



REF: HSL/SEC/2020/54

September 11, 2020

To The Deputy Manager Department of Corporate Services BSE Ltd. PJ Towers, Dalal Street Mumbai -400001 Script Code: 514043	To The Manager National Stock Exchange of India Ltd. Exchange Plaza, Plot No. C/1, G Block Bandra-Kurla Complex, Bandra (E), Mumbai 400051 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 28, 2020.

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

Sridhar Muthukrishnan
Company Secretary

Encl: as above

Himatsingka Seide Limited

Registered Office: 10/24 Kumara Krupa Road

High Grounds, Bangalore 560 001, India

T +91 80 2237 8000, F +91 80 4147 9384

E hsblr@himatsingka.com

CIN L17112KA1985PLCoo6647

www.himatsingka.com

Q1 FY21 Earnings Conference Call

August 28, 2020

Moderator:

Good evening ladies and gentlemen, I am Madhuri, moderator for the conference call. Welcome to Himatsingka Seide Ltd 1Q FY21 post results conference call hosted by Batlivala & Karani Securities Private Limited. As a reminder, all participants will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing * and 0 on your telephone. Please note this conference is recorded. Now, I would like to hand over the floor to Ms. Prerna Jhunjhunwala. Over to you ma'am.

Prerna Jhunjhunwala:

Thank you Madhuri. Good evening everyone. On behalf of B&K Securities, I would like to welcome you all for 1Q FY21 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 CEO of the Company, Mr. K.P. Rangaraj, President – Finance and Group CFO and Mr. Ashok Sharma, Senior Vice President and CFO – Strategic Finance. I would now like to hand over the call to Mr. Shrikant Himatsingka for the initial comments. Thank you and over to you sir.

Shrikant Himatsingka:

Thank you Prerna. I would like to start with the business update and outlook and then some comments on our financial performance, followed by Q&A. As far as the business updates are concerned, let us begin with the impact the COVID-19 had on our operations. The Q1 FY20 operating performance has been severely impacted on account of COVID-19. Our manufacturing facilities at our Hassan and Doddaballapur campuses along with our distribution facilities in North America and Europe were non-operational during April and most of May 2020. This was on account of the lockdown imposed by the Central and State Governments, respectively. Our plants commenced partial operations during the month of June. However, the operating conditions remained challenging due to the supply chain disruptions and interruptions in work force availability. Therefore, the plant operations during the month of June were at low capacity utilizations.

In addition to the above, our Client mix largely comprised of retailers who did not provide essential goods and services in their respective jurisdictions and hence were either closed or operated

with minimal store operations. Consequently, they either temporarily held and or postponed shipments scheduled for Q1 FY21 to later dates. The 71.6% decline in Consolidated Total Revenues is essentially attributable to the above factors. While we may face COVID-19 related interruptions from time to time, the ramping up of capacity utilizations across our facilities has been progressing well during Q2 FY21.

In other business updates, the ramping up of our capacity utilization at our new Terry Towel facility is also progressing well. The utilization levels will continue to increase as we go into H2 FY21. The Company continues to increase its presence in the European, Middle East and Asia Pacific Regions. And in addition, we also remain focused to enhancing our presence on e-commerce platforms globally. In order to navigate the challenges on account of COVID-19, we have undertaken several cost optimizations measures, while attempting to ramping-up operations. And in addition, we continue to have healthy cash reserves to meet challenges as the ramp-up process is underway.

On the order book front, while the Q2 FY21 order book looks healthy under the current circumstances, our H2 FY21 order pipeline is robust and we remain focused to surpass pre-COVID levels of operating performance during H2 FY21.

We are also committed to optimizing our working capital cycles and inventory reduction measures continue to yield results. While we reduced the inventory by approximately ₹90 crores during FY20, we continued the reduction trend and the same has come down by an additional ₹48 crores during the first quarter of 2021. We are pleased about the fact that the reduction trend continues in Q2 as well. And the results of that you should see as we complete H1 2021. While we have seen a marginal reduction in net and gross debt in Q1, we estimate the debt reduction to continue as indicated during our earlier interactions.

Some comments on the consolidated financial performance. We assume you have gone through the financials and we would like to share the following insights on the consolidated financials. The

reasons for the decline in consolidated total income have already been explained earlier, in the impact of COVID-19 on operations section. The consequent losses are largely on account of the reduction in consolidated total revenues that we saw during the quarter.

The material cost has been impacted on account of the following reasons. We have taken a charge of ₹21.99 crores towards writing down of inventories to net realizable values on account of changes in product portfolio. Approximately ₹21 crores on account of product mix, under utilization of our spinning plant that affected the integration quantum during the Q and conversion costs that have come through to impact the P&L arising out the reduction in inventories during the quarter. Corrected for this, our cost of goods sold will be range bound at the normal levels that one sees over the last few quarters. The interest cost for the quarter was lower on account of lower working capital and lower finance charges that we had during the quarter.

Moving on to our debt profile. The consolidated gross debt as of 30th June stood at ₹2,786 crores, compared to ₹2,814 crores that we saw at the end of FY20. We had a total term debt of ₹1,758 crores and our total working capital debt stood at ₹1,028 crores. The cash and cash equivalents and current investments stood at ₹244 crores as on 30th of June as compared to ₹214 crores on 31st March 2020. Consequently, the net debt as on 30th of June stood at ₹2,542 crores versus ₹2,590 crores during the 31st of March 2020.

This completes our updates and we will be happy to take questions from all of you. 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 any questions, 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.

The first question comes from Aman Sonthalia from AK Securities. Please go ahead sir.

Aman Sonthalia: Hello? Sir, my question is whether we have fully installed the 25,000 capacity of the towel division?

Shrikant Himatsingka: Yes, we have. There are some parts of the CAPEX that are modular in nature and will be implemented as we ramp up. But, most of the required equipment and infrastructure to hit the 25,000 tons per annum capacity is already in place. Hello?

Shrikant Himatsingka: I hope I answered your question Aman.

Moderator: Shall I go ahead with the next question sir?

Shrikant Himatsingka: Yes please.

Moderator: Next question comes from Mr. Siddharth Rajpurohit from JHP Securities. Please go ahead sir.

Siddharth Rajpurohit: Very good evening sir. Sir, can you quantify in terms of what were the cost saving measures and how much of the cost saving you have been able to do in this quarter and what amount is sustainable?

Shrikant Himatsingka: It will be difficult to exactly quantify them Rohit, but we have taken measures on personal cost. We have taken measures on various other fixed costs. We estimate that even as we ramp up, these savings should aid our operating performance. We have also had rationalization measures implemented on the energy front and so on. So, on an annualized basis I would say approximately between

₹50 crores to ₹100 crores on the EBITDA front, somewhere there is what we believe we have implemented and should be sustainable.

Siddharth Rajpurohit:

Okay. Annually is it sustainable? Okay. And sir is there any change in terms of the kind of orders that are now being placed in terms of margins in those orders for the second half, which is very robust for us, which is a very good indicator?

Shrikant Himatsingka:

Yeah, I will take this question; I will take this opportunity to add a couple of more thoughts other than directly answering your question. I would like to state that at this point other than the freak first quarter that we have had on account of the pandemic, I also probably presume that all of you have thoughts with regards to the fact that our model has seen or our operational performance have seen a greater dip in the revenue than some of our peers. I would like to state that's really on account of the client mix that we serve. It has nothing to do with the fundamental business model. And therefore, we have seen, we don't see any fundamental change in business models going forward. Of course, if there is something on account of the pandemic that resurfaces and has large scale impact globally, that is a separate issue.

But, notwithstanding that we don't see any change in the business model at all. So, that is my first point. The second point is, I would like to once again state that going into H2 we see robust order books. It seems to us that these categories of products, both on the bedding and bath front do have relatively heightened demand at this point in time. And it is higher than what is normally been visible in the past. So, we are making our best efforts to be able to tend to all these demand requirements that are coming through. So, there is no change in business model. The demand environment is robust as far as looking into H2 is concerned. Q2 as well is relatively robust vis-à-vis Q1. We will face some interruptions on account of COVID, interruptions maybe caused because of sanitization reasons or testing reasons and so on. But, as I had indicated earlier Q2 also looks reasonably robust and H2 looks buoyant and robust. The demand pipeline looks strong and we are doing our best to ramp up operations to meet these demand requirements.

Moderator:

Hello sir, shall I go ahead with the next question?

Shrikant Himatsingka: I hope I have answered that gentleman's question, because I couldn't hear him after that.

Moderator: Dear participants, if you have any questions please press * and 1 on your telephone keypad.

The next question comes from Mr. Aman Sonthalia from AK Securities. Please go ahead sir.

Aman Sonthalia: Sir, one more thing sir, why the demand is so robust, whether it is due to work from home culture or due to China factor?

Shrikant Himatsingka: I use the term relatively robust Aman, so it is not like it is earth shattering or anything of that nature. But, it is notable, the buoyancy is notable. It could be a confluence of reasons vis-à-vis products, vis-à-vis home textile products like bedding and bath products have a hygiene angle to them. There is definitely a work from home angle that is playing out. How much of this is attributable to China angle? I guess that is not as we see it a major factor at this point. Could it become a relatively more important factor going forward? It might. But, I think at this point it is more work from home, it is more hygiene sort of led reasons.

Aman Sonthalia: And sir, this demand is sustainable, this present demand sir?

Shrikant Himatsingka: Aman, these are not the questions that there are answers to. In the short term we feel that the relatively higher demand will prevail. If not, we don't see the base demand being disturbed.

Aman Sonthalia: Okay sir. And sir, the coal cost has come down a lot. So, our power cost is a big component of total cost or it will improve the margin to that extent?

Shrikant Himatsingka: Yeah, so a lot is little bit of an over statement. It has corrected a little, as far as the coal that we are using. And as I said, energy is amongst the cost that we feel we will get some benefits from vis-à-vis our cost rationalization programs which we have put in place.

So, energy also plays a role in that and so to that extent we get that benefit.

Aman Sonthalia:

And sir, because of lower cotton prices we will get some benefit?

Shrikant Himatsingka:

In certain product portfolios, yes; and in certain other product portfolios, no. In certain other product portfolios I will say no, because if we have gone long on some of the imported cottons, then we may not realize the immediate benefits of lower cost or prices. But, in certain other classes of cotton, including Indian cotton where we haven't necessarily gone long, then in that situation we will get benefits or avail those lower price benefits. So, I would say little bit of both, yes.

Aman Sonthalia:

And sir, what is our debt reducing plan for the year?

Shrikant Himatsingka:

Q1 has seen approximately close to ₹50 crores reduction in net debt. Q2 should see a more aggressive reduction than what we have seen in Q1. And then we should continue the reduction trend for the rest of the year as well. So, all in all I think we should do a pretty good job on debt reduction as far as this year is concerned. And we should also see a strong sort of inventory reduction trend during the year.

Aman Sonthalia:

Okay sir. Thanks a lot.

Shrikant Himatsingka:

Thank you.

Moderator:

The next question comes from Mr. Amit Mehendale from Robo Capital. Please go ahead sir.

Amit Mehendale:

Thanks for the opportunity. Sir, there was a statement recently from PVH Corporation that they will end business relationships with factories that use Chinese cotton. I just wanted to ask how will it impact our business.

Shrikant Himatsingka:

It has no impact on us whatsoever.

Amit Mehendale:

Okay. And sir, the second question is about interest. This quarter, quarter on quarter if I see the numbers, the finance cost has reduced,

whereas it doesn't seem commensurate with the ₹50 crores production.

Shrikant Himatsingka:

Yeah, so some of it is, as we had outlined in our updates. Our working capital costs on consolidated basis has come down, including fall in interest rates overseas. And we have saved on some finance charges that might have been in that line item during the last quarter.

Amit Mehendale:

Right. So, how do you expect this finance cost item going forward, I think the CWIP is more or less is quite low now, so do we say that this is more or less, this should go down from here, because most of it is now being capitalized?

Shrikant Himatsingka:

Yeah, we have completed our calibrated CAPEX program with the commissioning of the towel plant. We have some residual CAPEX, small residual CAPEX left for FY21, post which we will be in schedule maintenance / organic CAPEX mode, as we see it for these businesses and plants, which will be, so our organic capital expenditure should be in the region of ₹70 crores a year. And therefore, having completed our major CAPEXs, we have begun our deleveraging exercises, which should continue.

Amit Mehendale:

Okay sir. Thank you.

Moderator:

Next question comes from Mr. Siddharth Rajpurohit from JHP Securities. Please go ahead sir.

Siddharth Rajpurohit:

Thank you for the opportunity again sir. India contributes around 38% to the American market. So, what do you see? Do you see there is further scope for increasing the share or do you see there is some risk that the country would like to diversify and that can impact us on this? What are your views sir on this?

Shrikant Himatsingka:

Sorry, 38% of what?

Siddharth Rajpurohit:

India contributes around 38% of the imports of US, right sir, in the cotton?

Shrikant Himatsingka: That is right. I feel that our share of US imports will be range bound. There could be years that it climbs a couple of 100 basis points and there could be years that it remains stable. But, I don't see any substantial negative bias as such. So, either it will be range bound or it will climb. The probabilities of it climbing, given the bilateral tensions between the United States and China and so on and how that will play out, the probabilities of some increase in share are greater than any reduction. So, I would say the bias is for stable / creeping up of market share.

Siddharth Rajpurohit: Okay. And sir, what are our plans for the other markets like Europe, Middle East and other Asian markets? And how do you see going forward, what would be the share of these markets?

Shrikant Himatsingka: So, we are expanding our geographical reach. So, we are focused on Europe. We are focused on the Middle East. We are focusing on APAC. So, we are expanding our geographical presence. We are expanding our client base across geographies. And we are also increasing our product offerings, with bath coming in and allied bath products coming in, our product suite has now widened. So, we are widening on three fronts, clients, product and geographies. So, what I call the PCG matrix and we are working on widening all these three.

Shrikant Himatsingka: So basically, we are working on broadening our product offering, our client base and our geographical sort of reach. So, we are expanding markets while we are traditionally sort of more focused on the North American market, our focus on Europe, the Middle East and APAC has also enhanced. And we are looking at adding clients here and adding these geographies to our mix. Second is, we are looking at expanding our client base across these geographies. And the third is we are broadening our product offering. So, all the three strategies are being pursued simultaneously to answer your question.

Siddharth Rajpurohit: How could these regions share to our revenue change over the next three-four years?

Shrikant Himatsingka: I think the share will inch to, in the region of anywhere between 30% to 35% as we see it.

- Siddharth Rajpurohit:** Sir, are there any difference in the margins that we get from the other regions as compared to the US?
- Shrikant Himatsingka:** It is not region centric. It is product centric, so it could swing either way. I think it could move in a couple of 100 basis points band. But, nothing to do with regions as such.
- Siddharth Rajpurohit:** Okay. But, largely what you answered in the last call was that largely the margins between Terry and sheet remains largely the same, right?
- Shrikant Himatsingka:** That is right.
- Siddharth Rajpurohit:** Okay. Thank you sir. I will come back in the queue and all the best.
- Shrikant Himatsingka:** The Terry and sheet margins exclude spinning.
- Siddharth Rajpurohit:** Okay sir. I will come back in the queue for more questions.
- Shrikant Himatsingka:** Thank you.
- Moderator:** Dear participants, if you have any questions, please press * and 1 on your telephone keypad.
- Next question comes from Ms. Prerna Jhunjunwala. Please go ahead ma'am.
- Prerna Jhunjunwala:** Sir, I wanted to understand the demand scenario with respect to what kind of products are being preferred because, in India we are seeing that lot of economy products are being preferred as compared to the premium products, so premiumization has gone for a toss in this COVID era. So, what kind of trends are you noticing there in the US? And also, how is the supply chain, like inventory level in the retail stores as compared to earlier and that would give us some sense about how the demand is shaping up and under what areas?

- Shrikant Himatsingka:** So, product preferences we aren't seeing any pattern, Prerna. We are seeing as much demand for higher price point products as we are for mid and lower price point products. So, we are aren't able to distinguish any patter there. The universal truth that the bottom end of the pyramid or the lower end of the pyramid obviously will see greater demand that obviously holds good. But, vis-à-vis differentiation and offtake patterns with regards to price points, we aren't able to spot any pattern. As far as, what was your second question? Sorry.
- Prerna Jhunjunwala:** Sir, it was with regards to supply chain, what kind of inventory levels do the retailers...?
- Shrikant Himatsingka:** So, our read is that there is a paucity of inventory in the retail value chain. We have, I mean the industry has, not just us, consistent requests for urgent deliveries and so on, which signals of paucity of inventories that they hold. And the difficulties sometimes they are facing in getting these inventories into the ecosystem, given the supply chain disruptions that they are all facing. So, I would say that vis-à-vis normal levels, they would be probably below normal levels at least for the categories we cater to per our reading.
- Prerna Jhunjunwala:** Okay and how is the offline versus the online sales happening in the US as we see there's more of online has started picking up in these categories as well. So any read through there and how are our brands placed in this specific arena?
- Shrikant Himatsingka:** First of all, I am commenting with regard to our product categories. There is no doubt in the fact that you retailers across the board have seen a robust increase in e-com sales as far as our product categories is concerned. It's been across the board. Second point, most players have therefore enhanced their focus on making sure that they benefit from this surge in e-com revenue streams that they are seeing in our product categories. Our focus on that front also stands enhanced. On a small base it is substantial growth but it is still far away from becoming mainstream and let's say running large portions of capacity. That's still a little distance away at least for us. But on the smaller base that it currently occupies, it seems pretty robust growth.

- Prerna Jhunjunwala:** Okay and sir I wanted to understand your strategy for the manufacturing piece. Like we had in the last call spoken about towels being give. sold to third party retailers...for example private label of retailers; is there any change there and is there any change in the bed sheet manufacturing strategy as well?
- Shrikant Himatsingka:** No. Our strategy remains well-balanced Prerna. We operate plants of global scale both on the bedding front and the terry towel front and on the spinning front. We have a strong portfolio of brands and we have a strong portfolio for private label products and our share of private label is going up as well as we expand our product offerings and we at the same time continue to focus on strengthening up brand portfolios. I think both are sort of growing in tandem in terms of areas of focus. And therefore, there is no fundamental change in our strategy.
- Prerna Jhunjunwala:** I think brand will continue around 85% to 90% as we had thought about earlier...FY21?
- Shrikant Himatsingka:** Yeah, I think private label could also see a substantial movement. Brands could move in the region of 8%-10% here and there. They will continue to be substantial and private label attention is as much in terms of the time we devote to growing that segment. Maybe that can take a little larger share going forward because of our larger capacities and product offerings. Therefore, in essence both portfolios should be strong for us.
- Prerna Jhunjunwala:** Okay. My last question is, is there any margin difference between the portfolio of private labels versus our branded portfolio? I mean I am just trying to understand will this mix change have an impact on our margins?
- Shrikant Himatsingka:** I don't think so Prerna because while there could be cases where brands are richer in margin and there could be cases where they are not but give us other benefits of better hold on shelf and so on. I think as far as EBITDA margins are concerned, they should be range bound both these buckets.
- Prerna Jhunjunwala:** Okay thank you sir. I will come back in the question queue if required.

Moderator: Thank you ma'am. Next question comes from Suhrid Deorah from Paladin Capital. Please go ahead Sir.

Suhrid Deorah: Good evening. Please pardon my ignorance. I am new to the business and it is the first time I am joining into your call. So I have some basic questions, so please be a little patient, I request that. Firstly, one of your opening comments was that your business model has not changed fundamentally but you have a different client mix which is why your performance in the first quarter was bad. I couldn't really understand that, could you please explain that in a little bit more detail?

Shrikant Himatsingka: Basically, there could be questions in some of our investor's minds as to why our revenue dip was higher than our peers. Our best explanation and insight as far as that question is concerned is it's because of client mix. Most of Himatsingka's clients did not offer essential goods and services during the locked down period and the couple of clients who did, didn't necessarily meet inventory at that time. Given our client mix and the fact that they didn't offer essential goods and services, they remained shut during that period and hence the off take was very, very low. That's basically the reason for the Q1 dip in revenues. And then it will bounce back to normal going into H2 and the bounce will also be obviously visible during the second quarter.

Suhrid Deorah: These companies are not facing any issues in terms of sustainability of their businesses? They are not winding up or filing for bankruptcy or anything. It's just that they are closed and they are re-opening? Is that fair to assume?

Shrikant Himatsingka: Yeah absolutely. There have been cases where retailers have filed for chapter 11 for example, JC Penny filed for chapter 11 during this period but they are not our clients and we have nothing to do with them. The point is, we don't have any exposure of any consequence to such cases. Therefore, in our case it was a clear situation wherewith retailers had to shut down because that was the direction they had to follow in their respective jurisdictions during the locked down and they refused to take products because they didn't need it because their stores were shut. That's essentially the

reason for the steep fall in revenues. But our order books are bouncing back as I said and that sort of. Let's just say out of the ordinary situation that we faced in Q1 is over and done with and we feel the worst of the pandemic is behind us and now we are focusing on the ramp up. Let me also say, our H2 order books are normalized and we are trying to see if we can beat pre-Covid performance levels and our Q2 order book is robust relative to Q1 and we are busy ramping up.

Suhrid Deorah:

Is there strong seasonality in this business to service the demand that comes in the US holiday season which is why you might see a sharp ramp up in Q2 and Q3 and in Q4 it will be weaker?

Shrikant Himatsingka:

No.... I wouldn't say there is sharp seasonality. There are pockets of seasons through the year and I would say they are evenly spread. As far as the United States market is concerned there are important events through the year or let's say all of the four quarters there is something going on. But of course, there is certain greater weightages in some quarters with regard to certain promotions. For example, in Q4 as we had shared with stake holders earlier, a lot of shipments take place not only from us, in other product categories as well for back to school preparations in such geographies like the US. Typically, that's a big season for them and shipments ex-plants happen during the Q4. I would say there are quarters where the weightage of seasonality is a little higher but nothing eye-popping.

Suhrid Deorah:

Would you attribute the resilient demand from the US as coming in through the stimulus cheque that have been rolled out and therefore it being femoral or do you think that this is a trend...the normalized trend that you go back to is what you might sustain for beyond the next six months?

Shrikant Himatsingka:

I think as I said earlier, it is probably a confluence of reasons. It is difficult to link with precision why this relatively high demand is coming through. It could be from greater time spent at home, could be the hygiene factor these products sort of carry and are required for, it could be the aid that an additional support that they are getting from stimulus cheques, it could be a little bit of the China factor depending on the company and the product. I think it is a confluence of reasons. But I continue to remind everyone, at least

the way we see it, this step up in demand is relative. It is not exponential; it is relatively higher than what one sees normally.

Suhrid Deorah: So, would you be able to quantify what kind of numbers as a run rate you would get to towards the end of FY21 or FY22?

Shrikant Himatsingka: Run rate in terms of what?

Suhrid Deorah: Revenue.

Shrikant Himatsingka: No, we don't give guidance so I am afraid I can't comment on that but I think as I said our order outlook remains robust and we hope to make up for lost ground as we go into the year.

Suhrid Deorah: Okay, and if I may on the towel business, certainly this is a new line that you have just initiated, what is the revenue potential that you could achieve here?

Shrikant Himatsingka: First of all, it is not a new business; it is a new manufacturing business for the group. The group had towels as a part of its brand portfolio even prior to us setting up manufacturing facility. Secondly, our 25,000 tons per annum plant, the consolidated throughput including distribution and so on. It's difficult to put a number because it depends on product mix. But somewhere in the range of 1200 to 1500 crores.

Suhrid Deorah: Okay and sir I was wondering if you could quantify the debt reduction that you had planned for? I know you mentioned 50 crores in quarter one, and directionally you said quarter two we will get more aggressive and so on. But broadly could you quantify for the year 2021 or 2022, what that could reduce down to?

Shrikant Himatsingka: Your question is what our debt reduction will look like in 2021 and 2022 together?

Suhrid Deorah: Yeah, so year ending 2021 what it might look like and year ended 2022 what it might look like.

Shrikant Himatsingka: It is difficult for us to quantify because we could also see sharp reductions on account of working capital cycle...

- Suhrid Deorah:** I understand that.
- Shrikant Himatsingka:** But in the region of both years put together approximately ₹500 crores or a little better than that.
- Suhrid Deorah:** And is it safe to assume that they will be roughly equally split?
- Shrikant Himatsingka:** Yeah it will be reasonably balanced.
- Suhrid Deorah:** Okay thank you so much, that was extremely helpful. Thank you for your time.
- Shrikant Himatsingka:** Sure.
- Moderator:** Thank you sir. Next question comes from Vikas Jain from Equirus Securities. Please go-ahead sir.
- Vikas Jain:** Hi good evening sir thanks for the opportunity. Sir my first question is, you mentioned in the press release that one of the factors that is impacting our revenues or probably the production was the workforce issue; that is the interruption in the workforce availability. So, I assume that might be due to the migrant labor workforce....so is that issue solved to a large extent or still we are facing some of the issues at this point in time.
- Shrikant Himatsingka:** I think it is solved to a large extent but I'd like to caution everyone, that this is a pandemic; it is new for everyone in the manufacturing space. Different companies have sort of different sort of symptoms and reactions to the pandemic etc in terms of what they are seeing on the shop floor. I estimate that there will be some interruptions from time to time in most corporates on their shop floor because if someone tests positive for example, you will have to go through protocols of sanitization, testing and so on. But one gets used to that and it becomes a part of daily manufacturing activities and one tends to build cushions for all this. I think keeping this in mind, we have largely sorted all these issues out although we have faced some interruptions in Q2 on both these accounts of sanitization and testing and so on. But the directional ramp up has been pretty

satisfactory and I think going into H2 we should be reasonably settled.

Vikas Jain:

Right and so sir, am I correct in understanding that it will take another quarter for us to get to that production utilization level that we used to clock at pre-Covid level?

Shrikant Himatsingka:

Yeah, I mean not another quarter, I think by the end of Q2 we should be there or more or less there.

Vikas Jain:

Alright. Sir to one of the questions you answered that we are also working towards adding more clients as well as expanding the geographies; can you give more color in terms of how, or any customer addition we have done probably in FY20 of in 1Q or any incremental business that we have seen in the non-US geography in FY20 or probably in 1Q?

Shrikant Himatsingka:

Yeah, I wouldn't want to go into client names. We have approximately added 40 clients in FY20 that makes one wonder as to where is the revenue if 40 clients have been added; all clients are not large necessarily. We added several channel partners on the e-com front for example during FY20. We added several brick and mortar clients across geographies in FY 20. We see a substantial client addition happening in our new terry division as well across geographies. I think we are adding e-com channel partners, we are adding traditional regular brick and mortar retailers. We are adding loyalty-lead clients, who run loyalty programs and so on; so various kinds of clients and retailers who essentially complete the B2C piece and we see them being added across.

Vikas Jain:

To my understanding, does it take a certain period of time for the newly added clients to ramp up the operations or give incremental orders to us so that it flows into our revenues?

Shrikant Himatsingka:

Yeah it does.

Vikas Jain:

Approximately a year or so or maybe higher than that?

Shrikant Himatsingka:

A year or two, it depends on the client and the product and the nature of the opportunity. But I think what is important is a

continuous addition to the client base; I think that's what's important.

Vikas Jain:

Absolutely. And sir just one last question; you also mentioned that there was some of the inventory write-off that occurred in this quarter. Do you foresee additional write-off coming up in 2Q as well or we are mostly done off with that write-off?

Shrikant Himatsingka:

Actually, it is not only this quarter; there was a write-off we took last quarter which was exceptional in nature on account of Covid. The write-off we had taken this quarter has nothing to do with Covid as such I mean anything typically correlated to Covid, but we thought it prudent to take a provision, on grounds of prudence given the volatility that one feels generally speaking. So, we thought it prudent to take the hit, so it is more on grounds of prudence than anything else.

Vikas Jain:

Right, right. So, there are full chances that this could be reversed going ahead when we sell our products to retailers.

Shrikant Himatsingka:

Yeah. It also complements...I mean look, is it the best thing to take write-offs on inventory? Absolutely not. Have we seen inventory write-offs to this magnitude in the past? No, we have not. In the larger scheme of things is 50 - 60 crores is nothing super high either. We thought it prudent that we should keep this reserve in the light of a volatile environment and making sure that we are lightening on inventory as part of our working capital rationalization initiatives. I think we are done with what we needed to do. I repeat that this is nothing to do with Covid as such but our estimates of what the net realization values would be in this environment. I think we are done with the inventory piece for now and we shouldn't see it disturbing us going forward in any material form and shape.

Vikas Jain:

Correct, alright sir, thank you so much. Thanks for answering.

Shrikant Himatsingka:

Thank you.

Moderator:

Thank you sir. The next question comes from Dwanil Shah from I Wealth Management. Please go ahead sir.

- Dwanil Shah:** Good evening sir, thank you for the opportunity. Sir I just had a question on the terry towel side. Currently sir what is the utilization rate which we are operating at and how will the ramp up happen?
- Shrikant Himatsingka:** Unfortunately, we don't share capacity utilization rates. But it is a plant we started in October. When Covid hit us it was about five months into commercial production and we then kick started again the ramp up process in June. I did tell someone on the previous call I think that over through FY22, we should be looking at largely placing the capacities of the plant. We will continue to ramp up the production during FY21 and as we go into FY 22, we should be at pretty high levels of utilization vis-à-vis the total capacity available.
- Dwanil Shah:** Okay by 2023, we should....
- Shrikant Himatsingka:** Yes, we would look to place the total capacity by that time is what we currently estimate.
- Dwanil Shah:** Okay and sir with our current clients, those are the ones who will be taking the towels also or we need to go and find some other clients in the terry tower side of the business or is there some synergy?
- Shrikant Himatsingka:** The current clients will also take it. We will be placing the capacity with several other clients. The gentlemen who was asking the question just before this, was of similar lines in terms of client addition and so on. Our client addition pace is important because we need to place capacities not just with a few clients but we need to broad base our client universe and place capacities across.
- Dwanil Shah:** Okay. And sir I was trying to understand that when you are saying that we may reach to the pre-Covid levels, so that was roughly in the range of 600, 650 crores what we used to do on a quarterly basis? And the towel wasn't there.
- Shrikant Himatsingka:** Yeah towel was there during Q3 and Q4 in the initial phases.
- Dwanil Shah:** Okay, so we should see those levels again coming back or we may see that surpassing that as the towel also starts contributing much higher....? Just on the directional side sir...

Shrikant Himatsingka: As I said, we are looking to match pre-Covid levels, if not beat it going into H2. There could be some revenue mix changes and so on, so whether it will exactly correlate to the top line piece I don't know but that's where we are headed broadly speaking.

Dwanil Shah: And in the last two quarters, the revenue which we have lost, would there be any chance of those coming back? I mean, there is some spill over because in the Q4 you had said that 200 crores of orders were also on hold. Are those orders going to come back or is it again we need to see the markets side of thing?

Shrikant Himatsingka: I don't think they will come back because that time has lapsed. The orders what have been shipped, so instead of placing new orders something that was on hold was taken. I think it is fair to assume when we say we will make up lost ground we will sort of try and make it up with growth as much as possible. I think the revenues which we have lost during that period, unfortunately a substantial portion of that is lost. The next quarter will be the next quarter. There won't be any impact of spillovers of the previous quarter of any consequence.

Dwanil Shah: Okay. Sir last question on your variable cost...sir you were saying that a lot of cost optimization things are going on. If you can just help us to understand slightly in detail sir, what that would be and how sustainable you think sir that can be sir going ahead?

Shrikant Himatsingka: As I said we estimate that we have undertaken measures that should yield 50 to 100 crores in a year on a sustainable basis across the board including personnel, energy and other operating expenditure which is customary in a model of our nature. So that's what I feel that the cost optimization measures can yield going forward...to answer your question.

Dwanil Shah: Okay, thank you so much sir. All the best.

Shrikant Himatsingka: Thank you.

Moderator: Thank you sir. Due to time constraint this was the last question. Now, I hand over the floor to the management for closing comments.

Shrikant Himatsingka: Thank you so much for your questions and your patience. I do hope that we will be interacting soon for the next quarter and if you need to check in on anything vis-à-vis questions and doubts that you might have or clarifications that you might have, please do reach out to us and we will make sure that we've addressed all your queries. Thank you.

Moderator: Thank you sir. Ladies and gentlemen this conclude your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.
