Himatsingka Seide Limited

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

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February 5, 2016

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

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

Dear Sirs,

Sub: Transcript of conference call.

Please find enclosed a copy of transcript of conference call held on 01-02-2016.

Please also note that the transcript of conference 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
Asso. Vice President – Treasury, Taxation
& Company Secretary

Encl: as above

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Q3 Financial Year 2016 Results Conference Call

February 01, 2016

PARTICIPANTS: MR. SHRIKANT HIMATSINGKA - EXECUTIVE DIRECTOR & CEO
MR. K. P. PRADEEP - PRESIDENT FINANCE AND GROUP CFO
MR. ASHOK SHARMA – AVP – TREASURY, TAXATION & COMPANY SECRETARY
MR. T.G.S. GUPTA – AVP FINANCE – HIMATSINGKA SEIDE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Himatsingka Seide Limited Q3 FY 2016 Results Conference Call, hosted by Batlivala & Karani Securities. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Resham Jain from Batlivala & Karani Securities. Thank you and over to you!

Resham Jain: Hi, good evening everyone. On behalf of Batlivala & Karani Securities I would like to welcome you all for Q3 FY 2016 results conference call for Himatsingka Seide. From the company we have with us the key senior management including Mr. Shrikant Himatsingka, Executive Director and CEO, Mr. K.P. Pradeep, President Finance and Group CFO, Mr. Gupta, AVP Finance and Mr. Ashok Sharma, Associate Vice President, Treasury, Taxation and Company Secretary. I would now like to hand over the call to the management for their comments.

K.P. Pradeep: Thank you Resham. Good morning everybody this is Pradeep, President Finance and Group CFO of Himatsingka. This quarter has been another interesting quarter for the group. While we saw some softness on the revenue front, we also saw improvement in our operating performance.

Coming to our consolidated revenues, the consolidated revenues decreased by 6.6% and stood at Rs.434.79 Crores versus Rs.465.49 Crores in the same quarter last year. The consolidated EBITDA including other income increased by 32.9% to Rs.74.11 Crores versus Rs.55.77 Crores in the same quarter last year. EBITDA as a percentage of sales stood at 7% this quarter versus 12% in the same quarter last year. The consolidated EBIT including other income increased by 40.7% to Rs.62.28 Crores compared to Rs.44.28 Crores in the same quarter last year. EBIT as a percentage of sales stood at 14.3% this quarter versus 9.5% in the same quarter last year.

Interest and finance charges for the quarter decreased to Rs.21.26 Crores from Rs.21.73 Crores in the same quarter last year. The consolidated profit before tax for the quarter is at Rs.41.02 Crores compared to Rs.22.55 Crores in the same quarter last year. The consolidated profit after tax and minority interest is Rs.41.67 Crores for the quarter compared to Rs.24.51 Crores during the previous year a growth of 69.8%.

Coming to the nine months on the consolidated, the consolidated revenues for nine months decreased by 3.4% and stood at Rs.1436.03 Crores versus Rs.1485.94 Crores in the same period last year. The consolidated EBITDA including other income for nine months increased by 36.6% to Rs.226.46 Crores versus Rs.165.73 Crores in the same period last year. EBITDA as a percentage of sales stood at 15.8% for nine months versus 11.2% in the same period last year. The consolidated EBIT including other income for nine months increased by 45.5% to Rs.191.22 Crores compared to Rs.131.40 Crores in the same period last year. EBIT as a percentage of sales stood at 13.3% for nine months versus 8.8% in the same period last year. Interest and finance charges for nine months increased to Rs.65.56 Crores from Rs.62.50 Crores in the previous year. The consolidated profit before tax for nine months is at Rs.125.66 Crores compared to Rs.68.90 Crores in the same period last year. The consolidated profit after tax and minority interest is Rs.123.98 Crores for nine months compared to Rs.69.58 Crores during the previous year, a growth of 78.2%.

Coming to revenue from manufacturing activities for the quarter ended December 2015 the revenue from manufacturing operations grew by 9.9% and stood at Rs.267.75 Crores versus Rs.243.66 Crores during the same period last year. EBITDA including other income from manufacturing operation increased by 39.5% to Rs.68.68 Crores versus Rs.49.22 Crores during the same period in the last year. EBTIDA as a percentage of sales stood at 25.7% this quarter versus 20.2% same quarter last year. For the nine months ended the revenue from manufacturing activities grew by 7.4% and stood at Rs.777.01 Crores versus Rs.723.51 Crores during the same period last year. EBITDA including other income from manufacturing operations increased by 49.1% to Rs.205.95 Crores versus Rs.138.12 Crores during the same period in the last year. EBITDA as a percentage of sales stood at 26.5% for nine months versus 19.1% in the same period last year.

Total revenues for the retail and distribution divisions for the quarter stood at Rs.375.70 Crores versus Rs.419 Crores in the same quarter last year a decrease of 10.3%. The consolidated EBITDA for the retail and distribution division for the quarter stood at Rs.12.35 Crores versus Rs.16.71 Crores for the same quarter last year.

For the nine-month ended the total revenues for the retail and distribution division stood at Rs.1287.39 Crores versus Rs.1341.03 Crores in the same period last year a decrease of 4%. The consolidated EBITDA for the retail and distribution division for the nine months stood at Rs.38.89 Crores in the current year versus Rs.44.08 Crores in the same period last year.

Coming to the debt on the books, the gross debt stood at on December 31, 2015 at Rs.878 Crores, Rs.532 Crores being the term debt and Rs.346 Crores being the working capital debt, this number includes project funding of Rs.30 Crores and Rs.50 Crores on account of working capital requirement. The company's net debt outstanding as of December 31, 2015 is Rs.780 Crores the company has cash and cash equivalent of Rs.98 Crores as of December 31, 2015.

The cost of debt for the company is effective 6.03%.

I also wanted to share certain key leverage ratios that we track and these have been computed on an annualized basis. The Debt Service Coverage Ratio is likely to be 2.45 from 1.28 for FY 2016, the Interest Coverage is likely to be 2.92 from 2.07 for FY 2016, the Net debt to Equity is likely to be in the region of 0.82 from 0.91 and the Net debt to EBITDA is likely to be in the region of 2.58 from 3.29.

To take you through a small business update, the Drapery & Upholstery Division at Doddaballapur Bangalore has changed its status from Export Oriented Unit (EOU) to a Domestic Tariff Area (DTA) with effect from the November 5, 2015.

The bedding division at Hassan has been converted from an Special Economic Zone (SEZ) to a Domestic Tariff Area (DTA) with effect from November 20, 2015. The land contiguous with the said unit has also been converted from an SEZ to a DTA with effect from January 27, 2016. With these changes that I mentioned above we expect our manufacturing divisions to get the benefit of ease of operations as well as a beneficial incentive structure typical to this industry.

As disclosed earlier the Rs.1281 Crores expansion plan of the group entails investments in enhancing the group's current Sheeting capacity, backward integration into Spinning and a foray into Terry Towels. The investments are being carried out in phases over the next three years as explained earlier. The expansion is progressing as scheduled and as mentioned on earlier calls the group estimates to commission its enhanced Sheeting capacity by June of 2016. As stated in earlier quarters the group remains focused on sweating its assets across its manufacturing and distribution division and while we have seen an uptick on the manufacturing front over the last few quarters we estimate a larger timeframe for our initiatives to fructify on the distribution front across North America, Europe and India, Asia.

Going into FY 2017 we see a better operating performance over our manufacturing and distribution division. This will be further aided by the new Sheeting capacity that is also expected to be on stream in FY 2017. This is all I have to say as update for the quarter. I would like to hand over to the moderator and we would be glad to take questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nihal Ram from Edelweiss. Please go ahead.

Nihal Ram: Hi Sir, good evening to the entire management. As you mentioned in your opening commentary about the retail and distribution division where you have seen a fall in revenues but a significant improvement in margins, so can you elaborate a little more of what exactly happened this quarter?

Shrikant Himatsingka: What we have said is we did see softness on the retail and distribution front that is on account of stable demand scenario and the company also proactively looking at exiting some micro client base from a standpoint of our realigning and restructuring initiatives. So some of the impact to us is on exit of such micro clients in the backdrop of a stable demand scenario. As far as the margin expansions were concerned it was in context to a consolidated operating performance.

Nihal Ram: Fair enough but we have seen good improvement margin in the retail and distribution division also, is that also attributed anything specific in this quarter?

Shrikant Himatsingka: The margins are range bound. Compared to last year we have some improvements on the R&D revisions and so that is a result of the initiatives we have been speaking about but in all candidness we expect more from our retail and distribution division from an operating standpoint which we see coming quarter as we move into FY 2017. We are seeing a slight delay on some of these initiatives fructifying to our satisfaction, but concerted efforts are underway and we should see some further improvements in FY17.

Nihal Ram: The other question is we have been seeing good growth in standalone so if I had to understand is it that we are trying to move more towards our own manufactured goods and reduce the share of traded goods in our retail and distribution?

Shrikant Himatsingka: Let me answer it as follows. Our manufacturing performance has been extremely strong and we see the underlying buoyancy to continue as far as manufacturing is concerned. Secondly we have seen both our plants perform reasonably well and in FY 2017 as stated earlier we are scheduled to commission new sheeting capacities by June 2016 for which we are running on schedule, so next year is also going to see some incremental capacities that will come our way which would give further boost to our manufacturing performance. So it is true that the share of our portfolio of group sourcing will stand enhanced starting next year. We are already seeing some of it. Some impact is also being witnessed by the exit from very small clients as I stated earlier which had some impact on the ratio of traded to in-house manufactured goods.

Nihal Ram: Just one thing I missed the total debt number, can you just give me that.

Shrikant Himatsingka: 878 Crores gross 780 Crores net 98 cash and cash equivalents.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Sir if I heard it correct your international operations EBITDA for nine months was 38 Crores.

Shrikant Himatsingka: 38.8 Crores that is correct.

Nisarg Vakharia: While the EBITDA margins look higher obviously because you shut some loss making or maybe restructured that business when does this start materially impacting your overall EBITDA when do the numbers start flowing in towards profitability?

Shrikant Himatsingka: Again in all honesty we thought that larger benefits will accrue to us in FY 2016 but I must admit that we are seeing some delays in some of the initiatives that we have taken. We have some delays in it bearing fruit so we see the greater impact of these initiatives coming through in FY 2017.

Nisarg Vakharia: Because, you are as of now, if we do a simple calculation the EBITDA margin for this quarter would be around 6% for the international business however it does not make any difference because your top line has been that much lower so in FY 2017 are we saying that the international business top line will again improve and the EBTIDA margin will be close to 6%, 7%.

Shrikant Himatsingka: While it is difficult for me to put a number as to what percentage the EBITDA margins will clock we do believe that at stable state the retail and distribution business should throw up EBITDAs in the region of 6%, to 7% and to that extent your statement is true, we are gunning for those kinds of numbers from our retail and distribution division and I think that we should cover some distance going into FY 2017.

Nisarg Vakharia: The drawdown in business that you did in Q3 on account of channel relooking now the quarterly number is what we should look at because these drawdowns will continue for the next three, four quarters till time the base evens out?

Shrikant Himatsingka: You mean to say some of the exit from micro clients and things like that; we estimate some softness on this front to continue going into Q4. As we have seen it should not materially damage any of our consolidated operating parameters but it will show in the form of muted revenues as we see going into Q4, however at this point we feel that from Q1 we should start seeing it bounce a little and going into Q2 with our fresh capacities coming into stream we should see the uptick begin on an organic front.

Nisarg Vakharia: So when you said you looked at the micro clients and when you go back to a certain level in Q2 of next year, which means that whatever is the drawdown in sales from a certain channel gets offset by the channel that you are focusing on. Now, the channel that you are focusing on has to be the retail channel completely.

Shrikant Himatsingka: More than channels we are more focused on building mid and large size client basis and that is why I made a statement saying that we are exiting micro clients as far as our business complexion is concerned on the bedding side and bath side of the business so the drawdown let me reiterate I see the drawdown by definition meaning some softness in revenues continuing into Q4 without disturbing the consolidated operating parameters of performance. I see it stabilize going into Q1 at this point and we see the uptick begin possibly in Q2 FY 2017.

Nisarg Vakharia: One more question from my side. When you say drawdown which means what we understand is that there is a drawdown of approximately 65 Crores from Q3 of this year versus Q3 of last year if you do, about 60, 65 Crores so this entire 60, 65 Crores is pertaining to the realignment of channel or there is some softness in the business also from the main channel.

Shrikant Himatsingka: That is a fair question I would say both have contributed to it but we have seen a significant contribution coming from some of these exits from our micro client base but the demand scenario remains stable.

Nisarg Vakharia: So 165, 170 Crores is the stable number that we looking forward into Q4 and Q1 and then from Q2 onwards this 170 would probably start going up to 200 plus.

Shrikant Himatsingka: Which numbers are you referring to sir 170 is no number, it is a standalone minus consolidated.

Nisarg Vakharia: The standalone minus consolidated.

Shrikant Himatsingka: The delta.

Nisarg Vakharia: Yes the delta.

Shrikant Himatsingka: We do not track it from a delta standpoint but whatever the R&D revenues have shown up in Q3 should broadly track in Q4.

Moderator: Thank you. The next question is from the line of H. R. Gala from Panav Advisors. Please go ahead.

H. R. Gala: Hi, congratulations for really good set of numbers as far as the bottom line is concerned I just wanted to know that apart from exiting form the micro clients what are the other factors which contributed to higher operating profit margin?

Shrikant Himatsingka: Exiting from micro clientele has not contributed to higher profits margin necessarily, it had a small impact. The profit margins on a consolidated basis have significantly seen improvements on the back of a robust manufacturing performance so most of the micro client exits and some stability on the demand scenario has happened on the non-manufacturing portfolio and therefore the strength of manufacturing continues, I expected to continue into Q4 and in Q1 and that is what is really driving the operating performance.

H. R. Gala: Does it have mainly to do with the lower input cost?

Shrikant Himatsingka: That is one of the components sir that is not what has driven the results in entirety, that has been one of the components but I must remind everybody that we are not seeing a continual reduction in raw material pricing, the raw material pricing has been stable, we are inching up on manufacturing performance on account of our internal efficiencies, on account of our product portfolio aided by a stable FX and raw material scenario.

H. R. Gala: Another question is that operating other income has increased substantially in the nine months period so which are the major elements that have gone into it.

Shrikant Himatsingka: We will be happy to take that offline with you and give you all the details.

H. R. Gala: Okay fine I will send across an email to you.

Shrikant Himatsingka: Please do.

H. R. Gala: Okay, overall how do you see FY 2016 shaping up in terms of EBITDA level?

Shrikant Himatsingka: You have seen nine months of it already so I think it is signaling a robust operating performance on EBITDA, EBIT and PAT fronts. Our return on capital employed and return on equity will also see a substantial improvement versus last financial year, but the revenues will be a little muted as we have been more focused on aligning our assets right, our profitability right, and our ratios right, it has not been a financial year with a great deal of focus on the revenue front and as I mentioned earlier we have also taken some proactive measures to exit some revenue streams in line with our strategy. So I think all in all it has been a good year so far and we should come in with a strong fiscal 2016 from a profitability standpoint with broadly stable revenues. FY 2017 remains exciting for us as I said earlier because we estimate to commission our new sheeting capacities in the end of June 216 which will give us fresh capacities beginning the Q2 of next year. As you know and we have stated earlier this plant currently operates on a utilization level of approximately 88% to 90% and therefore these capacities that will come in stream at the end of Q1 FY 2017 will also help aid our manufacturing growth.

H. R. Gala: Have you got the sufficient orders to cater to this increased capacity in sheeting?

Shrikant Himatsingka: It is a fair question; orders typically do not precede the commissioning of capacities. As an industry wide phenomenon that is not the case. Himatsingka is better positioned to capitalize on placing its capacity by virtue of us being an integrated model and having significant distribution muscle, therefore the probabilities of us placing our fresh capacities stand enhanced vis-à-vis someone who is not integrated.

H. R. Gala: Just last question from my side this exiting from SEZ and getting into domestic tariff area what are the factors which drove that and what will be the repercussions, like you will be losing out the SEZ tax incentives and benefits.

Shrikant Himatsingka: To the best of our knowledge Sir, there is no loss to the company; in fact the company will only stand to gain as the incentives that were given to SEZ were lower than that which was given to the domestic area units. So the company will benefit from a standpoint of certain incentives which will now accrue to it which was not the case in the past.

H. R. Gala: Can you enumerate one or two benefits which would be more beneficial to us?

Shrikant Himatsingka: Well the most important one is the duty drawback which will begin to accrue or has already began accruing but you will see it in full shape and pump in FY 2017.

H. R. Gala: So once we get into DTA we will get that.

Shrikant Himatsingka: That is right.

H. R. Gala: And there is no other income tax benefit that we will lose out on the profits.

Shrikant Himatsingka: We do not believe so.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from First Global. Please go head.

Abhilasha Satale: I just have couple of questions on your capex plan, basically I want to know how it is divided between sheeting, towel and spinning capacity and how will be the ramp up of the capacity post this 23 million tonnes of this sheeting capacity is commissioned and when the towel capacity is expected and thirdly sir as of now in spite of not having 100% integration of operation you are having very good margin so post this spinning capacity commissioning how much more upside in the operating margin can be seen.

Shrikant Himatsingka: Let me just outline the capex plan for you, the cumulative capex plan that has been planned by the company stands at 1281 Crores across three projects which is our sheeting project, spinning project and the terry towel project. We have indicated earlier and the timeframe for these projects will be over the next three years, of these three projects the company has commenced work on the expansion of its current sheeting plant the capacity of which will be enhanced from 23 million meters per annum to 46 million meters per annum and the schedule date of commissioning of this expansion currently stands for June 2016 this project entails an investment of just over 200 Crores. The total investment that we envisage in our spinning plant will stand at just over 600 Crores and the total investment in our terry towel facility will stand at just over 400 Crores. The broad breakup of the three plants in terms of capex of which we have commenced only the first sheeting plant which is approximately little lower 200 Crores in total capex it will take our capacities to 46 million meters. In context to your second question it is right that our current EBITDA margins are accruing without spinning that is the correct observation naturally because we do not have spinning at this point. Himatsingka plans to set up a total capacity of 211584 spindles which is as per now not commenced construction, we will keep our stakeholders informed as to the timelines more specifically with the spinning and terry towel plants over the next quarter.

Abhilasha Satale: Sir the sheeting capacity is only weaving and processing including 200 Crores is only weaving and processing that we are commencing.

Shrikant Himatsingka: Madam it includes weaving, it includes processing, it includes sewing, it includes miscellaneous fixed assets such that might be required in water treatment and other allied engineering requirements and it also will add a vital as part of our processing capacity we will also add a strong print portfolio to our processing abilities which we currently do not possess.

Abhilasha Satale: Sir how will we ramp up, if you are commissioning in the first quarter of 2017 then how do we see by the end of the year utilization level reaching to?

Shrikant Himatsingka: Well, I would refrain on being specific on that front but as we come closer to commissioning the capacities we will share what our outlook is in terms of specific ramp up assumption but it is safe to assume that given our integration and portfolio we should see a reasonably healthy ramping up cycle.

Abhilasha Satale: But we will also have a similar kind of EBITDA margin as the dynamic would be similar.

Shrikant Himatsingka: That is right we believe that it will be similar.

Abhilasha Satale: Sir in the industry like we are seeing most of the players in India are expanding or doubling the capacity are more or so however demand overseas is increasing at a specific pace so how do you see competition arising and what are our strategies to fight against that or to differentiate ourselves.

Shrikant Himatsingka: The global demand is not outpacing the specific expansion that are taking place across three or four players in this space in India, however as far Himatsingka concerned please do keep in mind that the group's entire manufacturing days represents only 50% of its total sourcing requirements. So as far as we are concerned we will partly enhance our share of our own sourcing from 50% to probably 65%, 70% in addition to fresh placements in the market, point number one, point number two, we really do not have much capacities left for us to divert to the EU markets and at this point we are going to be happy to see some capacity that will over the medium term be available to be sold into the EU market. Also I would like to mention and we mentioned this in the last call as well Himatsingka is the first player globally to bring to market DNA verified global cotton value chain under our Pimacot brand which is the trademark and intellectual property of the group, this ties into two things (a) we see strong demand for this portfolio product which is DNA verified as far as our markets is concerned and second this brand will also help the group be on track to achieve 1200 Crores from its branded portfolio in revenues by FY 2018.

Abhilasha Satale: How much is current contribution from the same?

Shrikant Himatsingka: Between 750 to 800 Crores.

Abhilasha Satale: Sir then how do we see FY 2017 Capex going ahead with the post Q1 FY16 then what will be the next project will it be terry towel or backward integration into spinning.

Shrikant Himatsingka: Ma'am right now as I said we will be commissioning our sheeting capacities by June the project that will follow and its timelines is something we will get back to our stakeholders with, probably sometime in next quarter. At this point we have no comment on any construction activity on any of the spinning or terry towel plants as we are awaiting certain clearances. We will come back with sharper timelines maybe in the next few months, but it is safe to assume that the spinning portfolio of the group which will be approximately 211000 spindles is an entirely captive portfolio, in other words our current production requirements is greater or will be greater than what our spinning output is likely to be post the commissioning of the spinning plant therefore we will gravitate to ensuring that this plant is set up as soon as possible.

Moderator: Thank you. The next question is from the line of Girisha Saraf from Ambit Capital. Please go ahead.

Girisha Saraf: Could you please tell me again on a consolidated basis what is the percentage of traded versus own manufactured goods is it 50% as you just mentioned and what is the share of the total revenues from retail and distribution.

Shrikant Himatsingka: Yes, approximately 50% ma'am.

Girisha Saraf: And the share in total revenues?

Shrikant Himatsingka: Retail and distribution does approximately 1700 Crores and manufacturing does around 1000 Crores approximately at gross base of 2700 to 2800 Crores is what we are clocking, we will get back with more specific details please drop us a mail but that is how it is approximately.

Moderator: Thank you. The next question is from the line of Resham Jain from B&K Securities. Please go ahead.

Resham Jain: Sir just couple of questions one is on the project total 1281 Crores how is the means of finance being planned?

Shrikant Himatsingka: The projects will be TUF funded and as we said earlier it will be spaced over the next three years so it will be through a mix of internal accruals and TUF however the profile of debt will be approximately 12 years.

Resham Jain: So is it fair to assume 30% equity, 70% debt or will it be different from that?

Shrikant Himatsingka: It will be approximately 79%, 21%.

Resham Jain: Sir secondly just wanted to understand on the branded portfolio side how is our branded portfolio being different from typically what we see in India like in India we have wholesale channels, departmental stores, and their own stores so how will this be different in US versus what we see in India.

Shrikant Himatsingka: Well the channels are the same it is just that the United States Canadian Mexican and European markets are extremely mature retail markets and hence there has been a lot of consolidation over time so the number of large retailers with extraordinarily large footprints are numerous and therefore India's department store format, Big Box formats and other retail formats are still under development. We do not see India becoming a large destination for our products anytime soon, but it is safe to assume as we see as well internally that over the next five years India should start taking some demand and cornering revenue streams for us vis-à-vis what it does today.

Resham Jain: So is it fair to assume that large format stores will be a significant portion of our revenues like 70%, 80% kind of revenues.

Shrikant Himatsingka: Today from our current markets.

Resham Jain: Yes.

Shrikant Himatsingka: Absolutely.

Resham Jain: And have we launched our new brands which we have licensed for last year for example Kate Spade New York, Aeropostale?

Shrikant Himatsingka: Yes we have.

Resham Jain: Have we seen traction over there?

Shrikant Himatsingka: Yes we have seen traction, unfortunately we cannot share brand specifics, we are on course to touching 1200 Crores number for FY 2018 in terms of branded portfolio. We are encouraged by the response our current brands have received both Kate Spade and Pimacot brand which is on its way and Aeropostale has also been signed last year and seeing pickup.

Resham Jain: Sir one final question, do we decide on the pricing of this product?

Shrikant Himatsingka: We exercise significant influence vis-à-vis brands.

Resham Jain: So is it fair to assume that typically as compared to other of your manufacturing competitors who typically have to negotiate with the retailers in your case the thing will be slightly different than them?

K.P. Pradeep: Yes, except I would stress on the term slightly it would not be materially different but definitely slightly different.

Moderator: Thank you. The next question is from the line of Arjun Senger from Reliance Mutual Fund. Please go ahead.

Arjun Senger: Sir post this spinning capacity comes up what percentage of your internal yarn consumption would be satisfied?

Shrikant Himatsingka: On a full blown basis maybe it is 50% to 55%.

Arjun Senger: Sir I just wanted to also understand what is the rational for setting up this capacity?

Shrikant Himatsingka: Satisfactory ROCs and ROEs to begin with, that is on the financial front, strategically it is very important that the group has a repository of in house capacity with regard to ultrafine count yarn production which is different from coarse count yarn production. Ultrafine count yarn production with high quality is not available in abundance and therefore it is also a derisking measure. While it satisfies all our internal financial requirements from a standpoint of returns and derisks our entire vertically integrated model even more wherein we will have significant control of the entire value chain spanning spinning to shelf.

Arjun Senger: Sir also can you just comment on the general state of the yarn market in India at this point?

Shrikant Himatsingka: Well quite honestly the yarn markets have been very stable, number one, number two the raw material markets have also been stable. We do not see any material movements in the immediate future that we can currently spot in terms of some radical surprises or anything like that. We consider that the stability is here to stay for a while and we continue to be bullish about our investments in backward integration which will be entirely placed within the group.

Moderator: Thank you. The next question is from the line of Amit Surekha from Bharti Axa Life Insurance. Please go ahead.

Amit Surekha: Sir like as you mentioned some of your units are under DTA sales November onwards so does the Q3 numbers includes the duty drawback benefit on them?

Shrikant Himatsingka: Yes actually it does but what we have done in anticipation of our projects coming up in June 2016 as I stated earlier we have stepped up our promotional expense a little bit considering that some of these benefits flowing in the form of duty drawback we also utilized these benefits consciously to step up some promotional activities around launch of the projects so to answer your question it does include but its benefit has been taken away in the operating expenditure by enhancing our promo mix at this point which we see will continue for a couple of quarters and then it will normalize.

Amit Surekha: And the second related question is obviously the full benefit we will get from next fiscal year onwards so just from a simple requirement like currently you are making around roughly 23% odd margin in this business and duty drawback benefit is around a 5% point kind so is it safe to assume that keeping all other variables constant this 23% can go to 26%, 27% simply because of this duty drawback benefit and you now coming under DTA.

Shrikant Himatsingka: Well I cannot specifically comment on the statistics it is true that our current businesses are generating approximately 23% to 25% of the EBITDA it is also true that the drawback benefits are to the extent that you mentioned; therefore everything else remaining constant it is entirely possible that most of these benefits will accrue to the company. It is not irrational to assume what you are saying in other words.

Amit Surekha: Just the last question on our R&D business now like earlier we were looking at 8% to 10% revenue growth for the business and obviously this year we are not going to do that but any sort of tentative sort of revenue growth which you are looking for next year which you can share with us.

Shrikant Himatsingka: Just prior to answering that question just I would like to touch upon one point on the duty drawback, do keep in mind that the company also imports certain raw material inputs to the extent of which the drawback will not be available, that ratio is not something we can predict accurately, it does change from quarter-to-quarter but I think conceptually what is safe to assume is that we have an existing operating margin which will be aided by the drawback FY 2017 but do keep in mind that we will be stepping up some promotional activities in anticipation of our commissioning of projects and that promotional activities will be probably to the extent of the drawback that we will get for a couple of quarters so your assumptions are right we will see its full impact in FY17.

Amit Surekha: And coming to our global distribution business.

Shrikant Himatsingka: So as far as this year is concerned as I said the revenues will look at little muted and I outlined the reasons earlier. Going into next year there is more reason for cheer because we have our new capacities coming through in the end of Q1 as well so I think the company should resume its organic growth path next year and I would not rule out 8% to 10% revenue growth for FY 2017.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: A couple of questions regarding your capex expansion. The first thing is on the spinning unit. You mentioned that it matches your ROC and ROE criteria where we see most of the yarn companies even the most efficient ones they struggle to even cross 20% internal capital so what is that internally you are benchmarking what is the cut off in this and which is your criteria and the second was regarding the debt equity that you mentioned for the entire project of 1280 Crores you mentioned approximately 79% debt and 21% equity so that translates to roughly around 950, 960 Crores of debt considering that we are already setting on close to 800 Crores of debt which some of it may get repaid in the next two three years I think we will be still looking at a very significantly high level of debt two, three years down the line so do not you think it makes sense to may be look at some equity infusion to make the balance sheet healthy and not risk too much interest of debt equity.

Shrikant Himatsingka: To answer your first question 20% sustainable return on capital employed is not, as we see it, small. It is an interesting number. We do see spinning list are weighted average capital employed generated from businesses point number one, point number two, it is also a very important strategic measure as I outlined earlier for the company to derisk its value chain and give it an edge. So that is as far as your spinning question is concerned. As far as the quantum of debt is concerned I am going to request our Group CFO to take that question.

K.P. Pradeep: From the standpoint of four parameters that we keep tracking which is the debt EBITDA, the Debt Equity, Interest Coverage and the Debt Service Coverage Ratio (DSCR), I do not anticipate that we will have any cause for concern. We have internal targets that we have in terms of manageable peaks as regards these ratios and these parameters are all well within those targets. I also want to add as Shrikant had mentioned earlier the maturity of the loan has been positioned at 12 years with intent so that the financial parameters are well within the internal targets. I therefore do not anticipate any significant concerns as we go through our capex over the next two, to three years.

Sachin Kasera: Sir just one question regarding this only, there has been a new TUF scheme that has come up so does the entire project qualify for the TUF scheme is in all the three components or I believe there has been some incentive of scheme that have been taken away so if you can just qualify what are the type of benefits in the new TUF scheme the project could avail off.

K.P. Pradeep: Firstly for the projects that have started we are under the old TUF scheme. For projects that we will start sometime in the future - I am talking mainly on the Terry Towel Project, we will be under the new TUF scheme. I do not anticipate too many benefits coming under the new TUF schemes. I would like to mention that there are schemes of the local State government also, that are applicable to the expansion and we should be eligible for those benefits too.

Sachin Kasera: And what about the yarn project sir?

K.P. Pradeep: The yarn project is partly covered through the old TUF scheme as we see it.

Sachin Kasera: Second question on the R&D division sir there was a mention that obviously you are not happy with the way things have progressed and there has been certain delay in terms of the way the margins and the business should have looked up if you could elaborate what are the two or three key reasons why there has been a delay and what gives you the confidence that this time when it is mentioned that from Q1 or Q2 of the next financial year you should be back on track and second was you mentioned that there are certain micro clients that you exited, can you tell us more in terms of the revenue and in terms of EBITDA margins?

Shrikant Himatsingka: That is lot of questions which we will be happy to take offline with you and explain to you in granular detail.

Moderator: The next question is from the line of Dhwanil Shah from Iwealth Management, please go ahead.

Dhwanil Shah: Good evening Sir and congratulations on a good set of numbers. Couple of questions from my side Sir, first on the standalone business where we have seen on quarter-on-quarter the sales have been muted at 250 Crores, so when I see the other expenses it has gone up from 35 Crores to 40 odd Crores, so is that because of the promotional expense which we were just talking about?

Shrikant Himatsingka: That is right.

Dhwanil Shah: Sir regarding tax rate for the next year on the standalone business will it be under the same rate.

K.P. Pradeep: On a consolidated basis you should expect to see a tax rate of roughly around 18% to 19%.

Dhwanil Shah: Pradeep ji, on the standalone side?

K.P. Pradeep: On the standalone side you can assume NIL.

Dhwanil Shah: Sir if you could just throw some light on our non-branded business which goes to Walmart and other players how is the demand shaping from that side?

Shrikant Himatsingka: Demand is stable we are not seeing any material movements we are just ensuring that we remain focused on mid and large sized clients prepare for the commissioning of our new capacities and look at placing it as soon as we can.

Dhwanil Shah: So 25% of the volume growth which is normally happening throughout the year would be a pretty sustainable number to assume.

Shrikant Himatsingka: I cannot specifically say yes, or no, but...

Dhwanil Shah: But on the industrial side.

Shrikant Himatsingka: It is reasonable.

Speaker: Thank you and all the best.

Moderator: Thank you. The next question is a follow up from the line of H.R. Gala from Panav Advisors. Please go ahead.

H.R. Gala: I just wanted to know one thing number one this 1281 Crores Capex project which we are having how much incremental turnover can you generate once it reaches the optimum utilization?

Shrikant Himatsingka: From the estimate that our manufacturing portfolio which is currently contributing approximately 1000 Corers we should see a total manufacturing portfolio grow from 1000 Crores to approximately 3500 Crores in its full capacity?

H.R. Gala: We talked about manufacturing margin expansion to whatever extent because of the duty drawback but as a result of our own setting up backward integration captive consumption do you anticipate any further margin gain.

Shrikant Himatsingka: We do sir.

H.R. Gala: So what could be the benchmark number that we will have in mind?

Shrikant Himatsingka: We cannot give you a benchmark number, but whatever we see in manufacturing today is one bucket, whatever we get on the duty drawback and things like that at par with industry is another bucket and whatever we will gain in terms of enhanced integration will be the third bucket.

H.R. Gala: Okay all these three buckets will be there, and the margin could be much better than 26%, 27% what we are having now.

Shrikant Himatsingka: On a stable state that is a safe assumption of course it can go up and down as you know.

H.R. Gala: That is the different thing but that is also thinking of you...

Shrikant Himatsingka: Mathematically the three buckets should be accretive.

Moderator: Thank you. Ladies and gentlemen that was the last question; I would now like to hand the floor over to the management for closing comments.

Shrikant Himatsingka: Thank you all for joining us on the call today. It has been an interesting interaction. We at Himatsingka are focused on the various things that we talk to you about and it is going to be an interesting six months going forward so we really look forward to interacting with everyone again at the end of our Q4 and annual call and we will be happy to answer questions or queries that you might have or doubts that you might have off line as we stated. Thank you again.

Moderator: Thank you. On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.