



“Raymond Limited
Q2 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Raymond Limited Q2 FY2019 earnings conference call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijeet Kundu from Antique Stock Broking. Thank you and over to you Sir!

Abhijeet Kundu: On behalf of Antique Stockbroking, 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 our Q2 FY2019 earnings conference call. I hope all of you would have received the copy of our business presentation. I would kindly urge you to go through this along with the disclaimer slides.

We have with us today Mr. Sanjay Bahl, our Group CFO; Mr. Sanjay Behl, CEO of Lifestyle Business; Mr. Bibek Agarwala. CFO of Lifestyle Business; and Mr. Alpesh Dalal, Director of 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 our results for Q2 financial year 2019.

Good evening, ladies and gentlemen. Thank you for joining us today on this earnings call to discuss our results of Q2FY19.

At first, let me briefly discuss the prevailing market condition in Q2FY19 of the industry. The quarter started with subdued retail demand and lesser momentum in wholesale channel. During 2nd half of the quarter, wholesale channel picked up with retail demand for upcoming festive season in 3Q.

In the apparel sector, at the retail level, the offtake was relatively lower in the month of July. The EOSS which had started in June was extended till 3rd week of August due to lower footfalls & retail offtake. Overall, it was a heavy discounted quarter for the apparel sector led by EOSS and low consumer demand.

At an overall level, as the quarter progressed, the consumer demand improved. The growth was also supported by the favorable base of Q2 previous year on account of pre GST liquidation of inventory on the retail front in June last year.

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 a growth across all segments. Our revenue grew by 16% which is ahead of the guidance given in the last quarter and EBITDA margins improved by 164 basis points, which exceeds the guidance given in the last quarter which was on maintaining the margins.

Also, the underlying profit for the quarter at Rs. 63 crores, up by 56% over previous year. We achieved this profit after including the Amravati and Ethiopian plant related depreciation & interest of Rs. 11 crore in the 2QFY19 results which was not there in 2QFY18.

Revenue growth across all segments:

The overall revenues grew by 16% with growth across all segments. Strong growth of 15% in Branded Textile led by 14% growth in the suiting business and 17% in the shirting business mainly driven by volume growth in domestic business driven by distribution expansion.

The Branded Apparel segment grew by 15% led by strong growth in MBO channel and Raymond RTW & Parx brands.

The B2B businesses of Garmenting and High Value Cotton Shirting witnessed high growth of 19% and 17% respectively.

Both Engineering businesses continued to perform well with Auto Components growing by 21%, led by strong demand from both domestic and international customers. The growth in T&H business by 15% was driven by domestic market.

The overall EBITDA at Rs. 214 cr, grew by 35% over last year. The EBITDA margin improved significantly by 164 bps at 11.4% as compared to 9.8% last year. The margin growth was driven by operating efficiencies in Garmenting, higher sales with improved product mix in High Value Cotton Shirting segment and profitable growth in the Tools & Hardware business.

The margins were stable in Branded Apparel segment mainly due to increase in sales despite prolonged EOSS and higher A&SP costs. However, the margins were lower in the Branded Textile segment largely on account of increase in raw-material cost, higher A&SP costs and common cost allocation.

Our free cash flow was negative during the quarter at Rs. 144 crores. Our cash flow from operations for the quarter was negative at Rs. 30 crore mainly due to higher net working capital.

Gross debt stood at Rs. 2,684 crores as on 30th Sep versus Rs. 2,453 crores last year and the net debt was at Rs. 2,280 crores as on 30th Sep versus Rs. 2,018 crores last year. Our net debt levels increased mainly due to the manufacturing capex in the Ethiopia and Amravati plant and increase in working capital. Net debt to equity at 1.2 vs. 1.1 as compared to last year. The average interest cost increased by 26 basis points to 8.0%

On the working capital front, Net Working Capital days was at 109 days, which was lower by 1 day based on 12 months trailing revenue

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

In-line with our stated asset light expansion approach in the core textile and apparel business, we opened 38 mini TRS under franchise route during the quarter. Overall till date, we opened 139 mini TRS stores in [80+] towns largely in Tier 3, 4 & 5 towns.

During the quarter we have added 3 more franchise based tailoring hubs taking the total number of tailoring hubs to 33. 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.

Now coming to the Segments:

Our branded textiles segment sales was at Rs.884 crores, higher by 15% on y-o-y basis largely led by:

- Strong growth in suiting business by 14%, mainly due to volume growth of 14% in domestic markets, which was led by distribution expansion and growth in trade channels. Additionally, the exports grew by 22% mainly driven from the US, Europe and Far East markets and the Institutional business grew by 29%.
- Shirting business grew by 17%, across all channels. The growth was driven by 8% growth in volumes and improvement in Average selling price
- EBITDA margins lower at 15.1% as compared to 16.4% in the previous year. Excluding common cost allocation, the margins would have been 15.9%, impacted largely on account of increase in raw-material cost and higher A&SP costs.

Coming to Branded Apparel - Our branded apparel segment's topline at Rs. 484 crores grew by 15% over the previous year. The growth was driven by strong performance in MBO channel, growth in Raymond (RPA) and Parx brands supported by new customer segments. We achieved this growth despite lower retail offtake on account of lower consumer sentiments.

The overall growths of the brands were:

Park Avenue: 6%, RPA: 37%, Color Plus: 5% and Parx: 22%. Our new customer segments – Ethnix and NextLook have performed well.

Our channel sales growth was as follows: TRS by 3%, MBOs by 53%, EBO by 5% and LFS by 3% as compared to the previous year. The strong growth in MBO channel was led by expansion of the MBO network on Pan India basis.

Despite prolonged EOSS and higher A&SP costs, EBITDA margin (excluding common cost allocation) for the quarter was stable at 3.2% as compared to previous year mainly due to operational efficiencies.

Coming to our retail channel, our exclusive network stood at 1,282 stores. Like-to-Like growth has been negative 4% during the quarter. Secondary sales across the entire exclusive network of stores grew by about 3%. The lower growth was largely due to moderate consumer sentiments.

During the quarter, we opened 60 stores and closed 14 stores. 4 store renovations were completed in Q2. Currently 10 stores are under renovation. In-line with our stated strategy of expanding the network through asset light model, we have opened 38 mini TRS and 5 StylePlay stores that is exclusive MBOs through franchise route.

In the garmenting business, sales were at Rs. 219 crores, up by 19% over the previous year led by exports growth in US. The EBITDA margin improved to 7.8% vs. 3.6% in previous year due to operational efficiencies

Our High Value Cotton Shirting Segmental sales were at Rs. 176 Crores, grew by 17% on account of better offtake by the customers and yarn sales from Amravati Plant. The EBITDA margins improved to 16.2% as compared to 11.4% in the previous year on account of better product mix.

Our Tools and Hardware Segmental sales were at Rs.104 Crores, up by 15% over previous year. The growth was driven by better performance in domestic market. The turnaround strategy of building operational efficiency and product rationalization helped in improving the EBITDA margins to 14.4% from previous year margins of 9.0%.

Our Auto Components segment sales were at Rs 64 Crores, higher by 21% over previous year driven by strong demand from both domestic and international customers. EBITDA margins at 22.6%, impacted mainly due to higher raw material prices. Overall, the business is maintaining its profitable sales growth momentum.

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

Coming to CAPEX, our CAPEX spends was Rs.53 crores during the quarter mainly related to retail expansion, new stores, auto components business capacity expansion and maintenance capex

Now, coming to guidance for the 3rd quarter - Due to seasonality factor, H2 is always stronger than H1 with major festivities and wedding season. This year also we expect H2 to remain stronger. Though, the overall consumer spending may get impacted due to tightening of liquidity and possible higher cost of funds. Also, the market is expected to witness continued deep discounting by e-com players.

For the coming quarter, we are expecting the consumer sentiments to remain modest due to rising inflation and low weddings. However, we expect the sentiments to improve towards the end of the quarter led by wedding season in in 1st half of CY19.

At the cost front, financial prudence continues to be a key focus area. Also, from Branded Textile margins perspective, as stated in last quarter earnings call, several initiatives are under progress to part neutralize the steep hike in the wool price. These initiatives include wool microns optimization, process optimization and nominal price hike undertaken during last quarter.

For Q3 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. And we are now open for your questions.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Good afternoon Sir. Can you give a little bit more color on how do you see the Branded Textile segment, number one. In terms of the raw material cost, how do raw material cost currently are behaving? What kind of margins you are expecting in the Textile business? Second question is with reference to Branded Apparel where our EBITDA growth is kind of muted in the current quarter maybe due to base effect. So by when do you see the growth in this segment?

Sanjay Behl: Coming to the Branded Textile question on the input price increase, the real price increase that we witnessed is in the wool part of it. Wool is one of the many other inputs materials that we use. We also use polyester, we use viscose, we use cotton, we use linen, and a lot of things also are going there. However, wool continues to be one of the largest input materials which goes into our Branded Textile, which has seen an index rise. The wool commodity price index was driven close to about 30% to 35% over the last 12 to 18 months. So that has been the steep hike and it has not only this quarter, but it's been gradually increasing if you see from month to month. The price has been going up, and it's really peaked to probably its highest about a month back. And

since then, it is getting a little soft. Having said that, as we had conveyed in the last earnings call also, business has been with it, and we have already triggered multiple initiatives having forecasted as this is likely to go up about 1.5 years back, and there have been continuing initiatives. Primarily, there are 3 initiatives which we have taken, which I think Sanjay did articulate as part of his opening speech there. But let me just again say that, one is a blend optimization and micron optimization of wool. So that is one product mix optimization. So a combination of re-engineering the entire product mix, basis what products, what wool, what micron wool, because typically, within wool, you will see that the price of the finer micron wool, it is steeper than the coarser micron wool. So that's how you really play around with the mix. That is one. The second thing which we have done is we have re-engineered the pricing of our portfolio and that has been fully actioned. In fact, twice in the 1.5 years and the last one we did it about in June this year. So end of Q1, we had initiated a price increase part of which is now passing down. So that has really held us. If you see we have pretty much sustained the overall margin. There is close to about Rs.20 Crores impact on wool price increase if you compare with last year, and Rs.20 Crores would have really meant about 2.5 percentage point impact on the EBITDA or the operating margins, but actually the impact is less than 50 basis points. Most of the wool price increase has been neutralized and with all the initiatives in place and being actioned and pricing having peaked, our view is that we have a strong confidence that we will be able to sustain this level of margin going forward in the second half.

Rajesh Kothari: On wool, you say that Rs.20 Crores was total impact, and that could have made 250 BPS impact on your margins. But the actual impact on your margin is how much you mentioned?

Sanjay Behl: It is 0.5%.

Rajesh Kothari: 0.5%. So what was the price increase you've taken on blended basis?

Sanjay Behl: This number, I think it is within 2% to 4%. Some is 2%, some is 3%, and some is 4%.

Rajesh Kothari: So therefore can this business from hereon, what kind of margins one should assume in second half?

Sanjay Behl: I am saying we will sustain these levels of margins.

Rajesh Kothari: I mean, 15%, 16% because

Sanjay Behl: If it is last year, you can see our EBITDA margin was 15.7% for the full year. That was the full year declared margin. This quarter, it's 15.9%. It is better than last year.

Rajesh Kothari: Okay. So do I think you will be able to maintain the full year margins for the second half?

Sanjay Behl: Because in the second half, our mix is normally better than the first half. We also have higher ASP, better product mix which goes into the market. We have higher order pricing product, which gets into the market there. And particularly they are higher-margin-accredited products. So

if you look at the end of first half, we are at 13% margin. Because the first quarter is normally the lowest. Then we have inched up to 15.9% in Q2. We expect that this margin is going to go up, and average of the year should be close to marginally better than last year. So I do not see any risk on that. Having said that, on the second one, which is a Branded Apparel question that you had, we are improving our margins. Q2 has been an exception, which is pretty much been at the same level as last year. But you can see at the end of first half, there is of 2.2%, 220 BPS improvement in our Apparel margin. Having said that, it is still lower than the possible potential of this thing but as, again, recounting what Sanjay said in his opening speech, last quarter has seen unduly higher period as well as deeper discount and lower footfalls in retail. So the compounded impact of that has led us to make some hard choices about should we continue to be mark-to-market in terms of discounting, do we be less? And how do we really continue to sustain our brand growth. A combination of factors was taken, despite higher discounting in the market as percentage discount has come down in last quarter. From close to 35% level to under 32% level. So that's the level of discount, say, of Rs.100, Rs.35 got discounted in Q2 last year, in this quarter, which just ended, it's only Rs.32 which got discounted. So a level of discounting has come down. And our overall health of the business continues to be good because our gross margins have sustained. So the only reason why the margins have not really gone up and could go up as we go ahead is the increase in advertising and sales promotion spend. And that is about 2% of incremental spend that we have to do to maintain and really take a call in the favour of the health of the business rather than discounting the business. So it could have done either away, but I would strongly urge that instead of looking at quarter-to-quarter for our business, which is a little more seasonal as well as a long-term trend line, I think annual picture would be better representative to look at Branded Apparel business. And we stay confident that last year, we were a little under 2% of operating margin in this business and this year should be significant improvement over last year.

Rajesh Kothari: What is your total advertisement spending during FY2018 and what it was as a percentage of revenue and what it was for second quarter?

Sanjay Bahl: So at the overall level, if you see for the average for the whole group, we will be around 4.5%; Q2 was higher by about 1.3% i.e. 5.9% from 4.6%.

Rajesh Kothari: But generally, during the festive season, generally it would go up, right? So maybe third quarter can be higher than second quarter, am I right?

Sanjay Behl: Not necessarily because even the revenues go up. If you really see even absolute spend growth by 50%, even revenues will grow by 50%. The percentage of revenue doesn't really change.

Rajesh Kothari: Understood. And do you think last year third quarter basically was a lower quarter because of the season was more into second quarter compared to third quarter? So this year therefore, third quarter can be better because of the low base of last year?

- Sanjay Behl:** No, I do not think so. I think third quarter last year if you see had more number of wedding days. It also did not have Shradh. This time, we started the quarter with 9 days of Shradh. We have had much lower wedding days so I do not think there is any tangible demonstrable kind of a reason for us to believe that there is going to be anything better than the second quarter.
- Rajesh Kothari:** Because last year, third quarter with 330 Crores revenue, I think the growth was 0%. So I'm seeing from that perspective
- Sanjay Behl:** There is a momentum which is flowing into Quarter 3, which is better than last year. So you have seen our brands are growing across the group and you can see every business is growing, Apparel business has grown about close to 15% this quarter. So the momentum this year that we have got in the growth is far higher than the last year. So that momentum is there, if it has to do a better thing, but all I am saying is from a market perspective the cues are about a reasonable third quarter and not really bullish there. However, with the momentum that we have in Raymond Apparel Brand, we continue to stay on our guidelines that we will have a strong double-digit growth even in Q3 and Q4.
- Rajesh Kothari:** Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Purna Jhunjhunwala from Batlivala & Karani Securities. Please go ahead.
- Purna Jhunjhunwala:** Thanks for the opportunity. Congratulations for a good set of results Sir. I would like to understand the impact of depreciating rupee on your revenue and cost. So how has depreciating rupee impacted your sales, prices and stuff? And what cost would be major to look at in the rupee depreciating kind of scenario?
- Sanjay Bahl:** Okay, so let me give first give you an overall perspective and then we'll give you a business-specific impact. So at an overall, when you look at the group results, we are net exporters. So to give you some numbers, we have a total export portfolio of around \$200 million and an import portfolio roughly around \$100 million. So which means that the net level, one, we have a natural hedge for our import. And the other is that at the net level, depreciating rupee can impact positively for the net exports that we have which is roughly about \$100 million. Now at a, business specific level this varies because the export portfolio as a percentage of total business is different for the different business segment. For our Textile segment, the imports and exports are roughly, more or less, match up. However, for our Garmenting business predominantly it is export led so the benefit of the rupee will be seen in the revenue growth as well as in the margin improvement. Similarly for the Auto and the Tools and Hardware business, we have a strong component of an export portfolio. So you will see however, in the first half of the year, because of the hedges that we have at the beginning of the year, the total gains that we will have on account of revenue increase because of the depreciating rupee we will be fairly averaged out. And if the rupee remains at the current level or it depreciates further in the second half of the year, we see a larger benefit coming in. That is on the positive side. On the negative side, of

course, the oil cost is going to increase. There will be an increase in steel prices. Wool will get more expensive as well, so this will impact negatively on the respective business segments. So overall, we plan to gain, at the different business level, the impact are going to vary.

Prerna Jhunjunwala: Related to this only, what is the hedging policy?

Sanjay Bahl: We are risk averse on this. So our hedging policy is one which we take a natural hedge that we have between our imports and exports as we have measures to keep exposures to a minimum. So whatever confirmed orders we have, we have a policy to cover the confirmed orders.

Prerna Jhunjunwala: Okay. And no speculative result or expected base hedging?

Sanjay Bahl: No, there is no derivative on hedging that we do at all.

Prerna Jhunjunwala: Okay. My second question will be on Garmenting. Now your Garmenting profitability has improved due to operational efficiency. Could you just help us understand what other steps or efforts you have taken apart from increasing the capacity utilization in that segment? And how is Ethiopia performed over last year?

Sanjay Behl: Last year, probably the second part of the question, Ethiopia, we just got commissioned in June and the capacity that was installed was much lower. We just had 1 line running in the second quarter and now we have close to 3 lines running. Every line does about 500 suits a day. That is for your understanding. So 3 lines will obviously produce far more than 1 line running, which was last year. They may not be strictly comparable. Having said that, Ethiopia is running between different product environments because we just not make suits, we make jackets, we make trousers, and we make vest coats. It ranges between 35% and 65% of our capacity at this point in time. But that is pretty much how a typical Garmenting manufacturing setup starts. It starts with about 35% to 40% in the first couple of quarters and then inches up close to 65% to 75% of utilization if it's a heavy skill-based job that we do. We have, by now, from Ethiopia dispatched over 0.25 million garments largely to American market. And we have had very good validation. Not a single quality complaint has really come in. All the products are met with significant acceptance, both by our partners and by consumers in the U.S. market. So Ethiopia continues to run on a plan and is on a mission to continue to improve capacity utilization. Coming to the first part of the question about operational efficiency in the last quarter, which has led to significant increase in margins in Garmenting one big component in dilution of margin last year in the same Q2 was some airfreight cost that we have incurred, which is pretty substantial from a quarterly perspective to meet the customer deadlines there. And I think that's been completely eliminated with better service delivery metrics that we have had in our business for most of our customers in this quarter and actually running over the last 2 or 3 quarters. So it is a significant improvement and service efficiency of the factory beyond capacity utilization. Our ability to deliver and commit to deadlines and hence, controlling the overall administrative and logistic cost of the business, and that led to it. The last point is, is this sustainable? We believe it is pretty much sustainable. We have continued to demonstrate in this business an ability to

deliver 8% to 9%, or even at times, 10% EBITDA and we believe that the rupee stabilizes over the next 2 or 3 quarters, we will start looking at that which is our guidance on this business.

Prerna Jhunjunwala: Okay. The last question would be on your guidance. You mentioned that FY2019 margins would be marginally above FY2018 profitability. Your current run rate, you have improved EBITDA margins by more than 100 BPS in first half. And even for third quarter, you have given a guidance of around 100 BPS improvements. Which means for FY2019, your margin improvement should be more than 100 BPS improvements? So is my understanding correct? Or I mean, I would like to understand whether you like to improve your guidance?

Sanjay Bahl: So, we will be in line with the guidance given for the full year 2019. We will be looking at, at least 100 bps improvement in margins for the full year as well.

Prerna Jhunjunwala: Okay. So you are not improving your guidance despite profit improvement?

Sanjay Bahl: Because of it second half is yet to play out, so we would rather stick to the guidance now. Obviously, we will be working towards over achieving it.

Sanjay Behl: The guidance remains because of the commodity and the price stability. Too much volatility in the market right now. Too much liquidity trends. So there are factors like customer macros on inflation, liquidity trends. There are commodity macros, which is playing out. There is the rupee, which is playing out and hence, I think it's pretty safe to assume 100 BPS, and the Raymond team is committed to deliver that. Anything beyond that, of course, will be the effort of the team.

Prerna Jhunjunwala: Thank you.

Moderator: Thank you. We have the next question from the line of Zain Iqbal from Alpha Invesco Please go ahead.

Zain Iqbal: Thank you for the opportunity Sir. You have reported CFO of negative Rs.165 Crores and negative free cash flow of Rs.360 Crores for the first half. So what's the full year outlook on cash flow?

Sanjay Bahl: So full year will be negative for the year; however, we will see improvement in the cash flows in the second half of the year because normally, as a cycle, if you see because of the seasonality, which is where we peak in our working capital by the end of second quarter and towards the second half of the year, the working capital -both inventories and debtors are lower than the peak that we reached by the end of September. So as for this cycle, there will be a release of cash that will happen towards the end of the year, which will help to improve our cash flows. However, there is also capex, which will be skewed, if you see the overall guidance on capex that we have given; the first half has been lower. The commissioning on some of the expansion plans that we have in the Auto business would happen in the second half of the year and some other capex, maintenance capex will come. This is within the overall capex guidance of around Rs.250 Crores that we have given. That will be there in the second half. So overall for the year, our estimates

are that we will still be negative cash flows. And our guidance that we have given is to really achieve positive cash flows by financial year '20. So we will be as per that.

Zain Iqbal: So my second question is on debt. So what debt reduction can finally be expected from cash flows next year in FY2020?

Sanjay Bahl: So from the operational cash flows, there is really no debt reduction that we will see. However, we are looking at monetizing some of our assets that we have spoken about as part of our core strategy. And we will be seeking to look at the debt reduction plans once we are able to execute our asset monetization strategy.

Zain Iqbal: Okay. Sir can you please share the opportunity side and the timeline with regard to the real estate development?

Sanjay Bahl: Yes. So we have already announced the project as you are aware of. However, there are approvals that are required. We have secured most of them for commencement of the project. However, there are certain approvals which are still pending. It is tough to put a timeline to this, but we do expect that by the second half of the year, we should be in a position to formally launch our project.

Zain Iqbal: I will come back in the queue.

Moderator: Thank you. We have the next question from the line of Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Good evening Sir. So my question pertains to your Branded Apparel business. If you look at the growth in the third quarter, it's primarily driven by MBOs of course. So and now we are projecting double digit growth in Q3 as well. So how will be the mix in terms of channel? Will it be more driven by EBOs or LFS? Again, MBOs will play a crucial role?

Sanjay Behl: So the channels will continue to play a crucial role while MBO will continue to get a strong double-digit CAGR, which has been the case for the last 3 years. If you will see, this has given about a 25% to 30% quarter-on-quarter growth to us. And that will continue to play a bigger role in the scheme of things of our branded play. The other channel, which we believe is going to pick up in the second half is going to be the EBO channel. The EBO channel has been very subdued during the first half. If you see the overall growth, it's just about 7% in the first half in our EBO channel. So it is much lower than the expected 10% to 12% that we have from this channel there. We believe that this channel is going to start accelerating as the festivities start, as the wedding start, as the season starts, a little more skewed towards Raymond kind of a portfolio. We believe that generally, it is also going to pick up. The other 2 channels we have another channel which is large-format retail. I would say pretty much sustain at a single-digit kind of a growth there. And the resultant mix, pretty much with a strong level double-digit MBO growth, in accelerating EBO and TRS and sustained LFS, should be a mix of double-digit for our Apparel business. So we expect this kind of growth to sustain in the second half.

Pankaj Kumar: On MBO front we are expecting strong growth to continue so is it due to that increased penetration or what is driving it?

Sanjay Behl: Yes, so we have actually more than tripled our penetration in this channel in the last 2.5- 3 years. We have appointed distributors across the country, and now there are people in each of the political states of India which is apparel distributors of Raymond and in turn have created a larger footprint of multibrand distribution for all of our 4 brands. So not only we are adding new doors, and that has become 3 times over the last 2 years, we also improved placement in each of these doors from 1 brand to 4 brands. So it some out of stock in Park Avenue and not you are carrying other brands. We have been able to place other brands in the same store. So it is a double impact, positive impact, which is happening and that's why you are seeing such high level of growth. And we believe that there is still a lot of head space for the strength of our products and our brands to continue to gain traction in this channel over the next not just 1, but many years to come. So that's the reason why I'm extremely confident with new partners who have worked with demonstrable success of our product and brand in place and the growing momentum, we will see sustenance of this growth in the future.

Pankaj Kumar: And second question is related to brands, Park Avenue and ColorPlus are going at a low single digits rate. So what are our plans to basically further see growth in the 2 kinds particularly?

Sanjay Behl: So in Park Avenue, as you see, it has grown. First half it is about 5%, Q2 at 6%. So pretty much the similar level. And ColorPlus has accelerated some 2% kind of first half. I think at Q2, it accelerated to about 5% growth. But you are right in your assessment about both being a single-digit and a normally double-digit range kind of portfolio. The reason for it is that in both these brands, Park Avenue is the largest brand in our portfolio in terms of apparel revenue. That's close to about Rs.700 Crores in a portfolio of, what, Rs.1700 Crores that we have, at a growing rate this year. And what we have been doing is really repositioning Park Avenue and recalibrating the entire option range in-line with the position of the brand. So from pretty much a formal play that Park Avenue had which was strongly overlapping with Raymond brand, we have distanced the Park Avenue from Raymond brand to become far more fashion, contemporary and made the price far more competitive and repositioned the brand from really, the formal space to 3 specific occasions, which is work, play and celebrate. And work really is all about the dress irrespective of formal or casual line, which are too blurred. Whatever, anybody can just pick up from a Park Avenue store and walk into work. Play is more like the occasion or you're going out over the weekend and celebrate is more of a ceremonial kind of an occasion. So we are in process of repositioning the brand and recalibrating and redesigning our product SKUs and retail in-line with that. And that process has started about 2 or 3 seasons back and will continue for another couple of seasons. And you will start seeing an accelerating Park Avenue growth and I can with reasonable level of confidence say that next calendar year, Park Avenue is headed towards a strong double-digit growth as we finish this whole task of repositioning our brand. A similar effort on ColorPlus is on right now. We have decreased the number of options. ColorPlus has gone through a much sharpening of our product range. We have cut our options by 20% in the last 2 seasons there. We are repositioning and sharpening our portfolio there and dramatically

investing back in product and retail. And in this brand, as you have seen accelerating trend over the last couple of seasons, this brand will start inching towards a strong double-digit growth from here on. So our sense is, that we get with the confidence from the numbers we see, is that both these brands are probably a season away from getting back to strong double-digit growth.

Pankaj Kumar: Thank you.

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

Dikshit Mittal: Congratulations on good set of numbers. My first question is on ad spending. Because if I look at the relevant segments and Branded Textile and Branded Apparel. So we have spent close to 8% of the sales during this quarter. So will this continue going forward into second half also? Or will it reduce in percentage terms?

Sanjay Behl: There was a little bit of blip in Q2. Your observation is right. In Apparel it was a little higher than the numbers you quoted and in Textile it is a little lower than the numbers you quoted but broadly, as Sanjay said that against the 4.5% - 5%, will be 6.5% - 7%. That is the kind of spend that we had in Q2. So clearly, it has been a blip in Q2. There is one more reason is that the blip that you see in it, we do these Triennial dealer conference once in three years. And that is about Rs.10 Crores to Rs.12 Crores kind of an item, which is in the balance sheet sitting in Q2 really there. And that comes basically once in three years, means once in 12 quarters you see that impact from that quarter that you are seeing impact in the last quarter which is Q2 on Raymond balance sheet. And hence, it looks like a little higher there. It shall be corrected because now it is 12 quarters away. So that part of expense will not be part of the A&SP spend. So partly it is that partly as I told you that there was heavily discounted quarter with very low retail footfall, much lower than the numbers that we have initially budgeted. And hence, we had to propel demand by putting a little more promotional and advertising spend during the quarter. But my sense is that it will get moderated and calibrated in the second half and there's no reason to believe that as the momentum picks up at the customer level, that we will continue to have this high level of spend. We should be able to moderate it.

Dikshit Mittal: So you said for the full year in Branded Apparel, can we expect at least mid single-digit kind of margin for this year?

Sanjay Behl: Yes, we should. I think it should start getting closer to that level.

Dikshit Mittal: Secondly, as you mentioned, cash flow has been negative in first half. But at least on the operational cash flow level, will there be positive figure for the full year? I suppose the inventory level got released going to the second half. So free cash flow will remain negative, as you mentioned. But operational level, it will be positive, right?

Sanjay Bahl: Yes, operational cash flow should be positive in the second half of the year by March. You are absolutely right.

- Dikshit Mittal:** Okay. And Sir, on FMCG can you give some color in first half on what was the revenues and profitability and growth numbers?
- Sanjay Bahl:** FMCG business if I look at the JK Helene Curtis performance it has registered at 28% growth in revenue with EBITDA of around 7%. So business is seeing a lot of growth momentum. There are a lot of new launches, which are happening in the existing business category that we are in. Also, I am happy to say that we achieved the market leadership in the overall deodorant market. There, we achieved market share of 15% between the two brands that we have, which is Park Avenue and Kamasutra. So we had the largest selling deo in the deo space. And going forward, there is slew of new product launches, which have been planned in the second half of the year as well. So the growth momentum that we have to scale up the business is well on track.
- Dikshit Mittal:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Your guidance is of turning free cash flow positive next year. I just wanted to get a sense of the assumptions and the key drivers. Is it that your capex would taper off or are there some strong-looking capital initiatives we are taking? I just wanted to get a sense of that?
- Sanjay Bahl:** It is going to be underpinned really by 2 - 3 key initiatives. One, of course, is the growth momentum that we have in our businesses, so we are looking at revenue growth of around 11% and margin growth, which will lead to total cash improvement in the business. So the operational cash flows will improve. Our capex additions that we have are planned to be less than the annual depreciation that we have. So our policy of an asset-light strategy that we have been talking about and is core to our strategy is well on track. So this is going to help us in improving the cash flows as well. The third element is really the working capital efficiencies, which you mentioned. There are a number of projects, which we have in our businesses where we are now working towards improving our inventory turns, faster collection of our debtors as well, which within the textile and in the apparel businesses. So these will have an impact as well. So it is a combination of all three factors, revenue growth, better operational cash flows, working capital efficiencies and following an asset-light expansion model that we have, which will lead to positive free cash flows.
- Arjun Sengar:** Second question is can you describe the manufacturing environment in Ethiopia in terms of the suitability of the labour force. And what has been your experience versus your expectation before getting into Ethiopia?
- Sanjay Behl:** Ethiopia, the manufacturing climate is pretty much as was expected before we took the decision and we started setting up this whole manufacturing capacity. We are a part of a very large global community of textile conglomerates who are there who almost come together and there were more than 100 different companies who come together in a place called Hawassa, it is about 170 miles down south the capital of Ethiopia which is Addis. So there is a very large textile

community there and hence, that has led to a fairly developed and a matured market for skilled labor force there. And that really lends to the garmenting kind of manufacturing climate. So we have been able to get given that garmenting is largely women-centric thing, it is not replaced or substituted any other jobs. It has really created another job scheme in the market like Ethiopia. And there are about 6 to 7 nationally recognized garmenting skill training institutes in that country, where we can get supervisory manpower from, and who are clearly adept at the local nuances of training, these women who were coming to work for us, so in all between expat we have re-located from our Indian facility, the local supervisory strength which we have trained before we set up the plant in India and now working in Ethiopia and the labor force there are more or less, we found a very stable manufacturing climate there. There are a couple of political issues there, which are largely politically motivated between a few ethnic communities there. But nothing that would disturb or will bring any kind of risk to manufacturing climate. So more or less on expectation and it is a stable manufacturing climate.

Arjun Sengar:

Thank you.

Moderator:

Thank you. We have the next question from the line of Shivam Vashi from Alpha Alternative. Please go ahead.

Shivam Vashi:

So I can you just throw some on your Denim business, please?

Sanjay Bahl:

Denim business, if you look at the first half of the year, there were certain headwinds that we faced in the Denim business with respect to cotton prices and increase in the raw material costs as well. We had some positive tailwinds coming in because of the rupee depreciation; so the export part of the portfolio, saw some advantages. So overall, if you see basically over the previous year EBITDA improvement was more significant, around 20%. So from Rs.11 Crores of last year, we delivered an EBITDA of Rs.14 Crores. However PAT was negated because of the interest costs in the business. So the business is facing lower capacity in Denim. And of course, the cotton prices are ruling firm. That has been the trend for the last two years. However, a lot of steps have been initiated by the Denim business, through product innovation and through the expansion in garmenting and give packaged solutions to the major customers in U.S. and Europe, and that is working well in terms of improving our realizations in the business. So capacity utilization as of now remain high, and the effort is now to offer full packaged solutions to customers to improve realization, and thereby, improve the bottomline.

Shivam Vashi:

Thank you Sir.

Moderator:

Thank you. We have the next question from the line of Keyur Shah, an individual investor. Please go ahead.

Keyur Shah:

Thank you for the opportunity Sir. Sir my first question is related to real estate. So while they are awaiting approvals for real estate development, can you just throw some ballpark highlights towards the opportunities, size and timelines for the project? And also, can anyone mention about

what is the capital employed so far? And how much of a total debt is attributed to real estate as of date?

Sanjay Bahl: I will not be able to give you any specific timeline on the real estate piece, on the development because we are still awaiting a major approval and till we get that, there is no really announcement on the real estate project that we have. We are hopeful that we will secure that at the second half of the year, and then we will come up with full details on the project as well as the cash flow and the profitability of the project. On the total investments that we had made till now, we had made about Rs.120 Crores of costs in the business till now, and these are being accounted for as part of the land cost with all of these approvals that we have secured. We have inventorised pertaining to the residential projects that we have launched, a cost of about Rs.120 Crores and then the total commitment that we have lifted as part of our ULC payment statement of Rs.170 Crores. So already it is Rs.42 Crores payment has been made but the balance is outstanding.

Keyur Shah: Potentially, in terms of debt, how much would be attributable towards real estate segment if you could share that?

Sanjay Bahl: The total payments that we have made would be nearly funded through debt. The debt increase that you see is also because of this. We have not yet started taking any construction finance for this because that will have to wait until we get the approvals in place.

Keyur Shah: Okay. In our networking capital days have been flattish in Q2 FY 2019 and also what target for net working capital days for FY2019 and FY2020?

Sanjay Bahl: Well, the whole effort, and as I mentioned earlier is to move towards operational cash flows, positive operational cash flow and to go towards free cash flows positive by financial year 2020. So it is difficult to give you a specific number onto it. But really, the attempt is to take many initiatives and I spoke about this earlier in terms of whether it is moderating our capex spend, our working capital efficiency is a major part of the whole process of moving towards our goal of positive free cash flow because effort is to go to double-digit growth, maintain our double-digit revenue growth across all our businesses at a consolidated level. So working capital and absolute values will increase positively. The effort is to optimize our inventory turns, improve our debtors, but it will be difficult to give you a specific target and number of days.

Keyur Shah: Now in terms of interest costs initially, we have guided up to Rs.20 Crores of increment for FY2019. But looking at current run rate, it looks like around Rs.40 Crores of interest cost increase in FY2019. So can you just reiterate your FY2019 guidance for interest cost? And also in employee costs, there is a substantial jump that we see. So can you just give your full year outlook for employee costs?

Sanjay Bahl: Our employee cost has moved in line with inflation. We have an Amravati plant, which came in so that will obviously result in an increase in manning and an increase in our total cost pay. Otherwise, the rest of the employee costs will move in-line with more inflation. And as a

percentage of sales, it should really be intact as for the previous year. With respect to interest costs, the absolute values has increased because of the capex spend in Amravati and Ethiopia. We also mentioned that earlier there is an Rs.11 Crores increase per quarter that we see both on the depreciation and interest and really, it is the half of that would be towards the interest. So that is the absolute increase. However, at the rate level, I am happy to state that our average cost of borrowing is today at the 10-year G-Sec rate, which is at 8%, we have been able to maintain that rate. There will be some increase, which will happen. It depends on how the increase in lending goes, what are the actions that RBI takes, which is dependent on inflation, etc., those are factors that we have to see in the coming quarters.

Keyur Shah: So we can fairly expect Rs.30 Crores to Rs.40 Crores increment in interest cost for FY2019?

Sanjay Bahl: I do not think at an absolute value, it will be as large as that. The rate increase will certainly happen. It will inch, if you look at the last two years, which has gone up. It has gone up from nearly 7.6% to 8% now. Over next year, we may see a 25 basis points increase in our overall interest cost. But in absolute value, I do not think it will be as high as that because there is no capex spend that are coming.

Keyur Shah: Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take some one last question and then close the question queue. This is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: My question is on this real estate monetization. So we are waiting for approvals, but there have been reports we may sell part of the land parcel as well. So does that transaction also needs approval, the sale of land?

Sanjay Bahl: Sorry, could you repeat that? I did not get the last line of your question.

Dikshit Mittal: I am just trying to understand whether we go ahead with the plan to least sell part of our land parcel. So do we need approvals for that also?

Sanjay Bahl: Well, as I said, we were waiting for approvals for commencement of construction for the residential project. The approvals for sale of land are in place.

Dikshit Mittal: Anything that we can expect at least a part that can be monetized earlier because the construction will take at least two, three years for the cash flow to come?

Sanjay Bahl: Our stated strategy monetizing our land assets has been to one, pursue sale for the parcels of land; and second is to monetize a land by development of a small parcel, 20 acres for residential purposes. So it is both. While we are waiting for the regulatory approval of the other, we are obviously open to the idea of selling smaller parcels.

Dikshit Mittal: Okay. So are we in talks or are we in the process of at least selling some part?

Sanjay Bahl: Yes. Those initiatives are on.

Dikshit Mittal: Thank you.

Moderator: Thank you. Ladies and gentlemen as there are no further questions, I would like to hand the floor back to management for closing comments.

J. Mukund: Thank you for taking out time and participating in the earnings call today. In case of any further queries, you can please reach out to us. Thanks.

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