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August 24, 2021

To The Deputy Manager Department of Corporate Services BSE Ltd. PJ Towers, Dalal Street Mumbai -400001 <b>Script Code: 514043</b>	To The Manager National Stock Exchange of India Ltd. Exchange Plaza, Plot No. C/1, G Block Bandra-Kurla Complex, Bandra (E), Mumbai 400051 <b>Symbol: HIMATSEIDE</b>
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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 16, 2021.

Please also note that the transcript of conference call 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

A handwritten signature in blue ink, appearing to read "M. Sridhar".

Sridhar Muthukrishnan  
Company Secretary

Encl: as above

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## **Q1 FY22 Earnings Conference Call**

**August 16, 2021**

**Moderator:** Good day, ladies and gentlemen and a warm welcome to the Himatsingka Seide Limited Q1 FY2022 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 and 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 “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Prerna Jhunjunwala from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, Prerna!

**Prerna Jhunjunwala:** Thank you, Ali. Good afternoon everyone on behalf of B&K Securities, I would like to welcome you all for 1Q FY2022 post results conference call of Himatsingka Seide Limited. From the company, we have with us senior management including Mr. Shrikant Himatsingka, Managing Director and CEO, Mr. K P Rangaraj, President, Finance and Group CFO and Mr. Dilip Panjwani, Senior Vice President and CFO - Strategic Finance. I would now like to hand over the call to Mr. K P Rangaraj for initial comments. Thank you and over to you Sir!

**K P Rangaraj:** Thank you Prerna. Good afternoon, ladies and gentlemen. On behalf of Himatsingka management, we would like to welcome you all to the first quarter FY2022 earnings call. I hope you are all staying safe you and your families are staying safe.

I would like to begin with a business update followed by a brief review of the financials for the quarter. Let me start with a business update. The demand environment across the key market continues to be stable during the quarter. The Q1 FY2022 saw record consolidated total income of ₹819.88 Crores due to enhanced capacity utilization levels across our facilities. We continued to witness strong demand for soft home products and the order books for FY2022 remains robust. The capacity utilizations for our manufacturing facilities during the first quarter FY2022 stood as follows, sheeting division 80% against 76% of the previous quarter, terry towel division capacity utilization was 66% against 63% in the last quarter and spinning division touched a capacity utilization of 102% against 101% that was recorded in the previous quarter.

We expect to continue to enhance capacity utilization levels at our sheeting and terry towel plants. During the quarter revenue streams from brands stood at ₹582 Crores versus ₹147 Crores during Q1 FY2021 last year and ₹565 Crores during the previous quarter. We continue to witness raw material inflation and supply chain changes while the current quarter Q1 FY2022 does not include any price increments the same will begin to reflect starting the next quarter.

In addition, enhancement of capacity utilization across our plans will aid in partially mitigating inflation impacts on the value chain. The Union Cabinet granted approval on July 14, 2021 for continuation of the rebate of state and central taxes and levies which is termed as the RoSCTL with the same rates as notified by the Ministry of Textiles vide its notification dated March 8, 2019 on both export of apparel and made ups till this scheme is extended up to March 2024, this certainty on the incentives will create level playing field for Indian textile players and help Indian textile sector increase its competitiveness as a result of this approval and notification we have

recognized the benefits of RoSCTL of ₹72.01 Crores during the quarter ended June 30, 2021 which is Q1 FY2022 out of which ₹35.32 Crores pertains to the eligible export sales for the last quarter which is Q4 FY2021 as you remember this was not recognized the rates were not notified as of March 2021.

I now move on to my next section which is on the consolidated financial performance for the first quarter FY2022. The consolidated total income for the quarter stood at ₹819.88 Crores versus ₹183.29 Crores in Q1 FY21 and ₹748.04 Crores in the previous quarter. This represents an increase of almost three and a half times year-on-year and an increase of 10% Q-on-Q. The consolidated EBITDA for the current quarter was ₹163.15 Crores was an EBITDA loss in the previous year of ₹80.72 Crores and EBITDA ₹129.66 Crores in the last quarter.

EBITDA margin stood at 19.9% in this quarter. The consolidated PAT for the quarter was ₹57.7 Crores was a loss of these ₹139.8 Crores in the last year and the PAT of ₹37.57 Crores in the previous quarter. Debt profile, the consolidated gross debt as of June 30, 2021 which is the end of the quarter stood at ₹2566 Crores as compared to ₹2467 Crores at the end of the financial year FY2021. The total term debt stood at ₹1694 Crores and the total working capital debt stood at ₹872 Crores, the cash and cash equivalent stood at ₹161 Crores as of June 30, 2021 which is the end of the quarter.

Consequently, the company's net debt outstanding as of June 30, 2021 stood at ₹2,405 Crores this compares to ₹2,322 Crores as of March 31, 2021. There is a slight increase in debt as you will notice during this quarter due to higher working capital pull on account of inflation and increased capacity utilizations; however, these are ordinary course fluctuations and we remain focused on deleveraging our balance sheet going forward.

With this, I would like to complete my update, we would be happy to take on your questions now I would request our Managing Director, Mr. Shrikant Himatsingka to answer the question and answer session. Over to you Sir!

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

**Aman Sonthalia:** Good evening Sir. Sir my question is that since our plant is running near to peak capacity and the demand scenario is quite robust so whether the company is planning to expand the capacity by debottlenecking the plant and if yes then how much capacity can be increased over a period of next 12 months?

**Shrikant Himatsingka:** Aman, I have always shared with stakeholders that our plans are configured such that we always have the option of the debottlenecking capacities should the demand scenario be encouraging. The demand scenario is indeed robust as one can see and therefore, the company is planning a debottlenecking exercise for both its sheeting plant and its terry towel plant going forward so of course we will be more specific perhaps over the next few months but directionally speaking our ability to debottleneck sheeting will be taking the capacities to up to 108 million meters per

annum and terry towel capacities to 40,000 tonnes per annum. This is what we will be directionally looking at. I would like to state here that these capacity debottlenecking exercises will be accommodated within the annual organic capex bucket that we have every year so we have no plans to have any additional capexes at this point but our scheduled organic capital expenditure that we incur every year, we can be debottlenecking our capacities within that framework because a lot of the infrastructure and allied investments are already made at our campuses.

**Aman Sonthalia:** Sir, since I think we use very high quality cotton for our sheeting plant so if you can explain whether that quality yarn is available in the market?

**Shrikant Himatsingka:** We use all kinds of cotton yarn, Aman ji. We use a lot of cotton from India and overseas and we use various staple lengths of cotton so there is no dearth of cotton availability to answer your question.

**Aman Sonthalia:** Sir one more question why there is sudden jump in the salary cost?

**Shrikant Himatsingka:** The salary costs are moving up in tandem with essentially two things, plant ramp ups that are happening and the annual inflation that kicks in typically from a standpoint of the increment cycle and we have started providing for some annual bonus payouts and other normal costs and ordinary cost incentives which were not active in the last fiscal so it has essentially these three buckets that are contributing to that movement.

**Aman Sonthalia:** It will be a regular phenomenon Sir in coming quarter the salary cost will be very much like this?

**Shrikant Himatsingka:** Yes, this is not an aberration.

**Aman Sonthalia:** One last question when we can expect that 23% - 24% EBITDA margin whether in the near future or within a year?

**Shrikant Himatsingka:** Aman, 23% - 24% is that what you mentioned?

**Aman Sonthalia:** Yes, Sir previously three years back, we used to have 23% - 24% EBITDA margin that is what I am asking?

**Shrikant Himatsingka:** We had spoken to stakeholders about the EBITDA band of 18% to 22% during our last call and so we are well within that framework but our EBITDAs were impacted this quarter also on account of a couple of other things which I can take you through. A) we have to forgo approximately 3.5% of revenue on account of supply chain congestion which created a sort of one-time hit I do not know if I can call it one time because should it repeat itself then it is an ongoing hit but there is a revenue lag of approximately 3.5% which hurt our EBITDA margin by approximately 1.7% or 1.8% for the quarter, point number one, point number two, we did not had any price enhancements of any consequence during this quarter any price increments will start reflecting only from the second quarter and the third impact is arising out of our dollar realization figures which are probably lower by 1% to 1.5% on a comparable basis in the industry because of

the fact that Himatsingka had stopped booking forwards around the same period last year so when the lockdown was announced and for the quarter consequent to the lockdown we had taken a stance of not making forward bookings in the absence of clarity and therefore some of our forward rates are impacted because of that move. So, these three buckets/reasons impacted our operating quarter to the degree that they did during the quarter, to operating EBITDA.

Going forward, however with some ordinary cause or partial price increments that we spoke to stakeholders about enhanced capacity utilization, better operating efficiencies and some realigning of our supply chain on the sourcing side will help us mitigate this in inflation that we witnessed during the first quarter and our operating EBITDA margins should be headed back to more to the 20%- 22% range versus the wider band of 18% to 22% that we had stated earlier.

**Aman Sonthalia:** Thanks a lot for elaborate answers.

**Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

**Deepak Poddar:** My question has been answered.

**Moderator:** Thank you. The next question is from the line of Riya Mehta from Oculus Investments. Please go ahead.

**Riya Mehta:** Good afternoon. Thank you for the opportunity actually it was a little late in the call. I wanted to know for the capacity utilization for each of our products and secondly what kind of price hike are we envisaging that will come into play by Q2 and the third question was do we get impacted by freight costs or it is usually passed onto the customer?

**Shrikant Himatsingka:** Thank you for your questions, Riya. The answer to your first question, the sheeting capacity utilizations were 80%, the terry towel plant's capacity utilization was at 66% and the spinning division clocked in at 102%. The second question in context to price increments, I am afraid I cannot be specific on that one but it would be typically mid-single digit kind of numbers that would probably be the range that the industry witnesses as far as price increments are concerned and as far as your third question on freight is concerned there has been supply chain congestion and there has been inflation on the freight front and these buckets of costs or are not passed on to the client. The client is basically in most cases bearing it because a lot of the freight costs outward bound freight is borne by the client but there is a lot of freight inflation even on inward freight and things like that which is borne by us.

**Riya Mehta:** Okay so how much impact can we expect on margins considering what we understand Q2 freight costs have almost like doubled?

**Shrikant Himatsingka:** The freight cost would not swing the performance by material form and shape. It will be the raw material inflation that is going to be having an impact but as I said the mitigation measures of partial price increments enhanced capacity utilization some realignment of supply chain on the sourcing plan to be able to reduce some of our input costs for some bought out products and raw

materials in addition to operating efficiencies will help us mitigate the impacts and our EBITDA margins should be headed in the direction of 20%- 22% vis-à-vis with the larger gap of 18% to 22% that we had earlier indicated.

**Riya Mehta:** Okay and if I could just add one last question if you could give us deleveraging target for the year?

**Shrikant Himatsingka:** We started out with a deleveraging target of approximately Rs.150 Crores to ₹200 Crores, we broadly hold that target. The inflationary impact on working capital is being witnessed in this Q1 as Ranga read out we have seen some movement of 2% - 3% on our debt portfolio but directionally we are headed in deleveraging our balance sheet on the one hand and enhanced EBITDAs on the other hand. Of course I would also like to clarify that the EBITDA percentages that I refer to will more than mitigate any tailwind that we have had from RoSCTL accruals from the past quarters so this is obviously excluding any such impacts 20%- 22% is the direction that we are headed.

**Riya Mehta:** Thank you.

**Moderator:** Thank you. The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

**Mithun Aswath:** I just wanted to understand obviously our utilizations are moving up at what point would we need to incur further capex and I also saw that there is a resolution to raise capitals ₹1500 Crores is this just an enabling resolution are you looking to raise equity at some point so I just wanted to understand those are the couple of questions I have, the last one is more of a longer term view and where you want to take this company over the next three to five years what would the longer term vision for the company be so these are the questions?

**Shrikant Himatsingka:** Thanks for your questions. Vis-à-vis your first question in terms of at what point will we start looking at fresh capacities and capex given the current utilization number so the answer to that is about now as I stated earlier we are already exploring debottlenecking both our capacities at our sheeting plant and our terry towel plant. Sheeting plants to be debottlenecked to up to 108 million meters per annum and our terry plant to be debottleneck to up to 40000 tonnes per annum so this is in terms of the capacity directionally speaking that we will be exploring to debottleneck our plants too of course we will make more specific announcements as and when these plans are crystallized. In terms of the capex that will be required for this instances have been made clear that it is not on a capex sort of mode at this point; however, we have always shared with stakeholders that we have ordinary course organic capital expenditure every year and our debottlenecking exercise will be accommodated within that gamut so we do not plan to incur any over and above capex for these debottlenecking plans.

The second question was with regard to the resolution. It is a pertinent question and I would like to answer that as well so ₹1500 Crores number that you spoke about you are right it is just an enabling resolution that we are equipping ourselves with. The company has no plans to raise any

equity at this point and I wanted to make that clear although by passing this resolution, we will be equipping ourselves to have the ability to raise it but I am clarifying that we do not have any plans to raise equity at this point. Secondly, there are opportunities that crop up in debt capital markets both onshore and offshore vis-à-vis optimizing cost and tenure of debt and Himatsingka wants to make sure that it is aligned to be able to tap into any opportunities that might come up from time to time and hence has taken an enabling resolution. We would like to also clarify that we have no intention of enhancing our debt or leverage in any form and shape and we will be focused on continuing our deleveraging exercise going forward; however, this enabling resolution will only equip us to explore a more a broader set of instruments that might be available globally for optimizing some of our portfolios.

As far as your third question is concerned in terms of where we are headed over the next three to five years? Well, let us talk about three and let us keep it more specific to our current businesses because new opportunities and new businesses is a different conversation but vis-à-vis our existing businesses, we feel there is ample headroom for growth in our home sector textile solutions vertical which we will be focused on. The debottlenecking initiatives that I spoke to you about just now will give us a lot of scope to grow both our businesses on the bedding and bath front and the Group will also explore expanding its yarn and fiber solutions vertical should the opportunities arise, so I think directionally speaking without sharing specific numbers at this point, we will be focused on growing these verticals, our home textile solutions vertical and yarn fiber solutions vertical over the next three years and we think that the growth momentum should be fairly robust is the way we look at it at this point. The Group is not just strong on manufacturing. We operate four facilities across two campuses. We operate world-class infrastructure but in addition to our manufacturing process we also have a very strong portfolio of brands that sort of accentuate and strengthen our integrated model that we operate. We currently have a clutch of over 15 brands that sets us apart in industry and so while we will be focused on sort of growing our manufacturing capabilities in scale we will also be focused on making sure that our brand portfolio remains robust and we are adequately spread across channels so while we feed into a lot of traditional channels in the world of retail, we will be focused on enhancing our digital footprint on our e-commerce footprint going forward. These are initiatives which are already underway but are going to gain more and more traction over the next three years. So the three years, more directionally speaking will look like enhancing scale and capacities, enhancing our intellectual property portfolio strength and broad-basing our channel mix by being much more digitally focused B2C focused by building B2C focused revenue streams as well. I hope that gives you some light as to where we are headed.

**Mithun Aswath:** Thank you.

**Moderator:** Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan By BNP Paribas. Please go ahead.

**Kaustubh Pawaskar:** Good evening Sir. Thanks for giving me the opportunity. Sir in your initial comments you mentioned about strong demand involvement in the export market so can you give us some broad

view on the same what is your current order book or how is your order book shaping up over the next few quarters?

**Shrikant Himatsingka:** Well, our capacity utilizations continue to climb. They are not climbing more rapidly at this point because they are conscious of what they are taking on but our capacity utilizations continue to increase and the order books remain robust. Unfortunately, we do not disclose the value of the order book because it changes from time to time and it is dynamic but what I could say and I have shared earlier so we are confident of at this point subject to issues arising out of COVID and lockdowns and things like that which I cannot comment on but other than in those circumstances we feel reasonably confident of continuing the momentum that we saw in the first quarter of the fiscal into the rest of the year and our order books at this point seem to be supporting. That is the way we see it.

**Kaustubh Pawaskar:** Anything on customer front, are you having an interaction or any new customer which has been added to your list in the recent time which will help in future to improve order look ahead?

**Shrikant Himatsingka:** Good question. Himatsingka is continuously focused on enhancing its client base, its channel mix right and its brand portfolio, its strength of brands so vis-à-vis the first point we are seeing a fairly substantial enhancement of our client network and client base especially after the terry towel plants being commissioned so we have a fairly broad-based client network that continues to expand so to answer your question, yes we have been adding a lot of clients over the last year and continue to add clients both on for our bedding products portfolio and for our bath products portfolio.

**Kaustubh Pawaskar:** Thanks and Sir one last clarification on the margin trend you mentioned that your operating margin would over 20% to 23% so this is including your RoSCTL benefit or this will be during that?

**Shrikant Himatsingka:** I mean even in the past it was 20% to 22% including export benefits and it will head back in that direction. Of course, I am excluding any benefit that like for example in Q1, there was a benefit of RoSCTL accruals that came in from Q4 so 20% - 22% includes benefits but only for that concerned quarter.

**Kaustubh Pawaskar:** Thanks for the clarity.

**Moderator:** Thank you. The next question is from the line of Anurag Jain from Green Lantern Capital LLP. Please go ahead.

**Anurag Jain:** Thanks so much. Just wanted to understand the business model on the branded portfolio side how does it work I mean do we give the products to these brands and they sell it or it is ours so we have in license the brands, we sell, we manage the inventory, we manage the working capital, we pay a royalty, we distribute, we decide where to sell how much to sell so if you can explain how the model works?

**Shrikant Himatsingka:** Sure is that your question or you have another question?

- Anurag Jain:** No this is all I have.
- Shrikant Himatsingka:** Anurag the way it works is more the latter that you refer to. So Himatsingka has the right to design, develop, manufacture and distribute the licensed brands that it undertakes and therefore it is responsible for all sales, all distribution, all inventory management, all client-facing dialogue and so on all product development all manufacturing so it is a full suite of responsibilities that come with brand licensing and it is a know-how that we have sort of developed over the years and so that is really how it works and we then pay a royalty for what we sell that is traditionally how brand licensing works in most textile categories.
- Anurag Jain:** Understood so is this higher profitability, higher return business versus manufacturing and more resilient, how do you see this business?
- Shrikant Himatsingka:** I have been asked this question before. It is not necessarily higher margin. It could be in some instances and it may not be in some other, but what it does for us is since these licenses are exclusive to the Group, those revenue streams are not subject to bidding pressures and things like that. They also create I would say enhanced stickiness as far as our revenue streams are concerned, sometimes slightly marginally better pricing power and of course global access and reach in across client networks and channels from time-to-time are also benefits that one sees from a strong portfolio brand. These benefits are not necessarily always measurable and they are not necessarily linear but these are definitely broadly speaking the kinds of benefits we have experienced overtime.
- Anurag Jain:** Understood but just one last follow-up on this, so this is exclusive global rights for these brands that we have, right?
- Shrikant Himatsingka:** Well, some global, some more region-centric some might be just for North America, some are global in nature, some are North America and Europe, some are things like that and then there are some own brands that the Group has, which operate in certain regions etc., so it is not always global, it is what makes sense for the brand.
- Anurag Jain:** Just one last question at what rate is this business growing if you can share that that is all from my side? Thank you so much.
- Shrikant Himatsingka:** It broadly follows an organic growth rate; I would say in high single-digit to low double digit numbers thereabouts is what one would reasonably see in these businesses if I take a medium term perspective.
- Anurag Jain:** Thank you so much. That is all from my side. All the best.
- Moderator:** Thank you. The next question is from the line of Perna Jhunjhunwala from B&K Securities. Please go ahead.
- Perna Jhunjhunwala:** Congratulations Sir on improving traction on capacity utilization and just said that you will give more clarity on expansion with time but by when should we assume that these capacities would,

expansion could complete maybe in one year or two years and what really gives confidence on such huge capacity expansion especially in the bed sheet business because 108 million meters is a very high improvement on current capacity so just wanted some clarity on brand, B2B, region-wise clarity would just help in understanding the direction in which we are moving?

**Shrikant Himatsingka:** Fair set of questions. As far as timelines are concerned, I would think it is over the next 12 months or so. Some of it can be implemented in phases earlier as I said will be more specific about it with time but it could come into in phases earlier but it will be sort of implemented over the next 12 to 14 months' time period if not a little earlier. To the second part of your question let me start with terry towel first. Himatsingka commissioned the plant in October 2019 with a capacity of 25,000 tonnes per annum. We operated the plant for four months before hitting a lockdown in March and then we restarted our operations in June, July when the lockdown was lifted. In a sense we have operated the plant in its entirety for maybe whatever 14 months. We have ramped up the capacity to close to 66%, we have clocked 66% from 0% in about 14 months which we feel is quite satisfactory and it is on this ramp up and this strength that we feel that the debottlenecking from 25000 to 40000 tonnes per annum should be something that we can easily sort of navigate. Of course, that does not mean that everything is going to happen overnight and there will be some challenges along the way. We are used to challenges but this is essentially what is driving the thinking when it comes to the terry towel plant. When it comes to the sheeting plant, yes, it is a jumped off sorts but there are certain minimum configurations that are optimal and that need to be put in place, one does not have the option of increasing capacities in small marginal increments. Therefore, the next logical step vis-à-vis infrastructure in our configuration is that number of 108 but it would be more like part of that capacity sometimes is not available because of product mix and other challenges that come in from time to time but given the current visibility we have even on the shooting front and things like that we think it is a good thing to have in terms of capacities because sometimes opportunities also present themselves in fairly substantive ways.

Be mindful of the fact that there is a lot of sociopolitical under recurrence that may cause opportunities to crop up for Indian players going forward and one must be equipped with capacity at that time to be able to tap into such opportunities. The cost of idling some capacity if need be, is not really much because these are all debottlenecking initiatives and within our organic capex ambit and therefore keeping the sociopolitical movements and other macroeconomic forces that are acting on global demand patterns at this point we find it prudent to be able to equip ourselves over the next 12 months with some incremental capacities even on that front.

**Prerna Jhunjunwala:** So that is quite encouraging Sir, also if you could just highlight on the traction in the Europe region that will be helpful?

**Shrikant Himatsingka:** Europe is progressing well. We are garnering market share in the European region. I think that action will continue. Disney will give us a fillip as well in the months and quarters to come so we remain on course as far as our European market share sort of expansion is concerned for both bedding and bath products.

**Perna Jhunjhunwala:** Thank you Sir. This is quite helpful.

**Moderator:** Thank you. The next question is from the line of Amit Kumar from Determine Investments. Please go ahead.

**Amit Kumar:** Thank you so much for the opportunity. I just wanted to sort of correlate your capex and expansion plans whether a view on how does the end user demand for your products is sort of shaping up now but also two to three years down the line so our understanding is that majority of the product basically the home solutions products gets exported to US and the fundamental volume demand growth in that market is like 2% to 3% but last 12 months it has been very, very strong even compared to let us say 2019 levels a double digit kind of volume expansion and as you sort of also mentioned the near-term visibility also remains pretty good. The question that we have is that more from a medium-term perspective, do you sort of see this kind of demand trends double-digit volume growth essentially continue or does demand sort of go back to normal so our understanding is that this is more of a work from home so home becoming the center of your world kind of situation but now with vaccines coming in, people in U.S, Europe they are sort of stepping out and mobility trends are just starting to normalize so I just wanted to sort of get sense of how you are looking demand I think you talked about the near term visibility but how are you seeing this in the medium term and an associated question with that is aside from U.S. what kind of opportunity set do you see and what are the other markets Europe you should have talked about, what are the other sort of opportunity markets and what kind of opportunities are set for the company, for the industry that you see because our understanding is U.S. India is already in this segment already capturing a 50%-55% kind of market share maybe that sort of still continues to go up but there are obviously limitations now because the level is already sort of so high so what is the next sort of leg of growth in terms of geography or in terms of specific countries that you have in mind?

**Shrikant Himatsingka:** Amit fair set of questions. Let me try and address all of your queries. As far as demand outlook over the next three years and how the sort of puzzle pieces itself obviously there is no definitive binary answer to these things, these are dynamic and intangible metrics from one standpoint but there are data points and industry experience that drive this thinking as well. So first and foremost, one must look at both the bedding portfolio and our bath portfolio as a combination of several subsegments which may or may not come through in plain vanilla data extraction from OTEXA. There are several sub segments in the bedding portfolio that actually make up the total revenue streams in that segment and Himatsingka probably offers one of the widest spectrum of products in these verticals. We will be looking to enhance our offerings across these verticals which then cumulatively will translate to larger capacity throughput. If you look at it from that lens it is not such an intimidating statistic as one that as it is made out to be because of the several subsegments, which may or may not be covered in that piece of data that you are referring to that is one. Second, all of this capacity is not headed to the United States of America, there are other pockets of opportunity that are presenting themselves and one has to be positioned to be able to capitalize on such opportunities. Why? Because one cannot put up or debottleneck capacities in short notice by the time one gets a plant and machinery and whatever else needs to be setup these are fairly long lead projects, I would not say project is broad term long lead

initiatives which cannot be implemented in one, two or three months they typically take some time. One would have to start planning for it in advance because it is not just the United States but there are pockets of opportunity emerging in Europe. I was saying that the pockets of demand are coming not just from the United States but from various other geographies and we have all read some bites about potential opportunities cropping up for India in general vis-à-vis the European region and so on so we feel that we need to be prepared to take on emerging opportunities across these jurisdictions and at some point, that will include India as well. As far as Himatsingka is concerned to feed into some of the demand emanating from India and Asia Pacific regions. So that is my second point.

So, my first point is there are several product subsegments, our product offerings comprise of various kinds of products and one has to look at them in the breadth that we offer these products to be able to marry capacity and product offering. Second it is not just the U.S. it is several pockets of opportunities and third, there are larger movements which are more sudden in nature and are more substantive in nature because of the sociopolitical sort of forces at play, which I briefly alluded to of course these are not definitive predictions but we want to be prepared for such eventualities and the fourth part is do not be perturbed by just the number of MMPA, there is always some part of capacity that may or may not be utilizable because of product mix and so on so it may be or it may not be, one has to be mindful of that and then the fifth part is there is certain minimum optimal configurations of capacity that need to be kept in mind and one cannot just enhance capacity in marginal increments the way we please so these are the various points that we have kept in mind while thinking in this direction as I said more specific plans will follow but over the next 12 to 14 months this is a broad sort of direction that we would like to take and mind you I would like to remind everyone that this is within the ambit of our organic capital expenditure program and nothing beyond that.

**Amit Kumar:**

Thank you. First of all, thank you so much for the detailing Sir. My second question just one sort of small follow-up on this, looking at the again not sort of specific to your company but looking at sort of across the spectrum of listed companies in this space you sort of typically see a lot of discussion around the sort of traditional retailers although I understand they also have progressed quite further in their e-commerce plans so the targets of the world the Walmart's, the Bed Bath and beyond and so on and so forth, surprisingly very little discussion on Amazon now our understanding is that Amazon right now is very, very I mean in terms of sourcing China is of course their major sourcing hub so two questions really I mean the scale of opportunities that are very, very clear but within the ambit of this entire China plus one theme what are the challenges that you face in terms of breaking into Amazon with respect to the scale of the company also that this question is very specific to the company, I mean is that sort of an opportunity just because our understanding is that Amazon obviously likes to work at scale and at lower margins so is that opportunity which is right now available only to the biggies like the Welspuns of the world or is that sort of opportunity set open to you as well then of course what are the challenges that you face we have not really seen anybody in the listed space sort of really talk about Amazon in a very big way so to speak.

**Shrikant Himatsingka:** Within the three or four or whatever names in the industry in the listed space everybody's capacities are beyond the threshold which will give them the essential qualification to tap into any retailer right so no one's capacity is small or undesirable in the eyes of a retailer from a standpoint of scale so that is my first question and therefore everybody qualifies to be able to sell to everyone vis-à-vis the lens or the qualification if the qualification criteria was scale of capacities. So therefore, it's not big or they could be relatively big or small but the absolute scale across major players, make them qualify to be able to tap into any retail opportunity from a standpoint of scale and the second point assuming more into the world of Amazon to the best of our knowledge, Amazon does not have a geographical preference as such vis-à-vis our products. Amazon has a proposition preference. Amazon purchases and or sources things that it makes that make sense to it that either gives it a stronger brand presence or a stronger private label presence or a stronger value proposition and so on and it is largely driven by what is on offer not where it is from. I do not think and again this is our personal view, this is our view at Himatsingka, we do not think that opportunities vis-à-vis Amazon are driven by restricted either by scale or by geography, they are directly correlated to the quality of propositions that we make to that client vis-à-vis brand and private label opportunities and how it makes sense for their universe. So therefore, I do not think one should be feeling that these opportunities are capped directly or indirectly vis-à-vis any of the players I hope I have clarified your point.

**Amit Kumar:** To a large extent yes but then again the question is that Indian home textile manufacturers are able to tap into the Walmarts and the Targets of the world in a very big way but not Amazon is there any sort of specific?

**Shrikant Himatsingka:** It is also the pattern of shopping, the e-commerce channels do not shop the same way as the brick and mortar channels do, therefore the volumes and things of that nature are not comparable when it comes to the regular shopping that the brick and mortar arms of the retailers do or in this case Amazon of course do not have a brick and mortar piece but difference between these two sort of ways of shopping and the e-com is way more fragmented in terms of approach than just regular brick and mortar revenue streams and that is why you feel that we as an industry slash a bunch of players tap more successfully into the brick and mortar space than the e-com space because of the underlying fragmentation.

**Amit Kumar:** Okay interesting that is it for mine.

**Moderator:** Thank you. The next question is from the line of Akhil Kalluri from Franklin Templeton. Please go ahead.

**Akhil Kalluri:** Thanks a lot for the opportunity I had a couple of questions on the revenue itself, Sir current revenue runrate quarterly is between about \$100 to \$110 million and you are talking about potential expansion in both sheets as well as towels, so just wanted to understand if there is a reasonable amount of visibility of achieving optimal utilizations maybe over the next 12 to 14 months or so which is giving us confidence of expanding capacities further and in that case what can this potential revenue run rate be by over the next four to six quarters somewhere?

**Shrikant Himatsingka:** I was sharing earlier we have enhanced our capacity utilization in our terry plant which was recently commissioned so from 0 to close to 70% over the last 14 months having been interjected by the disruptions of the pandemic so in that backdrop we thought that the ramp ups been pretty robust and that gives us the confidence along with the fact that we are seeing demand on the horizon gives us the confidence of debottlenecking our capacity potentially speaking over the next 12 to 14 months and the same with sheeting so I would say we have reasonable visibility and reasonable confidence to be able to undertake these things, they are more ordinary costs in nature and will be within our organic expenditure program. Should we succeed in placing these capacities and operate at reasonably high utilizations post such debottlenecking, the revenue pattern will be largely pro-rata in nature so for example if we were to look at close to 75%-80% utilizations post the debottlenecking of capacities then that versus where we are today would be broadly speaking range bound pro-rata journey could be slightly lower than pro-rata or slightly higher than total depending on product mix but for a thumb rule estimate which is the best one can do at this point is assume that it would move in a pro-rata manner.

**Akhil Kalluri:** Sure Sir my question was more about the existing capacity itself because on towels it is really commendable that within 14 months we have reached about 66% kind of utilizations but given that the company is already planning further expansions and then about a few quarters back the entire focus was on sweating the existing assets and therefore the question was over the next 12 months or so do we have reasonable amount of visibility that the existing capacities in both sheeting and towels will probably hit close to optimal utilizations?

**Shrikant Himatsingka:** The current run rate and as per the current visibility we feel reasonably confident to be able to place the current capacities because we do not have much left, we are at 80% in sheeting and we are at close to 70% in terry towels and we are looking at progressive increases in fiscal 2022 itself as we indicated earlier so we do not have much headroom here please be mindful that once one starts hitting 90% mark, there could be product mix variations and/or other sort of restrictions that sometimes come into play in sweating assets in their entirety to a 100% although that is also possible but keeping all these factors in mind we are taking steps in advance to be able to debottleneck capacities. I am cautious to use the word expansion although it is a resultant enhancement of capacity. I am more comfortable with using the term debottlenecking because we are essentially tapping into a lot of existing infrastructure that exists at our campuses.

**Akhil Kalluri:** Fair point Sir and just for our understanding this while you have indicated that the capex will be in line with the organic capex that we generally plan every year would you be able to quantify a ballpark number over the next say 24 months what is the kind of capex outlet that we are looking at?

**Shrikant Himatsingka:** No, our major capex is over, is what we have shared with stakeholders and every year we spend ₹60 Crores to ₹80 Crores on organic capex which is also something that we have always shared with stakeholders so if it is, it is going to be within this ambit in the next 12 to 14 months so maybe it will borrow some from this year and borrow some from the next year in terms of buckets and then be within that.

**Akhil Kalluri:** Fair enough so in the ballpark range of ₹60 Crores to ₹80 Crores per annum here or there over the next couple of years. Great, the second question I had was also on balance sheet and the leverage which is there so if I look at the net debt number for about four quarters now, it is in that range of between ₹2300 Crores and ₹2400 Crores and that is despite healthy EBITDA run rates over the past four quarters. I understand that there would have been certain amount of working capital increase which has happened and they could be certain environment receivables as well which would be stuck but if you can help us give a little more color in terms of the nature and potential for working capital at least on current level onwards?

**Shrikant Himatsingka:** I think it will be so if you look at FY 2021, we reduced net debt by approximately ₹268 Crores during FY2021.

**Akhil Kalluri:** If I remember the numbers right, I think bulk of that deleveraging happened in during the second quarter itself and from Q2 to Q1 FY2022 for about three to four quarters now the debt levels seem to be broadly flattish?

**Shrikant Himatsingka:** I do not recall which quarter it was which saw the highest movement but essentially during FY2021 we reduced by just under ₹300 Crores in terms of net debt. It has been flat of late but it is also on the back of pretty high inflation levels that we are witnessing and capacity utilization enhancements at our facilities but our major capex having been sort of largely concluded I shared with stakeholders that there is some small parts that are still left and are underway but bulk of it is all over and therefore we are focused on deleveraging our balance sheet so we will continue that focus there could be some timing differences from Q-to-Q, you are right in your observations in some capital being stuck with the central government on account of the incentives and so on but I think largely one will see deleveraging patterns shape up or surface going forward.

**Akhil Kalluri:** Sir any numbers that can be shared in the form of money which is stuck with government if there is anything of extraordinary nature which you can probably expect over the next few quarters?

**Shrikant Himatsingka:** Usual that the industry has as well it is nothing specific to Himatsingka. So once that comes I mean that is one bucket and otherwise as well we had some working capital pull this quarter but directionally we should see it correct on the one hand and on the other hand our EBITDA should hopefully continue to climb and so our leverage ratios will correct from both the reduction in debt standpoint and the increase in EBITDA standpoint because it will be results of our investments in the various plants over the last three years etc., will finally start to show up and it has already started to show and will continue to be able to rationalize our leverage ratios.

**Akhil Kalluri:** Thank you.

**Moderator:** Thank you. Due to time constraint that was the last question I now hand the conference over to Mr. Shrikant Himatsingka for closing comments.

**Shrikant Himatsingka:** As usual it was such a pleasure to interact with everybody. I do hope that I threw light on most of your questions. If you have anything that remains unanswered get in touch with us and we will

make sure that you have the clarity that you need and until then stay safe and speak soon. Thank you very much.

**Moderator:**

Thank you. Ladies and gentlemen on behalf of Batlivala & Karani Securities India Private Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

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