Q3 FY21 Earnings Conference Call

February 08, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Himatsingka Seide Limited Q3 FY2021 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 Jhunjhunwala from Batlivala & Karani Securities India Private Limited. Thank you and over to you, madam.

Prerna Jhunjhunwala: Thank you Mallika. Good evening everyone. On behalf of B&K Securities, I would like to welcome you all for 3Q FY2021 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, Mr. K.P. Rangaraj, Group CFO and Mr. Dilip Panjwani, CFO – Strategic Finance. I would now like to hand over the call to Mr. K.P. Rangaraj for business updates as well as comments on financial updates. Thank you and over to you, Sir.

K.P. Rangaraj: Thank you Prerna. Very good evening ladies and gentlemen, on behalf of the company, we would like to welcome you all to the Q3 FY21 Earnings Call. At the outset, I would like to wish you all a very, very happy New Year.

My updates will be in three parts, one I will start with the business update, and then there will be a brief on comments on their consolidated financial performance, and the third will be an update on the debt profile for the company.

So I just start with the business update. The ramp up of capacity utilization levels at our new terry towel facility remains on track and is expected to continue to rise during Q4 as well. The capacity utilization level for our manufacturing facilities during the quarter ended December stood as follows: The Sheeting division 71%, Terry Towel 45% and Spinning division operated at 102% of the capacity.

During the quarter revenue streams from brands stood at Rs.551 Crores versus Rs.579 Crores during the last year. In line with Himastsingka's strategy to expand its global brand portfolio, during the quarter the company entered into a new licensing agreement with the Walt Disney company for the European region. The license will give Himatsingka the rights to design, develop, manufacture and distribute a broad range of home textile products inspired by Disney's vast archives and characters from all its franchises including Disney, Marvel, Pixar and Lucas.

As a part of Disney's relaunch strategy, with a leaner and deeper partner base, Himatsingka will distribute an expansive range of licensed home textile products across Germany, United Kingdom, France, Italy, Spain, Central and Eastern Europe, the Nordics and South Africa, among other countries. This agreement marks the commencement of Himatsingka's relationship with Disney, the world's largest entertainment franchise.

I now move onto my next section, which is comments on consolidated financial performance. The consolidated total income for the quarter ended December 2020 stood at Rs. 681.65 Crores versus Rs. 675.85 Crores in the previous year, an increase of about 0.9% year-on-year and versus Rs.659.55 Crores in Q2 FY21, which translates to an increase of 3.4% quarter-on-quarter.

Consolidated EBITDA for the quarter was Rs.157.33 Crores versus Rs. 124.71 Crores in the previous year, an increase of 26.2%, and versus Rs.96.9 Crores in Q2 FY21, which translates to an increase of 62.4% on a quarter-on-quarter basis.

EBITDA margins stood at 23.1% in the current quarter compared to 18.5% in the previous year. The improvement in margins was due to enhancement in capacity utilization levels and product mix.

Consolidated PBT, before exceptional items, for the quarter ended December, stood at Rs. 74.64 Crores versus Rs. 39.35 Crores in the corresponding period of the previous year.

For Q3 FY20, which is the last year exceptional items included reversal of incentive benefits of MEIS to the extent of Rs.25.65 Crores and the European business restructuring expenditure of Rs.8.38 Crores.

The consolidated PAT for the quarter was Rs. 45.06 Crores versus Rs. 2.78 Crores in the corresponding period of the previous year.

We remain focused on optimizing working capital and have reduced inventory levels by Rs.313 Crores during the nine-month period ending December. This translates to an inventory reduction of 28.7%.

I move onto to my last section, which is on debt profile. The consolidated gross debt as of 31st December 2020 stood at Rs. 2,536 Crores compared to Rs. 2,814 Crores at the end of FY20, a reduction of Rs. 278 Crores. The total term debt stood at Rs. 1,712 Crores and the working capital debt stood at Rs. 824 Crores.

The cash and cash equivalent stood at Rs. 231 Crores as of 31st of December 2020. Consequently, the company's net debt outstanding as of 31st December stood at Rs. 2,306 Crores compared to Rs. 2,591 Crores as of 31st of March 2020, which translates to a reduction of Rs. 285 Crores.

Just to give you some updates on ratios. Our capital efficiency ratios as of the end of the quarter which on an annualized run rate basis are as follows: The return on capital employed stood at 11.9%, and the return on equity stood at 13.3%.

With this, I would like to complete my update. We shall be happy to take your questions now. I would now request our Managing Director to answer the question and answer session. Over to you.

Moderator: Thank you very much. We will begin the question and answer session. The first question is from the line of Bharath Subramanian from Sundaram Mutual Fund. Please go ahead.

Bharath Subramanian: Congratulations for good performance in the current quarter. My first question is with regard to our towel utilization which we have reached 45% in the previous year the utilization would have been lower, and despite that the revenue growth seems to be little muted at less than 2%, what are the reasons despite a good ramp up in the towel utilization, revenue growth is muted?

Shrikant Himatsingka: A fair question Bharath. We have seen some increase from the manufacturing throughput driven by our Terry Towel utilization seeing an upswing YoY and at the same time we have seen some reduction in traded revenues. As a result, consolidated revenues have stay at range bound with marginal growth, but what really happened is our overall margin profiles improved. The way we look at things now we continue to feel that the order books are strong and we should see organic growth going forward including the continuing ramp up of our Terry Towel facility.

Bharath Subramanian: Any guidance you wish to give on the either of the divisions utilization going into FY22 or is the current margin sustainable either of the two, what is your view on either of the two aspects?

Shrikant Himatsingka: Well I think we do not give guidance's but I think what we will be happy to share with you is we feel that our sheeting utilizations should continue to rise, our Terry Towel capacity utilization should also continue to rise, and as far as our EBITDA margins are concerned, we have always shared with investors earlier that it is in the way, our consolidated EBITDA margins normally should be in the range of 20% to

22% and we feel that the current margin profile 20% to 23% sort of band is something that we should see continuing as we go forward. So while our EBITDA margins remains stable, I feel that our utilization should continue to see an organic rise going forward into FY22 and also in Q4.

Bharath Subramanian: Sir last question from my side. Sir there are uncertainties RoSCTL's, RoDTEP what is the rate we do not know as of now that is one aspect and second thing is on the imported cotton and Indian cotton prices being different and also the prices being on an increasing trend what are the steps you have taken to mitigate or overcome these two challenges which we are seeing in the short to medium-term?

Shrikant Himatsingka: As far as the export incentives are concerned, Bharath, your guess is as good as mine. The new rates are yet to be announced and so one would have to wait to see what the government announces on that front. Last year we saw the withdrawal of some of the incentives during the third quarter fiscal 2020. So it would be incorrect for me to state my views on what the government will be doing at this stage so my request is that we all wait and see what they come out. As far as the increase in duties on raw cotton is concerned as it stands at this moment it is something that will impact any imported cotton and so it will impact the industry because the industry widely uses raw cotton that is imported either from United States or from jurisdictions like Egypt and to that extent there will be a duty component that will come and hit the P&L. Some of it will be absorbed and some of it will be passed on is the way I see it. As far as we are concerned, thankfully in our case some of the cotton prices were a little higher earlier. So we would not see as much of a reduction as we would have like to see maybe it will be more range bound at the same time therefore we would not be able to see the benefits we would have been seeing and they largely remain range bound as I see it.

Bharath Subramanian: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Overall good set of numbers and a strong traction in both your facilities. In continuation of the earlier question on the cotton duty first question is how much is the cotton imports you currently do, and second if I understand correct for the, since the home textile companies export, large part of your products there is already a duty drawback available, so has the industry already applied for increase in duty drawback post increase in cotton import duty?

Shrikant Himatsingka: Yes, the industry is in dialogue with the concerned stakeholders and as I said the government is yet to announce its new rates on the export incentives. So let us wait till that comes out, in the meantime the way the duty will be dealt with Bhavin is that there will be an element of absorption and an element of passing on that will take place and broadly that is how the impact will be digested by the industry or by Himatsingka for that matter.

Bhavin Chheda: Sure and how much is the Himatsingka's cotton imports as a percentage of overall or whatsoever number you look at?

Shrikant Himatsingka: It varies from quarter-to-quarter Bhavin, it is not something that is linear in nature, but if there is an impact it is in the mid-teens in rupees crores and partly it will be dealt with as I said on our pricing front then partly absorbed and as I just answering Bharath question earlier, in our case we have had some pricing on cotton which was a little steeper because we went long on it and so instead of seeing a reduction to the tune that we expected we may not see it to that extent so I do not think the number will get significantly impacted in any consequential manner.

Bhavin Chheda: Second one was on the sheeting capacity and utilization once you reach optimum capacity probably by next year, is there a scope of debottlenecking current capacity or you will have to go for a Capex for Brownfield or Greenfield?

K.P. Rangaraj: Well any debottlenecking in the industry is driven by Capex. The only difference is when we use the term debottlenecking typically the Capex is not pro rata as to what it was required to setup this capacity in the first place. So we have to debottlenecking and thereby enhancing capacity come at marginal Capex requirements. The answer to your question is yes we think as the ability to continue to debottleneck and increase its capacities with marginal Capex rate both in its sheeting division and its terry towel division.

Bhavin Chheda: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Aman Sonthalia from AK Securities Limited. Please go ahead.

Aman Sonthalia: Sir essentially we have seen that the cost increase in the cotton prices, the yarn prices and there will be some negative news as far as incentive on export is concerned and thereafter the currencies also hardening. So after taking all these whether we will be able to maintain the 20%, 22% margin in a short to medium-term?

Shrikant Himatsingka: Yes, fair question. So actually while in some of the earlier question pertaining to the duty on raw cotton prices and its consequential impact what you have raised is about the inflation in yarn prices that is being seen in the industry and in the market. They are not entirely interlinked and to a large extent they are mutually exclusive events. There has been significant inflation on the raw material prices including yarn and that is something the industry will see an impact of in the sort-term. So in Q4 the industry and us will be grappling with the challenge so I am talking for Himatsingka. So Himatsingka will be faced with this challenge of an increase in yarn prices that is unfolding over the last three to four months. To the extent that we have our integrated spinning capacities we will not be impacted and to the extent that we buy from the outside world we will have to face the inflation, but it is more short-term in nature. I think in our specific case with some increase in manufacturing throughput that we will continue to aim for during the fourth quarter we should be able to mitigate some of those impacts and hold our margins range bound.

Aman Sonthalia: And Sir also the freight rate has increased a lot I think it has more than doubled or tripled in the last few months. So that cost has also borne by us or by the buyers?

Shrikant Himatsingka: So in most cases I mean there is a certain some parts of it is borne by us but for the large part it is borne by the buyer.

Aman Sonthalia: And Sir one more question that how big the China opportunity is, it is going forward how much demand you will expect at least China in the medium to long-term?

Shrikant Himatsingka: I am not sure if I can answer that because it is a very broad question, but the China opportunity seems more realistic than it did a few quarters ago at least in our case, but it is difficult to pinpoint what this would translating in terms of demand but there is an unfolding China opportunity that seems to be around the corner, but it is not possible for me to put a finger on it.

Aman Sonthalia: But definitely there will be some positive impact in favor of India?

Shrikant Himatsingka: In all likelihood,yes.

Aman Sonthalia: And without China Sir how is the demand outlook for the next few years in the home textile segment?

Shrikant Himatsingka: The demand looks pleasingly strong, soft home as a category has been looking strong also this last few quarters because of the underlying nature of the product and the visibility we have at this point it should continue to be reasonably strong as far as we have visibility over the next couple of quarters.

Aman Sonthalia: Okay Sir. Thanks a lot, this is from my side.

Moderator: Thank you. The next question is from the line of Rishikesh Odha from Robo Capital. Please go ahead.

Rishikesh Odha: Just one question from my side. Sir can you expect the terry towel capacity with licensing to go to 80% to 90% level in FY22 and what kind of revenues and EBITDA margins can it generate given the utilization level cost effected 90%?

Shrikant Himatsingka: Let me take the margin case first, so the consolidated EBITDA margins of 20%, 22% thereabout plus, minus is something that is applicable to the terry towel division as well, just as it is to the sheeting division and so we think that the margin profile of that division should be in that region. There could be some short-term movements because of inflation, but other than that, the margin profile of terry towels as far as Himatsingka is concerned is in that region. Your second point on utilizations, we commissioned the plant in October 2019, we had a third and partially the fourth quarter of FY20. So we operated the plant for five months and few days and then the pandemic hit us and so the Q3 was a good pickup as far as we are concerned to be able to hit utilizations of over 40%. As Rangaraj indicated in his business update, we expect the utilizations to continue to go north in the fourth quarter of the fiscal and continue to rise going into FY22. So all in all, we are directionally headed in enhancing our capacity utilizations in terry quite significantly going into FY22.

Rishikesh Odha: But Sir if it crosses more than 90% in FY22 what kind of revenue can the segment generate?

Shrikant Himatsingka: I had answered this earlier but it should be range bound in the region of approximately at full capacity y Rs. 1,100 to Rs, 1,200 Crores, somewhere there depending on product mix.

Rishikesh Odha: Okay Sir that will be good thank you.

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

Deepak Poddar: Sir just wanted to understand first on your debt outlook this 2600-odd Crores or 2500-odd Crores debt that we have so how do we see the debt trajectory or debt repayment over next one to two years so that would be quite helpful.

Shrikant Himatsingka: Fair question Deepak so we have reduced our net debt by about Rs.285 Crores during the nine-month period and our gross debt has come down from Rs. 2,814 Crores to Rs. 2,536 Crores. Our calibrated Capex cycle as I had shared with investors has come to a close we do have some organic capital expenditure that is ongoing and will continue. But having been completed our major Capex program, deleveraging will be a central theme as far as we are concerned and we feel that we would deliver anywhere between Rs. 200 and Rs. 400 Crores per annum going forward as far as our existing businesses are concerned. So if there is something new we do or something additional we do that is over and above but on an existing basis that is the broad range that we have considered because we could have some working capital movements and things like that so I guess that should be the range.

Deepak Poddar: 200 to 400 Crores that is on a gross basis you are talking about?

Shrikant Himatsingka: That is right.

Deepak Poddar: And clearly the margins your revenue now you are talking about 43% terry towel utilization level but sir so maybe it is likely contributing on an annual basis maybe Rs. 400 to Rs. 500 Crores kind of a topline as going so at full capacity utilization it has an ability to generate additional Rs. 600 to Rs. 700 Crores kind of a topline. So that is what we want to achieve in FY22 in terms of by year end of next year so we would be looking at 90% to 95% in terms of utilization level so is that what we might be taking on that.

Shrikant Himatsingka: Like the same question the gentlemen asked me earlier so unfortunately I would not be able to pinpoint a number whether I mean ideally would we like to achieve full capacity at the earliest timeframe, yes we would. As I said we have reached over 40% during Q3 we are looking at an increase in Q4 and a continuing increase into FY22. Overall I feel that we are headed in that direction whether we achieved those numbers in the second half of FY22 or in the initial part of FY23 I cannot pinpoint. It could be earlier it could be around that time but we are directionally headed that and the opportunities on revenue streams are as I said earlier overall before any further debottlenecking occurs should be in the region of Rs. 1,200 Crores at full capacity.

Deepak Poddar: That is it from my side all the very best.

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

Mithun Aswath: Congratulations on good set of results I just wanted to ask you more in terms of the medium-term outlook what sort of return on capital employed do you foresee the company targeting and by when we could achieve those sorts of numbers.

Shrikant Himatsingka: Our assessment was between 15% and 20% ROCs is what we would like to consistently achieve we were headed in that trajectory before being disturbed by this whole episode of the pandemic and some of our ratios are a little subdued because of the new facility but that is the kind of range we would like to achieve consistently and also I would like to tell you all that when you are computing ROC other than removing the payables that you do to compute the statistics please be mindful that the balance sheet has lease liability and deferred government grants per accounting standards that are sitting on the books that dilute these returns and need to be negated if one has to ideally remove them. Please feel free to contact us and we let you know what the number was roughly for H1 but it is north of Rs. 300 Crores on the full balance sheet so one has to not just removed the payable component in the ordinary course that you would have but also be mindful of these aspects which are diluting our ROC numbers.

Mithun Aswath: Any timeline to achieve those numbers sir?

Shrikant Himatsingka: I am sorry I cannot give you timelines but directionally as our operating performance improves which already sort of bounce back to normal and as it improves from here one will keep inching closer in that direction.

Mithun Aswath: And one this one follow-up on this tie-up with Disney what kind of opportunity are you looking at with this licensee agreement?

Shrikant Himatsingka: See we cannot comment specifically on what a specific brand would bring us from a standpoint of revenues but what we are happy to say any opportunity, this is not a marginal initiative and opportunity which will result in few millions here and there. We are looking at Disney bringing us pretty substantial revenue streams going forward and the definition of substantial would be in our sort of brand universe anything that does over $15, $20 million should be substantial for us.

Mithun Aswath: And just one more question in terms of the you do supply to some of the high street brands the high end ones. Has there been any impact due to the lockdown and do you see that potentially recovering in the next couple of quarters or has that been compensated by online sales?

Shrikant Himatsingka: Yes, we had issues due to the lockdown earlier on which is by our Q4 and Q1 numbers previously were badly hit. We continue to see issues in Q2 as I had openly shared with investors but from a demand side as far as our clients are concerned we have seen a broad sort of stability over the last four to six months. We have not seen any interruptions so far in this period. Once these some interruptions and request for deferments coming in from certain other jurisdictions more for example in the United Kingdom off late but again these are short-term in nature we see it at this point so overall I would say it is broadly stable in terms of disruptions.

Mithun Aswath: Thanks so much, all the best.

Moderator: Thank you. The next question is from the line of Vibha Batra from Fair Connect. Please go ahead.

Vibha Batra: Yes my question is on your cost of funds what is the cost of funds now and how do you see it moving going forward?

Shrikant Himatsingka: **Vibha** please get in touch with us offline we will be happy to share with you the broad range of cost of funds.

Vibha Batra: See my idea of asking this was that interest expenses are fairly substantial because if the working capital intensive business so broadly speaking since you are planning to reduce debt and hopefully this cost of debt coming down as it is coming down in the economy should that line which is about 45 odd Crores how would that move going forward, I will definitely get in touch offline as well, but broadly if you can give a sense in this item?

Shrikant Himatsingka: No, I think so with the correction in debt we have seen some release on the interest front as well again the interest cost and finance charges are impacted by certain accounting standards and things like that from time to time but broadly it will move and sync with the reduction in debt and the cost of debt should be range bound but we will be happy to share greater details, please do get in touch.

Vibha Batra: Yes, we will do okay thank you and all the best.

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

H.R. Gala: Sir congratulations for a good results in Q3 a couple of questions, first is on the either an shipments export do you find there is a shortage of containers and some it is being stuck up in the port etc., which is affecting the actual shipments.

Shrikant Himatsingka: Yes actually we do and this is a good point that you have made thankfully it has not been chronic so far but the conditions on container availability and onshore logistics has not being moved internationally also the supply chain is a little strained when it comes to container availability specifically speaking and in sometimes one has to wait little longer than usual for availability, this is not a normal phenomenon, this is a phenomenon that is being seen over the last few months after the pandemics broken out so therefore to answer your question yes the logistics value chain is not operating in a normal state. The availability of containers are strained. Has it impacted our business as far? No it has not impacted our business thus far but be it as it may the situation is not normal.

H.R. Gala: Okay but we have not seen any cancelation of orders because of that.

Shrikant Himatsingka: No we have not.

H.R. Gala: No cancelation very good Sir. Sir my another question is regarding Walt Disney you may not reveal any numbers but what kind of commercial arrangement do we have like maybe we paying them some upfront license fees or something or will it be based on the revenue that we generate.

Shrikant Himatsingka: So Mr. Gala any license typically attracts the rate of royalty and the rate of royalties are paid on revenues that one generates broadly speaking that is the most fundamental of license terms and conditions. Then of course there are other nuances to every license but essentially what is one doing in a license you are acquiring the rights to use a certain intellectual property by giving the owner of the intellectual property a certain revenue stream or a certain share in revenues we got those royalties. So in the case of Disney there is no difference and we will be paying the licensor in this case the Walt Disney company and license fee which is nothing but the royalty. So typically one pays that on revenue.

H.R. Gala: And there will be revenue share also in-addition to that?

Shrikant Himatsingka: No that is the definition of share you pay a percentage of revenue for license…

H.R. Gala: Okay our revenue share. Now Sir but the question arises that the type of products that you will be delivering with the Walt Disney characters and all that can it in any case cannibalize our existing brands and the sales that we derive from there?

Shrikant Himatsingka: No in fact it will complement and strengthen our brand portfolio because for Juvenile brand portfolio is not a strong at this point and adding the Disney portfolio will strengthen our Juvenile brand presence.

H.R. Gala: It will not cannibalizing.

Shrikant Himatsingka: No, it is not.

H.R. Gala: Okay that is good. Sir another thing in one of our earlier results we have said that our effective tax rate is higher because you are not taking credit for the subsidiaries income because overall probably we are having losses so has the situation change because I will see that the average tax rate in Q3 has been as high as 40%.

Shrikant Himatsingka: We have made improvement and progress on value chain balancing. These are the global value chain and in terms of our financial result across the value chain. So we having said that our effective tax rates no doubt is still very high. We are trying to see how best and we can balance our effective tax rates globally but at this point our view is no different from what it was in so far as we do not get deferred tax credits in our subsidiaries and so our ETRs were a little higher but with better global value chain balancing our ETR should become a little better.

H.R. Gala: In FY22 hopefully.

Shrikant Himatsingka: Hopefully yes.

H.R. Gala: And Sir just one question since in nine months we have incurred loss of Rs. 91 Crores do you think this year we will end with rest.

Shrikant Himatsingka: That is a question that is very loaded.

H.R. Gala: Because we have really posted good profit of 45 even if 45 comes still we will be less and you would be describe about the headwinds like increase in the raw material cost etc., might impact the margin that is why I ask.

Shrikant Himatsingka: So, I think the answer to the question is as I said going into Q4 and FY22 the order books look reasonably strong and we hope to make sure that operating performance augurs well under the circumstances there are no doubts on headwinds that I spoke to you about and some tailwinds in the form of better utilization and things like that and so at this point the best we can say is vis-à-vis sort of parameters that are in front of us, the worst is clearly over models looking strong, assets are at world class, our brand portfolio is world-class and we will continue to deleverage and we will continue to sweat our assets we can eye on capital efficiencies and short-term issues aside directionally we are looking well positioned.

H.R. Gala: And Sir how much will be the normal organic Capex every year we will be spending.

Shrikant Himatsingka: Between Rs. 60 to 80 Crores on a normal way.

H.R. Gala: Thank you very much Sir wish you all the best.

Moderator: Thank you. The next question is from the line of Dhwanil Shah from I-Wealth Management. Please go ahead.

Dhwanil Shah: Congratulations Sir on a good set of numbers. I had a couple of questions Sir first was on our trading revenue side which we saw a decline of close to Rs. 120 odd Crores from last year same base so sir just wanted to understand is this kind of a more strategic as we are shifting to our manufacturing side and hence we are reducing the trading component and going ahead how do we make some difference?

Shrikant Himatsingka: Yes, partly it is strategic as I had outlined and shared openly with stakeholders earlier and we will continue to reduce external sourcing so partly it is back. Partly it is timing differences between queues and programs and promotions so it is a confluence of both factors.

Dhwanil Shah: So going ahead we can see a similar kind of run rate is that a fair assumption duty?

Shrikant Himatsingka: Yes, broadly yes.

Dhwanil Shah: Because Sir why I was asking this because when you see our standalone numbers and analyze them our margins are far superior it is close to 26%, 27% EBITDA margins and if we start to reduce it reduce our trading component our overall profitability and margins starts to improve a lot.

Shrikant Himatsingka: That is right.

Dhwanil Shah: And the second question was on the overall demand side when we see the industry numbers now we have almost reach to the pre-COVID levels like if you going ahead how do you see in terms of incremental demand happening because as and when we see the US imports from across the world we said $360, $380 million close to and our India share is also quite similar which is why maintaining at 45%, 47%. So incrementally Sir how will we see the demand and for us how can you try to understand how will the demand comes now.

Shrikant Himatsingka: So as far as Himatsingka is concerned and also as far as the macroeconomic sort of traction that you have post it is concerned so I think India share will continue to inch up. As I said elements of the China opportunity to our mind and to the best of our knowledge look interesting so there should be some upside that could be unfolding on that front. In addition to that as far as Himatsingka is concerned our market share will be going up because of our new capacities coming on-stream and those capacities quite honestly will be eating into both the absolute share of the country's import into that jurisdiction and exchange of market share vis-à-vis pears so I think we will be working on both fronts vis-à-vis the United States but that is not the only market globally. Europe is also a large market, APAC is an emerging large market and Himatsingka's European revenues growth, the European revenue growth is progressing well which we think will continue into FY22. So other than North America the European region which has been an area of focus for us with a last couple of years has also seen progress. The third thing so other than adding jurisdictions and markets we are adding a lot of new products and increasing our products depth and so that widens the addressable market for us there are lot of subcategories of products which may or may not be covered in the statics you quoted. So also enhancing the addressable market would help us grow our market share and right growth. Sothe three factors will sort of move in tandem. a) The India share sort of climbing, b) enhancing the geographical presence that we have going forward, so tapping new markets and c) enhancing product breaths and depth and thereby enhancing the addressable market across key regions. So all these three things together should help us continue our organic growth and ramping up of divisions that we have discussed so far.

Dhwanil Shah: That was very helpful thank you and all the best.

Moderator: Thank you. The next question is from the line of Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Congratulations on good improvement in profitability and most of the questions answered if you can give some clarity on this reduction in working capital we might have seen a reduction maybe because of reduce volume during COVID and again last few quarters we have seen supply chain was also becomes very lean to manage the working capital so with picking up a business and volume and utilization how is the outlook on working capital can we see a significant amount of working capital increase again with a pickup in business activity or there is a structural shift in the way we are managing the working capital now.

Shrikant Himatsingka: So fair question Suryavanshi your observations are correct. One cannot endlessly rationalize their working capital cycle we have reduced inventory by close to 30% over the last nine months we think it should broadly stabilize in this region because it is coinciding with ramp ups happening in the manufacturing front.So even if there are some further reductions in certain divisions it will get offset by certain other divisions. We feel that it is broadly range bound as far as inventory looks at this point. We will continue to attempt to rationalize it further. We make some improvements in Q3 over Q2 as well but the likelihood of a large reduction or anything of that sort on inventory is ruled out at this point because it is coinciding with ramp up so that I hope answers your question on the inventory front. Receivables have anywhere been largely range bound for the company so there is nothing much we need to say on that front. So our attempt will be to make sure that our ramp up process does not incrementally consume a lot of working capital that could be our focus.

Vikram Suryavanshi: Okay Sir thank you very much.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Good to see come back in terms of your earnings. So I have few questions. So first is any one off cost in this quarter from Doddaballapur or the European. Obviously European entity has restructured but any more cost, one off cost coming from those areas?

Shrikant Himatsingka: Resham it would be honest I would not call them one off cost but we have shared with investors earlier our legacy business was in the red it continues to be in the red although the quantum of losses has come down marginally but it continues to be in the red and most of our European restructuring was concluded during the last fiscal we have some marginal expenditures that are still being incurred but nothing major so all in all both these buckets put together still contribute a red number to the total which we would like to reverse going forward so we are working on that.

Resham Jain: So this number was like 7 to 8 Crores earlier is it similar or is it come down from there.

Shrikant Himatsingka: Talking at pre tax levels.

Resham Jain: Yes, at EBITDA level.

Shrikant Himatsingka: So our EBITDA level is approximately it was that it is now maybe in the region of half that quantum.

Resham Jain: Got it sir. Sir my second question is on the uncertainty with respect to the incentive rates which we are not sure what that rates will be in that situation how do we price our product with the customers because they are typically either it is passed on or we need to absorb but from 1st of January we are already selling and taking newer orders as well so how should we think about this.

Shrikant Himatsingka: So fair question Resham I mean the uncertainty in terms of what the government will announce theoretically remains. I mean as the industry has an incline but we cannot go by inclines and things like that we will have to wait till they announce rates. And should it have an adverse impact vis-à-vis what is in force today. As then again one would have to look at largely passing it on and absorbing some along the way. There is no other way I see this is being addressed.

Resham Jain: Okay but are the contract include this kind of actually now the kind of situation.

Shrikant Himatsingka: No contract to my knowledge whether in our case or any other case can have any clause and or any sort of understanding wherein a change in export incentives will change pricing to best of my knowledge there is no such possibility. So it would be an issue across the board and everybody would have to either absorb it or pass it on or do a hybrid of both.

Resham Jain: Got it sir and my last question is sir in the last year post quarter we did some inventory write-offs which is getting like prudent accounting in because of uncertainty any write-backs we have seen or any write-backs we expect going forward. Yes, that was the last question thank you.

Shrikant Himatsingka: So I think a fair question Resham I do not see any because we are fairly prudent in taking them and predictions were correct so I do not see any write backs as such.

Resham Jain: Okay, thank you.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to the management for closing comments.

Shrikant Himatsingka: Thank you all for taking the time and things tacking we clarifying the doubts that you have please do get in touch with us should you have any questions, we will be more than happy to deal with your queries and questions thank you again and I look forward to interacting with you all during the next quarter. Thank you very much.

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