

Q2 FY21 Earnings Conference Call

November 09, 2020

Moderator:

Good evening ladies and gentlemen, I am Moumita, moderator for the conference call. Welcome to Himatsingka Seide Ltd 2QFY21 post results conference call hosted by Batlivala & Karani Securities Private Limited. As a reminder, all participants' 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 any assistance during the conference call, please signal an operator by pressing * and 0 on your touchstone telephone. Please note this conference is recorded. I would now like to hand over the floor to Ms. Prerna Jhunjunwala. Please go-ahead ma'am.

Prerna Jhunjunwala:

Thank you Moumita. Good evening everyone. On behalf of B&K Securities, I would like to welcome you all for 2QFY21 post results conference call of Himatsingka Seide Limited. From the company we have with us the senior management, including Mr. Shrikant Himatsingka, Managing Director and CEO of the Company, Mr. K.P. Rangaraj, President – Finance and Group CFO and Mr. Ashok Sharma, Senior Vice President and CFO – Strategic Finance. I would now like to hand over the call to Mr. Shrikant Himatsingka for the initial comments. Thank you and over to you, sir.

Shrikant Himatsingka:

Thanks, Prerna. Thank you everyone for taking the time to join us for the call today. I would like to start the call with the business update and outlook section and then Mr. Rangaraj will share with you some comments on our consolidated financial performance and then we will go through to Q&A.

On the business update and outlook front, the retail environment has witnessed significant buoyancy during the second quarter of FY21 as compared to the situation that prevailed during the first quarter of the fiscal. The notable developments on the retail front has been as follows: There has been completion of phased store openings of all major retail chains across North America and the European region. There has been a strong demand for home improvement products that's been visible. E-commerce sales, that the retailers are clocking, continue to see substantial increases YOY and QOQ and Big Box department stores and specialty -chain stores continue to enhance

their focus on their home assortments. These are some of the pulse that is coming through to us as far as the broad retail environment goes and specifically to home products in terms of pulse.

As a result, these developments on the retail front have led to stronger order books and buoyant demand for products. Therefore, keeping all this in mind, we have covered substantial ground during the quarter and have been focused on ramping up our operations across all our facilities. We have made significant progress vis-à-vis the previous quarter, but we were unable to operate our facilities at required levels of utilization on account of Covid-related interruptions. This slower manufacturing throughput has had an impact on our product mix, gross margins and cost efficiencies resulting in lower operating EBITDA for the quarter. Going into H2 FY21 the capacity utilization levels in our Sheeting and Terry Towel facilities have seen improvements and are likely to surpass pre-Covid levels of operations.

So broadly this is what we basically have seen. Our ramping up of our manufacturing facilities is progressing well but undoubtedly, we have some more ground to cover. Going into Q3 we have seen improvement in our ramping up of capacity utilizations and we continue in that direction but during the second quarter we had these interruptions, which has impacted our performance at the operating level. I request Mr. Rangaraj to share some of his views on the consolidated financial performance and then we will take it on to Q&A.

KP Rangaraj:

Good afternoon ladies and gentlemen. I will just give you a brief observations and comments on the consolidated financial performance. Our operating performance was also impacted by foreign exchange translation losses of approximately Rs. 10 crores during the quarter. In addition, Q2FY21 numbers exclude MEIS incentives to the tune of Rs 11.5 crores versus the same quarter last year. The MEIS impact will however be compensated in due course, driven by increase in volumes and the ramping up of the new Terry Towel plant. We remain focused on optimizing the working capital cycles and have reduced inventory levels by Rs 290 crores during

H1FY21. The consolidated gross debt as of 30th September 2020 stood at Rs 2,592 crores compared to Rs. 2,814 crores at the end of FY20. The total term debt stood at Rs.1,755 crores and the total working capital debt stood at Rs 837 crores. The cash and cash equivalents and current investments stood at Rs 238 crores as on 30th September'20 as compared to Rs 224 crores as of 31st March '20. Consequently, the company's net debt outstanding as of 30th September 2020 stood at Rs 2,354 crores compared to Rs. 2,590 crores as on 31st March 2020. I complete my short update. We will be happy to take on any questions now. Thank you for your patient listening.

Question and Answer Session

Moderator:

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

Sir, our first question is from Mr. Ritesh Gandhi from Discovery Capital.

Ritesh Gandhi:

Hi sir, I just want to understand, when compared to your other home fabric peers, our numbers haven't shown as high a recovery. I just wanted to understand if there was anything specific with regards to product mix or something else which is leading to this or if it was just some specific issues to us against all other companies?

Shrikant Himatsingka:

Fair question Ritesh. Normally I don't comment on any peers and I don't intend to at this point either. But generally speaking, there are some peers whose numbers are not comparable because they have other segments that form a part of their numbers and some others who are pure play textile/home textile players. To the best of our

knowledge the difference really is arising from the fact that Himatsingka was largely shut down during the lockdown because our clients really were not those who were providing essential goods and services and therefore they remained shut as well for the most part and so the whole process of recovery vis-à-vis the impact that has hit us on the pandemic front is taking a little longer for us vis-à-vis others. So our manufacturing operations were pretty much shut for the most part of Q1 and we have had a ramp up that's been reasonable as far as Q2 is concerned but we could have done a little better on the ramping up front. Unfortunately, we were interrupted on account of some of these Covid interruptions mainly arising from the workforce availability and things like that which improved in the latter half of the second quarter and continues to improve. So, I don't think there is anything structural as far as Himatsingka is concerned. There is no structural concern; it is just a timing issue with regard to ramping up our facilities. Our order books and visibility remain robust. We have seen a fair rebound on the top-line front, but we have some ground to cover in manufacturing operations which we hopefully will address in the second half of the fiscal.

Ritesh Gandhi:

Just to understand because obviously this entire Q2 between July, August and September, each part of it would be at different levels effectively affect the productivity. So as we exit the quarter and as we go into October, now are we running at optimal capacity or we are still in the stage of ramping up to an extent?

Shrikant Himatsingka:

Yeah there are some parts which are optimum and some parts which are still ramping up and we are covering that distance.

Ritesh Gandhi:

The reason we aren't able to just ramp up because everybody else has indicated that the ramp up is already on and all are running at flat effectively because the demand is so high, is it because where our plants are located have had higher impact of Covid or...just wanted to understand or that we've been cautious with regards to the opening up?

Shrikant Himatsingka:

No, I think as far as the location is concerned, I don't think it is a location specific issue but the central challenge that we did face in

ramping up our facilities was making sure that the right workforce and the right skill was on the shop floor in the measure that we wanted. That's the piece that has taken us a little longer than estimated. We have also suffered more specifically in our case vis-à-vis our product mix. We have had some disturbances in the supply chain which has been set right as well during the second quarter. So, I think the workforce piece was central to the time that Himatsingka is taking to ramp up. But as I said going into Q3 we now have certain facilities which have entirely been ramped up and certain others which are still in the process of ramping much better position than Q2.

Ritesh Gandhi:

And if we could also understand from your end if you see the demand being temporary as people are actually working from home and therefore home-improvement has become a priority or is there any amount, we are hearing from a few people that there could be a structural gain in India's share in actually in fashion beddings where our share is slightly lower. So, I just wanted to understand maybe the cyclical process, maybe its structural aspects from your own perspectives on this.

Shrikant Himatsingka:

Fair question. So, there are a bunch of triggers out there that could potentially influence India's share of the pie in major markets and so on. As far as India's share vis-à-vis China or rather competing economies are concerned there is a case that is out there for us to gain some market share given the issues that China and the US have faced of late and things like that. It is translating into numbers with different intensities depending on the corporate. So, it is difficult for us to predict whether one will continue to see sustained shifts from China to India. But as far as Himatsingka is concerned we have definitely seen an uptick in interest and enquiries that pertain to capacity requests of products that were hitherto made in China. So, there is a visible uptick in such enquiries and requests. How much of this is going to translate to actual shifts remains to be seen, but the process is definitely begun. In other words, there are some conversions that are taking place. That's as far as some of the supply shifts from China and other economies into India. Then there is the second sort of macro theme that's playing out which is, is this

heightened demand going to sustain? As far as we are concerned the demand that is coming through is definitely higher than used to be. The absolute numbers are not astounding. What is astounding is the urgency because the pull at the other end is high vis-à-vis the shelves. I think at least for the time one foresees this demand pattern should sustain and as far as we are concerned the heightened demand is not just coming because of bunched up demand on account of the pandemic. We are also seeing demand uptick because of the increase in capacity utilizations that we have. At our terry plant we are seeing it because of a host of new product offerings and a broadening client base that we have been focusing on over the last year or so. As far as Himatsingka is concerned we are also seeing demand because of those reasons.

Ritesh Gandhi: Got it.

Moderator: Excuse me sir....?

Ritesh Gandhi: Okay I will go back in queue, that's fine.

Moderator: Thank you so much. Ladies and gentlemen, we request you to limit your questions to two during the initial round, thank you. The next question comes from Resham Jain from DSP. Please go ahead.

Resham Jain: Hi sir, good afternoon. So, I have a couple of questions. The first is it is very good to see a substantial reduction in inventory over the last 18 odd months actually and if you can just explain what has led to this sharp drop in inventory? Obviously, that was your focus as well. How sustainable will this inventory be going forward?

Shrikant Himatsingka: Fair point Resham. So, we've reduced the inventory by Rs. 290 crores during the first half of this fiscal. We've been sharing with our investors the fact that working capital optimization remains a priority for us. While we did carry through with optimization, it wasn't to the levels of our satisfaction. But we have used this period to make sure that we have reduced inventory a fair bit. Obviously, the reduction in inventory will not continue in the same pace because we've seen a substantial reduction of close to 26% of our total

inventory from 1087 levels to 797 levels during the first half. So the rate of reduction will not be quite as near as what we have clocked, but I think we should be range bound from here because one has to be mindful of the fact that we will also be ramping up our terry capacities; so there will be some pull as well and we will continue the optimization efforts; so hopefully we should be range bound.

Resham Jain:

Okay, understood. Sir, my second question is on gross margin. I understood your initial remarks on the overall disruptions which you faced because of employees and all but when we look at the gross margins it has come down significantly actually given your past numbers. So, what explains this significant gross margin numbers and what kind of gross margins will you expect for the coming quarters?

Shrikant Himatsingka:

Well I can't be specific about what we'll expect for the coming quarters as you know, but we will go back to our normal levels of gross margins that we've had in terms of our band. So for this Q and for that matter the first Q we've been off as far as our gross margin numbers are concerned for reasons as we have explained and as we see it we will go back to settling at gross margin bands that we normally clocked earlier. That's as far as where we expect to be headed. As far as why we are clocking lower gross margins; it is essentially linked to lower manufacturing throughputs and we will be happy to take you through it in greater detail offline. But essentially the lower manufacturing throughputs in addition to FX impacts have hit us on the gross margin front. There is nothing else to it. It will revert back to its normal bands.

Resham Jain:

Right, okay understood sir. I will come back in the queue.

Shrikant Himatsingka:

Sure.

Moderator:

Thank you sir. The next question comes from Mr. Vikas Jain from Equirus Securities. Please go-ahead sir.

Vikas Jain:

Hi, thanks for the opportunity sir. Sir my first question is, with respect to....in one of the earlier participant's question, you

mentioned that the current robust demand we are seeing is majorly because of two reasons, the work from home culture and because of the anti-China sentiments. While we can understand that the anti-China sentiment and the preference for retailers to other countries, will might sustain for a much longer period of time; how do you expect this work from home culture driving the whole demand to continue? So how long can the demand from this reason can sustain? Your views on this.

Shrikant Himatsingka:

My assessment was not that these are the only two factors driving demand. It was the gentleman who had the question; it was his observation that he felt that these were the two factors that were driving the demand. In our assessment this is one of the many factors driving demand. The other reasons for demand uptick we are seeing is our client expansion, our product expansion and our capacity expansion initiatives that have unfolded recently. So, they have equally added to larger demand that we have seen. In addition to the fact that there is a theory that the work-from-home shift also has generated additional demand. No doubt it has. The China piece as I said has not at least in our opinion created any measurable uptick in demand as far as Himatsingka is concerned. There has been a much larger pipeline of enquiries and there has been some conversion but nothing substantial at this point. Therefore, I think overall, given all the factors, that we spoke about and given the fact that our client expansion, product expansion and capacity expansion initiatives are coming through, as far as Himatsingka is concerned, we feel that the broad buoyancy in demand is something that we foresee going forward at least in the near term and then we will review it as we go along.

Vikas Jain:

Right sir. Sir if I can ask, can you just throw some light on our client expansion as well as the product expansion side. In the last call you mentioned you had added a certain number of clients and it takes certain period of time to ramp up. Can you just throw a bit more light on that and also on what are the new products that we have launched in terms of that work in full expansion and how is the response?

Shrikant Himatsingka:

So as far as the client expansion is concerned obviously, I wouldn't get into names at this point. But Himatsingka is adding clients both in its North America portfolio and its European portfolio. It is seeing a healthy addition of clients, point number one. Point number two, as far as products are concerned, when the pandemic hit us in March it had just been five months since we had commissioned our new terry towel facility. So, it was operational for literally 20-22 weeks before the pandemic hit us. And then we have been ramping up after the lockdowns are over and so on. So, the fact that our terry towel plant has been commissioned opens a whole assortment of new products that the group offers on the bath front. In addition to that, we have introduced several, let's just say segment adjacencies in both bedding and bath in order to strengthen our offerings globally. So, product category expansions and client portfolio expansions have been pretty robust as far as we are concerned and is the major reason for some of the demand that we are seeing. In addition, as far as client expansions are concerned, not only are we adding to brick and mortar sort of place but obviously we are seeing an uptick on the e-com piece both directly and through our clients. When I say directly, shift directly to the consumer and shift to our clients; we are seeing that as well. So, I guess all of this put together is what's causing the uptick in demand as far as we are concerned.

Vikas Jain:

Right sir and there's one last question as you mentioned one of the reasons for the low utilization levels was some of the disturbances on the supply side. Can you just elaborate on that sir?

Shrikant Himatsingka:

As I said the single largest challenge that we faced on the ramp up was related to workforce. And we also saw some disturbances to supply chain for in-bound supplies for products and so on. But the single largest challenge was workforce related which we have largely addressed and continue to do so. As I was telling the gentleman who was on the line earlier, that some of our facilities are now running at optimum levels of utilization and the others continue to ramp up as we go into Q3. Hopefully we will be at the required levels and we will hit it in Q3.

- Vikas Jain:** Right sir. Thank you so much sir, thanks for answering.
- Moderator:** Thank you sir. The next question comes from Ms. Prerna Jhunjhunwala from Batlivala and Karani Securities. Please go-ahead ma'am.
- Prerna Jhunjhunwala:** Thank you. Sir congratulations on reaching the pre-pandemic levels of sales at consolidated level. It's quite heartening to see we are coming back to the earlier levels of sales. You have spoken a lot on demand per se. I wanted to understand how much of your revenue would be from brands and what would be the contribution now, given the change in our strategy that we were speaking about in the last quarter and how is the demand shaping up in our brands business versus new client basis?
- Shrikant Himatsingka:** Thank you Prerna for your observations. So as far as our revenues from brands are concerned, they continue to be stable. We will continue to explore opportunities to enhance our brand portfolio. Maybe we will be making some communications to that effect shortly. But, so as far as our brands are concerned, we continue to be focused on growing them, but I would also like to add that our private label businesses are also seeing an uptick. So, may be there could be some corrections in terms of the percentage of branded revenues vis-à-vis total revenues going forward because there would be uptick we are seeing on the private label front as well. But nothing beyond that that I see in terms of change.
- Prerna Jhunjhunwala:** Okay. Actually, I would have been wanting to know the numbers of sales that you would have done in the revenue from them as you report very regularly.... those numbers...?
- Shrikant Himatsingka:** We will share that will you all.
- Prerna Jhunjhunwala:** Okay. The second question is on the benefit of lower cotton prices coming into our business. Have they started coming in or will they be a part of our numbers in the second half is my next question.

Shrikant Himatsingka: For some of our raw materials we were covered so we didn't really get any benefits. On certain other parts we did. So, some of it has crept in but marginally and before we could take full advantage of more benign raw material environment, unfortunately the raw material environment is not benign anymore and it's looking the other way. Raw material inflation is actually round the table unfortunately over the last month or so, that's been the situation. So unfortunately, Himatsingka has not gotten the entire benefit of raw materials and we are already seeing a little bit of an uptick on the raw material front. So, on the uptick side as well again we are covered to some extent, so we won't see the entire impact and we will absorb it in certain other areas depending on the product mix and things like that. But FYI, raw materials are heading north. When I say raw materials, I mean cotton.

Prerna Jhunjunwala: Okay and sir last question would be on the capacity utilization you spoke that some capacities are ramping up better than the earlier. So, could you help us understand whether it is on spinning side or terry towel side or bed sheet side which are seeing a better ramp up than other capacities?

Shrikant Himatsingka: So Prerna, in spinning there is no ramp up because it is a backward integration project, so it is running full. As far as terry towel is concerned, it is a new green field plant commissioned recently so we are ramping that up. The progress is satisfactory. I would say it is more than satisfactory in terms of what we are seeing, so we are ramping that up. It is a new plant, so it is taking us a little bit of time to settle in, but it is ramping up well. So is the case with our sheeting plant. So, sheeting continues to ramp up going into H2 and it is the same for Terry Towel. So, our home textile solutions vertical is seeing this. As far as the Yarn and Fiber solutions space goes, it is stable because it is running full.

Prerna Jhunjunwala: Okay, thank you sir, thank you so much.

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

comes from Mr. Devang Patel from Lafa Asset Management. Please go-ahead sir.

Devang Patel:

Sir in Q2, if you would quantify how much revenue we would have lost because of production constraint it would be helpful. When you say in Q3 we'll be ramping up, so when you say full ramp up done, is that close to Rs. 1,000 crores of revenue run rate a quarter?

Shrikant Himatsingka:

Devang unfortunately I can't answer either of your questions specifically; specially the second one. As far as the loss of manufacturing revenues that we saw, the loss of throughput that we saw from the manufacturing front that resulted in gross margin impacts and consequently EBITDA impacts, it is visible if you look at our standalone numbers. So, we have lost at least that much.

Devang Patel:

Okay, so then to understand how the business works a bit, when you are not able to fulfill the demand, what does the client do? Do they have other vendors from where they try to fulfill their orders? Secondly, you had mentioned earlier that there are more enquiries because of what is happening with China. How much time does it take to on-board a new client and are they asking for committed supplies? How much time would that take to translate into business?

Shrikant Himatsingka:

So, to answer your first question, yes there are other vendors, but clients don't try and stone hop from one vendor to the other because we are running a couple of weeks behind schedule. That's an ordinary course development as far as the industry is concerned and it is not across the board so there are movements and deliveries all the time. There is no risk emanating from unfulfillment of demand unless it becomes very material or chronic which is not the case as far as we are concerned. Your second question in terms of how long it takes to convert a client who is currently shopping out of China for example, is not something that is determinable because it could be as quick as a month and it could take as long as a year; it really depends on the client. The act of on-boarding and producing for them is not a time-consuming process. What is, is all the formalities associated with changing suppliers that is typical of large retailers because they go through a lot of procedures and protocols when they switch from

one supplier to the other. That's what takes time. I would say that if they did take a decision to move from supplier A to B, I would say the average timeframe would be anywhere between six to 12 months from when they decide of from when they started the process of making the decision.

Devang Patel: Okay sir, this whole tailwind of China will take almost 12 months to show up in any revenue increase?

Shrikant Himatsingka: No, from when they started looking out, maybe they've started six months ago. Again, it is not 12 months from today or six to 12 months from today. It is six to 12 months from a client starts to look out for alternate sources is broadly the timeframe that I would estimate to the best of my knowledge in terms of the kind of timeframes that they would take.

Devang Patel: Sir in the first half could you indicate how many new clients you added; or supplies to new clients added up to how much of our revenue.

Shrikant Himatsingka: No, I am sorry I can't disclose that Devang. It is a fair question, but we generally don't quantify such details.

Devang Patel: Fine sir, that's all from my side. Thank you so much.

Shrikant Himatsingka: Thank you Devang.

Moderator: Thank you sir. The next question comes from Mr. Aman Sonthalia from AK Securities. Please go-ahead sir.

Aman Sonthalia: Good evening sir.

Shrikant Himatsingka: Good evening Aman.

Aman Sonthalia: Sir, my question is that recently the yarn prices have increased a lot. How will it impact the profitability of the company?

Shrikant Himatsingka: As I said some of our positions are covered and some are open. So it will have some impacts on the cost side, which will then be countered by certain other measures including productivity/pricing/product mix/specifications and one would try to counter most of the impact but I would guess that some of the impact would still trickle through.

Aman Sonthalia: Okay sir, my next question is if the cost increases a lot, do we pass this cost increase to our customers or we have to bear the brunt of that cost increase?

Shrikant Himatsingka: As per our experience in this industry and as I have always shared with investors openly, I believe that this industry doesn't have the best pricing power generally speaking. It is not about Himatsingka. So, if there is a substantial increase in raw material costs, its transmission to clients is not much and it is sluggish. It is just the nature of the industry. So right now, the increases are not anywhere near there, but should there be absolutely substantial increases, the industry struggles with pricing power. But other than in exceptional circumstances, for the most part there is some inflation, it is absorbed by the value chain in terms of the supply chain and if there is some gain, it is accrued by the supply chain. That's how it works.

Aman Sonthalia: So overall we are quite insulated from our margins if suppose there is no major increase in the cost?

Shrikant Himatsingka: When I say major, it could be lower single digit movements here and there in the ordinary course, but the tendency is inflationary. Over the last month and a half that's what it's been and so we and others in the industry will have to mitigate it. The mitigation measures are something I just outlined. One would have to play within those buckets and depending on how covered the concerned player is that's how the impact will be in relation to that.

Aman Sonthalia: Okay. Sir, how is the cotton price outlook?

Shrikant Himatsingka: The outlook is pretty...I would say...volatile and relatively to normally what one sees as far as the cotton commodity is concerned.

It is difficult to predict this, but for the near term it is looking to stay put as we see it.

Aman Sonthalia:

Okay sir, thanks.

Moderator:

Thank you sir. The next question comes from Mr. Resham Jain from DSP. Please go-ahead sir.

Resham Jain:

Thank you once again. This quarter does it have any exceptional losses from the Doddaballapur unit or the European operations which we faced from last several quarters, has that come down?

Shrikant Himatsingka:

There has been some. It has not been classified as exceptional but other than the foreign exchange impact that we spoke about and obviously YOY and MEIS impact, there's an approximately Rupees two-crore impact that we have taken on certain store closures of our luxury chain. We have ceased operations in some of our stores because of which we had to take a two-crore hit; so that's also that's something that's there and things like that but this is the most notable of all. There is no other exceptional piece.

Resham Jain:

Okay because I think last year for a few quarters we had about 10-15 crores kind of losses from both these deletions put together. So that remains same or might have slightly come down?

Shrikant Himatsingka:

No, it has slightly come down because of closures like for example we shared with investors updates on restructuring our Italian operations so some of that impact has come down. There is still an occasional impact on account of certain residual events in that geography but that's come down and our legacy business impact still remains. There is marginal improvement there, nothing substantial and we have got hit by the store closures as well.

Resham Jain:

Yeah, understood sir.

Shrikant Himatsingka:

Also Resham, as far as our interest line goes while we don't call it out every time and we don't intend to but if government subsidy like TUFs and things like that are running late, then we also have a

tendency to take provisions. That's something that also hits us from time to time.

Resham Jain: And that number is substantial sir?

Shrikant Himatsingka: We can get back to you on that.

Resham Jain: Okay understood. Sir my second question is on the overall utilization rate. Last time when we mentioned...I think in quarter three before COVID, we said roughly about 55% to 70% utilization in sheeting and we were expecting to reach 50%, 55% utilization in towels by quarter four this year. Where are we in that journey right now?

Shrikant Himatsingka: We are on track.

Resham Jain: Okay so now sheeting utilization will be closer to what level sir?

Shrikant Himatsingka: Resham I can't specify utilizations but on sheeting we should be better than where we were and on Terry we also remain on track.

Resham Jain: Okay understood sir. And sir just one clarification on what you mentioned on the raw material prices; is it fair to assume given that we have a higher proportion of branded sale compared to the overall industry as of peers, we will be better off in terms of our overall gross margins towards the peers?

Shrikant Himatsingka: No, that's a pretty broad statement. I am, not sure if I can say yes to that because it has to be analyzed. We would have to analyze that because I would have to see what others really have in terms of their portfolio. Does it give Himatsingka a little edge over.... vis-a-vis ourselves? Yes. As far as we are concerned it gives us some flexibility. How we compare to peers is something I cannot comment on.

Resham Jain: Okay sir, thank you and all the best.

Shrikant Himatsingka: Sure, thank you.

- Moderator:** Thank you sir. The next question comes from Mr. Deepak Poddar from Sapphire Capital. Please go-ahead sir.
- Deepak Poddar:** Thank you very much sir for the opportunity. Sir, I just wanted to understand you did mention about the gross margin going back to normal kind of levels going forward. So, in terms of EBITDA margins as well we are looking at 21%, 22% of pre-COVID level that we used to do?
- Shrikant Himatsingka:** Yeah, I won't specifically comment on the numbers but both gross margins and EBITDAs should course correct to the bands that they used to be at. The timeframe is something I cannot specify but directionally that's where we are headed.
- Deepak Poddar:** Okay but that's what you are looking at in the second half at least right?
- Shrikant Himatsingka:** Directionally that's where we are headed in the second half.
- Deepak Poddar:** Fair enough. For example, for 21%, 22% kind of EBITDA margin I just wanted to understand the operating leverage advantage. What sort of revenue you would want to achieve to achieve such kind of margins?
- Shrikant Himatsingka:** Deepak, we don't share revenue guidances but these margins broadly have been something that we have been clocking as we have grown and we feel that directionally, as I said don't look at Q1 and Q2 as representation of what's to come. We are going to course correct and head in that direction and continue to seek growth on our revenue streams broadly speaking. There could be some timing differences but that's where we are headed. As far as revenues are concerned, they will obviously continue to grow because of the commissioning of our terry towel plant and the ramping up of the same. So, the terry towel ramp up is also going to contribute going forward. So, I feel the revenues should see organic growth and our margins should be range bound to what they were previously in terms of growth margins and EBITDA.

- Deepak Poddar:** Understood. That's it from my side, all the best sir.
- Shrikant Himatsingka:** Thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Anuj Sharma from M3 Investments. Please go-ahead sir.
- Anuj Sharma:** Thank you for this opportunity. My connectivity was intermittent so I don't know if this query has been asked earlier but we had strong cash invasion this half approximately....operational cash of 380 crores and you made a comment on optimizing of inventory. I just wanted to know your thoughts on, is it a one-time accrual or you see some structural changes in the inventory and hence buoyant cash flows going forward?
- Shrikant Himatsingka:** Yeah, the cash flow is coming out of the decrease in working capital. As I had said to the gentleman earlier that one shouldn't interpret this sharp reduction in inventory that there is sustainable reduction because we have come to levels where we won't be able to substantially reduce as we have and we also have to keep in mind the fact that we are increasing our utilization levels. So, I would figure that we would be range bound from here in terms of inventory reductions.
- Anuj Sharma:** Alright but the reductions which have been achieved would that continue to be maintained in the sense of inventory turnover ratio?
- Shrikant Himatsingka:** Yeah, I think whatever has been achieved and whatever DSO it leaves us with, we should attempt to be range bound from here. There could be movements from time to time but that's where we will endeavor to be.
- Anuj Sharma:** Alright, just a hygiene question on the pending capex for this year and next?
- Shrikant Himatsingka:** As I said and as I shared over the last couple of calls, at present Himatsingka operates four manufacturing facilities and over 12

brands. Our sheeting plant has a capacity of 61 million meters per annum, our terry plant 25,000 tons per annum, our spinning is equipped with 211,584 spindles and we have a drapery and upholstery plant with 2 million meters per annum in capacity which is our legacy business. Our brand portfolio comprises of the brands that we have spoken about which is over 12 brands. I am saying this because as far as our capex cycle for the last three years are calibrated capex cycle has largely come to a close with the commissioning of our terry plant. Going forward our capex will be largely organic in nature. I estimate it to be in the region of close to 80 crores a year...somewhere there plus or minus as far as our current organic requirement comes out and these will include some de-bottlenecking requirements. Should there be any new projects or new initiatives that would be over and above.

Anuj Sharma: Alright thank you so much.

Moderator: Thank you sir. Ladies and gentlemen due to time constraint, we've come to the end of the conference call. I would like to hand over the call to Mr. Shrikant for closing comments. Please go-ahead sir.

Shrikant Himatsingka: So, thank you everybody for taking all the time that you did this evening to join us for our earnings call. I do hope that we have addressed most of your questions. If you have any doubts or any clarifications that you would like, do reach out and we will make sure we answer it to the best of our ability. Thank you again and we look forward to interacting with you soon.

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