# SKNL's Q3 FY2010 Results Conference Call

Investor/Analyst Conference Call Transcript

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**Salil Bawa:** Good evening everyone, this is Salil Bawa from SKNL. I welcome you all to SKNL's Q3FY2010 analyst and investor conference call. We have with us today Mr. Nitin S. Kasliwal, Managing Director and Vice Chairman of SKNL. Mr. Anil Channa, Deputy Managing Director, Mr. Dara Avari, Director Corporate Strategy, Mr. Aneez Fazalboy, Group Director, Mr. Jagadeesh Shetty, CFO of the company. We would start this concall with opening remarks from the Managing Director after which we will have the floor open for an interactive question and answer session. Before addressing the operational issues by Mr. Channa and the financial overview by Mr. Shetty.

Before we begin I would like to point out that certain statements in this conference-call maybe forward looking and a disclaimer that this affect is included in the investor release and the concall invite which was sent to you earlier. I will now like to invite Mr. Nitin Kasliwal to make his opening remarks, before we start the Q&A session. Over to you sir.

**Nitin S. Kasliwal:** Thank you Salil. Good evening friends and welcome to SKNL's Q3FY2010 conference call where we would be discussing the results and various developments that occurred during the quarter.

I would first like to give you a brief overview of our business activity in the quarter after which I would then request our CEO and Deputy Managing Director Mr. Anil Channa to give you an overview of the operations, followed by our CFO Mr. Jagadeesh Shetty who will then take you through the financial performance and some more financial details.

As you all maybe aware we have had an exciting financial performance in the quarter that ended December 2009 our revenues were up over 100% while our profits before tax were 85% higher than the corresponding quarter last year. SKNL has reported a very strong performance which has sustained through changing macro environments. All of you would be very happy to know that we are probably one of India's only multinational textile conglomerate as we speak and stand this got done with the conclusion of the acquisition of Hartmarx Corporation Limited in August 2008 and you will also be again very happy to know that SKNL as a conglomerate operates in 6 countries, various manufacturing plants as well as markets product in almost all countries of the world. We have manufacturing plants of course in India, in England, in Scotland, in Italy, in the USA as well as in Canada in total our group is employing over 10000 people now.

Our strength lies in the strong presence in the branded textile spaces where we cater to a diverse belt of socio and economic assemblage. Over these years we have built a diversified product portfolio, robust distribution network and an established brand presence. We have demonstrated a noteworthy performance in our overall performance in the SBUs particularly the consumer textiles, luxury textiles and ready-to-wear garments. Reid & Taylor's and Belmonte have continued to contribute strongly at all levels. As we move on we see continuous growth in our domestic business combined with upsides in the international operations which will result in superior performance as we go forward.

As we dwell deeper into the results you will notice that our operating performance across domestic business is showing excellent volume growth and our international business has also been encouraging. These details would be further shared to you all with by Mr. Anil Channa and Jagadeesh Shetty.

I also just wanted to advise you folks this time in the conference call that you would be happy to know that both our boards the operating boards, S. Kumar's Nationwide Limited as well as Reid & Taylor Limited have a substantial presence of well known Directors of the board. In SKNL our board has as External Directors Mr. KP Rau who is a well known financial expert. Then we have Mr. Vinayshil Gautam who is a HR and very strong person from the IIT. We have Mr. Anish Modi and Mr. Denys Frith as well as now on the Reid & Taylor board we have **Mr. Kunna Chinniah** who is nominee of the Government of Singapore, the Government of Singapore as you are aware is a large financial investor in Reid & Taylor they own 25% of the stake of the company and they had valued Reid & Taylor at $860 million. Mr. **Chinniah** is a chartered financial analyst and has attended several executive programs in the World Bank and the Harvard University and we are very fortunate to have him with us on our board.

Also you will be happy to know that our operating teams now are very, very good, in fact the entire textile business is spearheaded by Mr. Anil Channa who is our CEO and Deputy Managing Director and under him there is a very able team of very seasoned senior CEOs and COOs who are not only industry experts but they are also segment experts. Just to name a few recently we have taken on Doug Williams as the CEO of HMX Corp which is the American Company. Doug Williams used to run the major business of Ralph and Polo Ralph which is one of the world's largest apparel brands and he was the CEO there. He heads Hartmarx. Also on Hartmarx board we have Joseph Abboud he is a renowned designer and we have him onboard as our Chief Creative Officer.

Similarly in our other international businesses we have Michael Morris who heads our DKNY license from the UK. And we also have Paulo Agnoli who heads our Leggiuno business.

In India we have several key people in our management team there is Ashish Amin who heads our apparel business. We have Janak Dave, we have Arvind Gupta, who heads our luxury textile business, we have Rajan Garg who heads our Belmonte Textiles, we have Pradeep Mukhim, we have Nitin Chabbra so we have a very strong team of professionals on board and this combination combined with our diverse product portfolio our diverse market reach has now made SKNL the largest and probably the strongest textile enterprise in the country and going forward we soon hope to be becoming stronger on the domestic front as well as spreading our wings overseas.

Also just to let you know that on the front of taxes your company has been paying a very healthy tax level in the last 4 years itself we have paid tax of over Rs. 315 Crores. Our CFO will be giving you more details. Our balance sheet continues to be very strong, we are operating at a debt-equity level on a total outside debt to total equity level below 1 which is again a very healthy level. So on all fronts we have been doing, our brand building has been going on very well. All our brands continue to perform as top of their category in the market. I would now call on Mr. Anil Channa to elaborate more on the company's operations in specific details. Over to you Anil.

**Anil Channa:** Thanks Nitin. Good evening and welcome once again. In Q3FY2010 SKNL clocked revenues of Rs. 12,104 million compared to Rs. 661 million in the corresponding quarter last year, indicating a 100% growth. Similarly EBITDA for the quarter under review enhanced by 88% to Rs. 2,175 million compared to 1160 million in Q3FY2009. Our operating results have reported healthy growth in all way during the quarter given the strong performance in the domestic line of businesses of SKNL our luxury brand Reid & Taylor operate at the upper end of the market continue to perform extremely well in the high value premium market and has delivered remarkable performance during the quarter. As you are aware Reid & Taylor India Limited is a 74.6% owned subsidiary of SKNL the balance headed by GIC which is a Government of Singapore Investment Corporation.

The consumer textile division and ready-to-wear garment division was driven by a mid-premium brand Belmonte which is increasingly gaining consumer endorsement and the share of this brand and the consumer textile segment is rising rapidly.

Our international line of businesses is building a robust platform to expand our reach in the global market. The recent acquisition of Hartmarx is shaping well where we have initiated team building activities and revitalize our relationship with customers. We are also focusing towards implementing synergistic penetrate of backward and forward integration.

Our 12.75 million meters per annum capacity a high value fine cotton facility in Gujarat which was partly commissioned a few months ago is getting stabilized, we expect improvement in performance as a co-product lines are synergized through backward and forward integration Leggiuno know the company we own in Italy.

During the quarter revenues from our overseas businesses which includes Leggiuno and Hartmarx and related operations so that Rs. 3,702 million at consolidated efforts both Leggiuno and Hartmarx are underway. Their operating performances are expected to enhance progressively going forward. Today we are truly a global player in the branded space and we are one of the leading players in all the socio economic branded market segments having strong PAN India presence.

Our strategy and corporate focus on brand, DNA, Marketing, Distribution and Network expansion is helping us in achieving results which are much, much better than most of the other groups in the textile sector as we are not a commodity player. Now I would like to call up on Mr. Jagadeesh Shetty to elaborate on the company's financial. Over to you Jagadeesh.

**Jagadeesh Shetty:** Thank you Mr. Channa. Good evening everyone, it is heartening to say that SKNL has delivered a robust revenue and earnings growth which was driven by a buoyant growth in volume across all segments in Q3FY2010 SKNL clocked revenues of Rs. 12,104 million compared to Rs. 661 million in the corresponding quarter of the last year indicating a 100% increase. This was largely driven by strong performance across all SBUs and consolidation of financials of the SML. Even that the consolidation efforts for SML have just commenced we expect full potential of the international business to be realized going forward in the coming quarters.

EBITDA for the quarter under review enhanced by 88% to Rs. 2,175 million compared to Rs. 1,160 million in Q3FY2009. It is important to note that our domestic business's operating performance has been significantly improved from the last year. It is also very assuring that our HMX business has turned EBITDA positive. On a total sales of Rs. 3,702 million in the international business have earned an EBITDA of 144 million at EBITDA percentage of 3.9% on the sales. Their performance is expected to improve further as consolidation and back and front end synergy efforts progress further.

Margins under the various domestic business have also remained strong as a result of enhanced volume and healthy realization across all SBUs. Total expenditure in Q3FY2010 excluding interest and depreciation was higher by 103% at Rs. 9,929 million as compared to Rs. 4,901 million. This increase was in line with the revenues and margins performance. Given the inclusion of the financials of our overseas business the increase in the expenditure under the hedge of staff cost and selling and distribution expenses, is reflective of the international cost being incurred and in fact they are not comparable with the figures of Q3FY2009.

Depreciation for the quarter under review increased by about 9% to Rs. 167 million as compared to Rs. 154 in Q3FY2009 while interest expense for the quarter stood at Rs. 707 million from Rs. 323 million in Q3FY2009. This increase in the interest is attributable to the debt rate of funding various growth plans plus independent debts in overseas companies which is HMX and Leggiuno and the market rate of interest post exit from CDR. Interest cost as a percentage to sale has however gone up only marginally from 5.3% in Q3FY2009 to 5.9% in Q3FY2010. PAT expenses in Q3FY2010 stood at Rs. 410 million as compared to Rs. 197 billion in Q3FY2009.

Profit after tax before minority interest stood at Rs. 808 million as compared to Rs. 463 million implying a healthy earnings performance. Earnings performance of SKNL from it's domestic business before minority interest has continued to grow at a robust pace. Our overseas ventures specially Hartmarx. Our businesses with very strong brand recall and to that extent the company expects major benefits to be realized once the back-ended and front-end synergies are fully realized.

Net profit after minority interest for the period under review stood at Rs. 670 million as compared to Rs. 379 million. Minority interest pertains to GIC's investment in RTIL Reid & Taylor India Limited which enabled SKNL to exit CDR allowing the company to have corporate flexibility for business and growth of the business.

All our established SBUs performed healthily specially the Consumer Textiles, the Luxury Textiles Division and the Garment Division have continued to perform well in this quarter. Our HVFC facility which will be ready in all respect including the finishing and the processing facilities by March 2010 to attain backward and frontward synergy with Leggiuno.

As on 31st December 2009 SKNL has a net worth of Rs. 24,570 million and a total consolidated debt including all the working capital facilities, including the independent debt on it's subsidiary companies in all stood at Rs.25910 million. This implies a total debt to net worth ratio of 1.05 which is comfortable keeping in view of the continuous strong cash flows from our operations.

There has been substantial improvement in the current asset holding levels of the company. On an annualized sale basis the SKNL had current asset holdings of 9.9 months of sales that is 4 months of inventory and 5.9 months of debtors as on 31st March 2009 which is now reduced to 8.3 months of sales which is 3.7 months of inventory and 4.6 months of debtors as on 31st December 2009. This is a very significant improvement by 1.6 months in the current level holding of the company.

This brings me to the end of the financial discussion I would now like to handover the floor back to Mr. Anil Channa and Mr. Kasliwal for additional comments, thank you.

**Nitin S. Kasliwal:** Thank you Jagadeesh before we open the floor for an interactive question and answer session, I would like to add here that SKNL has consecutively delivered healthy performance in the several quarters that have passed and stood through growth in business earnings even in challenging environments. Given that consumer sentiment is improving our performance going forward looks encouraging on all fronts. SKNL is poised for growth on the back of strong brand presence across various socio economic categories in the domestic branded markets and the company's acquisitions in the overseas markets have provided us with a growing presence in profitable global markets. With a dominant position in the domestic presence in the textile industry, a strengthening position in the international geographies and an improving overall global market scenario we are confident that we will deliver improved and sustainable performances going forward. Thank you ladies and gentlemen we would now like to throw the floor open for questions and answers and one of us will try and answer all the questions that you may have, thank you.

**Moderator:** Thank you. Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touch-tone telephone. If you wish to remove yourself from the questioning queue you may press * and 2. Participants are requested to use handsets while asking a question. Anyone who has a question may press * and 1 at this time. The first question is from the line of Naga Deepika from Capital Markets. Please go ahead.

**Naga Deepika:** Hello sir, congratulations on a good set of numbers. My question is regarding industry perspective, we have seen last quarter that many of the garment players have been unable to pass on the increase in fabric or yarn prices so what is the sense post Christmas and how are you looking at, do the garment realizations whether in Reid & Taylor or Belmonte or Hartmarx and in the international thing like Hartmarx did they go up and how are the orders coming in can you please throw some light on this?

**Nitin S. Kasliwal:** Thank you for your interest in SKNL and thank you for your good words about our performance. Just to let you know as you aware SKNL as group we operate in the branded end of the market segments whether it is at the middle end, upper end or lower end of the markets, we are only in the branded business. And to that extent you know of course in early 2009 the market conditions were tough to that extent but as we go forward now we do not foresee any issue at all in increasing prices and in fact in this quarter itself we have increased the prices by 4% to 5% going forward. And prices increases whether they are fabric related or yarn related are being recovered from the consumer though at some points of time there occurs to be a slag of 2 to 3 months but generally we are able to recover prices as costs are going up.

**Moderator:** Thank you, the next question is from the line of Pawan Kumar Sachdeva from Sansar Capital. Please go ahead.

**Pawan Kumar Sachdeva:** The first question is that I mean like overseas operations which is basically now a 36% of revenues but you have done a commendable job, it is basically still just about breakeven, you have 4% EBITDA margins there I just wanted to know that what is the timeline when we get benefits of supply chain from India and some rationalization in the front end so that the margins move upwards.

**Nitin S. Kasliwal:** So to answer your first question Pawan, two things, as far as the overseas businesses are concerned, the HMX business which operates in the USA will from 2011 onwards become fully positive, this current year itself we expect sales about $370 million with an EBITDA of about $20 million and next year we expect much higher sales and EBITDA that is in 2011. Those guidance we will be putting out in the next 6 months we would not put those guidance out now. However the backend synergy from India the supply chain synergies from India have already began and we will see a full impact happening over the next 3 years. As far as HMX is concerned they were originally before we took them over they were operating at a cogs of 70% and as we are going forward this cogs is expected to come down to 55%. And that is primarily going to happen because of rationalizing supply chain systems buying from high quality low cost regimes like India and southeast Asia and even parts of the far east and to that extent this overall impact of synergy will come within a 3 year period, but every year we see an increasing impact.

**Pawan Kumar Sachdeva:** So when you will be able to quantify that impact in the next quarter or when will…?

**Nitin S. Kasliwal:** See as far as this year is concerned, this year means now let us talk of 2010 the full year, we are expecting sales of $370 million and an EBITDA in upwards of $20 million this itself is an improvement because earlier they were running at a breakeven EBITDA okay so this year itself we are looking at about a 7% EBITDA. And as we go forward next year we hope the EBITDA will be about 10% or 11% and then it will go up to about 15%.

**Pawan Kumar Sachdeva:** Wow. And the HVFC expansion is on track in March?

**Nitin S. Kasliwal:** That is right the HVFC expansion is on track we are, it is already commissioned and we expect part results to come in, in the next financial year that is April 2010 to March 2011 and the full benefit will come in April 2011 to March 2012 when we should have sales of about 280 Crores and EBITDA of about 100 Crores from there.

**Pawan Kumar Sachdeva:** So what is the capital work in progress if your finance team can answer that?

**Jagadeesh Shetty:** We have a CWIP of about Rs. 300 Crores.

**Pawan Kumar Sharma:** Okay. So that is with respect to HVFC only?

**Jagadeesh Shetty:** Yes it is partly HVFC and partly the other projects which are being implemented it is stitching house and process house and achieving expansion.

**Nitin S. Kasliwal:** In the consumer textile business as well yes.

**Jagadeesh Shetty:** That is right.

**Pawan Kumar Sachdeva:** Thank you Mr. Kasliwal, thank you Jagadeesh thanks so much.

**Nitin S. Kasliwal:** Thank you Pawan, thank you for your interest in the company.

**Pawan Kumar Sachdeva:** Thank you.