"Raymond Limited Q4FY2018 Earnings Conference Call"

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Moderator: Good day and welcome to Raymond Limited Q4 FY2018 investor 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 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 Janice. 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 Q4 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. 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 Q4 FY2018 and for the full year FY2018. I am happy to share that the year has been a defining year for us. We have strongly recovered from the impact of two structural reforms, which impacted the entire economy - the cash crunch due to demonetisation and the GST implementation. This year has seen the successful execution of strategic drivers in each of the businesses, which have been focused on profitable growth and value creation.

The key highlights, overall at the consolidated level for the full year our revenues clocked 6025 Crores, a growth of 9% and 13% if we exclude the GST accounting impact. The EBITDA increased by 29% to Rs.546 Crores and EBITDA margins improved by 140 basis points to 9.1%. Underlying PAT delivery was Rs.115 Crores, which is higher by 259% as compared to last year. Reported PAT was Rs.135 Crores, which is significantly higher than the last year PAT of Rs.26 Crores. Consequently, our ROCE at consolidated level increased by over 200 basis points at 9.2% excluding the investment in real estate land development cost. From guidance perspective our revenue growth performance has been ahead of the high single digit growth guidance given earlier and the EBITDA margin improvement by 140 basis points is in line with the guidance given 100 to 150 basis points improvement.

A quick overview of the quarter. The overall revenues grew by 14% excluding the GST impact with total revenues coming to Rs.1655 Crores, the EBITDA increased by 21% to Rs.176 Crores and EBITDA margins increased by 100 basis points to 10.6%. PAT increased from Rs.33 Crores to Rs.53 Crores, an increase of 61%.

The year witnessed growth across all our segments.

Now coming to specific segments, our Branded Textiles registered a strong sales growth of 10% excluding GST impact and this was largely driven by the wholesale channel bounce back coupled with emergence of institutional sales as a strong category. The robust performance of Technoseries portfolio in branded textile segment continued with introduction of Techno Stretch and Techno Fresh products, which resulted in over 2 million meters of Techno series fabric sales, a 30% growth over last year.

To continue, the growth momentum in B2C shirting was maintained led by high consumer demand and deeper market penetration in the wholesale and TRS channels. The Branded Apparel segment maintained a strong revenue growth momentum of 19% excluding the GST impact led by growth across all four power brands. The focus has been on enhancing the core proposition as a full wardrobe solution provider across the power brand. The branded apparel portfolio has now been strengthened by entering new categories through two new consumer segments. We launched ethnic product offerings in the high growth ethnic wear segment. It is being positioned as a premium style like elegant offering and will be progressively available in TRS, select MBOs and LFS channels. We also launched Next Look range of product offerings positioned as superior quality with aspirational design specifically targeted at the value segment and this will leverage the opportunity in the space as we see consumers transitioned to branded apparels from unbranded apparels. This will be progressively made available in our existing strong distribution network and ready retail presence in over 400 towns. Also, we recently partnered with KVIC and have launched India's first branded Khadi label, 'Khadi by Raymond'. We are promoting Khadi as a fashion fabric and will be retailing through Raymond ready to wear EBOs, select MBOs and TRS network.

This year we opened 139 exclusive brand stores at the net level. About 75% of the stores opened were on franchise basis, this was led by rapid expansion of our retail network in over 70 towns through 91 mini TRS stores. Mini TRS, the exciting innovation of the year in the retail store format, is an asset light 100% franchise format store which is being opened mainly in 4-6 tier towns. We enhanced the capability and the capacity of the tailoring ecosystem during the year by creating a conversion capacity of over 1 million metres of fabric through opening of 25 franchise based hubs and enhanced the capabilities of the tailors by training about 20,000 tailors across India and 15 states. This is helping us in facilitating superior custom tailoring services to the consumers through improving the quality of the infrastructure and upgrading the skill set of tailors.

In our B2B businesses, the Ethiopian operations are being stabilized and we commissioned the Greenfield linen plant at Amaravati with a capacity of 4 million metres. The Ethiopian plant will meet the increasing global demand in US and Europe in our Garmenting business while the

Amaravati plant will largely cater to a captive consumption requirement of high quality linen portfolio.

In our Engineering businesses, in the Tools and Hardware business, the successful turnaround strategy of building operational efficiency and product rationalization has enabled significantly improving EBITDA margins to 9% from 2% in the previous year. The Auto Components business profitable growth momentum continued with EBITDA increasing by 90% to Rs.45 Crores in FY2018.

Let us take a brief look at the free cash flows. Free cash flow for the quarter was positive at Rs.88 Crores led by EBITDA improvement and positive changes in working capital. Operating cash flows for the year was positive at Rs.519 Crores; however, due to capex on account of setting up of Ethiopia and Amaravati plants and interest cost, the free cash flow was negative during the year at Rs.201 Crores. Gross debt stood at Rs.2353 Crores as on March 31, 2018 versus 2140 Crores last year and the net debt position was Rs.1894 Crores as on March 31, 2018 versus Rs.1682 Crores last year. Our net debt levels increased this year mainly due to manufacturing capex in Ethiopia and Amaravati plant. Net debt to equity remains stable at 1.0. The average interest cost has reduced by 50 basis points to 7.8%. On the working capital front, the net working capital days improved by 12 days from 99 days in March 2017 to 87 days in March 2018 largely due to efficient working capital management.

Coming to capex, the capex spend was Rs.409 Crores in the year mainly comprising of Rs.127 Crores for Amaravati, Rs.62 Crores for Ethiopia plant and Rs.42 Crores for stores renovation and rollout and the balance for regular maintenance capex.

Now coming specifically to the Q4 highlights, the performance for Q4 is on track with the growth momentum being maintained. The quarter witnessed a growth across all segments. Our revenue was at Rs.1,655 Crores grew by 10%; however, excluding the GST impact it grew by 14% and EBITDA margin improved by 200 basis points from 8.6% in Q3 FY2018 to 10.6% in Q4 FY2018, which are in-line with the guidance given in the last quarter.

Now let me discuss briefly the performance of each business segment. Our Branded Textile segment sale was Rs.802 Crores higher by 9% on year-on-year basis; however, excluding the GST impact it was up by 13% led by 8% growth in suiting business and 36% in the shirting business. The growth in domestic market was led by the wedding season and growth in trade channels and institutional business. EBITDA margins improved from 17% to 19.5% as compared to the previous year largely driven by the strong sales growth. Our Branded Apparel segment's topline was Rs.403 Crores and it grew by 12% over the previous year however, on excluding GST impact, it grew by 20%, primarily led by consumer demand during the wedding season and the extended end of season sale period.

The overall growth of the brands for the full year were and this excludes the GST accounting impact, Park Avenue 7%, Raymond Ready to Wear 33%, Color Plus was at 10% and Parx was at

35%. The new product offerings of Ethnics and Next Look also contributed to the overall growth. Our major channel sales growth on a full year basis was as follows: TRS grew by 11%, MBOs by 48%, EBOs by 13% and LFS by 8% as compared to the previous year. EBITDA margins for the quarter improved to 3.7% from negative 3% in the previous year and this was mainly driven by higher sales and lower discretionary spends.

Coming to a retail channel, our exclusive network stood at 1219 stores, sales in Q4 across exclusive the network grew by 15.5% led largely by the wedding season and the end of season sales period. During the quarter we opened 70 stores and closed 12 stores. 12 store renovations were completed in Q4, currently 25 stores are under renovation. The average same store sales growth for the renovated store has been 17% for the full year. We opened 91 mini TRS and two exclusive MBOs through franchisee route, which was in line with our stated strategy of expanding the network through an asset light model. In the Garmenting business, sales for the quarter was Rs.201 Crores and grew by 9% over the previous year led by sales in North America. The EBITDA margin was stable at 6.9%. The Luxury Cotton Shirting fabric segment sales at Rs.145 Crores grew by 37%; however, growth without the GST impact was higher at 39% and largely driven by better offtake by the customers. However, the EBITDA margins are lower at 9.1% as compared to 9.5% in the previous year mainly on account of change in the product mix.

The Tools and Hardware segment sales was at Rs.90 Crores marginally lower over the previous year; however, growth without GST impact was 4% driven by better performance in the domestic market. The turnaround strategy of building operational efficiency and product rationalization helped in significantly improving EBITDA margins to 9.9% in the quarter as compared to 2.3% in the previous year. Auto component segment sales was at Rs.62 Crores significantly higher by 50% over the previous year. Growth excluding the GST impact was 56% driven by increased demand from passenger vehicle, commercial vehicle and industrial segment. In line with the sales growth, EBITDA has also grown by 50% to Rs.9 Crores. Overall the business is maintaining its profitable sales growth momentum.

Coming to capex, the capex spend was Rs.92 Crores in the fourth quarter. Now coming to some guidance for the full year 2018-2019, we expect economic outlook to remain positive underpinned by private consumption and public investment. We believe the shift from unorganized to organized segment post GST in the semi-urban and rural areas and improving consumer sentiments to be the key drivers for the consumption market. For the financial year 2018-2019 we are expecting growth momentum to continue in the Branded Textile segment with our continuous focus on product innovation supported by service innovations in tailoring services and the rapid retail network expansion through mini TRS, which will continue in semi-urban and rural areas. In the Branded Apparel segment there will be continued focus on strengthening the brand and the core proposition of becoming the complete wardrobe solution provider along with channel expansion. It will be well supported by driving category expansion including the recently introduced Khadi portfolio and building scale of the new product offerings - Raymond Ethnix and Next Look.

In the B2B businesses we expect the Ethiopian and Amaravati operations to stabilize progressively through the year and cater to the increased global garmenting demand and domestic linen fabric demand respectively.

In the Engineering businesses, the business transformation in Tools and Hardware segment is expected to continue. In the Auto Component segment we achieved consistent strong performance in FY2018. The business turnaround is now complete and the capacity is under full utilization. The business has witnessed strong growth of 36% over the last year. The growth is across all segments and hence the capacity is now being enhanced by 3 million in ring gears and flex plates to meet the increased demand. Hence we will be investing Rs.48 Crores to augment the capacity. This is in-line with the stated strategy of enhancing value creation in the long term. I am happy to share that board has approved real estate development of 20 acres for residential purposes. This approval paves the way for Raymond to monetize the assets. The project is expected to be developed over a period of five to six years. The estimated project expenditure for FY2018-2019 will be in the range of around Rs.300 Crores. The company has secured major regulatory approvals and other construction related approvals are in process.

From a full year guidance perspective, we expect revenue growth to be in the range of high single digit, EBITDA margins to reach double digit. In the annual investor meet in July 2017 we had given a three-year revenue guidance till FY2020, which included a 7% to 9% growth in FY2018 and a 10% to 12% through FY2020 and ROCE of 12% to 15% by FY2020. We are still committed to achieve our overall FY2020 guidance numbers.

Now coming to a capex guidance of FY2019, we have already stated that the peak capex is over in FY2018. Going forward the annual capex is expected to be in the range of Rs.200 to Rs.250 Crores largely driven by retail expansion, new stores & renovation and maintenance capex. Overall the challenges include continuous discounting in apparel industry, which will moderate margins, increase in oil prices, which will increase the input costs. Currency fluctuations and rupee depreciation will have a positive impact on our export businesses.

Now coming specifically to Q1 of this year, we expect moderate consumer demand due to seasonality factor and low wedding days in Q1 FY2018-2019. This will impact our Suiting business; however, the Branded Apparel business is expected to maintain its double digit growth momentum. At a consolidated level, we are expecting mid single digit revenue growth, excluding GST impact, over previous year, we expect to maintain our EBITDA margin; however, due to commissioning of Ethiopia garmenting and Amaravati linen plant our depreciation and interest costs will be higher by Rs.11 Crores as compared to last year and this will impact the profitability for Q1 as compared to previous year. The capex guidance for Q1 would be around Rs.65 Crores mainly related to retail expansion, new stores, Auto Components capacity expansion and the remaining for maintenance capex. With that this ends the commentary for Q4 and now I will open the floor for questions. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Congratulations on good set of numbers. Sir my question firstly is on this real estate development, so can you give what is the FSI that will be available and what can be the kind of square feet that will be developed over the next five six years?

Sanjay Bahl: As I mentioned that overall what we have is a clearance from the board to develop 20 acres of land for residential purposes. Now there has been some guidance and suggestions from the board on the specific project plan. This is under finalization and is still work in progress, so we should be coming shortly to you with the specific details. Right now the real estate team is working out the specific project plan, so it is still WIP at this stage and so I am unable to share specific details on FSI; however, the broad contours of the project had been shared, its 20 acres, roughly around three million square feet of saleable space, which will be over a period of five to six years is when the project will be executed. Those are the broad contours really of the project at this stage, which we can share with you.

Dikshit Mittal: In this quarter you have taken Rs.105 Crores towards property development, so in the segmental Sir can you give the breakup like where have you apportioned this cost in the segmental results?

Sanjay Bahl: Yes, so this is really being carried in the inventory as a stock in trade, specific to the segment it is in the ‘others’ segment.

Dikshit Mittal: If I see ‘others’ it is closer to around Rs.80 Crores in terms of segmental results in ‘others’?

Sanjay Bahl: It is not impacting the P&L because this Rs.105 Crores is the investment that we have made towards the project, so it is land development project expenses, it is not a cost to the P&L, so this is being inventorized as WIP as far as the project is concerned.

Dikshit Mittal: Coming to your guidance for next year, you have mentioned around high single digit growth, so will it be driven by this textile and apparel or what will be the driver for this growth?

Sanjay Bahl: Yes as I mentioned in the speech that will be driven by Branded Textile and Branded Apparel. Branded Apparel will continue to be driven by high double digit growth as we have maintained for over ten quarters, so that growth momentum will continue. Branded Textile, which is suiting and shirting at a blended level will be driven by high single digit revenue growth.

Dikshit Mittal: Sir lastly how will you would be financing this development of real estate, will you be taking debt?

Sanjay Bahl: So what we have indicated is for FY2018-2019 the Rs.300 Crores that we have projected is going to be funded largely by debt, but specific plans on financing on the total project schedule and timelines will be specifically shared later.

Dikshit Mittal: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Sagar Karkaraj from Motilal Oswal Securities. Please go ahead.

Sagar Karkaraj: Thank you for this opportunity and congratulations on good set of numbers. Three things, one is on the Park Avenue our branded apparel is seeing just a 7% growth, so any extra efforts that we are likely to take to see a further growth in that brand in the next year?

Sanjay Behl: So Park Avenue is actually the largest brand in our apparel portfolio, so while the overall growth looks 7% in terms of absolute one is the base effect. The second thing your question is still valid that in a market, which is growing at about 8% to 10% this brand has a potential to go one-and-a-half times the market, so clearly the brand has been having a momentum over the last three years of a strong double digit growth. The work that currently we are doing is repositioning this brand and that is why you see some level of modest growth coming onto this brand wherein we are reclassifying the entire product segmentation from formal and a little bit of casual, which was Park Avenue dress casual, which was 20% of the portfolio and 80% was categorized as formals we have completely changed the overall segmentation to become work, play and celebrate, so as the lines between casual and formal are blurring in consumer world and as the dresses are getting into these three segments of work wear, which could actually mean a lot of casual wear getting into the work wear, so you can actually do a jacket and a denims for work, so that is one segment, play is another segment and celebrate is third. So as we are moving from the conventional old segmentation to new segmentation, there is one impact of that you will see on the growth as we go forward. The second investment we are making is changing the face of retail. So if you see the overall aggression that we have had or scale up that we have had on Raymond Shop has far outstripped any other brand in terms of rollout because we wanted to last about two to three quarters we have been working on fixing the identity, the new identity of Park Avenue brand, which is far more contemporary in sync with today's times and we have just last week opened the 100th store of Park Avenue, but this also is the store, which set the tone of how the new Park Avenue retail experience for the future stores is going to be. So that has taken some two to three quarters and that is now behind us, the last week we have inaugurated the store. So with the new product segmentation, new product identity and new retail these three efforts are going to go, but you will need another two or three quarters before it started getting into strong growth. So I would say as the retail stabilizes and the product stabilizes in the market I would say in another year of this kind of a growth and then we will start seeing rapid propulsion to this growth it will start moving up.

Sagar Karkaraj: Thanks useful and secondly on the Raymond Black we saw lot of marketing around that so how is the response if you could share something on that?

Sanjay Behl: Response has been ecstatic, in-fact when customer wants black what Raymond offers is 1000 SKUs of black and that really is the widest range of black. So that one is the range of black that we were able to offer. The second is the quality of black because black also ranges between grayish black to coal black to ash black to really truly black. So the whole gradation SKUs designs that we offer were 1000 SKUs when we launched the campaign two months back in Quarter 4 and overall black anyway is the single biggest segment to our overall textile fabric suiting sale and that you have seen the results, we have had closer to double digit growth in Q4 in suiting business, in fact domestic has grown by around 10% in the year and from a CAGR of about 1% to 2% for suiting domestic over the last three or four years to recording 10% in FY18 is a reflection of the success of multiple campaigns, one is black, the second is the success of techno series, which has grown by 30% last year in suiting fabrics. So our innovations are started taking over very high level of growth in the market.

Sagar Karkaraj: Right and lastly on this Rs.105 Crores of item, which we have expensed in P&L, is it largely cost of salaries and architects fees, etc., or is it some municipal authorities fees, fungible FSI premium or something like that if you could share some light?

Sanjay Bahl: Rs.105 Crores is largely the cost of securing the regulatory approval, so we have got ULC approval and we have the project related approvals, so that is Rs.105 Crores.

Sagar Karkaraj: Thank you. I will come back in the queue.

Moderator: Thank you. We take the next question from the line of Abhishek Roy from Stewart & Mackertich.

Abhishek Roy: Good evening Sir and congratulations on good set of numbers. I just had one question regarding that Rs.100 Crores nonconvertible debentures that you are planning to raise, so can you just tell me what is this about and what is the purpose and what will be the payment period and everything, can you just throw some light?

Sanjay Bahl: The NCD issue that we have taken was for general working capital purposes, also part of that was also used for the approvals that we have taken for the real estate project thus far.

Abhishek Roy: Regarding this capex that you have projected around Rs.250 Crores for FY2019, so this will be fully funded through internal accruals or anything will be there in the debt?

Sanjay Bahl: Largely through internal accruals.

Abhishek Roy: Thank you Sir. That is all from my end.

Moderator: Thank you. We take the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Good evening and first of all congratulations for the great set of numbers. Sir my first question is on the Branded Apparel side. You mentioned there was EOSS, which continued into Q4, so till when was this continued, was it till the mid of January that we saw EOSS continuing from December?

Sanjay Behl: In fact we started a little early, so it started in the first fortnight of December and continued till third week of January. In fact even post the formal EOSS got over we had a few brands running or liquidating whatever was the tail of the stock left of EOSS. So formally it got over towards the end of the January and last year we have seen the largest EOSS on two counts, one is GST, a lot of stock got preponed into June, and June we started because obviously there was a transitioning from the pre-GST era in the month of June to July and typically an EOSS, which has been ranging between 55 to 62 days in the country went up to 74 days in Q1 & Q2 and this EOSS period went for about 54 to 56 days. So overall if you see it has been a prolonged EOSS and the highest number of EOSS days, which we have seen largely I would say on account of GST, but also an extended period in December because there was some switchover about GST credits whether they will come through on December 31, 2017 and whether the carry forward stock will have the input credit benefit and that is why the EOSS started a little early in the liquidation level, but it went on till January that is what it was.

Nihal Jham: Sure, if I just look at Q4 we have seen obviously 30 days of discounting and I think the same quarter last year that will be only being max 10 to 15 days so despite say the higher discounting and factor in the lower ad expenses we have still seen increase in margin significantly?

Sanjay Behl: That is right. That is 6.5% margin improvement if you see and the overall discounting has been held up because if you see our gross margin it is broadly similar in Q4 last year and Q4 this year, but -3% EBITDA is become +3.7% EBITDA so it is a 670-basis point shift largely on account of one as I have been maintaining in the last many quarters that as the scale keeps going up the fixed cost do not go up in the same proportion, so there is a better amortization of fixed cost plus we have started getting a little more bank for our discretionary investments, which I think Sanjay made a point in opening statement saying our discretionary spends also start giving us a higher elasticity to our sales. So I think combination of both these factors led to a dramatic improvement in or a fairly significant improvement. I would say absolutes are still lower than our expected numbers for 2020.

Nihal Jham: Absolutely, Sir just continuing on the brand wise growth. We have seen that Raymond is doing really well. Specifically on Park Avenue you did mention about the plan is going ahead, but is this more of a category issue where you know Park Avenue has more focus towards formal and that has been a bit of a lower growth segment that is why you have seen this issue happening?

Sanjay Behl: I would not say that because even Raymond has got a strong routings to formal segment so while Raymond is growing by 33% Park Avenue if you see just last year has grown by 7%, but if you see the last three years all the brands have grown very strong double digit there. So Park Avenue CAGR in the last three to four years would be 20%-21%. So I would say that as we are now repositioning the whole product portfolio, Park Avenue along with the retail that really is leading to a little bit of a comparison coming to a little lower growth, but overall within the segment if you see Park Avenue we will see a much higher growth segments also inside there.

Nihal Jham: And possible for us to say the like-to-like growth for all these brands for the last year?

Sanjay Behl: Like-to-like same store sales?

Nihal Jham: Yes same store sales.

Sanjay Behl: Because the stores only contribute to part of the total sale because the sales growth for multiple channels. The exclusive brand outlet there, Park Avenue was 0.5% same store sales, Parx was 6%, Raymond was 10% same store sales, Color Plus was -0.7%, Made to Measure was 16% and Raymond Shops were 8%. So overall our blended level exclusive brand outlet same store sales growth was 8% for the company.

Nihal Jham: One last question other than Raymond Ethnix is there any other product extension or category extension that we are planning in the coming year?

Sanjay Bahl: It was mentioned I think Khadi is another one.

Nihal Jham: I am talking about Khadi that happened last year I am just talking of the coming years and future plans.

Sanjay Behl: So there will be extension across all the segments for example in Made to Measure two new categories are coming in, we are starting with Denim Made to Measure now, so you can get your jeans Made to Measure. We are also starting with casual wear Made to Measure so we can get a lounge wear or casual wear, T shirts or tracks those kind of things are also getting in added there. They are the two new segments getting in there. In our Branded Apparel segment, we are getting more and more extensions and we are introducing athleisure in a big way, so there is already in Parx segment you will see a strong introduction of athleisure coming during the year that is an added segment, which is coming and we believe it could be as big as 15% to 20% of Park Avenue of the brand, so that is coming in a big way there and so on and so forth individual segments have for example, the Chinos segment is expanding into wash categories in a very big way. In Denims we are getting into stretch that you have not seen i.e. 15% to 18% kind of stretch proportions for Denim. So there are inhouse innovations, there are some new segments like you said Khadi and ethnics there and there are sub-segments that we are also getting into.

Nihal Jham: Just last thing, Ethnix and Khadi how much revenues are we targeting for the coming year?

Sanjay Behl: We cannot give you specific guidance there as both of them are very new right now. They are just about getting introduced as Sanjay said that it is a year where we will scale up Next Look and we will build Khadi, so it is a year of build whether it is a few Crores or larger depends totally on whether we are able to reasonably track the business model right from sourcing to distribution during the course of year. So I think next year revenues as a guidance will be inappropriate for me to give you at this point of time, but may be towards the end of next year or same time next year when we are having call after having done introduction and learning I think we will be in a better position to give you specific guidance on revenue.

Moderator: Thank you. We take the next question from the line of Shivam Vashi from Alpha Alternatives. Please go ahead.

Shivam Vashi: Good evening Sir. First question is regarding Branded Textiles. The margin growth is largely on account of strong sales, is it because of realization improvement and what has been the realization improvement for the quarter then?

Sanjay Behl: So overall if you see the Branded Textile as a segment, overall it has grown in Q4 by close to about 13% and that really is half in volume and half in realization, and that is also on account of mix there because Q4 has had reasonable amount of weddings last year as well however it was still having some lag affect of demonetisation. To some extent its growth has to be seen more in a little longer period there. So if I now look at the full year picture for you in Branded Textiles the growth that Sanjay had mentioned in his opening is 10% that is largely volume led growth so it is a 7% volume and 3% realization led growth.

Shivam Vashi: Throughout the year?

Sanjay Behl: Yes throughout the year

Shivam Vashi: What is your approx realization in suiting fabric segment for the quarter?

Sanjay Behl: What do you mean by realization?

Shivam Vashi: Per metre fabric realization?

Sanjay Behl: It is about Rs.550-600

Shivam Vashi: Where do we stand on the textile on working capital days?

Sanjay Behl: It is pretty well controlled, it is under about 25% of revenue that is where we have been in terms of our working capital and overall working capital has come down as we said as a group level if you see consolidated level has come down from 99 to 87 days. In suiting this come down to 22.5% of revenue, so it is very well managed.

Shivam Vashi: If you can just give me any numbers on days?

Sanjay Bahl: Come down from 99 days to 82 days

Shivam Vashi: Thank you Sir.

Moderator: Thank you. The next question is from the line of Dhruv Agarwal from Crescita Investments.

Dhruv Agarwal: Good evening Sir. My question is regarding the Khadi business, what has been your total capital expenditure into this business as on date?

Sanjay Behl: There is no capital expenditure; it is only working capital investment. We do not have any inhouse production, it is 100% outsourced, sourced from KVIC, KVIC is the intermediary sales agent of Khadi in India and abroad is the owner of this brand, so we have a deal with them to really procure Khadi from them. We cannot set up our own technology at all or our own infrastructure at all and right now we have no investment in retail because we have not really established exclusive retail for it, so at this point of time no capital expenditure on Khadi.

Dhruv Agarwal: So you just outsource Khadi from them and you then design as per your requirements or whatever designs are?

Sanjay Behl: You are right. It is a trading business where we work with their artisans, we do our designs, we buy it from them and then we sell it in the market

Dhruv Agarwal: For FY2017 your Denim revenues if I am not wrong were around Rs.875 Crores, so what has been the Denim revenue specifically for FY2018?

Sanjay Bahl: There has been some improvement, it is about Rs.940 Crores.

Dhruv Agarwal: And if you can tell me the EBITDA amount in Crores or the EBITDA percentage for it?

J. Mukund: We do not share the EBITDA percentage normally for this business.

Dhruv Agarwal: But are you seeing sustainable EBITDA margin in the Denim business and how is the Denim industry as a whole doing in the textile space?

Sanjay Bahl: The Denim business is obviously dependent, very commodity driven by what happens on cotton and there are two factors, which have impacted this business. One is cotton prices have not seen a decline with the new season crop, cotton prices remain firm for the last one-a-and-half years and we still have to see whether they will soften this year. The second thing which is impacting the business is the capacity addition, which has happened both in domestic as well as in the Sub-Asian continent, which is in Bangladesh and Pakistan, where there has been a lot of Denim capacity addition. So this business is seeing on one hand a little bit of contraction in demand and the other is that the capacity expansion has gone up significantly so there are challenges, which are there; however, having said that the Indian Operations in 2017-2018 have performed exceedingly well as we have reduced the loss before interest on preference capital, tax & exceptional items by about 18 Cr. So inspite of the challenges the business has performed well. Its revenue got impacted due to the currency appreciation that was witnessed in 2017-2018. When we look at 2018-2019 the situation looks much better as Denim is largely an export dependent business, so there is a positive uptake that we see. The focus in Denim is largely on product innovation and on garmenting solution and I think that strategy has helped the business to at least tide over some of the challenges, which are there in the sector.

Dhruv Agarwal: Right, your Denim sales are more of B2C or B2B?

Sanjay Bahl: No, all B2B business.

Dhruv Agarwal: Thank you so much.

Moderator: Thank you. We take the next question from the line of Zain Iqbal, Individual Investor.

Zain Iqbal: Thank you for the opportunity Sir. Can you give me the capex breakup for FY2019 across segments?

Sanjay Bahl: We have given you the overall breakup of capex. We have said that overall about Rs.250 Crores of capex, of which around Rs.30 Crores is a spillover from Amaravati and Ethiopia. We have an apparel expansion rollout plan and we have about Rs.48 Crores for the capacity addition in the Auto Business and the rest will be really maintenance capex across our plants.

Zain Iqbal: And what will be the net debt outlook for FY2019?

Sanjay Bahl: Net debt that we see as far as overall Rs.250 Crores of capex is concerned, we feel that largely it will be driven funded through internal accruals, our net debt levels will see an increase because of the investments that we will now be making in our real estate projects so that we are still working out the numbers in terms of quarter wise, how it will pan out and we will come back to you in terms of the actual impact that we see depending on how the projects will be phased out during the year.

Zain Iqbal: What is the current capacity utilization at Ethiopia and Amaravati?

Sanjay Behl: Amaravati just got commercial so it is about 60% already and Ethiopia is running at about 40%-45% right now.

Zain Iqbal: By when can it run at 100%?

Sanjay Behl: If you look at theoretically it cannot run at 100% so typically garmenting factories are fully utilized when they start running at close to 70% and fabric factories are fully utilized running at about 90%. So I think Amaravati is already probably weeks away from reaching there and because garmenting is a very different skill in a completely new work force in Africa, Ethiopia could take about two more quarters to reach there.

Zain Iqbal: I see the inventories that we have gone up on a year-on-year basis why is that?

Sanjay Bahl: You will see that because you have added Rs.105 Crores, which we have added to inventory, which is really the real estate project cost, which is technically classified as stock-in-trade.

Zain Iqbal: Thank you.

Moderator: Thank you. We take the next question from the line of Keval Shah, Individual Investor. Please go ahead.

Keval Shah: Thank you for the opportunity. Sir my first question is regarding Branded Apparels, Sir in that category regarding the sale of accessories can you just elaborate on what is the percentage of total sales and absolute value in terms of sales and what was the historical year-on-year growth and outlook for it?

Sanjay Behl: Currently the total accessories would be close to about 6% to 7% of our apparel portfolio and they have been growing at anywhere between 20% to 25% CAGR over the last three years.

Keval Shah: Any outlook for future guidance for that?

Sanjay Behl: I would say pretty much little higher than the overall, so our overall guidance on apparel sales has been high kind of double digit 15% to 18% I think this would be about 5% points ahead of the median of the apparel sales growth.

Keval Shah: My second question is a bit generic. Sir if I say historically from 2011 to 2016, our consolidated revenues have grown at around 11% and right now you give us some revenue guidance of 7% to 9%, so my question is after taking all the initiatives of Khadi, ethnics, retail network penetration, etc., why are we struggling to at least maintain the revenue growth of historical what it was around 11%?

Sanjay Behl: In fact in apparel if you see it is where you take a cut, it is really about that and 2010 to 2014 there is no growth in apparel business.

Keval Shah: At consolidated level I am saying.

Sanjay Bahl: At consolidated level, the base has also gone up significantly and it is also a mix factor. If you take that compounded rate growth, the revenues have grown by about 2 times. With the divest businesses that we have it will be difficult to sort of continue to say that it will grow 11% at a consolidated level year-on-year. I think we will have to look at business segment point as a strategy for each business. Also it is a strategic portfolio of all you take in terms of trading of operating margin. Like Tools and Hardware we specifically now said that we will not chase revenue, but we will chase profitability and return on capital employee there.

Keval Shah: What is the outlook on networking capital days or inventory days going forward?

Sanjay Bahl: We are seeing a reduction of about 12% because from about 99 days to 89 days, 10 days reduction in NWC, now the NWC is the key focus area for each of our businesses and I think that will remain the initiative. We have specific set of initiatives on the supply chain, which are driving the businesses in Branded Textile and Branded Apparels our core businesses and these initiatives are likely to focus a lot on better inventory terms and inventory management and specifically in apparel trying to reduce the number of the end of season inventory, so I think these are the initiatives, which will continue to be there.

Keval Shah: Regarding our real estate you mentioned 3 million square feet of saleable area is there, can you comment on what would be the carpet area roughly?

Sanjay Bahl: I would not be able to tell you that as I said that there are specific details, which we will come back to you soon, so we will have to just request you to be a bit more patient. The teams post the board approvals are working feverishly to put everything together, so we will come back to you soon with specific information that you are seeking.

Moderator: Thank you. Well that seemed to be the last question. I now hand the floor back to the management for their closing comments.

J. Mukund: Thank you. I would like to thank all the participants for taking your time and attending the earnings call today. You can call or you can mail us for any further queries. Thanks again. Good evening.

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