



“Raymond Limited
Q3 FY2019 Earnings Conference Call”

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Moderator: Good Day, Ladies and Gentlemen, Welcome to the Raymond Limited Q3FY '19 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijeet Kundu from Antique Stock Broking Limited. Thank you and over to you, Sir.

Abhijeet Kundu: Thank you. Hi all, 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 you, Mr. Mukund.

J. Mukund: Thank you, Abhijeet. Good Evening everyone and thank you for joining us for our Q3FY19 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; Mr. Bibek Agarwala, CFO of Lifestyle Business; and Mr. Alpesh Dalal, Director, Corporate Finance. 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 Q3FY19.

At first, let me briefly discuss the prevailing market condition in Q3FY19 for the industry as a whole.

The quarter started with subdued retail demand which progressively picked up with the advent of festival season in early November. During 2nd half of the quarter, wholesale channel picked up for upcoming wedding season in 4Q.

In the apparel sector, at the retail level, the offtake was relatively low in early October which picked up with Diwali and the momentum was maintained due to beginning of wedding purchases and the End of Season Sale which started around mid of December.

At an overall level, as the quarter progressed, after a slow beginning the consumer demand improved towards the end of the quarter.

Coming to our quarterly performance, I am happy to share that this quarter's performance is on track with growth momentum being maintained. The quarter witnessed growth across all segments. Our revenue grew by 13% which is ahead of the guidance given in the last quarter

and EBITDA margins improved by 221 basis points, which exceeds the guidance given of 100 bps improvement in the last quarter

Also, the underlying profit for the quarter at Rs. 38 crores is up by 33% over previous year.

Let me take you through the revenue growth:

The overall revenues grew by 13% with growth across all segments:

Strong growth of 10% in Branded Textile led by 13% growth in the suitings business on account of strong volume growth. There was muted growth of 2% growth in the shirting business mainly on account of planned phasing and pipeline correction. The volume growth in domestic business is driven by growth in the TRS & MBO channels on the back of festive season coupled with growth in the exports in suitings business by 8%

Branded Apparel grew by 20% with growth across all brands. We witnessed strong performance in Park Avenue (21%) & Parx (17%) brands and contribution from new customer segments. Also, there was strong performance in MBO channel (+29%) and EBO channel (+19%). The Blended EBO SSSG grew by 8% reflecting strong secondary sales

The Garmenting segment grew by 14% led by exports growth in US and Europe

High Value Cotton Shirting grew by 7% led by yarn sales from Amravati plant

Engineering businesses continued to grow well as Auto Component segment grew by 30% driven by strong demand from both domestic and international customers. The Tools & Hardware segment grew by 2% driven by better performance in exports

Overall EBITDA commentary:

The overall EBITDA at Rs. 185 cr grew 41% over last year driven by contribution from Branded Textile, Branded Apparel and High Value Cotton Shirting segments.

The EBITDA margin expansion of 221 bps from 8.6% to 10.9% was led by:

In Branded Textile segment, LTL EBITDA margin is higher at 15.6% as compared to 15.3% in the previous year mainly due to topline growth and lower discretionary spends. The reported EBITDA (post common cost allocation) is 14.8%

In Branded Apparel segment, LTL EBITDA Margins improved to 2.7% compared to 0.2%, mainly due to sales growth and better channel mix. The reported EBITDA margin is also higher at 2.2% (post common cost allocation).

The Garmenting segment EBITDA margin is lower at 3.8% vs. 4.1% in previous year. Excluding common cost allocation, the margin is higher by 50 bps @ 4.6%, improvement mainly due to operating efficiencies

The High Value Cotton Shirting segment EBITDA margin is higher at 14.0% as compared to 10.7% in the previous year. The margin is higher due to improvement on account of product mix and stabilisation of Amravati operations

The Tools & Hardware segment EBITDA margins improved to 11.8% vs 10.1% in previous year on account of the turnaround strategy of building operational efficiency and product rationalization.

The Auto Component segment EBITDA margin at 21.8% is lower vs PY by 260 bps, impacted mainly due to increase in raw material price. Overall, the business is maintaining its profitable sales growth momentum.

Our free cash flow was positive during the quarter at Rs. 94 crores. Our cash flow from operations for the quarter was positive at Rs. 226 crore mainly due to improved business performance as explained earlier .

Gross debt stood at Rs. 2,610 crores as on 31st Dec versus Rs. 2,428 crores last year and the net debt was at Rs. 2,185 crores as on 31st Dec versus Rs. 1,988 crores last year. Our net debt levels increased this year mainly due to the manufacturing capex in the Ethiopia and Amravati plant and increase in working capital. Net debt to equity is stable at 1.1. The average interest cost increased by 54 basis points to 8.14% at YTD level.

On the working capital front, Net Working Capital days @102 days are marginally higher by 1 day vs PY

Our CAPEX spend was Rs. 61 crores during the quarter mainly related to retail expansion, new stores, auto components business capacity expansion and maintenance capex.

Now, let me highlight the business initiatives undertaken during the quarter:

In-line with our stated asset light expansion approach in the core textile and apparel business, we opened 70 mini TRS under franchise route during the quarter. Overall till date, we have opened 209 mini TRS stores in 180+ towns largely in Tier 3, 4 & 5 towns.

During the quarter we have added 5 more franchise based tailoring hubs taking the total number of tailoring hubs to 38. This is In line with our stated strategy of facilitating quality tailoring services through tailoring hubs which tailors the customers' requirement in quality controlled environment.

Update on Real Estate:

We are happy to share that we have obtained project registration from Maharashtra Real Estate Regulatory Authority (MAHA RERA) pertaining to phase 1 of the total development of 20 acres of land for residential purposes.

All the required regulatory approvals/in-principle approvals are in place. During Phase 1, we are developing 2 high rise 42 storied towers with 2BHK apartments admeasuring ~0.6 mn sq ft of saleable area. The project will provide world class amenities and facilities which will reflect the benchmark of quality standards associated with Raymond.

The project will be executed by our experienced real estate team supported by strong association partners such as Hafeez Contractor – the Master Architect, Epicons Consultants Pvt Ltd – the structural consultants, Godrej & Boyce – Green Consultant and Cracknell – Landscape consultants and others.

We recently conducted Bhumi Puja on 21st January 2019 and will soon launch the Phase 1 of the project.

I would like to re-iterate that land monetization is a critical aspect in value unlocking at Raymond.

Now, coming to guidance for the 4th quarter.

For Q4, with the advent of wedding season, we are expecting the trade channels to grow and at the retail sector level, the positive consumer sentiments to be maintained. At the overall quarter level, we expect the growth momentum to continue due to EOSS and the higher number of wedding days.

On the cost front, financial prudence and building operational efficiencies continue to be key focus areas. Also, from Branded Textile margins perspective, with the continued increase in wool price, we have taken a price hike of 4% in January. Along with this price hike and already undertaken initiatives of wool microns optimization and process optimization we expect to part neutralize the impact of high wool prices.

For Q4 quarter, we are expecting high single digit revenue growth and EBITDA margin improvement by 100 bps over previous year.

Overall to conclude it has been a good quarter of strong revenue growth and improvement in margins.

Thank you. We can now open for question and answers

Moderator:

Thank you. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Sir, our quarter-on-quarter debt has not really moved up significantly, but our interest cost or finance cost have moved up by 10 crores, I think from 60 crores to 70 crores, so can you just explain what has happened over there and what should be the finance cost run rate going forward?

Sanjay Bahl: You are right that in this quarter, the interest cost reflects an increase of around 10 crores. So it includes a provision of Rs 9.1 crores which we have made on account of a potential interest cost which may come in due to deferment in the ULC payment that we have to make. If you recall some quarters ago, we had mentioned that there is a total ULC payment of Rs 170 crores that has to be made, however, we secured a deferment plan to make this payment. Out of this 170, we have paid Rs 42 crores and the balance amount has to be paid over the next few quarters with the next one falling due by end of March 2019. So on a conservative basis we provided for interest of Rs 9 crores which is really beginning from April onwards for the whole year till end December. Going forward, we will need to see whether as we make the ULC payments these interest payments will get regularized. So this reflects the big shift that you are seeing really in interest cost. Overall, I am also happy to inform you that our interest cost at 8.1% are much lower than the benchmark lending rates which are currently ruling at 8.5%.

Chetan Phalke: On a normalized level, what should be the run rate we should expect in FY20?

Sanjay Bahl: Essentially, Rs 9 crores is the additional cost which has come in this quarter, so if you exclude this at a debt level which we have been able to maintain, the run rate should be really in line with the growth that we have, so essentially on account of increase on working capital.

Chetan Phalke: Sir, coming to the real estate project, now we have announced only Phase-1 which is 0.6 million square feet and there are proposed five phases for this project, so right now only two buildings have come up, but we expect 10 to 12 buildings to come up eventually, right?

Sanjay Bahl: Yes, that is the overall plan that has been approved, so right now we are beginning with Phase-1 and we will soon be getting into other phases gradually.

Chetan Phalke: Any schedule in timeline for Phase-2, Phase-3 like that?

Sanjay Bahl: What we are focusing now is on the launch of Phase-1. As we come towards the launch, we will be able to share more details with more clarity on what the other timeline for the other phases will be as well.

Chetan Phalke: Sir, the building is 42 floors and usually it takes four years for the building to get completed, so will we complete this Phase-1 in next four years and how are we scheduled when it comes to the entire five phases on this project?

Vipin Agarwal: So far as the RERA guidelines are concerned, the period of five years is applicable to each project we announce and each tower is a project as per RERA technical terms. So as and when

we keep adding whatever phase of time it is, the five-year period is going to be applied from that date.

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

Dikshit Mittal: Sir, my question is on this Rs 9 crores additional interest payment, so will this be recurring till you make this ULC payment or this is the one-time in this quarter only?

Sanjay Bahl: This is a provision that we have made for the past interest which has accrued. On a recurring basis, this will keep declining as we keep making the payments.

Dikshit Mittal: This provision is for which period?

Sanjay Bahl: This provision is for the nine months of the year.

Dikshit Mittal: In case, there is a delay in this payment, this can recur on a quarterly basis?

Sanjay Bahl: On a quarterly basis, yes, the approval will be there.

Dikshit Mittal: The Rs 3 crores quarterly that we can take till this payment?

Sanjay Bahl: Three crores, yes.

Dikshit Mittal: Sir, secondly we have seen sequential dip in the Garmenting segmental EBITDA, so is there any one-off or is it the seasonality involved in this segment?

Sanjay Behl: On Garmenting, just could be the phasing the way the product has really got phased out, plus there is Ethiopia as it is building up that could be the blended impact of that, but you would see on an average there would be an improvement in EBITDA for the year by about 150 to 200 basis points in our Garmenting business.

Dikshit Mittal: Because last two to three quarters, we were at 7 odd percent kind of EBITDA, now this quarter we have fallen to around below 4, that is why I am asking what is the sustainable EBITDA margins in this segment?

Sanjay Behl: It is about 7-8% and that should get restored back.

Moderator: Thank you. The next question is from the line of Govindlal Gilada, an Individual Investor. Please go ahead.

Govindlal Gilada: I have got few questions on real estate. Earlier one of my colleague was asking about this first phase, I want to understand net-net 20 acres we are talking about, we are giving guidance 3 million square feet we will be developing in five years. So I am wondering this first phase

itself will take at least four years, so generally 40 floors it takes four years to complete, so this 3 million will be able to complete whole 20 acres in five years what we are guiding?

Vipin Agarwal: I think just now we talked about it. This five-year period is applicable as per RERA guidelines and it is applicable from the tower which we would start constructing. So assuming that we start constructing the next tower, say, after six months, so five-year period will be applicable from that date.

Govindlal Gilada: I am asking about total guidance what we have given 20 acres we will complete 3 million in five years, that is what I am asking will we be able to complete 20 acres 3 million in five years?

Vipin Agarwal: Five years has to be read from the date on which each project, which is, the each tower starting with construction.

Sanjay Bahl: To answer your question, Mr. Gilada, we had said that the project will be a five-year project from the date we announce the project. Now, the project as far as RERA is concerned is as we announce the tower, that is considered as a project and there is five-year from that date as Vipin as explained. If we had launched all the 3 million square feet at the same time, then it would be five years, but since we are going to launch it at different times, which is more prudent from a planning and execution perspective, it will be five years for each project. It is more prudent given the market that we launch it in a phased manner.

Govindlal Gilada: We cannot take on face value that 3 million on 20 acres will be completed in five years?

Sanjay Bahl: Yes.

Govindlal Gilada: Sir, overall, what is the dynamics, we have got permission, we are launching project also. In last few con calls I was asking and you told that whenever we launch we will give all further information. So I want to know what kind of average realization we are expecting cost of construction all that, Government cost what we will incur, what will be PBT for this project, anything you can clear on economics, how much debt we have to take for development of this project?

Vipin Agarwal: I think you have a number of questions on this, so far as we are concerned the launch is actually going to be divided in two parts. First is the soft launch, which we are going to do, little bit of market experimentation and to discover the price. So we will possibly be in a position to kind of address the questions in much more specific details by end of February and I think there is a plan to host another call in detail to discuss the questions which you are talking about.

Govindlal Gilada: What kind of cost of construction we will incur, any other dynamics can you share us?

- Vipin Agarwal:** Cost of construction is also something which is, A, little bit of standard calculation which can be made, which is comparable with the industry trends. Also, there is a possibility of doing some value engineering, which we are in the process of working out, so possibly give us a month's time, we will be in a position to share better details.
- Govindlal Gilada:** Further any debt we will be raising for this project, Sir, over and above regular debt?
- Sanjay Bahl:** I suppose you are referring to the launch?
- Govindlal Gilada:** Yes, for this project what we are launching, any further debt we have to raise for this?
- Sanjay Bahl:** We have already spent about Rs 150 crores up to Q3. Over Q4, while we have secured the approvals, the statutory payments have to be made. Those along with other launch expenses should total around Rs 100 crores. Post this, for Phase-1 we do not expect any further debt to be raised for this, it should be self-financed.
- Govindlal Gilada:** Let us say another Rs 100 crores can go up?
- Sanjay Bahl:** Yes, that is right, that is what I am saying that another Rs 100 crores of potential expenditure. After that, it will be all self-finance, because we would be launching it commercially, so the sales revenue, etc., collection will start and the construction expenses will be largely into construction, so it should be self-financed.
- Moderator:** Thank you. The next question is from the line of Zain Iqbal, an Individual Investor. Please go ahead.
- Zain Iqbal:** I have a question on Suiting's, so we have taken a price increase of 5% versus the usual 2% to 3%, so can you please share if this is mostly to cover cost of wool and viscose or a possibility to improve margins given the strong wedding season ahead?
- Sanjay Behl:** Overall momentum as we see has been pretty good. In domestic Suiting, we are looking at double-digit growth continuing in the year on a YTD basis and the quarter, so we thought that we have enough momentum now to also partly neutralize the wool cost. So the primary trigger for an exceptional price increase beyond our normal 3% to 4% a year, for us to have gone at about 4% to 5% depending on blend, is largely on account of input cost and our ability with this kind of momentum to pass it off also are facilitated by the wedding season ahead. So I think there was multiple factors to time this price increase, which is what we have done now and it is largely to take care of the input costs.
- Zain Iqbal:** My second question is on the innerwear category. What is the strategy on the innerwear, because Van Heusen is the Number Two player currently in India and they have already crossed Rs 100 crores of sales and they target to do Rs 200 crores in FY19, so what is our game plan?

Sanjay Behl: In a way, this category is actually further getting segmented into two fundamental segments, one is the Jockey equivalent briefs, trunks, and vests, which is called BTV segment and the second is the lounge wear, athleisure's, nightwear kind of a category, so there are sleepwear kind of category. So there are two fundamental things, whereas Van Heusen has started playing on both as we are aware. It is a category where we already have some representation through Park Avenue which is sizeable, so close to about Rs 30 crores of our revenue comes from innerwear largely coming from Park Avenue as a brand. We have additional offerings under ColorPlus also in the innerwear segment there. We are yet to really have an aggressive standalone innerwear acquisition. We are evaluating multiple opportunities in innerwear. While it is Number Two, it is Number Two only in premium branded innerwear segment, that is what Van Heusen is. There is a very large segment of mass innerwear brand, which are multiple times bigger than most of the other branded players at this point of time. From Raymond perspective we are evaluating, should it be a brand play in terms of extension or should it be a standalone innerwear play. This juncture we do not have a clear distinction on a decision on that. We will continue to grow in our innerwear segment as branded extension of Park Avenue and ColorPlus that we have at a rate of about 15% to 20% CAGR which we have been getting. Going forward, if there is any change in strategy, then we will announce at a suitable time.

Moderator: Thank you. The next question is from the line of Aejas Lakhani from Edelweiss. Please go ahead.

Aejas Lakhani: Two questions, one is that on the intent of the Management to hive off certain non-core assets, are we anywhere in the process?

Sanjay Bahl: We have stated our strategic intent as of non-core to deleverage our balance sheet, bring down debt, and that effort is continuing, however, it is difficult to give you timelines on this, but we reiterate our strategy and we continue to pursue that path. As and when we get the right opportunity for unlocking value, we will certainly be prepared to do that.

Aejas Lakhani: On the second part, I wanted to understand the total land that you all hold in Thane, part of it you all had also said that from a deleveraging perspective, you will be finding a strategic buyer for a small portion of the land. So am I correct in my understanding and what is the portion of land that you are all looking to sort of sell?

Sanjay Bahl: We have two stated strategies on real estate. One is that we have announced our project to develop 20 acres of 3 million square feet of land. The other is that we had also stated our intent to sell smaller parcels of land, so efforts are on in that direction as well.

Aejas Lakhani: What would be the quantum?

Sanjay Bahl: Smaller parcel I mean it could be 20 acres of land, it could be 10 acres of land, so efforts are on towards that.

- Aejas Lakhani:** From a deleveraging perspective, are you foreseeing any of that to take place in FY20 or it could get further deferred?
- Sanjay Bahl:** It depends on the right value and the opportunity coming in, so that we strike a win-win deal. However, it is difficult to put a timeline ideally just we would like to see it happen sooner rather than later.
- Moderator:** Thank you. The next question is from the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.
- Abhishek Roy:** Sir, my question is regarding the real estate development, can you just share what is the JV agreement for this housing project?
- Vipin Agarwal:** I do not know what is the source of information on JV, as per our knowledge we are developing it ourselves and we have got absolutely top-class team, which is taking care of it along with partnerships with equally reputed vendors and agents.
- Abhishek Roy:** You are saying that there will not be any profit-sharing on anything like it is completely taken by yourself, right?
- Vipin Agarwal:** Yes, as of now, there is no joint-venture, it is a standalone Raymond project.
- Abhishek Roy:** Sir, regarding one more point that you mentioned that rest of the land bank where you are planning to monetize, so can you just mention the timeframe for that?
- Sanjay Bahl:** I just mentioned in the last question, my answer was that we would like it to happen sooner rather than later, however it is difficult to put a timeline because it requires the right valuation etc. to come in to be offered and to conclude a potential deal. It is difficult to put a timeline, the intent is certainly there. Given the right valuation, we will be certainly willing to look at it.
- Abhishek Roy:** That will be like similar kind of housing development projects or any development or simply the land...?
- Sanjay Bahl:** That we will be looking for selling the land as I said, so the development is what we have announced, which is 20 acres of development. The rest of the land that we are seeing as of now, the intent is to sell smaller parcels.
- Moderator:** Thank you. The next question is from the line of Abhijeet Kundu from Antique Stock Broking Limited. Please go ahead.
- Abhijeet Kundu:** Sir, just two questions, one despite third quarter being Festival season heavy compared to second quarter, why do we see decline in EBITDA margin in almost all the segments? So sequential decline, in branded apparel, it declines from 3.2 to 2.7, in textiles 15.9 to 15.6, in

high value shirting segment, this is 16.2 to 14.8% margin decline. So Sir can you please explain what possibly is the reason?

Sanjay Behl: It is purely a mix issue and seasonality issue, if you see last year Q3 had a reasonably high number of weddings there and this year the number of wedding dates were less than half of last year same quarter. Wedding has a direct elasticity with high-value, high ASP products and high margin products. So part of the reason is while the festivities were still there as you said are more in Q2, which is very similar to what was there in Q2, it is purely the deferment of wedding season from Q3 to Q4, so you would see a bump up in our sequential margins in Q4 versus Q3.

Abhijeet Kundu: What would be roughly the contribution from wedding and festival, roughly any idea on an annual basis?

Sanjay Behl: Different businesses have different contribution, so suiting has higher co-relation with that, shirting will have a relatively lower correlation with that, formal clothing will have higher, casual clothing will have lower. So it is very difficult to give you one blended answer because different categories have different elasticity, but on a blended level even if you see even at a business level, there is a direct correlation which happens with weddings there, so different businesses have different kind of a thing. It could go as high as 35% sale happening in 25% time in a quarter if the weddings are good. It could go as low as 17% if there are no weddings, so it has just that kind of a range.

Abhijeet Kundu: Sir, second question is what would be your CAPEX guidance for FY20?

Sanjay Bahl: Specifically, when we come to the end of Q4 we will be giving you the annual guidance for FY20.

Moderator: Thank you. The next question is from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.

Mitul Mehta: Sir, the previous question was on the CAPEX which you did mention that you would elaborate during Q4 call, but just to get a little sense on your Amravati and Ethiopia plants because they were contributing large part of the CAPEX and that apart store additions and furniture and fit-offs. So are we kind of completely invested in Amravati and Ethiopia so far or not yet?

Sanjay Behl: In Amravati, we are fully invested, almost 95% investment is through and we are running broadly at about 100% efficiency. In fact in the last three or four quarters and the only thing which is left is possibly some CAPEX which will be just optimization CAPEX of some line balancing, some boiler related last touches about Rs 20 odd crores is left in a project which was about Rs 250 crores worth. Other than that most of the CAPEX is behind us, so that is on Amravati. In terms of productivity efficiencies, we are doing better than what we had initially projected, we are running a little ahead of our own internal targets there. This is a plant, which is running at almost 100% efficiency, in fact in the opening remarks Sanjay did mention that

there has been a huge upside on Amravati which has led to significant improvement in our margins from close to some 10.5% to going to close to 15% for the quarter, largely is in the back of excellent performance by Amravati plant. The other point of Ethiopia that you mentioned, we are running about six months of lag because there has been some civil unrest in the country for which there has been some precautionary measures taken by the Government and there is some travel advisory issues to some of our customers there So we have deferred. We had a plan to run eight lines of jackets and suits there. We have invested only six till now. The plan was to invest eight, we have deferred about two lines and that is about Rs 25 crores of CAPEX on a Rs 130 crores project has been deferred. The rest has been fully invested and that deferment has happened purely because we need to get the volume and the demand and the return before we invest in the capacity, so that would now get deferred staggered over the next five or six quarters. At this point of time, we are running six out of eight lines. Our production is a little lower than our earlier estimates. We are running at anywhere ranging between depending on the product category, so on trousers we will be at about 55% to 60% of our capacity, waistcoats we will be running more than our capacity that we had done. So currently there is still a lot of balancing of capacity happening. The maturing of Ethiopia capacity will happen two quarters from now, where we will start coming closer to our customers.

Mitul Mehta:

Sir, is it fair to assume that you would be running flat-out in Amravati very soon and Ethiopia also once you put those two balancing lines there also you will start running flat-out based on your order bookings and all, so which means that you will have to invest further in these two assets?

Sanjay Behl:

It does not seem to be, because there is enough sweating which is possible with the current assets there. Amravati pretty much flat out will happen as you rightly said, it is already running at that kind of a capacity, so it will start peaking pretty much in the next year in terms of our efficiencies of that plant. Ethiopia still has some way to go If you really understand the operations of a garmenting plant, it takes about six quarters after a line is put up for it to come to through optimal productivity. We have started this plant somewhere in the middle of last year, so June 2017 we commissioned this plant. Still sixth quarter of it is running right now, but we have started the capacity in different quarters as we go and as and when the lines come, it takes six quarters for it to come close to its optimized level. So I think that Ethiopia will have a lot more still in the next four to six quarters in terms of additional efficiencies yet to be obtained, while Amravati will start hitting its peak pretty much in the next year.

Mitul Mehta:

Sir, do you have enough land available in Amravati to beef up the infrastructure?

Sanjay Behl:

We have a very large parcel of industrial land there, we have close to 500 acres of land of which we are only utilizing 35 acres at this point of time.

Mitul Mehta:

Which means that is all Brownfield basically, incremental?

Sanjay Behl:

Yes, it has to be Brownfield as we go ahead, we have enough land parcel there.

- Mitul Mehta:** How much would be maintenance?
- Sanjay Behl:** In terms of CAPEX?
- Mitul Mehta:** Yes, every year.
- Sanjay Behl:** Largely, it is maintenance now because there is hardly any expansion which is planned in the next four to six quarters. So next four to six quarters if you see our CAPEX, even including this year has largely been maintenance CAPEX.
- Mitul Mehta:** So it will be roughly to the extent of depreciation?
- Sanjay Behl:** It will be a little under depreciation because the retail part would also come in there, retail depreciation also comes in, so it is a little over the depreciation.
- Moderator:** Thank you. The next question is from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Sir, my question was regarding the Branded Apparel segment. This December quarter was a festive quarter, so one was probably expecting this to be a bigger quarter for Branded Apparels in terms of revenue versus Q2, so that is not the case. I just wanted to understand why is that so, as in you got Rs 484 crores of revenue in Q2 and Rs 397 crores in Q3 which is about 20% lower, so just wanted to understand why this is the case when it was a festive quarter?
- Sanjay Behl:** We keep coming back to the same thing. There are two specific elasticities to our business, one is festivity, one is wedding and for us....
- Arjun Sengar:** Q2 had lot of wedding dates?
- Sanjay Behl:** There was lot of festivity which is equal to what it was, but had much lower wedding dates in Q3, so Q4 will be in a larger quarter because the number of wedding dates in Q4 are much higher than they were in Q3, that is the reason. Because we have two large brands, Park Avenue and Raymond, which are directly correlated to the wedding part of it, which is about 65% of my portfolio is so called formal kind of heavy weighted there, which has a very direct correlation with that.
- Arjun Sengar:** Second question was on the general consumer sentiment and buying pattern, anything that you would like to highlight, sluggishness or any pertinent point you would want to talk about?
- Sanjay Behl:** October was a little lukewarm and I think that was also covered in the opening statement, but we have seen some pickup in consumer sentiment moving in the month of November and December, which also got hugely aided by deep discounting which has happened in the E-commerce towards the end of October running towards November, that has also augured to some level of additional consumption which would have gone in. We have not seen much of a

slowdown actually post December. While the end of season sale started middle of December, most of the players continues to fuel the consumption and we have seen now that weddings have already set in from January 15th last week, we are seeing only that demand continues to be pretty high. So we feel that as we are getting into elections as the overall sentiment continues to be positive aided partly by some discounting which is fuelling it both in terms of off-line also augured by some E-commerce kind of policy in draft at this stage which are saying that by end of February or end of March they need to liquidate a certain kind of stock there, so there seems to be some additional level of incentive which is being given by most of the branded players which is also fuelling a little bit of a demand. So combination of some positive consumer sentiment and artificially created discount led trigger demands. We feel that Q4 is going to be a reasonably high quarter for most of the branded apparel players.

Moderator: Thank you. The next question is from the line of Yash Gupta from Prince Group. Please go ahead.

Yash Gupta: Sir, my question is that how is the Denim business is competitive with the Bangladesh products and the Pakistan products, is that we have any advantages?

Sanjay Behl: Are you asking about the denim business competitiveness versus Bangladesh and Pakistan?

Yash Gupta: Yes, Sir, correct.

Sanjay Bahl: Denim business currently is impacted by couple of issues. One of course is the overcapacity that the business is having in India and the other is the high cost of cotton and when you look at the competitiveness of Bangladesh and Pakistan, yes, the businesses in India are at relative disadvantage. Pakistan, one because of the Rupee depreciation that has happened in Pakistan would make their exports competitive. The other is also the prices of cotton is lower in Pakistan. Bangladesh, the garmenting costs are much lower. They are able to offer full package and treaty benefits that they have with US customer, so that is aiding them in exports from Bangladesh. So yes, currently the industry is at a relative disadvantage, however, from our business perspective lot of measures are being taken, one, to offer full package solutions, to augment our garmenting capacity by outsourcing it and also really to move up the value chain, that is the big step that we are doing - to launch product innovations, which go higher up in the value chain in terms of design and in terms of product, so we are able to actually effectively give a better quality product over what the competition can give So there is a lot of effort which is going on in design and innovation of products.

Yash Gupta: Sir, second question is that as the cotton pricing is varying too much, volatility is there, do we have any option to hedge that particular cost of raw material?

Sanjay Bahl: We look at all these options in terms of what is the best course of action. There are commodity exchanges which are available. We looked at those in terms of is it a strategy that we need to take a hedge. There is a cost to the edge as well and sometimes our evaluation shows that it is better to not to take these derivatives which can backfire in the long run But it is a constant

evaluation that we do, given the forecast of cotton and given the cost of hedging, we will certainly keep looking at these models.

Moderator: Thank you. The next question is from the line of Ritesh Bhagwati from Rockstud Capital. Please go ahead.

Ritesh Bhagwati: My question pertains to real estate. My question is like do you think it is a wise decision to not pare the debt which is roughly around Rs 2200 crores by selling the land and instead rather getting into this reality business which I believe it is a non-core business for a company like Raymond, which we believe it is a high gestation of five years as we have already discussed and again for that we need to have another debt of Rs 200 to 225 crores. So why such kind of a decision the Management of Raymond has taken, so that is my first part of the question if you can answer?

Sanjay Bahl: Let me take that on, I think we have answered that in earlier con calls as well. We have stated our policies to monetize our land. Monetization can happen in two ways either we wait for sale of the land or we look at developing a parcel of land, which we believe will give us higher returns as well. We have now engaged in dual strategy. We have announced our plans to monetize a small parcel of land up to 3 million square feet. We believe that it will be cash flow positive, it will be cash accretive. Yes, we have to spend on the approvals and the cost of securing these approvals. However, post this with higher sales velocity, we believe that the project is going to be cash flow positive. The effort continues, it is not an either or scenario where if we are developing, we will continue to put in efforts to sell the other smaller parcels of land, and efforts to do that continue and that is clearly our intent to use the cash flows from the sales to deleverage the balance sheet, reduce our debt, etc., so that will continue.

Ritesh Bhagwati: My other part of question is like there are other non-core segments like auto and industrial which I have seen across the years have done way better against last three to four years, but then still we are unable to exit those businesses. Why is that happening, are we like expecting high kind of valuation for the exiting or what is it exactly?

Sanjay Bahl: I think it is a fair value that we expect. We turned this businesses around, it does take time to see that we have the right fit for the businesses, the right opportunity has to come along. These are things which can happen very quickly or it can take some time So what we are currently engaged in is the process of one, which we have successfully achieved is to turn these businesses around and to generate positive cash flow from these businesses, to generate high return on capital employed from these businesses, I think that objective has been achieved. The other is to then see as to where would these businesses have a great strategic fit and what would be the right valuation for these businesses. So we are engaged in this process. It may take some time, but there is no desperation that we have on exiting these businesses. Yes, the single focus that we have is what enhances shareholder value and we will take the right decision when it comes to that.

- Moderator:** Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.
- Ashok Shah:** My question pertains to the realty sector only. Sir, as I understand our Raymond complex is situated in more than 100 acre area with school and promoter group company also., So is the promoter group company is also developing, or are we developing our realty project with the promoter group company land or what is the situation?
- Sanjay Bahl:** Let me clarify, the 120 acres of land which is Raymond and the project that we have announced of 3 million square feet covering 20 acres of land is land under Raymond Limited.
- Ashok Shah:** Remaining 100 acres remains with the promoter group or it stays with Raymond company?
- Sanjay Bahl:** 120 acres is Raymond Limited.
- Ashok Shah:** There is a land of promoter group company also?
- Sanjay Bahl:** That is 20 acres of land in which Raymond also has 47.8% stake, which is JKIT. This 20 acres is with JKIT.
- Ashok Shah:** So we are developing 20 acres and that is on the Metro side or it is inside our school, near the school area?
- Sanjay Bahl:** It is on the Pokharan road number one site.
- Ashok Shah:** My question is, out of 100 acres, we are developing 20 acres on the Pokharan road?
- Vipin Agarwal:** Pokharan road number two, so we have got two access points, one is Pokharan road number one, the other is Pokharan number two. Pokharan Road number two is where we are developing this and there is also a new school which is coming up alongside on the same site.
- Moderator:** Thank you. The next question is from the line of Sagar Dhawan from Ambit Capital. Please go ahead.
- Sagar Dhawan:** Sir, I had a couple of questions on the innerwear segment, I wanted to ask you whether you manufacture the innerwear products in-house currently or is it outsourced?
- Sanjay Behl:** It is 100% outsourced.
- Sagar Dhawan:** Is it outsourced out of India, is it coming from some other country?
- Sanjay Behl:** It is almost 99% of that is coming within India.
- Sagar Dhawan:** About the distribution of innerwear, so is the product being retail currently through own EBO outlets or is it through like Jockey third party distribution?

- Sanjay Behl:** We have about 1500 multi-brand outlets through which we distribute it, beyond Raymond shops and EBOs. All three channels have been used, exclusive brand outlets, multi-brand outlets and our LFS and Raymond shops, all of them are used.
- Sagar Dhawan:** Are you selling it online currently?
- Sanjay Behl:** Yes, it is available online.
- Sagar Dhawan:** In terms of total touch points, how many touch points would the innerwear product be reaching currently apart from 1500 MBOs, which you spoke about?
- Sanjay Behl:** We have about 1365 EBOs, which is beyond the 1500 MBOs, that is combination of Raymond shops and exclusive brand outlets of which about 1200 of them will be adequately stocked with it and beyond that there will be close to about 300 to 400 large format retail stores which will have it, so a fair estimate would be that beyond 1500 MBOs, there will be close to about 2000 other touch points which will have our innerwear.
- Sagar Dhawan:** One more question, do you have your own distribution platform like for distributing to the MBOs, have you tied up with the distributors?
- Sanjay Behl:** Yes, we have large distributors for apparel distribution to multi-brand channel and they are present in all states in the country.
- Sagar Dhawan:** How many distributors would that be currently which you have tied up with?
- Sanjay Behl:** 26 or so.
- Moderator:** Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.
- Chetan Phalke:** Sir, my question is regarding Branded Apparel, in Branded Apparels what percentage of our revenue is coming from bottomwear and what percentage is from shirts or T-shirts, do we have that sort of a breakup, and how it is evolving for us over the last two to three years and how it will evolve over the next few years?
- Sanjay Behl:** Bottom wear would be less than 5% of the brand that we represent. So I told you the Park Avenue would be close to about Rs 600 crores and Rs 30 crores would be innerwear there. Shirts, typically ends up being a large segment. Now, brand by brand these numbers are very different because in Color Plus, T-shirts would be far higher or casual segment would close to 85% to 90% and formals would be much lower there, whereas in Raymond it will become actually suits and jackets will probably become the number-one segment there. So typically you would find close to about 25% to 30% of our revenues are coming from shirts, about 15 odd percent at a blended level I am saying would be coming from jackets, about 15% to 20%

would be coming from trousers and the rest, 13% will be distributed on all of the product categories.

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

Dikshit Mittal: Sir, my question is on associates. We have seen loss from associates widening in this quarter so is it more to do with Denim business or any other businesses also making losses?

Sanjay Bahl: Primarily denim business which acted as I said for the reasons that I mentioned earlier, there has been a positive contribution from our FMCG business as well which I am happy to report that has a growth of close to 35% year-on-year, but yes, the impact is on Denim.

Dikshit Mittal: Sir, if I see the trend last two to three quarters, this business seems to have broken even in terms of denim, but this quarter again we have reported loss, so is the industry phenomenon or any particular one-off in this quarter?

Sanjay Bahl: Clearly, this is the industry and sector issue where there is overcapacity, and unfortunately, the cotton prices which were expected to soften are not behaving the way it has in the past. The MSP's have been announced and as a result the cotton prices are ruling firm. Whereas in US and in other parts of the world, cotton prices are actually lower than in India, so we have actually turned at a disadvantage as far as the export market is concerned, that clearly has happened over Q3. The first half of the year, you are right, the business is done much better, so we are now looking at how do we overcome these challenges and I mentioned a few initiatives that I spoke about earlier, which we are taking.

Dikshit Mittal: Sir, lastly in terms of wool prices, what is the current trend as compared to last quarter, so what is the extent of rising prices?

Sanjay Behl: It is holding up as last quarter, we saw a massive increase in the first half. So wool has gone up but last three to four months has been pretty stable at that level, but given that it is significantly higher than last fiscal, stable cost index means that even in Q4 there will be a bump up in terms of overall escalation over Q4 last year.

Dikshit Mittal: Year-on-year how much is the rise?

Sanjay Behl: Overall close to about 25% to 30% would be depending on which micron of wool you are buying, but at a blended level that would be the escalation impact on wool cost for any worsted player.

Dikshit Mittal: This was 30% I think for the first half?

Sanjay Behl: That is right, that is holding now.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

J. Mukund: Thank you all for participating in today's earnings call. In case of any further queries, you can please reach out to us. Thanks again.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Antique Stock Broking Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.