

Himatsingka Seide Limited

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

August 29, 2019

BSE Ltd.
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Dalal Street
Mumbai - 400 001
Script Code: 514043

National Stock Exchange of India Ltd.
Exchange Plaza, 5th Floor, Plot No. C/1
G Block, Bandra-Kurla Complex, Bandra (E)
Mumbai - 400 051
Symbol: HIMATSEIDE

Dear Sirs,

Sub: Transcript of conference call.

Ref: Disclosure under Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements), Regulations, 2015

Pursuant to Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements), Regulations, 2015, we attach herewith a copy of transcript of conference call held on August 13, 2019.

Please also note that the transcript of conference call will also be available on our website www.himatsingka.com.

This is for your information & records.

Thanking you,

Yours faithfully,
For Himatsingka Seide Limited



Ashok Sharma

Company Secretary



Himatsingka

Earnings Call Transcript
Bengaluru, August 13, 2019

Q1 FY20 Earnings Conference Call

August 13, 2019



Moderator: Good morning ladies and gentlemen, I am Pavithra, moderator for the conference call. Welcome to Himatsingka Seide 1Q FY20 post results conference call hosted by Batlivala & Karani Securities India Private Limited. At this moment all participants are in the listen-only mode. Later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Ms. Prerna Jhunjunwala. Thank you and over to you ma'am.

Prerna Jhunjunwala: Thank you Pavithra. Good morning everyone. On behalf of B&K Securities, I would like to welcome you all for 1Q FY20 post results conference call of Himatsingka Seide Limited. From the company we have with us the senior management, including Mr. Shrikant Himatsingka, Managing Director and Group CEO of the Company, Mr. K.P. Rangaraj, President – Finance and Group CFO, Mr. Ashok Sharma, Senior Vice President and CFO – Strategic Finance. I would now like to hand over the call to Mr. K.P. Rangaraj for the initial comments. Thank you and over to you sir.

K.P. Rangaraj: Good morning ladies and gentlemen. On behalf of the company, I would like to extend a very warm welcome to all participants present on the call for the Q1 FY20 earnings call. So, as in the past, I would be starting off with the brief business update, followed by matrices on consolidated financial performances and followed by debt profile and any comments that we have on the financial statement.

So, let me start off with the business update first. The progress of our trial production at our new Terry Towel facility is satisfactory. We are on course for commencing commercial production by the end of Q2 FY20. We strengthened our brand portfolio by entering into an exclusive licensing agreement with the Iconix Brand Group for the Waverly brand. The licensing rights are for soft home products and pertains to the territory of North America. During the quarter, revenue from brands stood at Rs. 573 crores versus Rs. 510 crores during the previous year quarter.

I now move on to the consolidated financial performance. The Consolidated Total Income increased by 7.2% during the quarter and stood at Rs. 644.47 crores versus Rs. 601.38 crores in Q1 of FY2019. The Consolidated EBITDA for the quarter increased by 6.5% to Rs. 143.08 crores versus Rs. 134.30 crores in the previous year. Consequently the EBITDA margin was 22.2% as compared to 22.3% in the last year. The Consolidated EBIT for the quarter was up by 7.7% to Rs. 116.32 crores versus Rs. 108.01 crores in the previous year. The Consolidated PBT for the quarter stood at Rs. 72.29 crores versus Rs. 71.45 crores in the previous year. The Consolidated Profit after Tax for the quarter stood at Rs. 45.25 crores versus Rs. 44.57 crores in the previous year, recording an increase of 1.5%. The Consolidated Cash Profit after Tax for the quarter stood at Rs.72.01 crores versus Rs.70.87 crores in the previous year.



I now move on to the debt profile. The Consolidated Gross Debt as of 30th of June stood at Rs. 2,832 crores. The total term debt stood at Rs.1,816 crores and the working capital debt stood at Rs. 1,017 crores. The cash and cash equivalents and current investments stood at Rs. 327 crores as of the end of the quarter. Consequently, the company's net debt outstanding as of 30th of June stood at Rs. 2,505 crores.

We now move on to the leverage ratios. The net debt, excluding the project work-in-progress debt, to EBITDA improved to 3.43 times at the end of the quarter as against 3.57 times at the end of FY19. This is on a TTM basis. The debt service coverage ratio stood at 1.93 times at the end of the quarter as against 1.95 times at the end of FY19. The net debt to equity ratio stood at 1.72 times at the end of quarter versus 1.7 times at the end of FY19. The net debt excluding the project work in progress debt to equity ratio stood at 1.39 times at the end of the quarter versus 1.46 times in the previous year.

We now move on to the capital efficiency ratios. On a TTM basis, the return on capital employed, excluding the capital employed in the projects work in progress, at the end of the quarter stood at 13.2% compared to 13.1% at the end of the previous year. The return on equity ratio stood at 14.5% at the end of the quarter as compared to 14.9% at the end of FY19.

I now move on to my last section which is on comments and the observations on our financial results. Effective 1st April 2019, the Group changed the useful life of certain property plant and equipment from twelve and a half years to twenty-five years, based on the fresh technical assessment carried out by the management, subsequent to the upgrades of these assets. This change in the useful life of the property plant and equipment is being applied prospectively in accordance with the accounting standards. Had the Group continued with the previously assessed useful life, the charge for depreciation for the quarter ended 30th June would have been higher by Rs. 3.57 crores.

With this I close my updates. I will now request Mr. Shrikant Himatsingka, our Managing Director & CEO to address any queries and take your questions further. Thank you.

Question and Answer Session

Moderator:

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

Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.



The first question comes from Mr. Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: Hi sir. Thanks for the opportunity. Sir, my first question would be related to the cost inflation. In the last quarter we were told you were facing some RM cost inflation in your overall margins. So, hence have they eased out to an extent or given that the cotton prices have fallen to a great extent?

Shrikant Himatsingka: Yeah, we are indeed seeing some inflation on our operating expenditure front Vikas, including the reasons related to the ongoing trial production. Obviously that is still captive work in progress. But, there are certain allied operating expenditures that do hit us, in addition to some raw material inflation and other organic inflation that we are seeing on the cost front. But, hopefully it should stabilize going into the rest of the year as we see it.

Vikas Jain: Sir, so can we fairly assume that the incremental benefit that we have received by the extension of this MEIS and RoSCTL has been largely offset by this RM inflation?

Shrikant Himatsingka: Yes, RM and the other operating expenditure inflation, including certain expenditure that we are incurring going closer into the commissioning of our projects. So, I think it is a confluence of operating expenditure items that have seen inflation during the Q. But, as I said going into the rest of the year, we see it stabilize and perhaps an edge to get some benefits also on the slightly more benign raw material scenario.

Vikas Jain: Sir, my second question would be, how much was the forex gain or loss during the quarter?

Shrikant Himatsingka: Vikas, we will be happy to take that offline on the FX piece.

Vikas Jain: Okay, sure sir. No problem. And then last question sir, any amount that you want to quote regarding the plans of this debt reduction for this full FY20?

Shrikant Himatsingka: We are coming, as I shared before with our investors, we are in advanced stages of completion of our calibrated CAPEX program. And we should see this capital expenditure program come to a close over the next few months, post which we only will continue to see organic capital expenditure that is required to be incurred in the ordinary course of business. So, as our CAPEX programs come to a close vis-à-vis these three projects, our sheeting project that we undertook, the Brownfield sheeting expansion, the spinning project and the terry project, so with the completion of this calibrated program, we will start seeing debt reduction on our term debt. I am also happy to share that we are taking several measures to streamline our working capital cycles. And we will definitely see encouraging results on that front, as we go through this fiscal. So, we should see some correction on both our term debt portfolio and our working capital debt portfolio. Of course, this is vis-à-vis our current operating businesses. And we



have also factored in some working capital requirements for our new terry towel facility. So, post that commissioning as well, we should see a reduction on both these fronts.

Vikas Jain:

Right sir. And sir, just last question, any qualitative comments in terms of how is the demand scenario in the North American market and how are we placed in it? What are the measures or any qualitative comments on how is the demand panning out?

Shrikant Himatsingka:

I think the demand outlook vis-à-vis our major markets looks stable. I don't see any signs of material movements either positive or negative at this point. What I would like to say is, having completed these projects or largely completed these projects, because terry is now in trial production, so we are amongst the largest producers of bedding products globally. We operate the largest cotton spinning plant under one roof. Our new terry towel facility is amongst the largest in the world. And most importantly our brand portfolio is also probably the largest in the home textile space. Our revenues from brands are on a rise, as you have seen. And as Ranga mentioned earlier, it is Rs. 573 crores for the Q. Last year of our total revenue is of 2654 crores. Our revenues from brands came in at Rs. 2,255 crores. And so we hope to better that during this year. And so given these verticals and areas of focus that we have developed over the last few years, I think we are on a strong footing to now capture value going forward. We have had a good EBITDA movement over the last three years. Our revenues have also seen an uptick. We have integrated our acquired Tommy Hilfiger brand successfully along with the other brands that we had acquired. I think our focus will be to continue to enhance our brand, revenue streams from brands, sweat our assets both on the bedding capacity front, our terry capacity front, both these will be very critical. We will continue to expand our footprint into the European region. We should also see some interesting movement on that front during the year. And we will now be focused also on starting to correct our debt matrix, which we are comfortable about now. As I said because our capital, calibrated capital expenditure program is coming to a close vis-à-vis these three projects. So, I think all in all these factors coupled with a stable demand outlook should put us on a good footing.

Vikas Jain:

Okay sir. Thanks for the opportunity. Thank you.

Moderator:

Thank you sir. Next question comes from Ms. Shradha Agarwal from Asian Market Securities. Please go ahead. Sir, it seems that Ms. Shradha Agarwal's line is not active. Shall I take the next question sir?

Shrikant Himatsingka:

Yes please.

Moderator:

Thank you sir. The next question comes from Mr. Nagraj Chandrasekhar from Laburnum Capital. Please go ahead sir.



Nagraj Chandrasekhar: Thank you very much. My question relates to both you and the industry. Where are we at on the global cost curve in things like bedding, terry towels and even if you go one step before that in the value chain beyond....? So, if you look at your presentation you talk about how India share of US imports have increased significantly in the last decade, yet we see a fair bit of press coverage and the industry feedback also around the fact that the industry is moving to places like Bangladesh and maybe even parts of North Africa, where there is equally good, where there may either be equally good raw material or more attractive labor cost or a combination of the two. We also hear, we see press coverage around greater automation in the industry leading people to consider setting up plants in the US. So, we are just curious from the standpoint of the company, where do we view ourselves on the global cost curve and how is the cost curve moving? Is our India manufacturing really the best place in the world to manufacture the things we are manufacturing, because we do at the end of the day face a global market?

Shrikant Himatsingka: So, thanks for the question Nagraj. I will answer it as follows. So, I will answer it in context to where we stand as an industry in my opinion vis-à-vis the global cost curve and where we stand as a company vis-à-vis the global cost curve. And so as an industry while there has been noise and intermittent press coverage with regards to opportunities cropping up in countries like Bangladesh and other regions that you mentioned, to our knowledge there has been no material movement of order flows to these jurisdictions, because it is not just competitive raw material prices that dictate shifts in sourcing bases. It is more than that. I think the ability to offer total solutions, the proximity to global clientele, strong brand portfolios, large integrated facilities, socio-political concerns are among the factors that drive these decisions. And hence we haven't seen any material movement vis-à-vis sourcing to other geographies. India's share of US imports across soft home products and I am speaking for cotton denominated areas, remains strong and robust as we see it. Vis-à-vis looking at this, examining this question from a standpoint of the company, I think we fare better, because our stickiness or I should say that relative stickiness quotient is higher given the fact that a substantial portion of our businesses come from our own brand portfolio. So, we believe that we are carving out a stronger model relative to the general model that exists in this space. And so, in an already, shall I say in a scenario where there is a substantial amount of sourcing that emanates from the Indian subcontinent, in that bucket, we seem to be fairly well placed, given the model that we have adapted of being an integrated player with strong brand solutions on the table.

Nagraj Chandrasekhar: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Rajesh Agarwal from Moneyore Investment Advisors. Please go ahead.



- Rajesh Agarwal:** Thank you sir. Sir, is the tariff hike by Mr. Trump on Chinese goods, does it cover the home textiles? And second question, are our margins sustainable at 22%-23%?
- Shrikant Himatsingka:** Vis-à-vis your question on tariffs, to the best of our knowledge the proposed tariff on List 4 includes all other products and therefore it covers cotton soft home products as well. Vis-à-vis our EBITDA margin profile, as you have seen, if you look at our margins, they have been fairly range bound and stable in the 20% to 22% region. And our endeavor is to keep it stable. So, I think that is as far as I can say on our margin profile.
- Rajesh Agarwal:** Sir, this will increase our market share for India, the tariff hike?
- Shrikant Himatsingka:** In theory it should. But, whether the transmission, the tariffs will lead to a transmission in demand that is yet to pan out. But, in pure theory, I should say the probabilities favor India in terms of being a preferred sourcing destination, if these things like tariffs disrupt sourcing from China. So, we remain, we all are on observation mode in terms of what really transpires when these tariffs become effective. But, we are not seeing any spike in demand at least as far as Himatsingka is concerned. It definitely queries an interest, but the transmission at this point is muted.
- Rajesh Agarwal:** It can be immediately sir?
- Shrikant Himatsingka:** Should there be any specific requests, it would take at least sixty to ninety days to translate.
- Rajesh Agarwal:** Okay. Thank you sir.
- Shrikant Himatsingka:** Thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** Thank you so much and good morning to the entire management. Sir, my first question was that on the new brand that we have acquired, will it start getting consolidated immediately from this quarter itself?
- Shrikant Himatsingka:** Yes. This brand that we have acquired has no existing revenue streams Nihal. So, we will have to build up the revenue stream. It is an interesting IP piece that we have picked up. It is obviously not part of our national brand portfolio and doesn't compare to other brands like Tommy Hilfiger and Calvin Klein and Kate Spade and things like that. But, it has its own positioning vis-à-vis various soft home categories and products. So, it is an interesting tuck in addition to our brand portfolio. And it will integrate with our current portfolio starting this quarter. But, I think for you it is more the fact that we continue to add brands to our portfolio, because we have also recently announced the addition of the Royal Velvet brand couple of months ago or a few months ago. So, both Royal Velvet



and Waverly will add a certain dimension to our portfolio. And basically is in continuation with our strategy to keep strengthening this portfolio that we have.

Nihal Jham: Sir, absolutely sir. Right now as you said that revenues of Waverly are negligible is what I understand.

Shrikant Himatsingka: That is correct.

Nihal Jham: Sir, the second question was just on these incentives which have started coming from March. Now, you did mention that you have been taking these pre-operating expenses and all. But, just if I look at the gross margins compared to our last quarter and I do understand that our currency realizations also improved, because starting Q1 our hedges were coming better. So, that has remained flat if I look at it on quarter on quarter gross one. So, is it that there is a change in the product mix also, marginally say towards the new 15 million meter line that we have added recently, which is more towards the basic bedding side?

Shrikant Himatsingka: Yes. I think it is a fair assessment to say that there has been some inflation on the gross profit line as well that we have witnessed, which has partially offset these things. There could be some grouping movements as well within the categories. So, I think all in all that is part of the reason, yes.

Nihal Jham: Sir, last question, I am sorry I missed the gross and net debt numbers, if it is possible if I could just get that again?

Shrikant Himatsingka: Rs. 2,832 crores gross and Rs. 2,505 crores net debt.

Nihal Jham: Sure sir. I will get back in the queue if there are any further questions. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Next we have a question from Ms. Shradha Agarwal from Asian Market Securities. Please go ahead ma'am.

Shradha Agarwal: Hi. Good morning to the management team and sorry, I got disconnected last time. Sir, what is the other operating income for this quarter?

Shrikant Himatsingka: Shradha, we would be happy to take that offline, because there are a bunch of things. But, it is largely just the treasury income and couple of other sundry items which we will be happy to share with you offline.

Shradha Agarwal: No worries sir. And secondly, if I look at your revenue, though I know that we should not be looking it on a sequential basis, but we do see a 7% drop in revenue on a Q-on-Q basis despite you mentioning that the sheeting plant is



operating at a steady utilization. So, I want to know the reasons behind this thing?

Shrikant Himatsingka: I think in our industry Shradha and this is at least vis-à-vis Himatsingka and I seriously urge stakeholders not to look at us sequentially, because there are seasonal movements in the business. And in our business 5%-7% movements in revenue between quarters would be within the realm of the definition of stable. Sorry to say that, but that is unfortunately the way we see it.

Shradha Agarwal: And sir, we were hopeful of a pickup in utilization in our sheeting plant in the second half. So, do we stay with that commentary?

Shrikant Himatsingka: Yes, absolutely. Let me just reiterate, because I think the attempt for most investors would be to build a credible model that works. So, we have a sheeting capacity which is 61 million meters per annum, which was recently, debottlenecked from 46 to 61. We have a spinning cotton yarn, which we call the yarn and fiber solution vertical. And that currently has a capacity of 211,584 spindles. And we have a terry towel plant which is 25,000 tons per annum. So, as we have seen our attempt will be as follows, the terry towel plant which is likely to begin commercial production by the end of Q2 or somewhere thereabouts. So, our first priority would be to increase utilization levels at our new facility. I have shared with investors in the past that obviously being a Greenfield facility. It is not like capacity utilizations will skyrocket immediately. It has to be built gradually. Hopefully we will be able to leverage our portfolios and our shelf space to hasten that process. But, it will still be a gradual process. So, that will be one thing that pans out. Spinning as a backward integration initiative anyway remains full. There is no scope of sweating capacities on that front and then our sheeting division as well we have the scope to increase our capacity utilizations there. We have been depending on the product mix; we have about 20%-25% upside that we would like to sweat. Again that shifts a little from time to time depending on the product mix. So, we will be focused on doing that. Plus, we will continue to try to place our various brands that are spread across various price points and appealing to various buckets of audiences globally. So, we will continue to cement those on global markets, in global market shelves across and try to enhance revenues from new regions as well. So, all these initiatives are what we will be focused on as I was broadly mentioning earlier to continue to drive, (a) our revenues, (b) our EBITDAs and then its transmission into numbers below EBITDA.

Shradha Agarwal: Right, certainly that is helpful sir. And one last question from my end. If I look at the margins standalone and consolidated, while we have seen a sharp close to 470 bps improvement in our standalone margins, our consol margins are up only 180 bps YoY. So, any color out there would be helpful.

Shrikant Himatsingka: That is actually a fair point. And I forgot to mention it vis-à-vis our, I think it was someone's previous question about both the FX and the incentives not being as visible in our gross profit line. Your question regarding our margin profile



also ties into this exactly. And I would like to share, which I have shared earlier with our investors. We have a bunch of niche businesses in our portfolio, some legacy; most of these are legacy businesses. And we are having headwinds from our niche businesses vis-à-vis their profitability. And our niche businesses are not material from a standpoint of the top line they contribute on a consolidated basis. They are probably 7%-8% of our total portfolio. But, their operating performances have been disappointing and have created a drag on the rest of the consolidated numbers. I am being very open and transparent about this. We have taken several measures across these niche businesses to improve their operating performance metrics. And so that is also part of the reason that certain benefits are not transmitting as they should be. Keeping all these things in mind, our endeavor would be to keep our margin profile range bound and stable, despite the fact that we go through this correction process vis-à-vis these businesses as well, while we attend to our larger priorities of enhancing capacity utilization levels and other brand led strategies that I spoke about.

Shradha Agarwal:

Sir, I am assuming you are hinting at your Italian bedding business and the Italian silk division. And last quarter you had kind of indicated that those two businesses have kind of bottomed out and we should see, if not any incremental EBITDA, but not a drag on profitability from them.

Shrikant Himatsingka:

Actually there is an approximately close to Rs. 6.0 crores to Rs. 7.0 crores hit we have taken this Q on restructuring initiatives in the European region, which wasn't the case on the YoY basis. We have also taken, so our European brand portfolio vis-à-vis Bellora is where we are seeing these initiatives pan out. We are also taking initiatives on our legacy Drapery and Upholstery business, our India brand Atmosphere. These primarily are the three buckets that comprise our niche business / luxury business portfolio, which is causing these headwinds. So, it is not only in Italy, we are also seeing it in our legacy Drapery and Upholstery division, which has seen a fair bit of correction on gross profits and on operating metrics. So, we are keeping our margin profile consistent or are endeavoring to keep it consistent while we go through this process of restructuring these smaller divisions.

Shradha Agarwal:

Right sir. And if I may squeeze in one last question, any progress on the ramp up of the Himeya brand in terms of the distribution strategy or any thoughts out there?

Shrikant Himatsingka:

Himeya is a part of our portfolio of brands with over twelve brands now. As I said, every brand has its positioning, its purpose and so on. So, Himeya is in its early stages of development. And I don't see any material contributions coming from Himeya in the near future. Himatsingka's India portfolio remains relatively small. That is not something that we are necessarily proud about. But, our India strategy and how to approach this market in a material way remains work in progress. And we are sort of working on various options. But, certainly Himeya is at its infancy. And it will take time to develop.



- Shradha Agarwal:** Sure, that is helpful sir. That is all from my end. Thanks.
- Moderator:** Thank you ma'am. Next question comes from Mr. Pankaj Kumar from Kotak Securities. Please go ahead.
- Pankaj Kumar:** Good morning sir. Sir, my question pertains to this MEIS benefit, that is still continuing and how do you see it going forward?
- Shrikant Himatsingka:** MEIS as you might have read Pankaj has been discontinued by the Government of India effective the 1st of August. The contours of how they will replace this incentive, because they have to replace these incentives with more WTO compatible incentive packages, keeping in mind various parameters. So, I guess you will hear that from the concerned companies as and when it becomes clearer.
- Pankaj Kumar:** Okay. But, in Q2 we have taken the benefit?
- Shrikant Himatsingka:** We can only take the benefit till when it is effective. So, if it is effective till August 1st, anybody can only take the benefit till August 1st and not for the entire quarter.
- Pankaj Kumar:** Okay. And sir regarding this debt reduction plan, can we get any, over what period do you see at what extent you would like to reduce the debt, any such timeline that you would like to give say, for the next two-three years? What is your plan to reduce the debt?
- Shrikant Himatsingka:** Absolutely. I think we are of course this is excluding any new businesses or ventures or expansions and things like that, which is premature for me to comment on. But, in the absence of those things, vis-à-vis our debt portfolio that stands today, as I said earlier we are coming to a close on our calibrated capital expenditure program and we are going to work on reducing debt on two fronts, (a) our term debt portfolio and (b) our working capital debt portfolio. And we are going to work; we are working on reducing our working capital cycles as well, which will lead to this reduction. And I think this theme is not something that we are working on only for FY20. We will continue in the medium term to make sure that we bring this debt to very benign levels as fast as possible. That will be our endeavor. So, the definition of benign, as I have always shared with investors, Himatsingka is comfortable with having DSCRs in the region of 2. We have always maintained DSCRs in the region of 2, but we will better that if our debt reduces. And our net debt to EBITDA should be ideally in this scenario keep it at the levels, like to see it go down to levels of 3 or below.
- Pankaj Kumar:** Okay. And sir, regarding your towel factory of course you said to be operational in Q2, so over what timeframe we see it reaching optimal capacity utilization that we have targeted?
- Shrikant Himatsingka:** Pankaj-ji, if I knew the answer to that, it would be great. But, as I was saying these are Greenfield facilities. They take a little time to ramp up. But, given our



current standing in the markets, we can only make sure that the process is a little quicker and smoother. So, I think we will start with low levels of capacity utilization and within a year or so and endeavor to at least be running the plant to levels of 50% or thereabouts would be a fair estimate.

Pankaj Kumar: Okay sir. Thank you.

Moderator: Thank you sir. Next question comes from Mr. Nihal Jham from Edelweiss. Please go ahead. It is a follow up question. Please go ahead sir.

Nihal Jham: Thank you so much. Sir, just on the question of debt, you did mention that we are more or less close to the end of the debt cycle. And if we understand there is only say, 100 crores incrementally left on the towel project. And considering that towel also will not see that significant of a ramp up in the first year, so is there a good potential to see a decent pay down of debt in the current year?

Shrikant Himatsingka: There is a good potential to see reduction of debt levels vis-à-vis where we are at the end of June. Now, how you define decent, I do not know. But, we hope to see reduction of these debt levels during FY20.

Nihal Jham: Sir, but is there an internal target or pay down to 300 crores or any specific numbers or range that you are targeting?

Shrikant Himatsingka: I cannot specifically comment on the quantum. But, it would be reasonable to think that we could bring it down. We have started seeing reductions both on hopefully the term and the working capital portfolios, so coupled both together could give us some good traction on reduction.

Nihal Jham: Sure sir, fair enough. That is it from my side. Thank you.

Moderator: Thank you sir. Next question comes from Mr. Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Thank you for the opportunity. We have seen a good reduction in the working capital in the last quarter as well as in this quarter as well. If you can just quantify what is the total inventory at the end of June quarter, if possible?

Shrikant Himatsingka: Resham, the inventory levels will be disclosed as scheduled during H1. But, our working capital cycles are definitely correcting and you will see that in H1, including the inventory bucket. And this inventory bucket will make sure that it corrects substantially through FY20.

Resham Jain: Yeah. Is it possible just to explain to us from where this inventory correction is coming, because there are two legs to it? One is that, you had certain programs which were, things were going to rationalize and inventory was supposed to come down, that was one. And secondly overall also you were looking to basically bring down your overall inventory levels. So, is it coming from both or



is it coming from inventory reduction through program implementation which is happening?

Shrikant Himatsingka: Both. And we are also calibrating production to make sure that there is no inflationary influence on the inventory levels. So, even if it means taking some short term pain, Himatsingka will be focused on correcting working capital cycles. So, if we see that we are heavy on inventory on certain buckets and we have scope to reduce that, we will take measures to cut production in the short term as we have, including during Q1, including during the previous Q4 FY19. So, we will take a calibrated approach on making sure that we are taking an integrated approach to reductions. So, it is happening across the board.

Resham Jain: Okay, good to see that. Secondly, sir on the overall margin front you mentioned, last quarter also you have mentioned about the European and the drapery and the Atmosphere business, all these three businesses put together is actually seeing some pressure as of today. Will it be possible just to help us with this number of this quarter, like what kind of losses we have seen at the EBITDA level versus the last year? You mentioned about European business saw some 6 crores to 7 crores of hit in this quarter. If you can help us, all three business put together that will be very helpful for us.

Shrikant Himatsingka: The numbers that you saw, I was talking about vis-à-vis European. We are having a similar headwind vis-à-vis our other two portfolios.

Resham Jain: That is roughly around 14 crores-15 crores put together, all the three.

Shrikant Himatsingka: Broadly yes.

Resham Jain: And you feel that this will slowly and gradually come down as we go into FY20 or this will continue for some quarters?

Shrikant Himatsingka: Of this I am happy to share that we have taken a lot of restructuring initiatives on the Bellora brand portfolio. And we should see that part taming down by going into Q3. And it should be brought down significantly. So, we should see that happening. And on the other portfolio we are working as well. But, it is a little premature for me to indicate timelines.

Resham Jain: Okay. But, one can assume that these are like the peak level of EBITDA impact which we are seeing. It should not further deteriorate from here.

Shrikant Himatsingka: Yeah, the impact that we shared with you Resham is not EBITDA, they are pre-tax impacts. But, these businesses don't have any, they don't have any debt of any consequence and their assets are pretty low. So, the point is that we have to work to get this Rs. 12 crores to Rs. 15 crores impact and it varies by Q. The point is we have to work to get this sorted. The Italian piece is looking promising, because we have taken several restructuring initiatives and we have taken hits during the Q, because it is an ongoing exercise. We have not shown it



as a onetime hit. But, it is coming to a close vis-à-vis our Italian or European Bellora brand piece. And our luxury Drapery and Upholstery and the Atmosphere and that portfolio is still work in progress.

Resham Jain: Okay, thank you sir. And best of luck.

Shrikant Himatsingka: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Bhavin Cheeda from Enam Holdings. Please go ahead.

Bhavin Cheeda: Good morning sir. Sir, MEIS was 4% which has been withdrawn from the 1st August, right sir?

Shrikant Himatsingka: That is right.

Bhavin Cheeda: And refund of State levies still stays at roughly around 8% to 9%, because that was increased earlier in lieu of MEIS withdrawal, so I believe that stays at that high number?

Shrikant Himatsingka: Yeah, that stays at that number. That is right.

Bhavin Cheeda: Okay, thank you. Sir thanks a lot. I am done here.

Moderator: Thank you sir. Last question for the day comes from Mr. Hem Agarwal an Individual Investor. Please go ahead.

Hem Agarwal: Hi, good morning sir. It is great to see the management paying a lot of attention to the financial issues of the company and continuing to work on improving them.

Shrikant Himatsingka: Thank you.

Hem Agarwal: So, I had a couple of questions. One was on the European business strategy. Now, that we have so many brands and such a complete product line with so much of backward integration, by when can we see the Europe business contributing meaningfully to our revenue sir?

Shrikant Himatsingka: So, it is a fair question. The European contribution should commence this year. Obviously it won't be a big bang contribution. It will be growing organically. But, from being at negligible levels, we will be happy if Europe can begin to contribute 5%-7% of revenues and going into 2021, it will be definitely has the opportunity of touching a double digit kind of contribution. So, that is what we will aim for.



- Hem Agarwal:** So, can the European business in a question of two to three years contribute as much as say, 50% of the American business? Is there so much of potential out there sir?
- Shrikant Himatsingka:** 50% is a little aggressive. But, 20% over the next three years period, 20%-25% is a plausible phenomenon.
- Hem Agarwal:** Okay sir. Now, I hear a very strong commentary about the management focus on debt. So, as the debt profile comes down, one of the things which I am noticing is that the margins are more or less stable quite a bit. But, if the debt profile now starts coming down, then the margins should proportionately improve sir?
- Shrikant Himatsingka:** The concerned margins should see an improvement. The EBITDA margins will not be impacted, if our capital structure stands altered. But, our interest outgo will definitely reduce as we reduce debt. And so it will have its consequent impacts. But, I just want to share with investors, please do note that we completed three world class global scale projects on schedule and commissioned the same very smoothly. And it is with the same vigor and focus that we will chase our debt metrics now that we have completed this program. So, our focus on these numbers will be as rigorous and intense as was our focus on executing our projects.
- Hem Agarwal:** Yes sir. Fantastic. Sir, I think we would like to close the conference on debt, a very positive statement of yours sir. Thank you so much sir.
- Moderator:** Thank you sir. That would be the last question for the day. Now, I hand over the floor to the management team for closing remarks. Please go ahead sir.
- Shrikant Himatsingka:** I would like to thank everybody for taking the time this morning. I hope we have answered most of your questions. If we have not and you want to seek any further clarifications, do reach out to us and we will be happy to take you through all the questions that you have. Thank you again.
- Moderator:** Thank you sir. Ladies and gentlemen this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a pleasant day.
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