



“Raymond Limited Q3 FY2018 Investor Call”

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Raymond Limited
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Moderator: Ladies and gentlemen, good day and welcome to Raymond Limited Q3 FY2018 investor 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 would now like to hand the conference over to Mr. Abhijeet Kundu from Antique Stock Broking. Thank you and over to you Sir!

Abhijeet Kundu: Thanks Rio. 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 Head of Investor Relations of Raymond Limited. Without taking further time I would like to hand over the call to Mr. Mukund. Over to Mukund!

J Mukund: Thank you Abhijeet. Good evening everyone and thank you for joining us for Q3 FY2018 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. Bibek Agarwala, CFO of Lifestyle Business, Mr. Biren Shah – Director (Corporate Finance). I will now handover the call to our Group CFO who will give you 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 for this earnings call to discuss our results of Q3FY18.

At first, let me briefly discuss the prevailing market condition of the industry in Q3 in the current year.

Generally, October month is the beginning of a strong festive season period, as there is increase in consumer demand led by festivities and wedding season. However, as highlighted over Q2 earnings call, at the retail sector level, the offtake was relatively lower in the initial days of October month due to slowdown in consumption and continued deep discounting in the apparel category.

The demand picked up in the wedding season during the mid of the quarter. Also, in line with expectation, there was post GST stabilisation of the trade channel especially the wholesale channel in the textile market. The quarter also witnessed early onset of EOSS in the month of December. At an overall level, it was a heavy discounted quarter for the apparel sector led by destocking of transit GST stock and lower than expected consumer demand.

On the exchange rate front, the Indian Rupee has appreciated by 1.8% from \$/INR 65.03 at the beginning of the financial year to \$/Rs. 63.84 at December end. The appreciation was led by the Dollar Index depreciation and strong Foreign Portfolio Investors inflows in the financial markets. This has impacted the exports business.

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 led by asset light franchise store expansion in our core Branded Textile and Branded Apparel segments, well supported by better performance by engineering businesses. Our revenue grew by 14%, however on a like to like basis excluding GST impact, it grew by 18% which exceeds the guidance in the given last quarter and EBITDA growth is 59%, which is in-line with the guidance given in the last quarter.

An overview of the overall revenues

The overall revenues grew by 18% on a like to like basis on the backdrop of strong growth across all segments led by Branded Textile, Branded Apparel and Garmenting segments. The Branded Textile segment grew by 18%, mainly due to wedding season and gradual recovery in the wholesale channel. The growth in apparel segment by 16% was driven by wedding season and early EOSS.

The auto components business grew by 33%, led by robust demand in passenger & commercial vehicles and non-auto segment. The growth in Tools & Hardware business by 34% was driven by better performance in the domestic market and volume driven exports growth in Asian & African markets.

An overview of the EBITDA margins

Overall, the EBITDA margin expanded by 246 bps from 6.2% in the previous year to 8.6% in the current year. This was led by margin improvement in Branded Textile largely on account of strong sales growth along with reduction in discretionary expenses and the strong profitable growth in both the engineering businesses. The margin in the Branded Apparel segment was impacted on account of heavy discounting due to early EOSS across industry. In Tools & Hardware segment, the turnaround strategy of building operational efficiency and product rationalization helped in significantly improving EBITDA margins 10.1% vs. just about negative 0.7% in the previous year. In Auto Component segment, EBITDA margins improved 24.4% vs. 11.5% in the previous year on account of higher realization from the exports and non-auto segment.

However, the Garmenting segment margins were lower than the previous year mainly on account of lower realization in exports due to appreciation of rupee and initial start-up cost of Ethiopian operations.

A brief look at the cash flows

Our free cash flow was positive during the quarter at Rs. 35 crores. Our cash flow from operations for the year at Rs. 213 crore, continues to be positive.

An overview of debt: Gross debt stood at Rs. 2,428 crores as on 31st December versus Rs. 2,129 crores last year and the net debt was at Rs. 1,988 crores as on 31st December versus Rs.1,660 crores last year. Our net debt levels increased this year mainly due to the manufacturing capex in the Ethiopia and Amravati plant. Net debt to equity stood at 1.1 versus 1.0 last year. The average interest cost has reduced by 90 basis points to 7.6%

On the working capital front, the net working capital days improved from 107 days in December 2016 to 102 days in December 2017 largely due to efficient working capital management.

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

- **Commissioning of Linen Facility in Amravati, Maharashtra:** We have developed this new facility in Amravati in a record period of time. With consumer preferences shifting towards natural fibers, this Linen manufacturing facility will enhance our ability to cater to the rising market demand. The facility is expected to produce 1,200 tons of world class Linen yarns and 4.8 million meters of Linen and blended fabrics per annum. The commissioning of this plant reiterates our commitment towards Make in India initiative and socially inclusive growth with significant employment generation.
- **Mini TRS:** In-line with our stated asset light expansion approach in the core textile and apparel business, we opened 17 mini TRS under franchise route. As we had explained in the annual investor meet, these are new design smaller format franchised stores being opened in Tier 3, 4 & 5 towns. Overall, we opened 53 mini TRS stores over the course of the year.
- **Raymond Tailoring Hubs:** In line with our stated strategy facilitating quality tailoring services, we have opened 20 franchise based tailoring hubs till date, who tailors the customers' requirement in quality controlled environment. Our stated target of opening 25 hubs by March end remains intact.

Now, let me discuss the performance of each business segment:

Our branded textiles segment sales was at Rs.768 crores, higher by 14% on y-o-y basis, however, on a like to like basis it was up by 18% led by 16% growth in suiting business and 28% in the shirting business driven by wedding season and recovery in wholesale channel post GST stabilisation. EBITDA margins improved from 13.0% to 15.3% as compared to previous year largely on account of strong sales growth along with reduction in discretionary expenses.

Our branded apparel segment's topline at Rs. 332 crores grew by 7% over the previous year, however, on a like to like basis grew by 16%, led by consumer demand during the wedding season and the early onset of EOSS. The overall growths of the brands on a YTD basis were: Park Avenue: 6%, RPA: 25%, Color Plus: 9% and Parx: 33%. Our channel sales growth on a YTD basis was as follows: TRS by 11%, MBOs by 32%, EBO by 16% and LFS by 15% as compared to the previous year. EBITDA for the quarter positive at Rs. 1 crores, mainly impacted on account of heavy discounting due to early EOSS across industry.

Coming to our retail channel, our exclusive network stood at 1,161 stores. Sales in Q3 across the exclusive network grew by 6%, led by wedding season and early EOSS. During the quarter, we opened 34 stores and closed 15 stores. 8 store renovations were completed in Q3. Currently 33 stores are under renovation. Average same stores sales growth for the renovated stores has been consistently above 20%. In line with our stated strategy of expanding the network through asset light model, during the course of the year, we have opened 53 mini TRS and 2 exclusive MBO through franchisee route.

In the garmenting business, sales were at Rs. 162 crores, up by 26% over the previous year led by exports growth in North America. The EBITDA margin lower at 4.1% as compared to 7.4% in the previous year mainly on account of lower realisation in exports due to appreciation of rupee and initial start-up cost of Ethiopian operations.

Luxury Cotton Shirting Fabric Segment sales at Rs. 149 Crores, grew by 14%. However, on a like to like basis, the growth was 16% on account of better offtake by the customers. The EBITDA margins improved to 10.7% as compared to 10.3% in the previous year on account of reduction in raw material prices and better product mix.

Tools and Hardware Segment sales at Rs. 98 Crores, up by 24% over previous year. However, on a like to like basis, the growth was 34% driven by better performance in domestic market and volume driven exports growth in Asian & African markets. The turnaround strategy of building operational efficiency and product rationalization helped in significantly improving EBITDA margins to 10.1% as compared to -0.7% in the previous year.

Auto Components Segment sales at Rs 49 Crores significantly higher by 29% over previous year. On a like to like basis, the growth was 33% driven by increased demand from passenger and commercial vehicle segments & non-auto segment. EBITDA margins improved to 24.4% as compared to 11.5% in the previous quarter on account of higher realization from the exports & non-auto segment. Overall, the business is maintaining its profitable sales growth momentum.

Coming to CAPEX, our CAPEX spends was Rs.108 crores in the third quarter mainly comprising of expenditure in Amravati linen plant, Ethiopia plant, for stores renovation & roll out, with some CAPEX going in for the regular maintenance of our plants & others.

Now coming to guidance for the 4th quarter.

For the coming quarter, we are expecting the trade channels to come back to normalcy post GST stabilisation. At the retail sector level, the consumer sentiments have been relatively low in the beginning of January however, it has gradually picked up with the continuation of EOSS period. Also, with the restarting of wedding season from mid- January, the trade channels are expected to be on growth phase. At the overall quarter level, we expect the growth momentum to continue.

In the year of structural reforms which had a short term impact across the value chain in the economy and relatively lower consumer sentiments, we stand committed to the guidance given

earlier during annual investor meet in July, 2017 for the financial year FY18: that is annual revenue growth of high single digit for the full year, EBITDA margin improvement by 100-150 bps over financial year 2017

In Q4, we are expecting high single digit revenue growth over the previous year on a like to like basis and further improvement on EBITDA margins on a Q-o-Q basis.

The CAPEX guidance for the 4th quarter is about Rs. 90-100 crores. The investment in retail, new stores and renovation is around Rs. 20 crores, Rs. 5 crores for the Amravati plant and Rs 20 crores for the Ethiopian plant and remaining on maintenance capex & others

As for the store rollout plan for the next quarter, in line with our strategy on asset light expansion, we will be having accelerated stores opening, adding about 75 stores (including about 40 mini TRS). The majority of new stores will be based on franchise model.

Overall, we remain confident of the initiatives undertaken which will continue to enhance shareholder value in the long term. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Puneet Kabra who is an Individual Investor. Please go ahead.

Puneet Kabra: Sir I have a question on the real estate while we are still awaiting the approvals, update on that. Of all the 140 acres of land that we have within the Raymond Group how much of the land is like private or purchased land versus the land that is a lease land from government or purchased at concessional rate, do we have some breakup of that?

Sanjay Bahl: Well for the real estate front I really have nothing more to share other than what I have already mentioned in the last quarter as well. There is a lot of work which is getting done in securing the regulatory approvals and also developing our own feasibility plans on monetising the land, so that is still work in progress. Hopefully by the next quarter we may have something concrete to share. As far as the land details are concerned, within the group yes it is 140 acres, but specific details I will not able to share right now. If there is anything specific that you need we can connect offline and we can share with you that.

Puneet Kabra: I was just looking at, Sanjay Sir, what is the breakup of private versus this and what are the ULC charges applicable for our land. If you can get that detail offline I can just connect separately?

Sanjay Bahl: Those regulatory charges are still in process, which is not something that we will be able to tell you right now what is the ULC charge for that land. It depends also on various factors, so as and when we get any concrete information in terms of any charges that has to be paid and once we have completed those actions, then we will be able to share those.

- Puneet Kabra:** Okay. Another question Sir in the interview that you gave in television for Q1 FY2018, we said that we are looking at double-digit ROCE for the financial year 2018 so do we still maintain that guidance of a double-digit ROCE and what would be the capital employed by the end of this?
- Sanjay Bahl:** No I think what we had mentioned was clearly that the guidance which was given as far as I think references not with respect to ROCE, it was with respect to the apparel business. I think that we have said the guidance, which we have given for 2020 plans, was largely intact.
- Puneet Kabra:** I am referring to interview we gave for the Q1 FY2018 results on the television CNBC we said that for the FY2018, we will have a double-digit ROCE for the full year?
- Sanjay Bahl:** Well we should be close to that I think there is specific numbers, when we average it out, we should be looking at number close to that.
- Puneet Kabra:** What would be the capital employed Sir by end of this year?
- Sanjay Bahl:** We have already shared with you that the total capex as far as the full year is concerned would be in the range of nearly about Rs.370 Crores to Rs. 400 Crores for this year. This is high capex year and there will be commissioning of two plants in this year, and with the expansion plan that we had on the stores rollout front, even though 70% was largely driven by the franchise route but the renovation and the stores expansion plan and the two plants that we had would lead to somewhere around Rs.370 Crores to Rs.400 Crores.
- Puneet Kabra:** So for 2018 we can say that less depreciation should we add about Rs.250 Crores to the capital employed to the last year?
- Sanjay Bahl:** Yes it will result. It also comes out from an increase in our debt levels also, which I have shared with you, so that should be the kind of increase.
- Question:** Thank you Sir. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.
- Chetan Phalke:** Thank you for the opportunity. Sir we can see some good improvement in our net working capital days, which has improved from 107 days to 102 days, so is it fair to say that we are already operating at an optimum net working capital days or there is some further scope for improvement in this? Can we expect something like let us say 90 days or even better in coming quarters or in coming years?
- Sanjay Behl:** Sanjay Behl here. We have to see working capital given seasonality of the business one not at a quarter-to-quarter level, but at a YTD level normally and I think we should look at an annual level average working capital and that definitely it takes care of quarter ending and the festive dates, that is one way to look at it. But just in principle I think direction that you are asking the

management team to give, I think there is further improvement possible. We have consistently kept a very high level of focus on this. My sense is that yes we can look at this consistently improving by about a week to two weeks shaving off at least coming up in the next couple of years.

Chetan Phalke: Sir what is the ratio of net working capital to sales in branded apparels?

Sanjay Behl: It is around 27%-29%

Chetan Phalke: So will it remain the same going forward because we expect our branded apparels to grow faster than other division, to grow at 18% to 20%, so will it improve going forward or it will continue at the same run rate?

Sanjay Behl: It will improve going forward.

Chetan Phalke: So any broad range that we should work out with?

Sanjay Behl: No I think broadly as you rightly said that given our internal growth targets anywhere between 15% to 20% topline, which is what we have been clocking in the last 10-12 quarters now consistently quarter after quarter if you see our working capital in three years has come down from 33% in FY 16 to below 30% currently, so if that is the kind of topline growth we can clock pretty much we can start optimizing it, so you can expect a similar level of gradation of working capital optimization going forward.

Chetan Phalke: Sir one last question.

Moderator: Sorry to interrupt, but may we request you to return to the question queue for follow-up.

Chetan Phalke: Sure. Thanks. I will come back in the queue.

Moderator: The next question is from the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.

Abhishek Roy: Good afternoon Sir and thank you so much for taking my question. My first question is regarding the branded apparel. It has been mentioned that you have reported an EBITDA of Rs.1 Crore in this, but when it is coming out to the EBIT part it is a loss of Rs.4.07 Crores, so can you just tell me whether the company has invested on any fixed assets or during the period as a result of that, it might be that depreciation has caused the EBIT performance coming on a loss of Rs.4 Crores?

Sanjay Bahl: No I think as I mentioned 70% of our store rollouts are on the franchise route, so it is not really skewed by any investments in stores. This quarter I mentioned clearly in my speech as well that as seen there were two factors, which have impacted the EBITDA margins. One is of course a slow start in October to the festive season and the heavy discounting in the EOSS sale, so while the revenue growth has been there, the gross margins have got impacted in this quarter. So given the fact that also there is an omni channel mix, which is there in this business consisting of

EBOs, our own Raymond store networks, MBOs, e-commerce as well as the LFS channel mix, the idea is to actually look at YTD basis. When you look EBITDA margins for apparel on YTD basis it is more indicative of the real margins because there are phasing, which happen in terms of primary and secondary sales, so the more appropriate numbers, the metrics would be to really look at the margins on a YTD basis.

Abhishek Roy: Sir but what I believe is that your branded apparel segment will be the key driver for the company to grow, so like if it is making a loss, like when can we see the positive turn out in the bottom line part for this branded apparel?

Sanjay Behl: We are in line with the guidance. I think Sanjay had mentioned in the opening statement where we had said that we should be high single digit EBITDA margins by 2020 in this business, so coming from almost a flattish kind of an operating margin strength in the next two years, we should go up to high single digit in the EBITDA margins and at this point of time we have been maintaining that guidance. I think it is just a quarter phasing issue. If you look at even YTD levels, our EBITDA margins in the branded apparel segments have started inching up. There is a positive shift even if you look at a nine month from flattish it has started getting into the positive territory and in the next eight quarters, we believe that we will be pretty much in line with our guidance in this business.

Abhishek Roy: Sir the next question is regarding your engineering division, so what is the total capacity with both the divisions are running and what is the current capacity?

Sanjay Bahl: So if I look at the tools and hardware business, the whole strategy that we have and we had articulated this very clearly that we are looking for profitable growth, so there is product and portfolio rationalization that we are also doing, so as far as capacity utilizations are concerned given the closure of one plant that we have mentioned in the last quarter, we are at fairly high capacity utilization, but having said that there is also outsourcing that we have in our operating model. So if we have profitable volume growth coming our way, capacity is not going to be a constraint.

Abhishek Roy: So as per your comments so I believe that the company is actually going to increase the capacity for the tools and hardware?

Sanjay Behl: If there is volume growth, which is profitable, which we need to secure certainly we have as of now capacities available with us and also outsourcing is also an option that we have on the plate, so we have a mix of outsourcing as well as in-house capacities available to meet our volume growth target.

Abhishek Roy: So can you share me the numbers at least means how much you are doing in-house and how much you are outsourcing like in terms of percentage wise?

Sanjay Bahl: So I can give you in terms of broad indicator as the product portfolio is quite wide and we have engineering files, industrial files, agro files etc. We have different kinds of files, which will

translate into different capacities, so it will be difficult to give you a finalized number on these, but I think at an indicative level we are fairly close to about 85% to 90% of large capacities, but having said that there are also processes, which we outsource, not from an end-to-end basis, but certain processes, which are outsourced to ensure that there is no debottlenecking.

Abhishek Roy: And the outsourcing you are doing from local markets or you are getting it from foreign markets as well?

Sanjay Bahl: There are options, which we have, which we look at from an optimal cost perspective, certain processes are done locally as well and certain raw materials also sourced from China as well. It all depends on what the cost economics are.

Moderator: Mr. Roy. I am really sorry, but may we request you to return to the question queue as there are several participants waiting for their turn. Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Good evening Sir. Sir my question is on margins in our branded textile segment though YOY we have shown improvement, but if I see sequentially there is slight dip in the margin, so was there any one-off market expenditure loaded onto the segment or is it likely in terms because of production, the margins have come down?

Sanjay Behl: So I think first of all for this business and I have continued to maintain that margins seen in sequential quarter is not the best representation of the health of the business. Ideally we should look at more YTD basis because if Diwali shifts by 10 or 20 days the whole margin profile will shift depending on which quarter you are kind of doing primaries and which quarter you are doing secondary's, so I would say that you look at more representative picture on YTD basis and that will be a good reflection and YTD basis our textile margins have improved. Last year it was 13.1%. This year it is 14.3%, so there is a 120 basis point improvement and that takes care of averaging of product mix in one quarter depending on the weather, the seasonality, the festivity, and the wedding season; everything gets neutralized because last year Diwali was on October 31, 2016. This year it was on October 20, 2017 and these two weeks can have a reasonable change the way we do our sales in quarter two and quarter three, but a YTD picture does averages it out. So this quarter has seen an overall margin improvement if you do a Y-o-Y quarterly basis from 13.0% to 15.3% and YTD basis from 13.1% to 14.3%, but quarter-to-quarter there could be marginal dips and rises, which is not a good reflection of the picture, so I think analysis is irrelevant that way.

Dikshit Mittal: So Sir if we see seasonally normally Q4 is the best margin period right in this segment? Normally we see from Q3 to Q4, a 200 to 300 bps margin expansion every year?

Sanjay Behl: You are right. Second half if you put that way, I think is a better thing because of the nature of the business we are in, we have a very high weightage of worsted fabrics in textiles, which are blended woolen fabrics which we sell, largely suiting and trousering fabrics and these have a very high weightage in the second half when the winter and the festivity sets in across the

country and the winter typically speaking, nowadays more towards Q4 financial year or Q1 calendar year, which is the month of January and February. In fact some of the lowest temperatures were last week in the northern region of the country and it is also the onset of wedding season, which starts somewhere in the middle of January and goes up till May in India. So I think all these things leads to a certain profile of the margin based on the portfolio of products we have and I would say not just Q3 or Q4 can interchange in every year, but pretty much the second half typically would be 65% of the broad profit base for the company and first half would be typically about 35% to 40%, but that also depends on when the other festivities set in the country, but that is normally, it is more like 40:60, 40 first half and 60 second half. That is how the mix really ranges.

Dikshit Mittal: So Sir going by this thing like Q4 has been the overall company level margin should be much like in double digit because normally we see 11% to 12% margins in Q4, so can we see that kind of trend on overall company basis?

Sanjay Behl: Yes at the blended level the guidance has been given. It will continue to improve in Q4 even sequentially you see uplift on the overall EBITDA margins. That is already the guidance in the opening statement.

Dikshit Mittal: Sir last question from my side on the land you mentioned that there is no further development, but can we expect by the end of this fiscal year any like indication or any timelines for the land?

Sanjay Bahl: Yes, so I have mentioned this earlier that we are hopeful that with the work that we are doing on all fronts, regulatory as well as our own development plans, I think if there is anything specific we should be able to share with you by the end of this fiscal year. I am quite hopeful that given the work that has been done we should be able to share something.

Dikshit Mittal: Thank you Sir.

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

Kaval Shah: Thank you for the opportunity. Sir regarding the branded textiles given that there was a recent hike in wool and cotton prices, so what would be the impact on margins because of this and can you also throw some light on our procurement procedure?

Sanjay Behl: Thank you Kaval. I think it is a relevant question because a very large portion of our input cost is in wool and cotton as you rightly said. I think the cotton prices have softened compared to last year, so that actually has a positive impact on the overall business if you purely look in Y-o-Y basis, but woolen prices have gone up as you have rightly picked up, wool index is higher than last year, so we believe that with the level of continued product innovation and our ability to pass down the price, we should be able to part neutralize the input cost increase of woolen, so that is what our current line of work is. The balance part of woolen in terms of as you put the question on procurement side of it, can actually be mitigated by a smart procurement strategy by the team.

Our procurement strategy currently is split between three buckets of any commodity especially high price commodity or high material commodity like wool. We have a portfolio buying combined with spot buys combined with hedging, so depending on how the environment is we have a portfolio, which decides as to how much is going to be forward bought as a portfolio, how much needs to be spot buy of the total wool purchased and how much of the currency we need to hedge depending on the currency and treasury guidance that we get. So that is our procurement strategy. We have about 80% to 90% of our wool coming from Australia. The rest comes from New Zealand and South Africa largely. Most of the wool, which comes from Australia, comes from strategic vendors. We have no more than four or five vendors, which meet the entire requirement of our wool with whom we as an organization have had relationship for a very long time and hence we are able to weather a very large part of volatility that we get given our strategic partnership and a kind of well-oiled commodity buying strategy. So I think between these multiple initiatives both in terms of demand side and supply side, needs to be done and more or less till now if you see it is not about this quarter that wool has gone up. Wool has continued to be on a rise over the last six to eight quarters. So if you see the last six to eight quarters, textiles has continued to improve operating margins despite the wool going up, which has actually come about by both the sides getting managed.

Kaval Shah: Sir also our shirting business is growing faster than the suiting business now shirting business being a bit lower margin business what can be the sustainable margins levels for branded textiles? Can it be around 18% or something like that?

Sanjay Behl: It is currently at about 14% to 15% that is what it has been averaging. I think by the end of the year you will see this inching up a little more because Q4 does have a little higher profile as a margin for the blended part of textiles there, but I see no reason given our market leadership position in both branded suiting and branded shirting. In both the segments, we are number one player today in branded fabric there and we do command because of the strong product quality and brand equity higher than the market medium pricing. We are very, very confident that we can pretty much sustain and actually improve our overall operating margins to the levels that you talked about.

Kaval Shah: So around 18% is possible?

Sanjay Behl: I am saying by FY2020 that could be the range that we can look at.

Kaval Shah: Last question from my side. In interview on Amravati plant opening our Chairman Mr. Singhanian had mentioned about building an affordable township together with amenities, etc., for benefit of Raymond employees, so I just wanted to know that the expenditure for this would be as part of CSR activities or will it be part of our real estate division?

Sanjay Bahl: See Amravati is a facility in a manufacturing hub and it is under the Make in India initiative. Now for us developing the housing is really required as an extension of the plant. Also when you look at all the other industries, which are there, the factories, which are there, there is also a need, which is clearly felt by all the other players as well. So whatever is done since we have the land

if it is done, it is going to be done on a basis of making it self funded as well and not so much seen as a real estate development from our side.

Kaval Shah: I did not get it. Will it be part of CSR activity?

Sanjay Bahl: It is not really CSR. If we have invested in manufacturing facility then this housing facility is really an extension of the facility, but rather than us developing it only for our facility, we could also be doing it on a collective basis for all the other industries, which are there. So it could be done on a collective basis, but it really gets into a self-funded program.

Kaval Shah: Can you throw some light on how much would be approximate expenditure on this front?

Sanjay Bahl: No it is very early days yet. The facility has just been inaugurated. In fact a lot of the companies, which have taken licenses there, out of the total companies, which have been given licenses to operate have taken land there and all are not fully operational as yet, so these are very early days for this. This is only an in-principle thought process, which I am sharing with you that it is not going to be a large-scale real estate development from our side. It is just to clarify.

Kaval Shah: So in the next one-year we can expect to get more clarity on this?

Sanjay Bahl: Yes as more factories become operational there I think that is when the needs will also concretize and then we will have better information to share with you there.

Kaval Shah: I will get back in the queue. Thank you.

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

Zain Iqbal: Good evening everybody. I wanted to know about the Park Avenue, so I see the growth has remained at 6%, so what could be the reason because I think it has performed poorly when you compare it to peers?

Sanjay Behl: So Park Avenue is 6% year-on-year growth and you are right, but I think what is encouraging is that like-to-like sales growth is quite high at about 4%. The reason why Park Avenue is still single digit and has not accelerated as relative to other brands also is the size of the brand itself is very large. Today we are talking about Rs.600 Crores of revenue really comes if you start including all the accessories and everything coming from one brand, so it is amongst the top five brands there. So it is getting a little limited with the existing set of portfolio, so what we are currently doing is infusing a lot of innovation in Park Avenue both in terms of product size, one to extend the product beyond just largely formal wear, which constitutes to 80% of our product in Park Avenue and the other side, which is the lines between casual and formal are today are blurring, but the casual side largely being about 20%, so we are infusing a lot of energy into our product over the last two seasons and the results of which you will start seeing as we go forward in actually expanding to the full wardrobe strategy. So you would see one extension of casual

range there, second extension into accessories in a stronger way. So at the first action is currently underway and it is not fully manifested for it to translate to the growth and that is why you see this whole thing about holding in line with what market is growing, but it is not really ahead of it. The second thing which we are doing currently and which is work in play right now and not really fully manifested as the retail rejuvenation for Park Avenue. Park Avenue look, feel, and experience of the brand has pretty much stayed constant over the last few years and now we are infusing a completely different positioning and imagery really contemporizing the brand and retail along with go-to-market for that, so we will be setting tone to a refreshed identity of Park Avenue retail in another three months or so you will start seeing it in the market getting manifested and over the course of the next two to three quarters, we will have a substantial level of Park Avenue stores really getting into a completely new identity look in terms of renovation and the new stores rollout, so I think a combination of as I said infusion, slight repositioning of the product to make it more contemporary in shift along with the retail rejuvenation, I think are the two current platforms on which a lot of work has happened over the last two seasons and it will start getting manifested into really growth as we go forward.

Zain Iqbal: So my second question is on volume growth under branded apparels, can you shed some light on it what was the volume growth this quarter?

Sanjay Behl: In fact the overall volume growth was at a little ahead of the total price growth In fact ASP was down by about 5% while volume growth is about 21%, so overall portfolio has grown by 16%.

Zain Iqbal: So are we on track to achieve the high single digit EBITDA margin, which you mentioned to the previous caller also by 2020?

Sanjay Behl: Yes, so we had given a guidance somewhere in July investor conference on apparel business that by 2020 we should be targeting on a high single digit operating margin for the business and with nine quarters ahead of us we are pretty much on track.

Zain Iqbal: So is it calendar year 2020 or financial year 2020?

Sanjay Behl: It is financial year.

Zain Iqbal: Thank you so much.

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

Deval Kabra: Hello Sanjay Sir. You had given numbers as guidance on 2020 and as per the call you are saying that we are very much on track on achieving the 2020 target in terms of topline and bottomline. My question to you going the way we are going, do we expect a higher maybe 20%, 30% or 40% higher numbers than we had given as a guidance in the way we are going?

Sanjay Behl: At this point in time, I would still maintain the guidance we had given for 2020, we have seen some quarters going ahead of our expectations and now of course we have that much ability to really predict certain operating environment in the next eight weeks, so if we get a bit of a tailwind with the macros coming through the way political environment and economic environment is currently looking like and if it is about a 7.5% GDP in the country, if the per capita income macros play out, if the employment generation pays out, if the infusion of capital in the banks leads to a lot of credit lending and then that plays out in a consumer spending then there could be a definite upside there. But then there are a lot of these ifs and buts pretty much in the next eight quarters for all these macros to play out to give a whole tailwind to a larger industry and not just Raymond. So it is more an industry tailwind if we get, then even Raymond gets benefited by that. But as far as in the context of the predicted environment that we had given that guidance I would say that we are well on course. There is no red flag at this point of time. In fact there are a couple of positives that we see going ahead as you are also seeing, so I would not be surprised if we see an upside on that, but at this point of time, I would still maintain that at least that looks pretty secure about our guidance's.

Deval Kabra: Great one more question. On the FMCG front could you share segmented numbers of the FMCG business in terms of sales and EBITDA and in terms of the further growth as a separate channel all together, like you do in other segments of textiles, brand apparels, and engineering?

Sanjay Bahl: So I think to answer that, right now, we have acquired the share of Ansell business in the associate that we had, which was J K Ansell and then we have an associate company J K Helene Curtis, so as we speak there is an integration of these two businesses, which is happening post our acquisition of the Ansell stake, so it will be difficult to share numbers, but we have given a broad guidance in terms of what the overall portfolio FMCG portfolio is like and we have said that the total sales revenue is in the region of around Rs.400 Crores. Now specific numbers on profitability will be not relevant at this stage because the business is right now at an integration phase. A new team has been set up. There are a lot of plans, which are being made in terms of the product launches, which are to take place. The whole men's grooming space is under a full revamp. We have recently launched One Park Avenue range of products as well. So clearly we have now a very aggressive go-to-market strategy, which is underplayed, so a bit premature right now. I think you should watch the space for more announcements coming out of the FMCG's table and as the businesses get integrated I think we will be in a better position to give you specific numbers.

Deval Kabra: So may be in a quarter or two, we will be able to make the business big enough to segment it?

Sanjay Bahl: No it will not really come under the segment as such because this is still an associate company, so it would not be coming under segment reporting.

Deval Kabra: Thank you Sir. Thank you so much.

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

- Nayan Kapadia:** Can I know what will be topline for Amravati plant?
- Sanjay Behl:** Currently we are looking at about 65%-75% capacity utilization next year, but as a full capacity it will be in the region of Rs.200 Crores.
- Nayan Kapadia:** Topline?
- Sanjay Behl:** Topline, yes.
- Nayan Kapadia:** From Ethiopia how much we are expecting?
- Sanjay Behl:** That is almost in the similar region of Rs.200 Crores.
- Nayan Kapadia:** So in Amravati plant are we going to do any more capex next year?
- Sanjay Behl:** We have Rs.5 Crores of capex coming up this quarter and then pretty much the peak capex is behind us; the only capex will be some working capital if we have to invest. There will be some capital deployed; not capex, but that is about it nothing beyond that.
- Nayan Kapadia:** One more thing. The taxes what we have paid in total is Rs.52 Crores?
- Sanjay Behl:** Sorry come again please. What did you say taxes?
- Nayan Kapadia:** The total taxes you have paid Rs.56 Crores out of Rs.129 Crores profit, so have we have paid that Rs.10 Crores on that Rs.50 Crores, which we have realized from land last quarter?
- Sanjay Bahl:** We have made a provision for that.
- Nayan Kapadia:** So you have made provision on that Rs.50 Crores, which you have realized?
- Sanjay Bahl:** Yes.
- Nayan Kapadia:** Okay, but we have not realized in cash form right? So when we sell that then only it will be into the taxes?
- Sanjay Bahl:** Necessary provision for tax has been made in the books of accounts.
- Nayan Kapadia:** Provision... Thank you so much.
- Moderator:** Thank you. The next question is from the line of Govindlal Gilada who is an Individual Investor. Please go ahead.
- Govindlal Gilada:** Good evening Sir. Thanks for giving me opportunity for asking question. I have got two questions, one previous participant has asked again on raw material prices for wool. It has been

clarified, but just I want to know recently it has gone phenomenally up the wool prices, so I have got concern right now any impact on that we are having on margins?

Sanjay Behl: The wool as you know is a kind of a commodity and the wool index changes on day-to-day basis. We have a fairly strong association as I said on our wool buying with our vendors. Now you are right in your observation that the recent hike is very, very high and a little beyond the exceptional levels; however, we are well covered on our wool purchases both in terms of currency hedging and the portfolio buy that we do in a short-to-medium term, so a week's fluctuation up and down really does not really impact the overall buying or the procurement, it does not destabilize the shift. However if this kind of a growth sustained then we need to really start taking into account a lot of programs of re-engineering our products, looking at how much of price increase elasticity is there in our portfolio to be passed on, what is the level of innovation, do we need to start looking at different blends of our portfolio, so all those strategies, which is anyway work in progress there, they need to be accelerated to really come to force. But at this point of time, one week, two weeks of fluctuation does not have any impact on a stable business like ours.

Govindlal Gilada: So net, net I can presume right now we are able to manage these hikes?

Sanjay Behl: Yes you can presume that. With the current set of activities that company has put in motion more or less the current volatility that you see will have no significant impact at this point of time.

Govindlal Gilada: My second question and last question is generally I may be wrong, correct me, branded textiles we have got generally 18% margins? Right now it is I think around 14% plus, so Q4 we will be able to make up this so that we can be 18% for the whole year?

Sanjay Behl: I think, One thing that we need to really see that there is a blend change or if you look at textiles as a combination of suitings and shirtings and if you look at our domestic YTD growth of suitings, which is a higher margin business is at 11% and shirting, which is relatively lower margin as compared to suiting is at 17%, so as the volume mix continues to change with our headroom being a little higher on shirting, you will have this overall percentages that may get a little misleading for you. If you start looking at operating margin coming as a percentage blend, so one business works at a ~49-50% gross margin and other works at about 35-37% gross margin in the value chain. One has a flow through down about 20%-22% EBITDA while other has flowdown of about 12%-14%, so depending on the portfolio mix if we start looking at a percentage margin I think that is only one way to look at it. While there is a Q4 bump up that you see every year in the overall textile margin and that is expected this year too, but I think in a longer term period if you start looking at comparing and let us say two to three year blocks, the textile margin, I think the better thing would be to look at the gross absolute level of EBITDA being generated by the business, I think that is a fair representation of the overall money getting generated rather than getting misled by percentages.

Govindlal Gilada: No I am worried...I know that because of the shirting we have got less margin and more growth is there, overall margin will come down in branded textiles I appreciate that, but the thing is that

it has drastically fallen from 18% to 14%? I do not think that is the only one reason because of shirting volume going up, so are you justifying... is it right 4% decline?

Sanjay Behl: No but 18% to 14% is not one year. We are doing better than the last year margins. If you see nine months margin of last year branded textile was 13.1%. This year it is 14.3%.

Govindlal Gilada: Last year we are not taking into account the demonetization quarter also?

Sanjay Behl: So I am saying if we need to correct for demonetization you will see a huge bump up this year. Even now there is six weeks of demonetization in the total of about 36 weeks that we have reported and actually in the first half of this year also there is a carrying forward impact of demonetization. So actually I would say this year is far more impacted by demonetization than the first nine months of last year because last year is only six weeks of demonetization and this year has six months of demonetization. So to that extent if you start comparing exactly nine months to nine months, there is a significant improvement in margin 120 basis points till now and there is no reason, I am ascertaining again to you to see, that this year margin will not be better than last year margin in our branded textile business.

Govindlal Gilada: My last question is net, net we are talking about margin improvement what guidance you have given at annual meet, so in spite of this margin because of shirting growth all that so in spite of that overall margin improve what we are giving guidance?

Sanjay Behl: Yes it will. We have given guidance. Overall margin is in line with our guidance, which we have said that it will be close to double-digit margin by the end of the year.

Govindlal Gilada: I am talking about in the region of 2020 what we are giving margin improvement another 100 or 150 basis points from this year?

Sanjay Behl: It is in that direction.

Govindlal Gilada: One last question Sir. In 2015-16 last quarter we had 12% EBITDA margin I think for the last quarter and this fourth quarter we have guidance for what we are giving a sequential better margin and EBITDA? EBITDA this concluded quarter was around I think 8.5%, so 8.5% to 12% it is a lot of difference is there, so I was worrying how we will make up with this?

Sanjay Behl: It is quarter-to-quarter and I am trying to explain. Now 2016 you are telling us two years back in Q4 there was a certain margin profile. As per your argument, got impacted last year by demonetization and as per your concern in the next quarter, will the management be giving a guidance of making up that level of jump. Now year-to-year there are differences in the dates of festivity. There are differences in the dates of weddings. There are differences in the dates of the winter setting in. All these differences lead to a certain level of quarter-to-quarter comparison becoming irrelevant, so I would strongly urge that you should look at an annual picture while you keep looking at quarter-to-quarter both sequential and YOY. You should also look at a little more stable picture there. Now if I recall there in the year 2016, there was no wedding in quarter three

or there were very minimal weddings in Q3. There was a very high level of wedding setting up in 2016 calendar year, so all the purchases from Q3 got pushed down to Q4 of 2016 where you saw a huge jump there in terms of the mix of the products, which continued right up till Q1 of 2017, so you saw the first half of 2017 the margins were very high because that was impacted by the environment in which the customer was living and the market was living. So I would urge you that rather than picking up one-off example of one financial year two years back and then comparing the management guidance versus that may not be the most appropriate way. I think the appropriate way would be well in the block of year after year are we continuing to improve and are we in line with our guidance and on both fronts, I am basically reassuring you that we are continuing to improve and currently as the market looks like we continue to maintain that. We will meet the guidance given for two to three years.

Govindlal Gilada: Only thing is our lifestyle, business because this year these other businesses non-core auto and engineering they have performed, substantially they have given EBITDA margins all that I think Rs.40 Crores to Rs.50 cores we are getting extra EBITDA from these two segments only?

Sanjay Behl: Correct. That is right.

Govindlal Gilada: Taking into that earlier these two divisions they are not doing good?

Sanjay Behl: Now branded textile has improved on margin. Apparel has improved on margin. High-value cotton shirting has improved on margin. These three businesses have actually added to the margins this year. It is only garmenting, which is a lower contributor because of the forex difference largely and the devaluation of the portfolio because of the whole volatility in the international market and is about a couple of percentage points less on EBITDA, but the materiality of that is low. All the high-value businesses textiles, cotton shirting, and branded apparel all three of them has improved on margins in quarter-to-quarter as well as YTD basis, so there is no reason that this concern. I think you should just look at the presentation, which has been shared with you and look at all the slides from numbers. If you want, I can give you slide number 11, 16, 18, 22, 24 look at all the slides. They have all the margin numbers for three months and nine months given to you for each of these lifestyle businesses and margins have improved in all the businesses.

Sanjay Bahl: I think in garmenting also you will have to look that there is one time, this is our first year of operation of Ethiopia and there is a setup cost of Ethiopia, which is getting absorbed this year, so that is also getting impacted and absorbed in the garmenting numbers.

Moderator: Thank you. We will move to the next question. Next we have a follow-up question from the line of Puneet Kabra who is an Individual Investor. Please go ahead.

Puneet Kabra: So just wanted to understand the end-of-season sales. The end of season sales phenomena seems to keep impacting our margins although we get a lot of good sales and we scale up revenue growth, but it directly has a hit on the margins and it shaves off all the money we make, so are

we doing some different to the industry in terms of addressing this problem of lack of profitable sales in the end-of-season sales period?

Sanjay Behl:

I think it is a good question Puneet and a very relevant question, which seizes a lot of management effort and time and focus around this direction, but just to put a bit of a flavor to the numbers, while the overall level of discounting for our company, the market has seen a little bit of rise. We have been able to hold a temptation to increase the level of discounts, so if you look at a y-o-y basis, average discount last year this quarter was close to about 37% and this year it was maintained at 37.7%, so it is really very, very marginal that way. What has really impacted is early onset by one or two weeks in a 12-week quarter does impact the percentage of portfolio getting discounted in that quarter. So last year while it was more or less about 26% in this quarter was discounted, which went into the end-of-season sale, this year it has gone up to 37%. Now that has been a huge reason, which is about 5% to 6% dampening of gross margin while EBITDA you have seen improvement. The gross margins have dampened, which basically means there was a lot of other cost elements that we had to hold back, which is one of the things that we do to maintain quarter-to-quarter in terms of operating margin and the discipline to make sure that there is a healthy growth in portfolio. So on one side there is a lot of effort in terms of bringing in operational efficiencies as our scale is growing up by our topline growing as I told 10-12 quarters double digit growth barring the demonetization quarter where it was I think 6-7% for the portfolio, we have been able to now build a very strong portfolio of our brands, which on a large volume is able to amortize fixed cost, so that is one way of looking at if we have to participate in this heavily discounted market and as you rightly said that it is becoming kind of a norm rather than exception now, how do you really survive and become more profitable. The second thing, which we are doing, is continuing to dramatically innovate in our product portfolio. So I would invite you currently we are doing a tradeshow, which is really putting the products for the next autumn winter 2018 season and if you have a preview of that you see a lot of high-end innovations being introduced in the market, which are largely non-discounted. I think we are doing in all the Raymond new outlets that we are opening, which is the new Raymond look retail shop, we have about 40 of them in market today already operational. We do not give any discount, 365 days a year not a single day and not on a single product, there is zero discount, so there is absolutely zero discount being given. So all the new look retail and a new product portfolio we are not discounting and even if it is coming so that the overall health of the portfolio is maintained. And then there are series of other initiatives, which are coming both in terms of our backend strategy of sourcing, if we can get better efficiencies there, other operating efficiencies if we can bring out in our products, so there are multiple track of initiatives happening looking at getting better in terms of never out of stock kind of thing, so we do not have to produce on forecast, but we can book it every month, so multiple drop strategy in apparel. So there are other multiple tracks that we are looking at so that we can continue to have a very high focus on this, but it is a good question.

Puneet Kabra:

Can we get this metric of percentage of end-of-season sale as a part of the presentation going forward?

- Sanjay Behl:** Yes you can ask that question there and we can include that if that helps you to make any kind of a judgment there, but again the only possible issue with that is if you start looking at quarter-to-quarter, it gets impacted depending on the market environment and may not be very reflective there, but if you look at more like YTD basis it would be a better way to look at it.
- Puneet Kabra:** We can see how the end-of-season sale share is going down year-on-year?
- Sanjay Behl:** Going down or going up at-least you can make a better assessment there, so you can always share it with the investor relations team here and you can get to know as to where our profile is or we can do it on the call like we did now.
- Moderator:** Thank you very much. We have a follow-up question from the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.
- Abhishek Roy:** Sir most of my questions are answered, so one question is left regarding your TRS stores, so what is the revenue that you are expecting from them?
- Sanjay Behl:** The revenue would mean what mini TRS do you mean or TRS?
- Abhishek Roy:** From the mini TRS?
- Sanjay Behl:** Currently mini TRS is configured anywhere between 800 to 900 square feet store to about 1100 square feet and the current revenue that we are getting is close to about Rs.90 lakhs from them on an annualized rate. They have just opened, as Sanjay said that we have opened about 53 of them at this point of time. So the different Raymond stores are in the region of some stores are as new as yesterday launched. Some stores had about eight or nine months of existence now, but on an annualized level a small store with an 800 square feet, store should do about Rs.70 lakh to Rs.80 lakhs per annum and a big store should do more than Rs.1 Crore.
- Abhishek Roy:** So how many stores have you opened in tier one, two, and three like what is the numbers can you just share it with me?
- Sanjay Behl:** We have already given. You can get tier wise exact split one to five we can give it to you, but tier three, four, and five we have opened 53 mini Raymond shops. In this year, we have opened 81 stores totally.
- Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management for closing comments.
- J. Mukund:** Thank you. I would like to thank all the participants for taking your time and attending our earnings call today. You can call or you can mail me for any further queries. Thanks again.
- Moderator:** Thank you very much. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining us ladies and gentleman. You may now disconnect your lines.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.