



**“Raymond Limited Q2FY20 Earnings Conference Call”  
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**ANALYST: MR. ABHIJEET KUNDU – ANTIQUE STOCK BROKING**

**MANAGEMENT: MR. SANJAY BAHL – GROUP CFO  
MR. SANJAY BEHL – CEO (LIFESTYLE BUSINESS)  
MR. K MUKUND RAJ – CEO (REAL-ESTATE BUSINESS)  
MR. VIPIN AGARWAL – PRESIDENT (CORPORATE)  
MR. BIBEK AGARWALA – CFO (LIFESTYLE BUSINESS)  
MR. J. MUKUND – HEAD (INVESTOR RELATIONS)**

**Moderator** Ladies and gentlemen, good day. And welcome to the Raymond Limited Q2 FY20 Earnings Conference Call, hosted by Antique Stock Broking Limited. As a reminder, all participants will be in a 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 the operator by pressing \* 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. Thank you. And over to you, sir.

**Abhijeet Kundu:** Thanks. 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 handover the call to Mr. Mukund. Over to you, Mukund.

**J. Mukund:** Thank you, Abhijeet. Good evening, everyone. And thank you for joining us for Q2 FY20 Earnings Conference Call. I hope all of you would have received a copy of our results presentation. I would kindly urge you to go through this along with the disclaimer slides.

Today, we have with us Mr. Sanjay Bahl – Group CFO; Mr. Sanjay Behl – CEO of Lifestyle Business; Mr. K Mukund Raj – CEO of Real Estate Business; Mr. Vipin Agarwal – President, Corporate; and Mr. Bibek Agarwala – CFO of Lifestyle business.

I will now hand over the call to our Group CFO, who will give you the summary of 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 the Earnings Call to discuss our results for second quarter financial year 2019-2020.

At first, let me briefly discuss the prevailing market conditions in the second quarter. It was a quarter with continued sluggishness as domestic consumption continued to remain impacted, the consumer sentiment remained subdued and liquidity concerns affected the trade channels. However, at the retail level, leading brands undertook steps to improve the footfalls such as extending the end of season sale period and launching promotional offers on the new collections. Progressively with upcoming festivities and wedding season in the third quarter, coupled with the above industry initiatives, there was moderate improvement in the retail sales, especially in the last fortnight of September.

Now coming to the quarterly financial reporting. As we are all aware, Raymond has seamlessly transitioned to IndAS with effect from April 1st, 2019. While the reporting for second quarter is based on IndAS 116 basis, however, for the ease of reference for comparison with earlier quarters, pre-IndAS 116 financials have been provided in the investor presentation.

Coming to our quarterly performance. Our revenue grew by 2%, and the EBITDA margins were lower at 10.1%. The net profit was Rs. 88 crores versus Rs. 63 crores in the previous year.

However, the current quarter included exceptional item of Rs. 43 crores, that is the net deferred tax asset recognized by the company pursuant to approval from NCLT to the JV company Raymond UCO Denim Pvt. Ltd. towards reduction of its preference share capital.

Overall, revenue was at Rs. 1,913 crores, up by 2%, mainly driven by growth in branded apparel and garmenting segments, and contribution from real-estate business.

Overall, profitability was impacted by lower sales and adverse product mix in branded textile and change in product mix in garmenting and degrowth in auto component. The positive contributors to the margins were branded apparel, high value cotton shirting, with better operational efficiencies and contribution from real estate business. The interest cost was higher by Rs. 5 crores due to increase in average cost of borrowing, higher by 70 basis points in the second quarter versus the previous year, and increase in borrowings of Rs. 2,835 crores in the second quarter versus Rs. 2,684 crores in the second quarter for last year. This was due to higher NWC.

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 eight mini TRS stores under the franchise route during the quarter. Overall, till date, we have opened 318 mini TRS stores in 600-plus towns, including 250-plus new towns in Tier 3, Tier 4 and Tier 5. Tailoring hubs, during the quarter, we have added eight more franchise based tailoring hubs, taking the total number of tailoring up to 62, with total conversion capacity of 2.2 million meters of fabric per annum. This is in line with our stated strategy of facilitating quality tailoring services through tailoring hubs, with tailors, the customers' requirements, and quality control environment.

Coming to the performance of each segment.

The core branded textile business degrew by 2% to Rs. 869 crores due to continued consumption slowdown in the quarter, affected by sluggish and subdued consumer sentiments, liquidity constraints in trade channels, coupled with destocking in the wholesale channel. The suiting business grew marginally by 1%. There existed lower off-take in the wholesale channel on account of lower secondary sales. The growth was led by expansion to new smaller outlets through lower-priced products. Overall, domestic volumes was up by 2.7%, led by MBO and TRS channels. The benefit from the price hike undertaken in January 2019, while it benefited our wool portfolio, however, overall ASP was impacted due to the adverse product mix, which was more of combo pack and also this higher discounting at the trade channel level.

The B2C shirting top-line degrew by 11%, mainly due to lower off-take and also inventory corrections undertaken in the wholesale channel. There was a planned stock correction of Rs. 9 crores to compensate for sluggish retail demand for the past few quarters. We initiated this correction in the fourth quarter financial year 2018-19, and now the process is completed. We expect revival in the second half of the current financial year.

In the branded textile segment, the margin was lower at 14.8% as compared to 15.1% in the previous year. This was mainly due to lower overall sales, adverse product mix on account of sluggish market conditions and higher discounting. In the branded apparel segment, the sales grew by 9% to Rs. 529 crores, with growth across all four power brands, double-digit growth in Parx, which grew aggressively at 21%, well supported by growth in Park Avenue at 7%, and ColorPlus at 2%. Raymond Ready to Wear was also 4%. Continued strong performance in MBO channel which grew at 15%, well supported by LFS channel, which was at 12% growth. The EBITDA margins improved to 3.8% versus 2.8% in the previous year, mainly due to control in discretionary spends.

The high value cotton shirting segment degrew by 8%, mainly due to lower off-take, and impact of Kolhapur plant closure for 10 days on account of the floods. EBITDA margin was higher at 16.7% as compared to 15.4%, led by better product mix and operational efficiencies.

The garmenting segment top-line grew by 6% to Rs. 233 crores, driven by higher exports to Japan market. EBITDA margins were lower at 4.7% as compared to 7.2% in previous year, mainly due to change in product mix in the Indian operations. However, it significantly improved from 1.6% in first quarter financial year 2020, mainly due to stability in Ethiopian operations. The business has been facing challenges in Ethiopia, which was impacted by political unrest in the country, leading to high absenteeism and consequent lower capacity utilization. However, now progressively, the situation is improving, and the capacity utilization has improved from 36% in the first quarter to 45% in the second quarter.

In the auto components business, the top-line degrew by 18% due to overall sectoral slowdown. EBITDA margins were also lower at 15.4% versus 22.6% previous year, mainly due to lower capacity utilization.

The tools and hardware business degrew marginally by 1%, mainly due to slowdown in domestic files market. EBITDA margins were lower at 13.3% versus 14.4% in the previous year due to lower contribution from the higher-margin domestic business.

The real-estate business has seen a good response from the customers, even when the overall real-estate market was generally sluggish. Within seven months of launch we have received 664 bookings, with booking value close to Rs. 704 crores in the four towers launched, having a total inventory of 1,050 units. Construction has commenced and progress is in-line with target schedule. The real-estate business has contributed Rs. 35 crores to the top-line and contributed Rs. 6 crores towards EBITDA for the quarter.

Coming to the balance sheet and cash flow

Despite facing liquidity challenges in the market, we have been able to maintain a free cash flow and operating cash flow in the quarter as compared to the previous year. Free cash flow for the half year ended is negative Rs. 255 crores, as cash flow from operations is negative at Rs. 65 crores. The cash flows were impacted due to higher net working capital, which is mainly higher

receivables due to liquidity crunch in the market and higher inventory, which is normally built up to service the second half of the year.

An overview of debt. Gross debt stood at Rs. 2,835 crores as on 30th September versus Rs. 2,684 crores last year. And the net debt was consequently at Rs. 2,378 crores as on 30th September versus Rs. 2,280 crore last year. Our net debt levels increased this year mainly due to increase in working capital. Net debt-to-equity is lower at 1.1 versus 1.2 in the previous year. The average interest cost in H1 increased by 69 basis points to 8.65% versus 7.96% in the previous year. The increase was mainly due to increase in the interest rates, the replacement of subsidized TUF loans and the commercial paper with higher interest rate loans.

During the quarter, our credit ratings were reaffirmed by CRISIL for both long term and short-term borrowings. On the working capital front, net working capital number of days were at 108 days, and this was lower by one day versus the previous year.

Coming to CAPEX. The CAPEX spend was Rs. 50 crores during the quarter, mainly as replacement CAPEX in suiting plants and related bulk line to MTM line in garmenting business to cater to the international MTM solutions.

In a major development, in line with our overall asset monetization strategy, JK Investo Trade (India) Ltd, a Raymond Group company, signed an agreement to sell its 20 acres land parcel in Thane. The deal is signed with Virtuous Retail South Asia for Rs. 700 crores. Currently, JKIT is in the process of seeking regulatory approvals. We expect the entire transaction to be completed in the third quarter of this year.

Now from an overall second half perspective, to give you some visibility on what the second half looks like. At the overall level, liquidity, cash flows and top-line growth in the same order of priority are the key focus areas. We expect the second half to remain modest in terms of growth and consumer sentiment. However, there could be some elasticity in the Raymond portfolio due to extended wedding season starting November. We expect moderate growth in the branded textile business, driven by the B2C shirting business, where the stock correction process, which was initiated in fourth quarter financial year 2018-2019 has been completed by the second quarter of the current year. And now we expect mid-teen top-line growth and EBITDA margin improvement. Suiting business growth is expected to remain muted.

From branded apparel perspective, we expect the top-line growth in early double-digits, with marginal EBITDA improvement. In garmenting business, we expect improvement in Ethiopian operations supporting the top-line growth and EBITDA margin improvement. In the engineering business, due to overall automobile industry slowdown, the auto components business' top-line and EBITDA margin would continue to be impacted. We expect the real-estate business to continue its good performance.

On the quarter three guidance perspective, we expect low single-digit top-line growth while striving to maintain EBITDA margins as compared to the previous year. We continue to stay invested in our core fundamentals and focus on profitable health of our working capital.

Thank you. We can now open for questions.

**Moderator:** Sure. Thank you very much. We will now begin with the questions-and-answer session. The first question is on the line of Govind Lal, who's an individual investor. Please go ahead.

**Govind Lal:** I got only one question. This deal has been concluded now, JKIT 20 acres, and this quarter you are supposed to receive funds. So, how much is Raymond's share, I think 47.7%, is there. How it will be brought in the books of Raymond, this cash, from JKIT?

**Sanjay Bahl:** So, the process is still to be completed. So, we expect that over the next six to eight weeks we should be able to conclude the process of securing all the regulatory approvals and then closing the transaction and leading up to the conveying. We are looking at options in terms of evaluating the options as to which is the optimal way to distribute the cash and utilization of cash. The primary purpose and objective, as we have mentioned earlier, remains to use the cash to the maximum extent possible in deleveraging the Raymond Limited balance sheet and reducing our debt and interest costs. So, we are still working on it, it's work in process. And as soon as this has been finalized, we will submit our proposals to the Board. Once the Board has given its consent and approval, we will certainly inform the investors.

**Govind Lal:** How much in net the JKIT will receive after taxes and government cost, all that?

**Sanjay Bahl:** So, it is roughly expected to be in the region of around Rs. 400 crores to Rs. 450 crores.

**Govind Lal:** Out of Rs. 700 crores? So, almost Rs. 250 crores - Rs. 300 crores will go for taxes and approvals?

**Sanjay Bahl:** Yes. Because regulatory costs are there. There are change in use costs, which have to be paid as per the premium, which has been notified in the government policies. And then there is the impact of taxation, at 23% on the profits, capital gain.

**Govind Lal:** So, you have gone on record on CNBC that it will be one-third. One-third comes to Rs. 700 crores means it is Rs. 235 crores or something, so Rs. 550 crores something we should get, no?

**Sanjay Behl:** One-third is Rs. 200-odd-crore.

**Sanjay Bahl:** About Rs. 460 crores it comes to. So, we are saying Rs. 450 crores, so it's very close.

**Govind Lal:** So, one more thing. Are we looking for even by bringing paying dividend distribution tax and bringing as a dividend in Raymond, that will cost another 20%, I think?

**Sanjay Bahl:** Those are options. I would rather suggest that, obviously, that is an option available to us. We will certainly be looking at this option and seeing others as well and leave it to the Board to give us guidance.

**Govind Lal:** One more thing. We have reclassified our equity capital, some Rs. 10 crores into preferential, so what is exactly planned, why we have reclassified?

**Sanjay Bahl:** At some point in time I think we will let it done as a measure of having maybe giving a proposal to the Board and keeping that option. So, as of now we have only taking shareholder approval for that. Once we have the approvals, we will go back to the Board with our options and seek their approval. So, it's still work-in-progress.

**Govind Lal:** Is it something to do to bring JKIT land sale money into Raymond? Is it something to do with that issuance of preferential?

**Sanjay Bahl:** I wouldn't like to comment on that at this stage as still it is under process. I mean, so since we are working on it, so wouldn't like to give any guidance or make any comment on that as of now. Just wait for a few weeks, once the transaction gets completed and we will come back with full details.

**Govind Lal:** I appreciate that. So, can I have one more question, please?

**Sanjay Behl:** Yes. Please.

**Govind Lal:** So, now the first half is over, second half you already guided, so net-net, full year, how we should look the top line growth versus margins all that, full year?

**Sanjay Bahl:** If you look at our results, if you look at the guidance for the year, some decent growth in the second half of the year because consumer sentiments on one side remain sluggish. On the positive side, there is a long marriage season ahead and there is festive demand, which is also there, pipeline correction in shirting has happened. So, there is a mix of variables which are currently at play here. As we have indicated earlier, we are cautiously optimistic of the second half of the year. Historically, second half of the year are seen better than the first half as well.

So, we are certainly looking at reclaiming our previous year margin. Unlike the margin drop that you have seen in the first half of the year, of about 135 basis points, we are certainly looking at retaining our margins. And our margins last year in the second half of the year were much better than the first half of last year. So, even with lower growth, we would expect to maintain our margins. We have a strict control on our discretionary spends and cost savings and cost rationalization plans will continue. The whole focus on cost continues unabated. So, the expectation is that with the better second half in terms of margins and with input cost also going soft and helping us on the margin side, we do expect that with the better second half, we would look at growth which would be possibly in low single digit, possibly flat to single digit for the year. Because I think that is what we would expect on the growth side. On the margin side, we

should be able to look at maybe 50 basis points at an annual level below last year's levels, but our attempt would be to sort of cover that gap as well.

**Govind Lal:** So, net-net, second half will be on sales side a little better and margins we are planning to at least last year level want to maintain margins?

**Sanjay Bahl:** Yes.

**Govind Lal:** Yes. Understood. So, one more question. In this concluded quarter, second quarter, ad spends has come down substantially, Rs. 30 crores I think we have done less ad spend, no?

**Sanjay Behl:** Yes.

**Govind Lal:** So, that substantial Rs. 30 crores, why it has not reflected in bottom line, so much ad spend we have drastically cut?

**Sanjay Behl:** Eventually, it all adds up in bottom line. It's just that, that is one of the discretionary spend. As Sanjay said, it's A&P, advertising and promotion, and we were a little over engineer in our A&P investments for higher growth in the past years. And every year we made this guidance saying that with our scale growing and reaching all the apparel brands have more than doubled in the last three to four years, we should be able to start optimizing it. So, this is partly a reflection of a higher scale in optimization of our spend and partly is a reflection of being a little prudent because we have seen a massive discounted quarter last quarter too against a normal EOSS, which ranges between 60 to 70 days, any year you take. This year, the end of season sale has lasted 80 days. 62 out of those 80 days were in last quarter. So, the overall discounted portfolio, because our promotional spend has gone up, the advertising spend had to be curtailed. Because you cannot have a higher advertising and higher discounting there. So, we had to do optimization at our level. And that is the reason you are finding saving in A&P, but partly that is getting offset in the additional discounting we had to do to maintain our portfolio. So, effectively, net-net, it is not adding up, as you are saying.

**Moderator:** Thank you. The next question is from the line of Chirag Patel from Bhavesh Investments. Please go ahead.

**Chirag Patel:** My first question is regarding, like, we have sold 20 acres of land and we are monetizing 20 acres of real-estate by building buildings. How much land do we have right now after eliminating these two?

**Sanjay Bahl:** Okay. So, overall, we had 120 acres in Raymond Limited and 20 acres was in JKIT. Now the parcel in JKIT, 20 acres, has been sold. That is the announcement that was made during the month. There remains 120 acres, out of which 20 acres is under development in the residential project that we have announced, and we are working on now both on the affordable housing as well as the two towers of Phase 2, which is premium housing. On the balance, 100 acres of land is available. However, 20 acres of that is now with the trust where the school, etc., is located and



there are reservations, which are there. So, the balance is around 80 acres, which is available for monetization.

**Chirag Patel:** Okay. Thank you so much for clarity. Sir, my second question is, what are your targets of how many houses in this particular year?

**Sanjay Bahl:** Sorry, could you repeat that?

**Chirag Patel:** What is your target, how many houses in this particular target of how many unit of houses?

**K Mukund Raj:** Yes. In terms of number of units in this aspirational project that we have launched, we have budgeted for 700 units for FY20. Out of which, we have already done close to 430 numbers by now, in the first half year of the year.

**Chirag Patel:** Okay. And my third question is an accounting question. Like, we have a net DTA on our balance sheet right now, and do you think there is new policy 115 BAA, we have to due to reducing taxes, we have to charge that extra DTA on the book, which we have actually done it through retained earnings and not through P&L. What is the reason behind it? Why didn't we do it from the P&L perspective and directly went to retained earnings?

**Sanjay Bahl:** So, which one are you talking of? You are talking of the preference share capital?

**Sanjay Bahl:** Deferred tax asset. So, you want to answer that, Subhash?

**Subhash Thakker:** So, currently the reduction of tax, deferred tax plan we have taken for this quarter is ~Rs. 11 crores.

**Chirag Patel:** Yes. Sir, I can see that. Actually, there is there a number flowing that is mentioned that you have recognized in retained earnings as 6.6 cr.

**J Mukund:** We will get in touch with you separately on this. Can we take some business questions, please?

**Sanjay Behl:** Why don't we reach out to you separately so we can clarify your accounting query?

**Chirag Patel:** Okay, sir. Thank you. The next question is regarding the shirting business, it is already working on full capacity utilization, so are we expecting any kind of CAPEX right now?

**Sanjay Behl:** Which business?

**Chirag Patel:** Shirting

**Sanjay Behl:** So, we are not expecting any CAPEX coming up in the next half. No. It's only maintenance CAPEX, which is very marginal, so we will be significantly better than our CAPEX guidance in the second half. So, Amravati for sure that you are asking specific questions, there won't be any CAPEX in the next half.

**Chirag Patel:** Okay, sir. What are your views, like, the political issues going on Ethiopia, has it resolved? As we have been increasing utilization, what are you thinking? Like, how is it going to be in future? Can we see 50% to 55% utilization in this particular year?

**Sanjay Behl:** So, Ethiopia, as of now, as Sanjay said, it's got remarkably better in levels of stability. We have not had one day of stoppage of work. After 18th of July, when the current prime minister went and basically put some measures to install normalcy, we have not had even 1 day of shutdown there. We have actually had a little bit of overtime that workers are doing. So, that has helped us to stabilize the plant to the levels of efficiency, which is working at this point in time. Given that Ethiopian prime minister has also been awarded the Nobel Peace Prize a few days back only furthers our confidence in the country that they will be able to put adequate amount of investment on ground for civic stability for the next few months, if not few quarters ahead. So, we remain optimistic on Ethiopia's normalcy. And our ability to gear up efficiency is dependent on the external environment to remain stable. At this point in time, at least for the next two quarters or so, I don't see any untoward disturbance, in light of what we have seen in the last three months and what I spoke about.

**Chirag Patel:** Okay, sir. A follow-up question on this. What kind of demand are you expecting, you have seen good demand from Japan right now, but what about U.S.? What kind of demand we are expecting?

**Sanjay Behl:** The U.S. has been strong on demand. We have been seeing actually U.S. as a market performing a little better than U.K. and Europe. And Japan is another market, which is gearing up actually on demand. So, we expect that we should get a decent order flow from U.S. In fact, our order books in Ethiopia, which really service U.S., are completely full till March now. So, we don't see any slowdown in our order filling rate in the plant. One very large plant servicing happens from Ethiopia, if I were to use that as a surrogate of demand, we are sitting on full capacity right now.

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

**Dikshit Mittal:** Sir, my question firstly is on the free cash flow. You had guided at the start of the year to end this year with a positive free cash flow. Now post this first quarter and considering the on ground situation, so do we still maintain that, or we may be pushing that out for next year?

**Sanjay Bahl:** Yes. So, when we had given this guidance, the expectation was that we will continue the growth momentum in all our businesses, and it was based on a buoyant macroeconomic environment as well. Now those scenarios have changed, and we have seen the impact in the first half of the year. Having said that, we will still like to reiterate, and I mentioned earlier towards the latter part of my speech, that the focus for the second half of the year is on maintaining liquidity, cash flows and then top line growth. So, I think for us, we have recalibrated our growth ambition with a clear direction and purpose to make sure that our growth is achieved with maximum cash flow realization. And I think that is a fundamental pivotal focus for the businesses. Our CAPEX is well under control and will be significantly lower than the previous year.

In the first half of the year, our working capital is usually and normally adverse, where we build up inventories and pushed in the trade channels, which then gets liquidated in the second half of the year with the festive season, winter season demand and the marriage season coming in. Now the second half of the year, cash flows will be certainly significantly positive. We will endeavor to ensure that our second half cash flows are completely offset the negative cash flow that we have with the first half of the year. However, while the end will be to achieve that, we do expect that anywhere between Rs. 50 crores to Rs. 75 crores of negative free cash flows could well be what we may end up with.

**Moderator:** Thank you. The next question is from the line of Shiva Sindhur from Zen Securities Ltd. Please go ahead.

**Shiva Sindhur:** Sir, my first question is regarding CAPEX guidance for H2, and my second question is, it would be really helpful if you can give me an outlook on cotton and wool prices for the short term and also the long term? And sir, in the initial remarks, you were saying that H2 is going to be very dull, right? Even though you are going to maintain the margin, but then it's not going to be like previous H2s because the demand is going to be very low, can you please extend your comments on that as well?

**Sanjay Bahl:** On CAPEX, I think we expect that overall for the year we should end with CAPEX about Rs. 170 crores to Rs. 180 crores. So, it should be within that limit, okay? First half, we had about Rs. 110 crores to Rs. 115 crores, the balance then will be coming in second half of the year.

**Sanjay Behl:** So, coming to the other part of your question, which is the wool and cotton price going forward, I think wool is currently trading at about 20% to 25% lower price than last year, and we expect the same trend to continue, which basically means H2 this year versus H2 last year, we can look at that level of about 20% to 25% lower price per kg. That is just the wool index rate. The other part that we need to take into account is, what is the wool mix that Raymond invests in versus the wool index? So, if I really take that, that itself is going to be favorable but may not be as favorable as 20% - 25%, but still we could see an upside in terms of wool cost. If you put an absolute number to it, we could look at about anywhere between Rs. 12 crores to Rs. 15 crores upside coming purely on the wool cost softening, which we will see going forward. Other part is cotton. Cotton, we maintain, I think if the current prices will stay, I think it'll be pretty much maintained at the current prices. There could be marginal softening there, but at this stage we are not building that into our guidance in terms of our working.

The other part you wanted to have a little bit of elaboration was on demand side, as to how demand likely to pan out in H2 at across different categories. So, we expect the demand to remain a little sluggish on account of three things. One, there is a subdued consumer sentiment. I don't think we have seen much change in the income or household savings levels, but we do see the sentiment which is perceiving any real macroeconomic factor to really pay out. And that you've seen it not only in the first half, but we have seen as we are getting closer to the Diwali now within the next 48 hours, we see that continuing. And that could have a lag impact even if

economy picks up or the real spending picks up, I think sentiment could have about a quarter lag. So, we don't see that sentiment picking up in the next three to four months in a significant way.

Second reason why it was subdued and that is one reason which will go away, in the prolonged monsoon that we have seen, which has curtailed a lot of operations across the country and some level of rural access for wholesale channels, at least that part we are coming to the end of it and we are getting into a strong wedding season ahead, starting November. So, while the first one remains a negative, the second one is a positive that we see.

And the third one factor, which is going to be critical, is the channel liquidity, and I think Sanjay did make a comment that it continues to be tight, with largely this whole NBFC crisis that we have seen over the last year, now the hangover of that, 75% of MSME is really getting financed from such nonbanking finance corporations there, we have seeing that not improving in any significant way there. So, there are a few macros, which are not working in favor. There are few, for example, this whole end of monsoon, start of wedding or even softer input prices, these were very good for us to hold our prices there, we don't need to take price increases there.

So, net-net, in a balance, I think we should be able to still give a growth, but the growth will not as per the earlier guidance, it will be pretty much low single digit kind of a growth that we should have across our businesses. Some businesses may do a little better, like apparel could touch double digits, our shirting businesses could touch double digit. Some businesses will be really pretty much flattish, like suiting businesses. And some like our auto businesses may still continue to struggle to get growth, given the environment that we are in. So, at a broad macro consolidated level, if you see at a Raymond level, you are looking at low single digit kind of growth in H2, in terms of demand.

**Moderator:** Thank you. The next question is from the line of Punit Kabra who's an individual investor. Please go ahead.

**Punit Kabra:** Yes. Sanjay, just a one question on debt. I joined the call a little late, so sorry if you've already clarified, but can you throw some light on the debt we have in term of mix of the debt between short-term, long-term, how much is working capital related debt? And given that this monetization of land that we are doing, whatever debt we repay, what we should we consider as the cost of borrowing of that debt? I mean what is our most expensive long-term debt rate of interest.

**Sanjay Bahl:** So, if you see the total mix that we have, we have about Rs. 2,800 crore of gross debt. About Rs. 1,450 crores is coming in from working capital. And out of the balance we have around Rs. 500 crores, which is out of Rs. 1,350 crores, Rs. 500 crores is short-term and the balance is long-term debt. Now this across the whole portfolio of debt that we have, we have an interest cost of 8.65%. So, obviously, the working capital is the lowest, which is a shade below 8%. And we have short-term, which is in the region of 8% to 8.5% and the longer-term comes with the replacement of TUF loans in the portfolio has gone into the range of 9.5%. So, I think that is the kind of overall mix that we have. CPs, as you know are now not there in the portfolio and have been replaced

because of the uncertainty that continues to prevail in the entire subscription to CPs in the financial markets. And earlier CPs were the lowest cost of funding. So, with that having dried up, now we are comfortable in the mix that we have and this is what is likely to sustain now.

**Punit Kabra:** Okay. So, whatever debt we repay, more or less the saving, they are going to be 9.5% is what we look at right?

**Sanjay Bahl:** Yes. So, it will be in the pecking order of the higher interest cost etc. and all that so it will be in that order.

**Punit Kabra:** Okay. Just a question on the same thing. For the land proceeds that we are expecting, by when do we expect this transaction the money to come into Raymond Limited and the debt to be repaid? A ballpark timeline?

**Sanjay Bahl:** Yes. So, I had mentioned this earlier. We will expect to see this in quarter three. Hopefully, over the next couple of months, we should be able to close this out.

**Moderator:** Thank you. The next question is from the line of Thomas Abraham from Karvy Stock Broking. Please go ahead.

**Thomas Abraham:** My question is, for the branded textiles division, the wholesale and MBO numbers, are we expecting it to be on the same line as we have seen in H1 FY20? Or can we expect better numbers from there?

**Sanjay Behl:** Okay. So, the wholesale actually, H1 numbers have been a bit heavy decline. So, partly it's to do with some corrections we had to take in shirting side of the business and partly it's to do with some sluggishness of demand. So, going forward, with the onset of season and with the corrections behind us in shirting, I expect the numbers to be significantly better in second half in wholesale versus first half. On MBO channel, which has grown at about 4% in the second quarter, I don't see much of a difference there. It could accelerate by another percentage or 2 percentage points given seasonality there. But the real reversal that we expect is going to be on the wholesale side of business and MBO is going to be more or less the same.

**Thomas Abraham:** Okay, sir. And where are we actually in terms of regions? Can we stress on any particular area that we are actually seeing stress in the wholesale market?

**Sanjay Behl:** No, actually it's pretty much across. So, it's very difficult to really pick up. It is been -- the central belt has been a little slower. North has particularly been a little more accentuated as compared to the other three regions there. But when the overall numbers are anywhere between negative 10, 12, 15 then something is negative 5, something is negative 12, it's very difficult to really pick up. The second thing is also, the numbers that we gave in wholesale are primary sales number and primary sales numbers may not be totally representative in a quarter frequency of exact trend. So, we need to look at a little more of moving annual totals. I think more like 12 monthly trends of wholesale to start picking up any regional variances there. And if I really look at a little longer-

term trend, it's the northern east which is a little more acute than the western south but that is also relative. I think the overall wholesale channel given the lower rural consumptions there, the excess getting cut off because of a prolonged monsoons there, liquidity crunch getting more accentuated in unorganized part of the market, which is the lower tier markets which get service from wholesale. So, there are multiple of these one, by micro factors which all add up to really give you the compounded impact at a national level, which is what we are seeing. But as I told you, the expectation is that it is improving, and we should see at least half two of Raymond wholesale channel to prop up better numbers than we have seen till now.

**Thomas Abraham:** Okay, sir. And in terms of net effective tax rate for FY20, can you give me a guidance regarding that?

**Sanjay Bahl:** Like what tax, come again?

**Thomas Abraham:** Effective tax rate?

**Sanjay Bahl:** Effective tax rate. Yes. So, what we have post this new taxation rates that have been announced. Now, obviously, it will vary for different companies that we have. For Raymond Limited, the effective tax rate will remain at the earlier tax regime rates, which is 34.9%, because we have unutilized MAT balance available with us. So, we will continue to be at the higher rates of tax. For our B2B shirting business, we also have unutilized MAT and past losses, which we expect to utilize now with the business becoming profitable. So, we will continue to pay at the higher rates. So, it will be varying. The rest of the companies will move to the new taxation rates at 25.17%.

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

**Dikshit Mittal:** Sir, we have talked off earlier. So, sir, in terms of our land monetization plans, now that we have monetized 20 acre, so out of 80, so now what are the plans? Will we be developing that in parts or some part of sale is still possible?

**Sanjay Bahl:** We are currently in the process of selling the 20 acres of land and 20 acres is under development. Now in terms of land, we are open to various options. The whole idea is really to look at ways in which we can grow. And we will certainly look at various opportunities which are there. If there is an opportunity to develop a piece of land, we'll certainly be open to it. At the same time, we will also be looking at the right point in time to see whether development of any other project make sense for us. Right now, we are fully engaged in the 20 acres development where we have to build 10 towers in Phase I and in Phase 2 another two towers. So, right now, we are fully engaged in that. As and when we progress in the development and this gets to closer to completion, we will certainly be looking at options in terms of further development as well. So, all options are as of now are open for us. We have the land parcels. We have monetized 1 piece of land. The others are available. If there is appetite in the market and clearly, this is the best piece of land that we have in Thane in terms of location and proximity to social infrastructure. So, if there is certainly interest in this, we will be open to that.

**Dikshit Mittal:** But have we given any mandate for any more piece that can be sold? Or now we are focused on the development only?

**Sanjay Bahl:** No, there is no mandate which has been given. Right now, we are first fully engaged in closure of this transaction. Once that is done then we will reassess the market and the opportunities that exist and then we will progress thereafter. Now there is no mandate.

**Moderator:** Thank you. Next we have a follow-up question from the line of Govind Lal, who is an Individual Investor. Please go ahead.

**Govind Lal:** Sir, I have got two questions. Can we say now with little confidence that worst is behind now in the business wise going forward, it should get a little better quarter-on-quarter?

**Sanjay Behl:** From macro perspective, Govind, it is very difficult for us to really say whether worse is behind or not because this is like, if this is open still there is a lot more stimulus that we see is required for the demand side. And while there are very concrete steps that have been taken on increasing liquidity side, I think still there is a little more that we believe should be done on the demand side. So, very difficult to comment on macro point of view. As I told you, we are not seeing any decline in incomes. We are not seeing much of other indicators. I think the sentiment seems to be a little more prevalent than the actual numbers that we see. From Raymond point of view, I think there are green shoots that we see in the next half and then sentiment buoyance is largely coming on the fact of one, prolonged wedding season; second, the extended monsoons that just got over and hopefully that helps the retail footfalls the moment it becomes a little more amenable for excess in retail that helps this thing to discounting. Peak of discounting is again behind us and in next 5 months, we have better mix of our products with minimal discounting there. So, all the relevant building blocks of a good healthy mix of growth with creditor margin seems to be ahead of us there. So, from that perspective, we remain reasonably optimistic in the next five months that we should deliver a little better kind of a second half than we have done in the first half. And I think that this what we gave in the guidance that despite some dilution of margin in the first half, we should be looking at retaining our margin from full year perspective, which basically means second half we will deliver far better.

**Govind Lal:** Sir, I am not asking near-term second half or five months, I am asking with a little longer-term view, shall we say that worst is over, two years, three years perspective, if you take

**Sanjay Behl:** Again, I think that is the first largely macroeconomic question there. So, hopefully with all the fundamentals getting in place with some level of more measured coming in the consumer demand side, then in a longer period that you are saying maybe two to three year perspective or even beyond perspective we are saying, we still believe very strongly that we are a consumption-driven economy, we still believe that demographic dividend thus favor our country a lot more than any other country on the planet. We still believe the enterprise in India is still going very strong and thriving. There is, you know, yesterday there has been a significant jump in our ease of doing business in India. So, if you start putting all the macroeconomic fundamentals, enterprise of Indians, demographic dividend then in medium term, there is absolutely no reason

for us to believe that it's going to remain this sluggish. There is going to be only an upside there. It just happens as to how much time will it take, what concrete measures need to be done to really prepone it, but we remain fairly positive on Indian economy.

**Sanjay Bahl:**

I think if I can add to that currently what we are always going through is a lot of cyclical all-time low slowdowns in a few sectors of the economy. So, if you look at real estate, you look at auto, airlines, these are going through periods of very great sluggishness. And obviously, this is impacting overall consumption. Will it remain this way for the next two to three years? Very unlikely, very unlikely, because I think one is on the government is very ceased off in terms of what impetus is required and we have seen a lot of announcements in that respect. Some strong action has already been taken. Liquidity will certainly improve. The good news is that the banks are flush with funds. The CASA deposits have grown significantly, which means that the banks will get into the business once they have covered and provided for all the NPAs that they have been facing. I think it will come back to business as usual as far as trade is concerned and lending to NBFCs will resume. So, all these are all positive indicators. From a Raymond perspective, we have been doing the right thing in terms of our consumer businesses, asset-light expansion, keeping our CAPEX plans on a very tight leash, also the expansion into ethnics that we are doing in the branded apparel side, complements our branded apparel business extremely well, the core power brands very well. And then, of course, the asset monetization plan. Also, over the next two to three years, our real estate business will be contributing significantly as well. So, when you look at from a macroeconomic side as well as from a Raymond perspective, I mean there are a lot of positives that we see going ahead.

**Govind Lal:**

So, my second question is, as you told, now worst is behind I think it should, now GST and Demonetization whatever happened, slowdown since last two, three years we are suffering so now I think all these things are behind. Now we have monetized some land and this development is happening, cash flow visibility we have got now. So, with little confidence can you give us some road map, three, four years how our company will shape up some ratio wise or debt wise? Some bigger major CAPEX is also behind now. So, now you've got with, I think, more visibility, clarity on our company road map. Can you share with us that will be very helpful for us.

**Sanjay Bahl:**

I think It's a bit premature to share a four-year vision. I think right now, the focus is really to keep our heads down and look at the second half of the year under very challenging headwinds that we have been facing and needs to get the business on an upswing in these circumstances. And I think the focus will remain very clearly of all business heads on the H2 part of the business. On the future, clearly, the right step, as I said, have been taken. We are working on plans to deleverage the balance sheet. And with positive, the tailwinds coming in now, changes that we see will happen in the economy over the next 6 months, beginning of next year, we should see lot more optimism is what is our hope. And that is the time that we will be better placed to give guidance in terms of our more longer-term plans. And I think, as I mentioned earlier, all the indicators are that first get over the H2 and then look at really putting the right initiatives and strategies in place, which we are working on. There is no change in that. And these will give us the impetus for really growth as profitable growth, I would say, over the next two to three years. So, we don't



see any worries and that Sanjay also explained, that the businesses are on track as far as growth plans. Once there is a change in the macroeconomic headwind currently, I think things will look certainly far better.

**Govind Lal:** If I am correct, sir, now going forward now debt all we have got clarity that some cash flow from real estate all that. So, with a little confidence, can we say that now going forward, the debt will come down and ratios will improve?

**Sanjay Bahl:** Yes, certainly, because we have already signed this land deal. We are working on how do we optimize the cash flow into Raymond Limited to reduce debt. That is singularly the most important objective that we have. Also, the real estate business, the good news is that they do not need further cash for funding for this Phase I of the project because they're already sitting on cash surpluses. With the pace of construction and the pace of sales, we will see that they've been able to achieve. So, they have the cash surpluses to propel the business towards completion of Phase I.

**Govind Lal:** So, I can have comfort from that basically with the peak debt and peak finance cost now this year will be?

**Sanjay Bahl:** Yes, that is entirely the assumption from our side. That is how we see it as well. H1 is the working capital piece. Second half, I already said will be positive cash flow maybe unlock the working capital that we build up in the first half. Real estate is going well, land monetization has happened. So, clearly, this would be I would say the peak.

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

**Punit Kabra:** Two questions. First is on branded apparel. A lot of our branded apparel growth has been coming from the MBO channel. At least one of our competitor has gone on record to kind of recalibrate or withdraw from the MBO channel, or slowdown the sales to that channel. How do we see this channel playing out for our branded apparel business in H2? Are we also seeing some challenges in the MBO channel? Or do we see MBO channel becoming an opportunity? Because some of the competition is facing challenge there and we are looking to withdraw that is the first question.

**Sanjay Behl:** I will answer the first question and then I will answer the second, Punit. On the MBO channel, the first half has been 15% growth for our apparel brands, and we still are underrepresented in the MBO channel, this is basic numbers of total merchants and multi-brand stores that are there, Raymond is still a little under-engineered or under-serviced there. So, there could be growth. If not like-to-like store growth, they will be coming from new store addition in MBO channel and that is likely to continue, not just for six months, I think in another two to three years there will be some opportunities there. Having said that, our growth is not primarily coming from MBO channels. There is a growth of 7%, which we have got in this quarter in EBO and we have got a 12% growth in large format retail. So, if you look at the blended levels, we are getting a reasonably high single digit to double-digit growth even in our exclusive branded stores than our large retail formats there.

On strategic role that MBO plays into overall growth of the apparel business, it has continued to play a very strong role in the last four or five years of growth that you have seen. And I believe that it will have a role to play even in the next two to three years. For us to gain both from the shelves that are getting vacated either by competitors or by improvement in the new stores of a multi-brand that I have talked about, which are still under-represented. If not for 1 brand what also happens is that we have four specific brands there. So, some of the stores have only one or two of our brands. So, within the same stores, we can have more depth representation of our brands. Plus as Sanjay just mentioned in the last question that we have also added some complementary products like ethnics portfolio, will find its own way in a very strong way in multi-brand stores across the country. We have just introduced Parx in women line and that comes into a completely new universe of multi-brand. So, there is a cut of brand product and there is a cut of channels, in combination of both will give you significant growth going forward. So, I can come to your second question now.

**Punit Kabra:**

Yes. The second question was from an H2 perspective and for lifestyle business, I want to keep auto, engineering aside and real estate aside, how do you see for the H2, maybe revenue growth we have said will be modest, but on the EBITDA margin side, what kind of margins do you see versus last year H2?

**Sanjay Behl:**

So, let's start with fabric, fabric last year H2 margin was about 15.3%. That was the EBITDA margin H2 last year. And with the price increase which will get fully impacted in the coming quarters, with the wool price softening with some level of control that we have had on our discretionary spend and a little better mix, I see this margin improving by at least 100 bps, 100 to 120 bps. So, 15.3% more looks like 16.3% to 16.5% is what should be our realizable margin on the fabric side of the business. In apparel side, I see some challenges because there is a lot of discounted stock still in the market there. So, I would say that the H2 margin last year was around 4.6% and I don't see much of an improvement there. I think we would be striving to get about 5%-plus, but my sense is it will be more or less like a similar margin of last year.

On garmenting side, which is a third component, I see the margins improving significantly in next half with Ethiopia utilizations going up and with Indian operations also stabilizing for made-to-measure. My sense is that last year it was about a little under 4% margin. I expect this margin to significantly improve to about 6% to 7% in the second half. So, two of the three businesses huge improvement, one business, more or less the same is going to be a story at a blended level we would see a better margin, which will be the real factor how we recoup the 1.2% margin dilution that we have seen in the first half of Raymond consol level, I think that will get recouped back in second half.

**Punit Kabra:**

And shirting business, because the margins is really is doing well, so it should retain its margin?

**Sanjay Behl:**

Yes, it will because there is no reason for us to believe that there could be any further because now we consolidated our margins both in B2C and B2B business. B2B is running very strong, so our B2C may have I think slight upside only, but B2B is I think pretty much picking in terms of its margins right now.

**Punit Kabra:** So, B2B on the demand side, considering all the slowdown, do we see any slowdown in the shirting B2B business in H2? Or we think that we are doing fine on that front?

**Sanjay Behl:** No, there are initial signs, I would say, last quarter, we have started getting some initial indicators of some pressure in the market there because there is a built-up inventory in the apparel industry which is there. And that additional built-up inventory needs to be liquidated before fresh orders can be taken in. So, we are seeing some level of stress coming in terms of off-shoots on our customers at B2B level, but given that we have a little bit of a de-risking given our exports business, we have a little hedge on export size with our domestic slowdown even if we have to face. So, on our balanced way, we should be able to pull through H2 even if there is some slowdown in domestic demand but yes, there is some stress and it's not like a full blast capacity and easy-going kind of an environment at this point in time.

**Moderator:** Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.

**Ashok Shah:** Sir, I entered late in a con call. So, I just wanted to know how this cash realization from the sale of our investment company for the land deal, which has been done. So, how we are going to realize? Or it will be used to repay the debt, or it with via a dividend or something, how its process going to complete?

**Sanjay Bahl:** Yes. So, I have answered this earlier. There was a similar question earlier in the call. Basically this is work-in-process. Dividend is one of the options. We are looking at other options as well. And in due course of time, we will go back to our board and seek their approval. And then once these decisions have been taken, we will certainly communicate.

**Moderator:** Thank you.

**Abhijeet Kundu:** This is from Abhijeet Kundu from Antique. I just had one question. In your branded apparel business, you have been doing really well in a challenging environment. My question was structurally there you are looking at a high single digit EBITDA margin in this business. What kind of time frame would that take? And then primarily what are the initiatives going into that?

**Sanjay Bahl:** So, in branded apparel, our ambition is to actually get to double-digit EBITDA margin, and we stated that that is really the target for us. Last year, we had indicated that we would take a couple of years to get there. There has been a slowdown because of macroeconomic headwind consumer demand slowdown this year that we are experiencing. However, our ambition would be to by the end of next year take it up to high single digits certainly I think that still remains. And all the strategies that we have explained earlier in the call, whether it is extension into complementary categories like ethnic wear and full wardrobe solutions within the power brands that we have and the channel expansions that we are doing. Also on the cost side, I think, essentially it's a question of achieving certain scale that we were firing for. It may now take us a little bit longer to get to that scale but the ambition remains to get to land it somewhere on high single digits.

**Abhijeet Kundu:** That. Sounds great. And sir, in your textile business, there are a lot of initiatives are being taken right now to improve the supply chain. So, where were we in terms of that? Or it will be ongoing process? What's your view on that?

**Sanjay Bahl:** It's always an ongoing process supply chain, working capital management. As I mentioned earlier, one of the key focus areas for us is to make sure that our cash flow realization in each business is optimized and we would not be chasing any growth or sales, but looking at really improving cash flows as well. Which means that the focus is completely on how do you convert inventory and cash collections happens at a much faster pace. So, clearly, it's a mix of the entire supply chain and channel movement of inventory across our different channels. And some of our channels have longer gestation as far as realization of cash and there are some channels where we sell on cash. So, it's a mix, optimal mix that we will strive to achieve and initiatives are there. There are many digital initiatives as well that we are trying to work with in terms of within the traditional wholesale channels that we have in terms of easing the supplies to them and servicing these wholesale channel and this helps in realizations as well. Monitoring of secondary sales is a big investment that we are making and how do we get visibility on secondary stock and secondary sales as well. So, a lot of initiatives are there. It's always a continuous process to make sure that working capital becomes leaner, and number of NWC days comes down.

**Moderator:** Thank you. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments. Please go ahead.

**J. Mukund:** Yes. Thank you. I would like to thank all participants for taking the time out and participating in this conference, in this earnings call conference. In case of any further questions, you can please reach out to me on phone or on e-mail me. Thanks again.

**Sanjay Bahl:** Thank you.

**Moderator:** Thank you very much. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.