stood at 17.7% this quarter versus 14.2% in the corresponding quarter of the previous year. The increase in margins was on account of better operational efficiencies, stable raw material prices and exchange rate.

The consolidated EBIT increased by 37.5% to Rs.80.26 Crores compared to Rs.58.36 Crores in the corresponding quarter of the previous year. The EBIT margin stood at 15.3% this quarter versus 10.9% in the corresponding quarter of the previous year.

The interest and finance charges for the quarter was range bound and stood at Rs.20.01 Crores versus Rs.22.64 Crores in the corresponding quarter of the previous year.

Consolidated profit before tax for the quarter is Rs.60.25 Crores compared to Rs.35.72 Crores in the corresponding quarter of the previous year, a growth of 68.7%. The consolidated profit after tax is Rs.46.09 Crores for the quarter compared to Rs.30.38 Crores during the previous year, a growth of 51.7%.

Coming to the consolidated performance on the half-year FY2017 the consolidated revenues for the six months stood at Rs.1006.50 Crores versus Rs.1005.58 Crores in the corresponding period of the previous year. The consolidated EBITDA including other income for the six months increased by 21.6% to Rs.185.36 Crores versus Rs.152.44 Crores in the corresponding period of the previous year.

The EBITDA margin including other income stood at 18.4% for the six months versus 15.2% in the corresponding period of the previous year. The increase in margin was on account of better efficiencies, stable raw material and exchange rate.

The consolidated EBITDA for the six months increased by 35.2% to Rs.159.51 Crores compared to Rs.117.97 Crores in the corresponding period of the previous year. The EBIT

margins stood at 15.8% for the six months versus 11.7% in the corresponding period of the previous year. The interest and finance charges for the six months is range bound, stood at Rs. 43.31 Crores versus Rs.44.77 Crores in the corresponding period of the previous year.

The consolidated profit before tax for the six months is Rs.116.20 Crores compared to Rs.73.20 Crores in the corresponding period of the previous year, a growth of 58.7%. The consolidated profit after tax for the six months is Rs.91.44 Crores compared to Rs.57.16 Crores during the corresponding period of the previous year, a growth of 60%.

Coming to the Q2 FY2017 manufacturing standalone performance the revenue from manufacturing activity for the quarter ended September 2016 revenues from manufacturing grew by 15.3% and stood at Rs.297.95 Crores versus Rs.258.52 Crores during the corresponding period of the previous year.

The EBITDA including the other income from manufacturing operations increased by 15.5% to Rs.80.31 Crores this quarter versus Rs.69.54 Crores during the corresponding period in the previous year.

EBITDA including other income the margin stood at 27% this quarter versus 26.9% in the corresponding quarter of the previous year.

Coming to the half-year FY2017 manufacturing and standalone performance for the six months ended September 30, 2016 revenue from manufacturing operations grew by 13% and stood at Rs.579.42 Crores versus Rs.512.69 Crores during the corresponding period in the previous year.

The EBITDA including other income from manufacturing operations in the six months increased by 18.4% to Rs.163.07 Crores versus Rs.137.69 Crores during the corresponding period in the previous year. For the six months ended September 2016 EBITDA margin including of other income stood at 28.1% versus 26.9% in the corresponding period of the previous year.

Coming to the retail and distribution performance for the Q2 FY2017 the total revenues from the retail and distribution division for the current quarter stood at Rs.467.77 Crores versus Rs.489.23 Crores in the corresponding quarter of the previous year.

The consolidated EBITDA including other income for the retail and distribution division increased by 37.4% for the current quarter and stood at Rs.19.51 Crores versus Rs.14.20 Crores in the corresponding quarter of the previous year.

The consolidated EBITDA margin for the retail and distribution divisions stood at 4.2% this quarter versus 2.9% in the corresponding quarter of the previous year.

Coming to the half-year FY2017 retail and distribution performance, the total revenues from the retail and distribution division for the six months stood at Rs.894.83 Crores versus Rs.911.48 Crores in the corresponding period of the previous year.

The consolidated EBITDA including other income for the retail and distribution division increased by 28.4% for the six month it stood at Rs.34.21 Crores versus Rs.26.64 Crores in the corresponding period of the previous year.

The consolidated EBITDA margin for the retail and distribution division stood at 3.8% this year versus 2.9% in the corresponding period of the previous year.

The tax provision for the quarter is at Rs.14.16 Crores against an amount of Rs. 5.34 Crores being the tax provision for the corresponding quarter in the corresponding period of the previous year. The tax provision for the six months is at Rs.24.76 Crores as against an amount of Rs.16.04 Crores being the tax provision for the corresponding period of the previous year.

Coming to the debt position, the gross debt as of September 30, 2016 stood at Rs.1122 Crores, Rs.666 Crores being the term debt and Rs.456 Crores being the working capital debt. The gross debt as of June 30, 2016 correspondingly stood at 1063 Crores, Rs.620 Crores being the term debt and Rs.443 Crores being the working capital debt.

The gross debt as of September 30, 2016 includes an amount of Rs.187 Crores being the project debt. The comparable number of the project debt as of June 30, 2016 was Rs.123.72 Crores. The cash and cash equivalents stand at Rs.134.91 Crores as on September 30, 2016 as against Rs.113.68 Crores as at June 30, 2016. Consequently, the company's net debt outstanding as of September 30, 2016 is Rs.937.13 Crores as against Rs.949.32 Crores as of June 30, 2016.

The Company's effective cost of debt is at 6.2% per annum. I also wanted to share some leverage ratios that we track on a trailing 12-month basis. The debt service coverage ratio stood at 3.07x for the Q2 FY2017 as against 2.82x in Q1 FY2017.

Interest coverage ratio stood at 3.15x in Q2 FY2017 as against 2.79x in Q1 FY2017. The net debt to equity stood at 1.03x for Q2 FY2017 as against a similar number of 1.03x for Q1 FY2017 as well. The net debt which is also net of projects spend to EBITDA which includes other income stood at Rs.2.31x for Q2 FY2017 as against Rs.2.5x in Q1 FY2017.

The return on capital employed, net of project spends stood at 15.8% in Q2 FY2017 versus 14.8% for Q1 FY2017. The return on equity stood at 20% for Q2 FY2017 versus 16.8% for Q1 FY2017. So in general we are seeing an improvement in all our operating parameters.

To give you a brief business update for the quarter, the company has commenced commercial production of its expanded sheeting capacity at its facility in Hassan on October 3, 2016. Consequent to this expansion the capacity has doubled from 23 million meters per annum to 46 million meters per annum. As disclosed earlier the construction activity of the proposed spinning plant with an installed capacity of 211584 spindles is under progress and these are projects which are part of the 1281 Crores expansion plan as announced earlier.

So with this I would like to complete my update and hand over to the moderator. Thank you.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Nihal Jha from Edelweiss. Please go ahead.
- Nihal Jha:** Good evening. My first question is on cotton scenario. When we had spoken in Q1 the prices have definitely fallen there, but as we see it still on a year-on-year basis, there is still 15% higher as we are going into the cotton-buying season. So just wanted your views on how do we see our margins going forward for the coming six months of this year or so?
- Shrikant Himatsingka** We see our manufacturing margins to continue to be stable.
- Nihal Jha:** Despite the prices being higher?
- Shrikant Himatsingka** You see the question of prices being higher is you have to be very specific as to which type of cotton and from where, so while raw material in general has seen some improvement the counts where we are operating and the fact that we are covered substantial portion of our

cotton buying in terms of yarn, I do not see any much effect on margins going forward for the H2.

**Nihal Jha:** Secondly, just on the standalone results, I see that we have seen a sharp decrease in other expenses while I look at our employee expenses have increased, so just wanted to understand how we have seen this reduction in other expenses in our standalone performance.

**Shrikant Himatsingka** Just continuing on the cotton point, one can see the margin fluctuation depending on product mix and so it is not necessarily that that is coming out of raw material prices. It should have come out of both, but as far as fluctuation from raw material prices are concerned I see it range bound and rather stable. As far as product mix is concerned, one can always see it depending on the particular mix for the quarter. As far as operating expenditure question is concerned it is all range bound. We can take it offline. It is not material.

**Nihal Jha:** Sir one more question for the spinning unit when are you looking at commissioning it? Are we still looking around somewhere around September 2017?

**Shrikant Himatsingka** That is correct.

**Nihal Jha:** I will get back in the queue for further questions.

**Moderator:** Thank you. We have the next question from the line of Shraddha Agarwal from Asian Market Securities. Please go ahead.

**Shraddha Agarwal:** Congrats on a good operating performance. Just wanted to check on the retail and distribution business revenue still seems to be on a downward trajectory YOY. Sir any comments there would be helpful?

**Shrikant Himatsingka** Well it has been range bound Shraddha, not on a downward trajectory as such. I think as you might have seen on the press release we should see the organic growth kick in H2.

**Shraddha Agarwal:** Do we still maintain our earlier indication of branded business being 1200 Crores by FY2018?

**Shrikant Himatsingka** Absolutely.

**Shraddha Agarwal:** So we do expect a substantial jump up in second half because first half numbers have not been up to our expectation, so do we have some visibility on our client's portfolio to have that kind of confidence?

**Shrikant Himatsingka** Where are you getting the words substantial?

**Shraddha Agarwal:** In the sense that if we have to do 1200 Crores of branded business by FY2018 and we did close to 800 Crores in FY2016 which means?

**Shrikant Himatsingka** I would like to clarify here, our statement in the past, which was to be effect that we will look at increasing our branded revenues to Rs 1200 Crores by FY2018 continues to stand. Please understand that Rs 1200 crore can also come from replacing private label revenue streams and it need not be always over and above. So it is wrong to expect that it will always be over and above private label. There can be some replacement of revenue streams also. So I would like to sort of say that we are looking at resuming organic growth in the second half of this fiscal, and so I do not see organic growth is organic growth. That is how it should be interpreted.

**Shraddha Agarwal:** Thank you. That is, it from me.

- Moderator:** Thank you. We have the next question from the line of Krishna Hegde an individual investor. Please go ahead.
- Krishna Hegde:** This is a question regarding your Pimacot line. I noticed from the disclosure of applied DNA that you have chosen to waive your entire fees of about Rs.1 Crores. Can you give us more context on that the revenues which will come into you at a later point?
- Shrikant Himatsingka** We cannot comment on anything to do with our Pimacot line of business. Whatever statements the group had to make on Pimacot line of business has already been made in press statements earlier.
- Krishna Hegde:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Nehal Jha from Edelweiss. Please go ahead.
- Nehal Jha:** Just continuing on bed sheet unit, which has got commissioned recently, what, is the kind of utilisation that we are looking at says for this year and in FY2018 also?
- Shrikant Himatsingka** Again, we have publicly stated that of the incremental capacities coming on stream and the definition of coming on stream stands effective as of October 3 that is when we start commercial production so off the incremental capacities coming on stream. We are confident of placing 40% to 50% during the rest of the year on an annualised basis. So if the total incremental capacity is coming on stream is another 23 MMPA and we get an effective six months so the effective incremental capacity is approximately 11.5 million, so 40% to 50% of that is what we have indicated earlier and we stand by that indication. This is for H2.
- Nehal Jha:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Amit Sulekha from Bharti Axa Life. Please go ahead.
- Amit Sulekha:** Many thanks. Just a few questions; as you just now mentioned that you expect 40% utilisation level in H2. What will be the ramp up in FY2018 and FY2019 for the same?
- Shrikant Himatsingka** I think we would like to comment on that as we go through H2. It is a little early at this point, but it is safe to assume that if we are looking at 40% to 50% of the incremental capacities to be placed in H2 at least that amount would continue going into the next fiscal. If there is anything else, we see on the horizon we will comment as we go through H2.
- Amit Sulekha:** Sure same for spinning facility and all the units will come one year down the line so is it safe to assume that spinning would also be working at 40% for the second half of next year?
- Shrikant Himatsingka** It should be working at a much higher levels of utilisation because its entire production will be booked from the moment it is commissioned. So the only fluctuation and utilisation levels will be witnessed on account of ramping up of the plant after it is commissioned.
- Amit Sulekha:** Generally, since it is more of a backward integration so how much margin improvement can we expect because of you now being backward intergrated once this comes up?
- Shrikant Himatsingka** I think for the profile of the kind of ultra fine count the yarn that we are going to be spinning at our spinning facility and the fact that we are looking at over Rs. 600 Crores of investments to be made in the spinning units the asset turnover profile for such count of products would be range bound to be about 1. Given the fact that it is ultra fine count and the asset returns are low

relatively speaking they are typically accompanied by richer EBITDA margins which compensate the lower asset returns and so EBITDA margins north of 26% to 27% on an asset like that is what that investment will bring in as we foresee and forecast.

- Amit Sulekha:** So you are saying that 26% margin on that spinning asset?
- Shrikant Himatsingka:** That is correct. I did not say 26%, I said north of 26% or 27%.
- Amit Sulekha:** Thanks for that. The other thing is what is the outlook on the North American market in terms of demand scenario? Are we seeing any improvement? I know you mentioned that you are looking at an organic growth but is it a concern that the overall market is going to improve or it is something else?
- Shrikant Himatsingka:** I think the markets are largely stable as we see it. I think specific to Himatsingka and specific to this financial year the organic growth that we expect to see in the second half of this fiscal will be market share led.
- Amit Sulekha:** Market sharing and Sir, when you mentioned the organic growth, so should we take it in the range of 4% to 5% kind of a number organic growth?
- Shrikant Himatsingka:** Well I would not like to comment on anything specific in terms of number as far as growth rates are concerned, but I think given the fact that 40% to 50% of incremental capacities are likely to be placed as we see it and that will largely be fresh revenue streams. I think we should expect a pretty strong undertone on organic growth.
- Amit Sulekha:** Just one last question from my side. Since now that GST rates are out, though we do not know where will be the cotton value chain and any one since yours is a bulk is going into export market, so is it possible now to get some sense of how much margin impact can come because of duty drawback going away after GST coming in?
- K.P. Pradeep:** Given that all our revenues come from export predominantly we do not see a very significant impact from GST. But having said that there are certain aspects of GST, which are yet to be clarified from an incentive standpoint. We will have to wait and watch as the GST discussion progresses over the next month or so. I am expecting a lot of announcements to come in over the next 45 days.
- Amit Sulekha:** But this is a fact that duty drawback benefit, which we get now that, will go away after that? Is that how it will pan out?
- K.P. Pradeep:** That is not a fair assumption to make. The government is looking at various options and we will need to wait to hear more on this..
- Amit Sulekha:** Many thanks and that is from my side. Thank you.
- Moderator:** Thank you. We have the next question from the line of Abhilasha Satale from First Global. Please go ahead.
- Abhilasha Satale:** Congratulations on good set of numbers. Sir, I would like to know how much capex have we incurred in FY2017 till date and what is the residual capex which we are planning in H2?
- K.P. Pradeep:** Please write to us separately Madam. We will be happy to share all the details.
- Abhilasha Satale:** Secondly, we have seen consistent margin improvement in our retail division. So that like operational efficiencies and all you have been talking in the previous calls also so could you





throw some light on what all measures have led to such margin improvement and secondly how much further is room left for margin improvement in this section?

- Shrikant Himatsingka** The reason that the operating performance of retail and distribution businesses have improved are essentially because of being focused on the right product mix, building our brands portfolio, optimizing our operating costs, and other measures confluent of which have contributed to the improvement. Therefore, the EBITDA margins have improved for our global distribution businesses from approximately 2.9% during Q2 last year to close to 3.8% this year. Ideally, we would like to be at a margin profile north of 5% in our distribution businesses. One must keep in mind that they are extremely asset light so whatever comes in on the operating margin front pretty much trickles down into the pretax levels. So north of 5%, 6% is where we would ideally like to see that number.
- Abhilasha Satale:** So you mean to say that there is further scope for product improvement and product mix and operational efficiencies to happen?
- Shrikant Himatsingka** I mean to see that ideally we would like to look at that operating profile.
- Abhilasha Satale:** What is the timeline like?
- Shrikant Himatsingka** We cannot give timeline to such initiatives. We have spoken about this consistently over the calls that we have had for several quarters. The company and the team have been working on improving the profile. Some improvement is coming through as you have witnessed through our numbers. We have always spoken about the fact that we are focused on driving our return ratios on ROCE, ROE and turning our assets better which is what we are doing. So I think it is fair to assume that the momentum should continue.
- Abhilasha Satale:** Thank you. All the best.
- Moderator:** Thank You. The next question is from the line of Krishna Hegde who is an individual investor. Please go ahead.
- Krishna Hegde:** I have a question about the sheeting capacity, which has come online. What do you think is the impact of the headlines about Egyptian cotton on your sheeting expansion plans and being able to place it into the market?
- Shrikant Himatsingka** We do not think there is any material impact as far as Himatsingka is concerned.
- Krishna Hegde:** Is there any possibility of the brand India from manufacturing perspective being tainted or Himatsingka being benefited positively from your history of there is nothing at all which you think is not going to happen?
- Shrikant Himatsingka** What I would like to say is we do not have any material revenue streams of that nature, so we are focused on other substrates and therefore I do not see anything on the horizon. Having said that if there is something that comes up obviously we will share it with stakeholders, but I do not see anything on the horizon at this point.
- Krishna Hegde:** Thank you.
- Moderator:** Thank You. We will take the next question from the line of Pradeep Singhaniya from Pram Capital. Please go ahead.
- Pradeep Singhaniya:** Good evening Sir. Sir actually in the opening remark, I missed on the ROCE, TTM ROCE that you did for this year?



- K.P. Pradeep:** The return on capital employed, net of the project spends stood at 15.8% in Q2 FY2017 versus 14.8% for Q1 FY2017.
- Pradeep Singhaniya:** My second question was regarding the enhanced sheeting capacity. So of the 40% or 50% that we are planning to place in H2 FY2017 how much of this would be replacement demand and how much would be a fresh placement? Of the 40% that we are going to place in H2 FY2017 for the sheeting capacity how much would be the replacement demand and how much would be the fresh placement?
- Shrikant Himatsingka:** 80% fresh, 20% replacement broadly speaking.
- Pradeep Singhaniya:** Sir what about the terry towel any thing you thought of in terms?
- Shrikant Himatsingka:** What we had stated earlier was that we will be facing our capex outlay so November 2015 we started our sheeting capex. We announced commercial production on October 3, 2016. In July 2016 we announced the commencement of construction for our spinning facility, which is currently under progress. So in the near term we would give you an update on where we stand on terry towels, but the terry towel facility has not commenced construction. We expect to update all of you on this may be in the near term.
- Pradeep Singhaniya:** That is all from my side. Thank you.
- Moderator:** Thank You. We have the next question from line of Ritesh Parjatiya from Asian Market Securities. Please go ahead.
- Ritesh Parjatiya:** Good evening. Sir my question is on the spinning business. Sir you have highlighted that you are looking for 26% to 27% kind of the margin, but I understand if the industry margin, which other guys are making in the range of maximum 18% to 20%, so what is the rational behind for such a high margin?
- Shrikant Himatsingka:** There is no specific rational. In fact, when one is researching spinning, one has to be careful as to the margin profile that one is researching in context to the underlying product, the underlying raw material usage, the underlying plant specification, so just painting the entire spinning industry with the same brush would not be a fair assumption. If the workings are complex, there are also some upsides that are available because it is entirely captive unit. It is also the worlds' largest spinning plant under one roof. So economies of scale automation levels, the technological specifications, the product mix and the fact that it is captive all contribute to bringing the number that I spoke about into play.
- Ritesh Parjatiya:** Thanks. Sir, second question is regarding retail and distribution and manufacturing related mix, like I have seen your present mix is like 900 Crores is kind of your manufacturing revenue and 1600 to 1700 Crores is the retail and distribution. That means you are producing less and selling more in the retail and distribution. So going forward what kind of the mix will be there by FY2018 types?
- Shrikant Himatsingka:** If you look at our manufacturing revenues for the quarter it has come in at Rs. 297 Crores versus Rs. 226 Crores last year. If you look at our H1 revenues it is more like 579 Crores, if you look at our goods purchase of stock in trade it has reduced, so this ratio will keep getting narrower. Point number one. Point number two some of or lot of our manufacturing revenues if one has to add other components down the value chain like freight and duty etc., so Rs.100 of ex manufacturing revenues can translate to Rs.118, Rs.117, Rs.125 depending on the product, ex group throughput. So basically on the ratio of manufacturing we will keep seeing an increase as we go forward.
- Ritesh Parjatiya:** Thanks a lot Sir. That is all.



**Moderator:** Thank You. Ladies and gentlemen as there are no further questions from the participants, I would like to hand the conference over to management for closing comments. Thank you and over to you Sir!

**Shrikant Himatsingka** I would like to thank everybody for taking the time this evening to join us on our call. There were a few participants who had specific questions, who we requested to reach out to us separately and we will take their questions offline. So please do that. I look forward to interacting once again with all of you next quarter. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Batlivala & Karani Securities that concludes this conference. Thank you followup for joining us. You may now disconnect your lines.