"Raymond Limited
Q1 FY2019 Earnings Conference Call"

August 01, 2018

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Moderator: Ladies and gentlemen good day and welcome to Raymond Limited Q1 FY2019 earnings conference call hosted by Antique Stock Broking. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijeet Kundu from Antique Stock Broking. Thank you and over to you Sir!

Abhijeet Kundu: On behalf of Antique Stock Broking, I would like to welcome all the participants in the earnings call of Raymond Limited. I have with me, Mr. J. Mukund who is the Head of Investor Relations of Raymond Limited. Without taking further time, I would like to hand over the call to Mr. Mukund. Over to Mr. Mukund!

J. Mukund: Thank you Abhijeet. Good evening everyone and thank you for joining us for Q1 FY2019 earnings conference call. I hope all of you would have received the copy of our results presentation. I would kindly urge you to go through this along with the disclaimer slides. We have with us today Mr. Sanjay Bahl, our Group CFO, Mr. Sanjay Behl, CEO of Lifestyle Business, Mr. Vipin Agarwal, President - Corporate, and Mr. Bibek Agarwala, CFO of Lifestyle Business. I will now hand over the call to our Group CFO who will give you the summary of the results before we open up for Q&A. Over to you Sanjay!

Sanjay Bahl: Thank you Mukund and good evening Ladies and gentlemen. Thank you for joining us today on this earnings call to discuss the results for Q1 FY2019.

Let me briefly discuss the prevailing market condition in Q1 for the industry as a whole. Generally, Q1 is a moderate period, given the seasonality. The quarter started with subdued consumer sentiment, which continued till the month of May. Also, the secondary market offtake was lower due to lower number of wedding dates, which especially impacted the suiting fabric market.

In the apparel sector, at the retail sector level, the offtake was relatively lower in the month of May. However, demand slowly picked up with the early onset of the end of season sale in the month of June. At an overall level, it was a heavy discounted quarter for the apparel sector led by the EOSS period and low consumer demands. So all in summary, a challenging quarter.

Coming to our quarterly performance. I am happy to share that this quarter's performance is on track with the growth momentum being maintained. The quarter witnessed a growth across all segments. Our overall revenue grew by 4%, however, on excluding the GST impact, it grew by 8%, which is in line with the guidance given in the last quarter and the EBITDA margins improved by 176 basis points, which exceeds the guidance given in the last quarter on margins.

In a quarter with subdued consumer demand, strong focus on operating efficiency and cost management helps in achieving a net profit before exceptional cost of Rs.1.3 Crores. Also we

achieved this net positive profit after including and absorbing the cost of Amravati and Ethiopian plant related depreciation and interest of Rs.8 Crores in the results, which, on a like-for-like basis was not there in as a comparable number quarter one of last year.

Revenue growth across all segments, to give you a perspective; the overall revenues, as I said, grew by 8% without the GST impact on the backdrop of growth across all segments. The Branded Textile segment grew by 7%, led by growth of 23% in B2C shirting business, while the suiting business grew by 3%. The Branded Apparel segment grew by 10%, led by growth in MBO channels and contribution from new consumer segments. The B2B businesses of garmenting and high-value cotton shirting witnessed high-growth of 14% and 23%, respectively. Both our engineering businesses continued to perform well with the Auto Component business growing by 21%, led by strong demand from the commercial segment. The growth in the Tools and Hardware business was 18%, driven by the domestic market.

On EBITDA margin, the overall EBITDA stood at Rs.107 Crores, a growth of 32% over last year. The EBITDA margin was 8.3% as compared to 6.6% last year. The margin growth was driven by improvement in Branded Apparel margins largely on account of reduction in discretionary spends, higher sales with improved product mix and high-value cotton shirting segment and profitable growth in the engineering business.

The margins were lower in the Branded Textile segment largely on account of increase in raw material cost, a change in our portfolio mix between domestic and exports, and due to a central cost allocation of 1% of turnover.

The company entered into contracts with group companies for allocation of central cost from the current quarter, resulting in allocation to its group companies and business segments. Central costs pertain to support function expenses at the group corporate level. Segmental results of previous periods are therefore not comparable to this extent although, the impact on the net profit of the group is insignificant. The amount allocated in this quarter is Rs.12.5 Crores for the quarter. At the consolidated level this does not have any impact on results; however, the segment levels it is impacting the EBITDA margins by ~1%.

Additionally, EBITDA includes interest on income tax refund of Rs.9 Crores in the first quarter FY2019 versus Rs.5 Crores comparable figure for last year.

A brief look at the cash flows: our free cash flow was negative during the quarter at Rs.216 Crores. Our cash flow from operations for the quarter was negative at Rs.135 Crores, mainly due to higher networking capital, which is largely due to inventory, which is normally built up to service our Q2 sales.

An overview of debt gross debt stood at Rs.2578 Crores as on June 30, 2018 versus to Rs.2263 Crores last year, and the net debt was at Rs.2135 Crores as on June 30, 2018 versus Rs.1825 Crores last year. Our net debt levels increased this year mainly due to the manufacturing capex invested in Ethiopia and Amravati plants.

Net debt-to-equity was stable at 1:1 compared to last year. The average interest cost increased by 30 basis points to 7.9%. On the working capital front, the net working capital days on a trailing 12-month basis marginally increased from 99 days in June 2017 to 101 days in June 2018, mainly due to inventory buildup of Q2 sales.

Now let me highlight the business initiatives undertaken during the quarter before discussing the segmental performance.

Coming to Mini TRS. In line with the stated asset light expansion approach in the core textile and apparel business, we opened 10 Mini TRS under the franchisee route during the quarter. As we had explained in the annual investor meet, these are new design, smaller format franchise stores, which are being opened in Tier 3, 4 and 5 towns. Overall, till date, we have opened 101 Mini stores in 80 plus towns, mainly in the Tier 3 to Tier 5 towns.

During the quarter, we have opened 5 more franchise-based tailoring hubs, taking the total number of tailoring hubs now to 30. This is in line with our stated strategy of facilitating quality tailoring services through tailoring hubs, which tailor the customer requirements in a quality-controlled environment.

Coming to segmental results. First, Branded Textile. Our Branded Textile segment sales stood at Rs.589 Crores, which was higher by 3% on a year-on-year basis. However, after excluding the GST impact, it was up by 7%, mainly led by the suiting business grew by 3%, excluding the GST impact. It was impacted due to seasonality, moderate consumer demand and lesser number of marriage dates. However, the exports business grew by ~40%, mainly driven due to higher sales in U.S., Europe and Far East markets. The volume grew by 1.2% and ASP improved by 2% due to the better product mix.

Our shirting business grew by 23%, after excluding the GST impact across all channels. The growth was driven by 7% growth in volumes and a 15% growth in ASP on account of a better product mix. Our EBITDA margins were lower at 7.5% as compared to 10% in the previous year, mainly due to impact of raw material cost, change in the portfolio sales mix between exports and domestic, and as I explained earlier, the central cost allocation of 1%.

Coming to Branded Apparel: our Branded Apparel segment's topline stood at Rs.278 Crores. It grew by 3% over the previous year. However, excluding GST impact, the like-for-like growth was 10%. The moderate growth was mainly on account of lower consumer sentiments in April and May. However, overall, the quarter was positively impacted by the onset of early end-of-season sales in June.

The overall growth for the brand on a YTD basis were, Park Avenue grew at 2%, Raymond at 11%, ColorPlus was negative at 2%, and Parx grew by 15%. Our new customer segments, Ethnix and Next Look have performed very well. Our channel sales growth was as follows: TRS degrew

by 4%, MBOs grew by 16%, EBOs by 8% and LFS degrew by 6% as compared to previous year. This quarter, our online sales also contributed to the overall sales for the apparel business. EBITDA margin for the quarter was 2.4% against a negative EBITDA margin of 2.4% the previous year mainly due to sales growth and lower spends.

Coming to our retail channel - Our exclusive network stood at 1236 stores. Our like-to-like growth has been negative at 6% during the quarter. Secondary sales across the entire exclusive network of stores grew by 2%. The lower growth was largely, as explained earlier, due to lower wedding dates and moderate consumer sentiments. During the quarter, we opened 32 stores and closed 15 stores. 4 stores renovations were completed in Q1. Currently, 11 stores are under renovation. In line with our stated strategy of expanding the network through an asset-light model, we have opened 10 Mini TRS stores and 4 Style Play stores that is exclusive MBO through the franchise routes.

In the Garmenting business, sales were at Rs.164 Crores, up by 14% over the previous year, mainly led by export growth in Europe. The EBITDA margin was maintained at about 6%.

High value cotton shirting segment sales were at Rs.158 Crores, which reflected a growth of 20%; however, excluding the GST impact, the growth stood at 23% on account of better offtake by the customers. The EBITDA margins improved to 12.4% as compared to 9.6% in the previous year on account of better product mix.

Tools and Hardware business: In the Tools and Hardware business, the sales stood at Rs.96 Crores, up by 10% over the previous year; however, without the GST impact, the growth was 18%, driven largely by better performance in the domestic market. The turnaround strategy of building operational efficiency and product rationalization helped in improving the EBITDA margins to 8.3% from previous year margin levels of 6.8%.

The Auto Components business revenue was at Rs.63 Crores, higher by 16% over the previous year, and after accounting for the GST impact, the growth was 21%, driven largely by strong demand from both domestic and international customers. EBITDA margins improved substantially to 24% from 19.5% in the previous year, due to better product mix, productivity improvement and cost efficiency. Overall, the business is maintaining its profitable sales growth momentum.

On the real estate segment, we are currently in the process of seeking all the requisite approvals from the authorities, pertaining to the commencement of the project.

Coming to capex. Our capex spend was Rs.30 Crores during the quarter, mainly comprising of expenditure in Ethiopia plant, which was Rs.5 Crores, stores renovation and rollout was another Rs.5 Crores. Auto Component expansion is ongoing, and regular maintenance of our plants and others really took the balance amount. The actual capex is lower than the Rs.65 Crores guidance

given in the last earnings call, mainly due to phasing of maintenance capex and Auto Components business expansion in the coming quarters.

Now coming to guidance for the second quarter. During the month of July, the consumer demand continued to remain moderate at retail level. However, we expect the overall consumer sentiments to improve, supported by shift to the new season stock and onset of festivities starting August. Accordingly for the Branded Textile segment, we expect top line growth of high single digits. For the Branded Apparel segment, we expect top line growth in mid-teens, driven by growth in power brands and increased contribution from new customer segments.

Also from a Branded Textile margins perspective, several initiatives are underway to part neutralize the steep hike in the wool price. These initiatives include wool microns optimization, process optimization and a nominal price hike. At a consolidated level, we are expecting early double-digit revenue growth over the previous year. We expect to maintain our EBITDA margin as compared to the previous year. Due to commissioning of Ethiopia Garmenting and Amravati linen plants, our depreciation and interest costs will be higher by Rs.11 Crores in Q2 for FY2019 as compared to the previous year. The capex guidance for Q2 would be around Rs.110 Crores, mainly related to retail expansion, new stores, auto components, capacity expansion and maintenance capex.

With that, this ends the commentary for the first quarter results. And now, I will open the floor for questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.

Abhishek Roy: Good afternoon Sir and thank you for taking my questions. Sir, my first question is on the intersegmental revenue part. Sir, if I compare it with the previous year on consolidated revenue basis, so it stands at around 7.4%. While last year it was around 5% and rest of the year, it was around 4% to 5% odd levels. So can you tell me the reason why it was up so much?

Sanjay Behl: The observation on numbers indicates a little higher sales from Raymond Limited to our garmenting business. And that is basically triggered by the strategy of moving from a fabric-only and the garment-only conversion sales to integrated strategy of offering a one-stop solution to our customers. So just to clarify this basically, earlier some of our customers in U.S. and Europe used to do a fabric-forward strategy to the company where we were supplied fabric and we were working as converters of the fabric to garment. And we were able to retain only the garment margin within Raymond Group. Now we are approaching our customers and pushing a proposition of full solution coming from Raymond, which is fabric plus conversion. That is leading to increase. If you see actually this little bit more prolonged period over the last 2 to 3 years, you will see this progressively increasing. Though the increase is a little more pronounced in the quarter that you are talking about, but there is a progressive increase where we are moving

a lot more towards Raymond fabric for the converted garments to our customers in international markets. So you will see this coming up. But over time this will get amortized at a certain level. So if you look at it this quarter, we would have moved a little more so that to complete our garment orders next quarter. But over time if you see about 3 to 4 quarters, you will get a better, more realistic picture about the increase that is happening. But this strategy actually leads to help Raymond group retain a higher integrated margin than actually getting somebody else to supply fabric to us, and we doing only the conversions. That is why it is there.

Abhishek Roy: So you are saying that for the coming 3 to 4 quarters, it will be around same percentage-odd level and it will be stagnant after that, right?

Sanjay Behl: It can move up a little bit by 0.5% - 1% in a quarter. Could happen depending on how the orders really build up. For example, our second half order books are looking good. And hence we had to move a little bit more fabric now given the supply chain and the lead-time there. But in case there is a soft quarter in terms of supply chain, this could change also. So I would say that beyond a point, it will be within the region that you are seeing now for some quarters.

Abhishek Roy: Okay. And Sir, coming to the Branded Apparel, your ColorPlus segment is actually shown negative numbers.

Sanjay Behl: That is right.

Abhishek Roy: Like when we observe, like one quarter, it gives positive numbers, then again it comes back to negative numbers for the next two quarters.

Sanjay Behl: That is right.

Abhishek Roy: Sir why is it going like that? What is the strategy that you are taking for ColorPlus because I think because of that your Branded Apparel numbers is actually coming down by certain percentage?

Sanjay Behl: Yes. So your observation is factually correct in terms of ColorPlus having recorded a decline of 2% in Q1 YOY basis. So having said that, the strategy in ColorPlus is to really sharpen the product quite dramatically, so we cut down about 18% of our options last season. We cut down about 22%-23% of option this season, which basically means that we are trimming the portfolio, unifying the portfolio to make it strong, sharper in terms of our product presentation to the customer. And part of the cleaning up impact will be there in this quarter. And that is what you are seeing for the last 3-4 quarters in your trends of saying that, is this going to eventually add up to a sustainable high-growth going forward. So that is one part of the reason. The other part of the reason has been an exceptionally poor quarter, which Sanjay mentioned in his opening speech, a quarter of low retail throughputs and a very sluggish April and May. We saw some pick up in June. But if you compare to last year June, there was a lot of liquidation which had happened last year because of GST and that could have been part of the impact in June. So by the time we picked up, because of end-of-season sale, this quarter, it has

already had confronted a base of June last year. And April, May was, a bit mass, a lot of other auspicious periods, marriages not being there, general sluggishness in retail, if you see any sector in the industry - faced a little lower retail sales and we faced it by about anywhere between 6% to 7%. ColorPlus has a mix where ~60% of its sales come from exclusive brand outlets, unlike other brands in Raymond portfolio, which have a very large portion of Raymond shops and multi-brand outlets. In this, there is a little more heavy weighting versus other Raymond portfolio of retail sales. So combination of three factors, one is this whole process, which we are undergoing of transforming the brand to become sharper, cleaner. The second reason is generally a quarter with a little more sluggish in terms of retail offtake, and third, a heavy weighted mix of channel is really leading to ColorPlus having a quarterly flattish kind of a scenario. Having said that, your next part of the question was, when do we see this really recouping and will this start seeing some progressive gains as we go forward. At overall branded apparel level, we are maintaining the guidance of mid-teens to high-teen growth till 2020. So basically, we do not see any reason for us to indicate any change in that guidance, because that is the kind of overall growth momentum we see in our apparel brands. ColorPlus will have a role to play in that and will see some accelerated growth as we go forward. So we should start seeing now ColorPlus converting into a positive territory of a single-digit growth over the quarter-to-quarters and eventually getting into a double-digit growth by the exit of this year. So we should start seeing as the festivity mix in, as the retail is getting into a little better momentum and sentiment, plus the brand and the product getting clean up, retail getting some traction, we should see ColorPlus getting growth. So that is the overall answer to your question.

Abhishek Roy: Sir, I think you can also promote ColorPlus as your weekend casual. So I think that might help in getting more focus or more visibility in that front.

Sanjay Behl: We will consider it. We value it. Thank you very much for your suggestion.

Abhishek Roy: And Sir, my last question is on your minority interest part. Sir this period, you have paid around Rs.1.9 Crores. But, I think, you have around three businesses that you are putting it under that minority interest holding, so why such amount was paid, because if we consider then your consolidated net profit is at Rs.2 lakhs only?

J. Mukund: So the minority interest is basically driven by improved business performance of Auto Components business, High-Value Cotton Shirting and T&H as well, where we have got some minority stakeholders. So this businesses have performed really well. So that part related to minority is what is getting reflected here.

Abhishek Roy: Sir, can I have that numbers if you have that for the...

J.Mukund: I do not have immediate breakup of the numbers. I will give you offline.

Abhishek Roy: Okay Sir. Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Thanks for the opportunity. Well coming back to our debt, is it fair to assume that our current quarter debt is the highest we will have? Is there any further scope to go up?

Sanjay Bahl: If you look at the total debt that we have as of now, there is growth in the business, which is going to happen in the Q2, Q3, and Q4. So whereas the inventory levels have been built up to service the Q2 growth, but our growths are expected to continue, and working capital infusions will need to happen as we grow our Branded Textile and Branded Apparel businesses. So when you look at the ideal benchmark to see is working capital and as a percentage to our sales and that will be kept at a very stable level, which reflects the efficiency in the business. However, at an overall absolute value, when you look at debt, it may go up as we grow the business. But it will be largely working capital funding because the capex that we have, as already stated, is going to be largely funded from our internal cash flows. But we may need short-term working capital funding to service our growth.

Chetan Phalke: Okay. So in absolute terms we do not see debt going down significantly from current levels in FY2019 or FY2020 per se?

Sanjay Bahl: Yes. There are separate measures, which we are looking at in terms of how do we bring the overall absolute debt down. But those are monetizing of assets etc, and all but those are separate measures. On an absolute operational basis, the debt levels will remain more or less in line and may go up as we need more working capital to service our growth.

Chetan Phalke: Okay. Sir, my second question is can you throw some light on our depreciation and capex run rate for FY2019 and FY2020? Any indicative to those?

Sanjay Bahl: So depreciation that we see is higher than last year, currently because of the investments that we did in Amravati and Ethiopia. So that is really the impact of that. Otherwise, without these two investments, the depreciation would be lower than last year.

Chetan Phalke: Will it go up from here? Can we expect it to go up? Or has it peaked out, that is what I was asking?

Sanjay Bahl: Our capex investment cycle has peaked out in terms of capacity addition. So depreciation should remain more or less in the same range.

Chetan Phalke: Okay. And Sir one last question our cash flow from operations was around -ve 135 Crores. So any indicative guidance going forward how it will improve? In what direction what should be the number that we should expect going forward? Or any broad range that we should expect. What are the Initiatives on net working capital days from that we have taken and how it will pay off?

Sanjay Bahl: If you look at, overall we have given guidance that our overall consolidated revenues are going to be close to double-digit growth. We have stated that our EBITDA margins would be seeing growth of 80-100 basis points over last year on a full year basis. Our cash flows will reflect the positive profit generation as a result of this. Working capital, we have stated that we are working capital efficiencies will be there. We will maintain the working capital as a percentage to our sales. So we expect that and with the capex spend now more on maintenance and asset-light expansion strategy, the focus is to generate a higher level of free cash flow. So I think this is really the guidance that we can give us at this stage, without getting into absolute numbers. But overall, this will give you a perspective on our approach towards higher free cash flow generation.

Chetan Phalke: Okay. Sir, can we say our net working capital days will be better than FY2018 in FY2019, FY2020 going forward?

Sanjay Bahl: Yes. That is the all effort, is to keep improving our inventory cycles, our inventory base, our debtor number of days is already showing a positive variance there. We are extending our vendor financing options on our sourcing side of the business. So the whole focus is really to tighten our working capital cycle and that is continuing.

Chetan Phalke: Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Zain Iqbal who is an Individual Investor. Please go ahead.

Zain Iqbal: Thank for the opportunity Sir. So in Q2 FY2018, we benefited from an earlier customer season. So what gives you the confidence of a double-digit revenue growth on that high base considering that the festival like Diwali was in mid-November and last year it was in October?

Sanjay Behl: Yes, so I think multiple things are really building up. As you know that there was a little inflated base of quarter one last year because of pre-GST clearances there, which did impact some part of Q2. I think that neutralizes pretty much the Diwali factor. As we've talked about, I think it is about 10-day difference last year to the end of October, this year it is November 7, 2018. So it is not too much of a change really and pretty much gets neutralized on that basis. What gives us confidence of our double-digit growth is coming on the back of our bookings that we have been doing over the last few weeks, both in our regular business, because typically the business model is that we book for autumn/winter and spring/summer, 6 to 8 months in advance. And the momentum that we have seen and the sentiment we are seeing in bookings for most of the products that we have introduced, the product innovations that we are going to bring in the market over the next few quarters have met up with a fairly strong trade demand. And so it is on the back of, I think, validation both from the market channel partners and a series of product innovations that have been lined up, which are giving us a reasonable level of confidence that we should be only able to accelerate the growth from here on.

Zain Iqbal: Okay. Sir, my second question is on Branded Textile. So the 7.5% EBITDA margin is the lowest Q1 margin in many years. So can you share more details on the outlook around raw material price trend and the central cost allocation?

Sanjay Behl: So if you look at it, you should look at this as not 7.5%, you should look at it as 8.7% because that is the impact of the central cost allocation, which is merely an accounting entry. So there is a 130 bps kind of a dilution versus Q1PY, if you really start looking at strictly comparable basis.. In this 130 bps thing, I think there are three fundamental reasons there. One is again, this was mentioned by Sanjay, but let me give you a little more flavor with numbers there. The first is the product mix in quarter one has been in favor of low margin export business compared to relatively much higher margin domestic business. So that is - domestic has grown by 3% and the export has grown by close to 35% to 40%. So we are talking about a fairly skewed kind of a mix, impacting margins to some extent. That is the 130 bps point on our business, obviously does about Rs.600 Crores equivalent in a quarter. The other part - this is only one part of the 130 bps, it is still not skewed at very heavily because our domestic margins are fairly really strong and export is a smaller contributor, despite a very heavy growth. The second thing, which has happened, is really - is the cost of raw material going up, especially wool. So if you compare purely on wool, last year, we bought wool at about, let us say, the blend that we used, close to the price of about Rs.830 - Rs.840 a kg, let us look at that Raymond mix. This year, the prevailing price is Rs.1025 for the same thing. So there is a 23% hit in the wool raw material cost, which if you convert it to our volumes and our consumption is Rs.15 Crore hit. So if you really take a product mix impact and this impact that more than makes up for the balance 130 bps, which basically means that the rest of the portfolio, the margin is actually - EBITDA margins have held or improved. So overall, if I have to really single out one factor, I would say for a business like ours, which is not a quarter-to-quarter business, it is a much more matured business. To look at quarter-by-quarter, as margins may not be the most appropriate representation of the health of the business, it is better to look at a little more robust annual trend or a moving annual trend. And if you look at that, I think the only single factor, which stands out in this case is raw material prices, because I leave out the corporate cost allocation, because that is just an accounting entry, and we leave out the mix thing, which, again, could be the way you service orders in a particular quarter and as you rightly picked out when is Diwali, when is the season coming. If I really take out seasonality and that part of it and allocation, then it is only raw material prices. And raw material prices, we have multiple initiatives in place. I just want to probably address some other questions that may come in this regard. The first is - we are doing dramatic amount of micron optimization. So there are some microns of wool where the prices relatively gone up even more than the blended price. Some microns of wool where the prices have not gone up so high. So there is some level of micron optimization, which is being done in our blend so that we do not think the entire hit of the price increase, which is happening, by changing our mix. The second thing, which is happening is there is some level of process optimization, which is also happening, which is more towards, can we get a little extra yield or little less surplus or waste we get out of that. And that adds to a little more to the yield of the entire product. And the third one is price increase. So we have already taken in our current cycle of booking, we are going to take some level of price increase, nominal, which is about 3% to 4% to partly offset. Now if all the three

engines are running right now already and that actually has helped us to neutralize the cost increase by almost 50% of the impact we could have had in the first quarter itself. So we have been able to recoup Rs.7 Crores to Rs.8 Crores of margin because of all these initiatives in place, and we hope that this will continue. And our plan is basically to make sure that all the three things fire over the next one or two quarters when we expect the prices to remain at these levels. Towards the end of the year, we expect the prices to start softening a little bit. And towards the end of the year, hopefully, these prices will stabilize a little lower than that current levels. So our forecast is that, prices will remain a little lower than the existing levels, though it will be significantly higher than the last year. However, I just want to reassure you that with the multiple initiatives we have, we should be able to offset part of the price increase that we already have in this year with us, that us to take care of the business.

Zain Iqbal: Sir, what is your full year guidance of EBITDA margin for Branded Textiles?

Sanjay Behl: So we, last year, have reported 15.7% operating margins. And this year, it should not be any different. I do not think there is any reason for us to worry. While the first quarter last year was 10%, the full year was 15.7%. This year the first quarter, I would say, 8.7%, comparable if you go for that. I think with the kind of orders we have, we should be looking at pretty much 15% to 16% range. If we have a good three quarters, we could inch up towards 15.5%- 16%. But if we continue to have these levels of wool prices, it could be a little lower than last year. But it is not a significant variance over last year.

Zain Iqbal: Thank you very much Sir, very kind of you. All the best.

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Sir, can you give the export mix in the Branded Textile revenues for this quarter as well as the last?

Sanjay Behl: So we have about close to about 15% to 20% of our volumes really come from export. So you could take the additives mainly depending on how we service the orders, but it is in the region of 15% to 20%.

Dikshit Mittal: Okay. Sir, any idea of what will be the margin differential between domestic and export sales?

Sanjay Behl: 1:2, so domestic is more profitable by two times of an export mix.

Dikshit Mittal: Okay. Because if you are getting 15% blended, so that means export margins are in the high single digits, right?

Sanjay Behl: That is right. And then there is only 20% of that weightage. 80% of the weightage is on the domestic.

Dikshit Mittal: Okay. And Sir, I missed your like a wool inflation part. Sir, can you give the Y-o-Y basis?

Sanjay Behl: Y-on-Y basis, it is 23% up.

Dikshit Mittal: 23% up. So in spite of this inflation, you are hopeful of maintaining the margins in this segment?

Sanjay Behl: Because of the initiatives I talked about and because of the demonstrable evidence in the first quarter, where most of this price increase -- half of the price increase has already been neutralized. And then we expect some softening in the prices. So combination of some softening from that side, from the on-site and some initiatives from the supply side, I think combination of both more or less will help us neutralize the impact of the wool and whatever is the balance we already have built into other initiatives that we have across the business. So I do not see any derailer. At this point of time, I do not want to give guidance on a derailer. But if it goes on and near to the time, we will let you know in case there is a red flag.

Dikshit Mittal: Okay. And secondly, Sir, this is a central cost allocation that you have done across the segment. So it is across the segment site. So can we assume 1%, 1.5% EBITDA impact on all the reported margins?

Sanjay Bahl: We estimate it to be 1% for the current year.

Sanjay Behl: That is, right. You can assume that.

Dikshit Mittal: Okay. So in fact you have made 3.5% margins in the branded Apparel.

Sanjay Bahl: That is right. 3.4% is apparel, 7% is garmenting. You can add just 1%.

Dikshit Mittal: Okay. So now Unallocable expenditure will be in the R.4 Crores, Rs.5 Crores kind of range, right, because earlier we had high unallocable expense.

Sanjay Bahl: That is the balance. So whatever we had last year, it will take 1% of revenue, put it back to segments. Whatever is the balance will be the corporate.

Dikshit Mittal: Okay. And sir, what was the capex in first quarter?

Sanjay Bahl: Rs.30 Crores.

Dikshit Mittal: Rs.30 Crores. So the full year guidance of around Rs.200 Crores to Rs.250 Crores remains or?

Sanjay Bahl: That remains. Yes Rs.250 Crores does remain.

Dikshit Mittal: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Govindlal Gilada who is an individual investor. Please go ahead.

Govindlal Gilada: Good afternoon Sir. Thanks for the opportunity to ask the question. I got a few questions here Sir. One thing regarding this year guidance, you are giving some 100 BPS margin improvement. In the overall Branded Textile best-case scenario, we are going to maintain margin. So this additional margin on the overall sale based we will be getting, Sir?

Sanjay Behl: So there are other businesses, for example, you have already seen a margin improvement in apparel business, you have seen a margin improvement in Garmenting business, you have seen a margin improvement in shirting business. All three are there with significant margin improvement already in the first quarter you have seen that. At a company level, you have seen 170 BPS margins up there. So there are other parts of the businesses. Auto is doing well. There are other businesses, which are Tools, and Hardware is doing well. So there is a significant improvement in margins, which is happening on other parts of the business. So I think that weighted average, we should be able to see and if we are able to manage the raw material prices there, even if we are able to hold textile, I think we should be pretty much within the ballpark of 100 BPS increase this year that given our guidance.

Govindlal Gilada: That is as of 2019. What about 2020, Sir? What we have guidance in investor meet, we are on target to achieve that?

Sanjay Behl: Yes, we have given a 70 to 100 bps point increase over 2019 for FY2020. That was the guidance, which was given and on a revenue growth of about 10% to 12% for FY2020 and a return on capital of 12% to 15%. These are three specific guidance we had given and on all the three at this point of time, we will like to maintain our guidance.

Govindlal Gilada: Yes, that is great, Sir. Then on real estate Sir, you have announced that Rs.300 Crores debt will be raising for this initial 20 acres what we are going to launch. So that will be in debt or in due course that will be raising extra debt?

Sanjay Bahl: That was really linked to the progress on the project. But however, in real estate, it all depends on us securing all the approvals for commencement of the project. So this Rs.300 Crores was the estimated project expenditure for the current year. Some of the expenditure may get deferred to the next year. A lot of it depends on when we secure approvals and we commence the project. And I think when we are ready to make the announcements after having secured the approvals is when we will give you a firm estimate on what will be the expenditure in the current year and the next year related to the project.

Govindlal Gilada: Perhaps some indications can you use? What kind of statistics economic or projects, sales realization channel like cost of construction, etc., it will be?

Sanjay Bahl: Yes, so all those, I think, will just have to wait. We would not like to make any speculative announcements at this stage. We want to secure, be conservative here, secure all the approvals,

be in a ready state to commence the project, and then give and share all the details on the launch and on the way we are planning it, etc.

Govindlal Gilada: So some approvals, I think, it has been mentioned that we are pending it and they are at advanced stages. So any rough time table you can give us, Sir, when we are - we can suppose to launch plus, minus one, two months?

Sanjay Bahl: So ideally, we should secure it in by end of Q2 that is our target that all approval should be in place by end of Q2. That is what we are hopeful of getting. So the team is working towards that.

Govindlal Gilada: And we announced that this first the 20 acres you will be adding some 3 million square foot. Is it right Sir?

Sanjay Bahl: Yes, that remains. That remains. The development will be on the land parcel of 20 acres, roughly translates to 3 million square feet. That remains.

Govindlal Gilada: And it will be completed in 5 to 6 years?

Sanjay Bahl: Yes, that remains.

Govindlal Gilada: Yes. And one more thing. Just in your initial comment, you told that Rs.11 Crores will be a higher depreciation interest, which is versus sequential or last quarter, Sir?

Sanjay Bahl: No, this was with respect to the previous year i.e. Year on Year

Moderator: Sorry to interrupt, Sir, may I request you to please return to the queue for any follow-up?

Govindlal Gilada: This is the last question. So for full year, how much we can expect Sir, depreciation interest will be for full year this year? Any indication?

Sanjay Bahl: So full year would be about close to about Rs.40-odd Crores total. That is the incremental depreciation that we will have vs PY

Govindlal Gilada: Pardon Sir?

Sanjay Bahl: About Rs.40-odd Crores incremental this year.

Govindlal Gilada: I am not able to hear Sir.

Sanjay Bahl: 40.

Govindlal Gilada: 40 will be extra depreciation.

Sanjay Bahl: Yes, that is right.

Govindlal Gilada: Interest plus or how much it will be?

Sanjay Bahl: No, interest will be additional.

Govindlal Gilada: Yes, that is what I am asking. The last year versus this year, how much we can expect?

Sanjay Bahl: If we look at the depreciation, that will be about Rs.40 Crores. The interest will be another Rs.20-odd Crores.

Govindlal Gilada: Rs.20-odd Crores versus last year?

Sanjay Bahl: Yes.

Govindlal Gilada: Thanks Sir. That is from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Siddarth Mohta from Principal India. Please go ahead.

Siddarth Mohta: Good afternoon Sir. So my question is with respect to our Branded Textile. So couple of quarters back, Sir you have given that by 2020, we will try to increase EBITDA margin in this segment to 18%. And currently in FY2018, it was 15.7%. So if you can help me with the journey from 15.7% to 18%?

Sanjay Behl: Yes, so overall, the way we are looking at the additional 2% or 200 bps point coming in textile is largely on account of better realization from the product mix that we have, which is what we expect. For example, if you look at the overall average selling price of our domestic Suiting business, it is already started going up marginally, but over the last about few quarters, we started inching up more towards the favorable mix. The second thing, if you take out this quarter, exports being a little heavy weighted, but you look at the last two years, the domestic sales versus exports actually the blend has been improving, because exports which used to be close to about 20% of our sale is down to about 15% of our sale. So if you look at the overall mix impact of domestic versus export, that itself leads to a better-blended margin coming back on suiting. So that is the overall Branded Textile margin. The third factor, which again, is very visible in Shirting business as you see, is a dramatic improvement in the overall mix that we are seeing. So if you see the volume growth this quarter, it is only been 7%, but the overall growth has been 23%. So which is a reflection of a huge improvement in the overall mix that we have been able to get and the higher your ASP product and the better product mix has a better gross margin and the better flow-through to EBITDA, given the kind of cost structures that we have. So it is a combination of product mix and a combination of the overall domestic and exports on basis of which we had given you a guidance that we will continue to inch up in terms of our operating margin, which we are obviously at about 16% which is industry best, but we expect that this will go up even further. The only concern versus the original guidance that we have given was raw material prices were assumed at a certain gradient of increase. The current phase that we are facing is the price of wool and to some extent, the oil derivatives like polyester and other thing

with import duties going up, of cotton and other things there which are coming into India, their pricing is going at a little higher than the gradient that we had assumed. However, to make sure that we stick to our guidance and whatever internal plans we have, we have unfold a series of product re-engineering's/optimization/ commodity price control initiatives and pricing initiatives, to make sure that most of the impact, which is really unprecedented impact because of commodity price increase, is neutralized, and we do not see much of a risk in terms of overall margin increase. But my sense is that, whether it is 2018 or whether it is 2017 or whether it is little over 2018 I think that sense, we should be able to get a better fix depending on how raw material prices behave over the next two or three quarters. So I would like to reiterate and probably revisit this guidance, end of this fiscal. However, at this point of time, I think I would like to maintain an overall consol level, we do not see any issue on our overall guidance.

Siddarth Mohta: Sir, because I always heard that the company would always be trying for higher ASP. So it is something not new actually that we are trying to do. And with respect to like domestic and export, I do not understand that it is something also not in our hand, if the opportunity is there in the export to fill our capacity, we would also like to go for an export even if margin is less. So those two initiatives, yes, I do agree that it will help, but I always thought that it was always there like five years back also. So any view on that front?

Sanjay Behl: Yes, but only difference five years back, it was not successful. But now you have a demonstrable evidence of it being successful. The overall mix from wool and polyester has been changing in favor of a lower quality. We have been losing our average selling price from 2008 until 2016, continuously year-after-year. If you see our average selling prices have been coming down. It is only now that we have been able to now fix it. And now, if you start seeing our average selling prices holding to going up marginally, that is the first thing. The second thing is exports are not driven by markets. Export is also driven by the business strategy. If we are able to get more traction on a higher gross margin portfolio and domestic by creating relevant demand, then that can come at the trade-off of lesser exports. We do not need to just do exports because there is demand that is the company policy. So controlling both is the only way to do it. There is no third way that we have in our portfolio at this point of time. There is a channel play, which is obviously going to be a consequence of a great product and a great innovation. So you are wanting - if that is what is the specific that you are seeking, there are about 300 mini TRSs that are getting added, which was not there earlier. So from 2018, 2017 onwards to 2020, we will have 300 new Raymond shops. Now Raymond shops has 1.6 to 1.7x the ASP of Raymond product portfolio compared to the median of the market. So if you have 300 new Raymond stores, up from the earlier 700 that will dramatically improve our ASP and extraction ability of a higher gross margin product. So there is a product, there is a channel and there is a series of product innovation. I think only in the combination of three will be the additional margin. And it is going to be eventually the execution power, progress of the management team to drive those into the right direction and get the blended advantage of margins falling through into operating EBITDA.

Siddarth Mohta: Sir in terms of Shirting as you currently mentioned that even though we have grown by 15%, but value addition is happening, which is being reflected in our ASP, so if you can tell me in case of Shirting, what EBITDA margin it was there a couple of year back? And what it is currently now?

Sanjay Behl: Do we declare B2C, B2B separately?

Sanjay Bahl: It is part of the Branded Textile.

Sanjay Behl: It is part of the Branded Textile. It is mixes in there.

Siddarth Mohta: Correct. And Sir, in terms of Ethiopia, so I wanted to understand that it is a low-cost manufacturing hub and it would add to our garment EBITDA? And the guidance, if I am not wrong, it was given that our garment EBITDA margin, it will be 10%. You can correct me on that. So by FY2020 Sir, we can see that number?

Sanjay Behl: If you see growing up, it is already - if you see last year to this year, the same Y-on-Y, you have seen 1% increase from 6% to 7%. And if we can see - we have still two years ahead of us for the guidance there. And even we can go ahead the current rate of growth in terms of our operating margin, as Ethiopia also grows into better capacity utilization, more stable production and getting in terms of maturity that a garment factory typically takes about two to three years in terms of its optimal yield and efficiency. If you put all those factors together at this point of time, the visibility we have, we are pretty much on track for that.

Moderator: Thank you. The next question is from the line of Saket Saraogi who is an individual investor. Please go ahead.

Saket Saraogi: Sir, most of my questions have been answered. Thank you.

Moderator: Thank you. Next question is from the line of K Y Shah from Alpha Invest Group. Please go ahead.

K Y Shah: Thank you for the opportunity. Sir, in Branded Apparels, despite of our end-of-seasonal sales, we have just grown by 10% in Q1 FY2019, whereas in Q1 FY2018, we have grown by around 18% to 19%, which is actually in line with our target of growing at above industry average rate. So now going forward, what will be our growth and margin guidance for full year basis for FY2019 and FY2020?

Sanjay Behl: So our guidance does not change. I am just reiterating this. We should be recording a mid-teen growth in this quarter and the rest of the year in our apparel business, which is getting back to the industry level of growth. The only one factor you need to just maintain in the last year 17% growth this quarter vs 10% this quarter was also the month of June, which had a very substantial amount of pre-GST liquidation, which happened in most of the industry. And that particular month was, as I said, in retail had about 60% to 70% growth in a particular month, which obviously is abnormal from a consumption perspective which you see. So if you just equate for

that and just look at more a comparable and a little more moving annual total basis and then look at the season, then it starts getting into more comparable levels. So I think that is the first point I want to make. The second point is, is this an indication of an apparel portfolio growth getting slowed down and - versus the guidance? I do not see that happening. I think it is just one quarter correction, if at all one has to put it that way in a long 18% to 20% growth story of the business over the last four years. In fact, Raymond would be - the combination of four brands is one of the apparel companies and you can check the last few quarters we have delivered a strong double-digit growth. And we see this continuing for at least 8 to 10 quarters. So we do not see any slowdown on that, at this point of time. So we will continue with the mid-teen guidance, 15% to 20% kind of a range of growth coming in there. Coming to the next question in terms of EBITDA margin improving, you have seen a significant bump up in terms of our operating margin and despite taking the 1% hit of corporate allocation if you see, there is a significant swing there. This swing has also being driven partly by trading off a little bit of a top line that could have happened because it is just a matter of then the business decision whether you want to really go down the road of an early EOSS after a very poor April and November, which was the industry norm there and that as to when do you want to participate and how do you want to push. So at that point of time, the decision was really to do a very balanced walk between our revenue and profitability. And combination of some prudence in advertising, selling expenses, some discretionary expenses and some level of top line balancing, we have been able to maintain that we should be very, very conscious about the guidance that we have given you, and we're pretty much on the track.

K Y Shah: Okay Sir. And Sir, in garmenting, the EBITDA margins have been maintained at 6% on year-on-year basis. Now given this revenue growth, the evaluation and onetime capital expenses, which we have incurred in Ethiopia in Q1 FY2018, why the entire margins actually were growing on year-on-year basis? And what will be our margin outlook? Could you just - I guess you just mentioned it.

Sanjay Behl: This has grown. Actually, if you see the 1% corporate cost allocation you add it back to the margin, so it has gone up from 6% to 7%, and that is in line with the revenue growth of about 14%. So margins have also grown. So just consider that correction and you will see the margin growth. And as I said, they should be inching up gradually every quarter as we see the quarters going up. But this obviously it has got one or two factors of our Ethiopia stabilizing as our initial plan there. We see that it should be able to stabilize and you have seen good traction in the last three quarters, this factory has been running. So if everything stays as per the plan and that is what we have seen it happening, we should see this margin from 7% then continuing to move up. So your base is now 6% and then from 6%, you will have to start seeing because 1% we will continue to keep getting - added in corporate cost every quarter.

K Y Shah: Okay. And Sir, my last question in real estate. Sir, recently, Birla Century Textile has shared their ten year blueprint for their real estate plan. So apart from this 20 acres, has been there any thoughts about what are you planning for the remaining land? Or how much will be building it out? How much we might be thinking to sale?

Sanjay Bahl: As of now we have just announced the project, the development will be on a 20-acre plot. And the remaining land, there is no plan, which has been firmed up, which we are ready to announce. Now all that will have to wait until we are ready to announce our specific plan with respect to this project.

K Y Shah: Okay Sir. Thank you.

Moderator: As no further questions, I now hand the conference over to the management.

J. Mukund: Thank you, everyone, for taking your time out and participating in this earnings call. In case of any queries, we are happy to help you. You can connect with me as well. Thank you.

Moderator: Thank you very much from members of the management. Ladies and gentlemen on behalf of Antique Stock Broking that concludes this conference call. Thank you for joining us. You may now disconnect your lines.