



SKNL's FY2010 Results Conference Call Investor/Analyst Conference Call Transcript June 4, 2010

Moderator: Ladies and gentlemen good afternoon and welcome to the SKNL Conference Call. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Salil Bawa - Senior Vice President Business Strategy and Investor Relations. Thank you and over to you sir.

Salil Bawa: Thank you Melissa. Good afternoon and welcome to SKNL's FY2010 Analyst and Investor Conference Call. Thank you very much for your interest and joining in. Today on this call we are joined by Mr. Anil Channa - CEO and Deputy Managing Director, Mr. Anees Fazalbhoy - Group Director, Mr. Dara Avari - Director Corporate Affairs and Mr. Jagadeesh Shetty Group CFO. Before we begin I would like to point out that certain statements made during this conference call maybe forward-looking and may involve certain risks and uncertainties. A disclaimer to this effect was included in the conference call invites, as well as the investor release sent out earlier. I would now like to request Mr. Channa to give us an insight on SKNL's performance for the year ended 31st March 2010. Over to you Mr. Channa.

Anil Channa: Thank you Salil. Good afternoon friends and welcome to SKNL's FY2010 results conference call. I will give you an overview on the business activity and operational performance during the year under review and then our CFO Mr. Jagadeesh Shetty will take you through the financial performance followed by the Q&A session.

The years gone by has delivered encouraging financial results with a consolidated net sales increasing by 70% at Rs. 38,609 million and net profit after minority interest has improved by 30% to Rs. 2,290 million. This performance has achieved in spite of the uncertainties in the global economic scenario, wherein the developing countries are showing faster signs of recovery as compared to the developed countries globally.

Branded apparel segment has taken huge steps towards the future of fashion. As you are all aware SKNL operates in five countries marketing products throughout the world. I would like to reiterate that SKNL is one of India's only multinational conglomerates and this was possible with the acquisition of HMX erstwhile Hartmarx Corporation and Leggiuno. Our Global acquisitions provide us with 45 brands which includes international names like Hart Schaffner Marx, Hickey Freeman, Exclusively mislook, Austin Reed, Bobby Jones and our latest addition DKNY to name a few.

Last month we announced our joint venture with Donna Karen International for DKNY men's wear, through the JV SKNL has been awarded a license to source, design, produce and distribute the full range of DKNY men's wear apparel. This agreement is for a term of five years with an option to extend the license for an additional seven years. The first assignment is the spring 2010 collection which carries the DKNY Black Label. This JV is expected to add to up power pack range of brands and will help us to strengthen our footprint on the global fashion theme.

Recently we also organized an SKNL global leadership meet and I hope that some of you had the opportunity to meet our global team. Our entire domestic management team including Mr. Ashesh Amin, Mr. Arvind Gupta who is the CEO of Luxury Textiles, Mr. Janak Dave the CEO of Reid & Taylor apparel. Mr. Pradeep Mukim of Belmonte ready to wear, Mr. Rajan Garg of Belmonte Fabric and Consumer Textiles, Mr. Dinesh Sharma of Home Textiles, Mr. Johnny John of World Player ready to wear and several others were joined by our international management team. Mr. Paolo Ingegnoli CEO of Leggiuno. Mr. Doug Williams CEO of HMX and Mr. Michael Morris President of SKNL UK and of course several others from the top management, making it truly a huge global event. We at SKNL have created a platform with our domestic and international visionaries to drive the business towards greater success.

As we get deeper insight into the financial performance you will learn that our domestic business has been a major contributor to the revenue and volumes with international businesses also delivering a healthy operational performance. We have maintained a balance sheet using an optimum mix of debt and equity. All financial ratios are at healthy levels and we are looking to grow above our benchmark levels. Further details in this regard will be shared with you by Mr. Jagadeesh Shetty.

SKNL has maintained a consistent growth rate during the year under review we are confident of a positive future going forward with a support of global market recovery. Currently our value creation chain covers the entire process from procurement of fiber to finishing and sale. By adding value at each stage of the profits, we are aiming at increasing shareholder value by adding bigger and better brands to our existing range and delivering better sustainable performances in the future.

Our international businesses, which are covered by HMX and Leggiuno, have delivered stable performance during the period under review. The organic and inorganic growth of the company has been remarkable during the period. The operations of HMX have been integrated well with our business functions, which will further strengthen our pace. We have firmed up our position on the global as well as PAN India scale serving all the socioeconomic branded market segments. During the year the consolidated revenues from Leggiuno, SKNL UK and HMX our overseas businesses and related operations were at Rs. 7,144 million.

Operations at a high value fine cotton facility that is Baruche Superfine cotton in Gujarat, which has a capacity of 12.75 million meters per annum has stabilized and a steady state of functioning has almost been achieved. As mentioned in the earlier quarter, we expect an improved performance as the co-product lines are synergized through backend and front-end integration. Out of our various SBUs in the Indian scenario the EBITDA growth in the total wardrobe solution which is our ready to wear has been unparalleled at 102%. Of course the other divisions have also contributed significantly which will be shared as we go along.

I would now like to handover the floor to Mr. Jagadeesh Shetty to take us through the company financials.

Jagadeesh Shetty: Thank you Mr. Channa. Good afternoon everyone. I am very pleased to inform you that SKNL has delivered a healthy performance in all the fronts. The sales revenues have grown by 70% to Rs. 38,609 million from Rs. 22,762 million in the previous year. This was as a result of steady volume enhancement across all businesses and also consolidation of financial of HMX which we acquired during the last year. SKNL's brands grew at 39% on year-on-year basis and half year brands grew at 49% year-on-year basis in terms of sales revenues. Please note that the financial result of HMX LLC, our subsidiary company overseas included in the above is only up to 31st December 2009 from the date of acquisition of the business that is on 7th August 2009. Since the audited results are adopted at the year end, the financials of HMX for its accounting year ended 31st December 2009 is consolidated as allowed under the accounting standard 21 on consolidation.

The financial results of HMX for the quarter ended 31st March 2010 is not included in any of the audited accounts. Once we take this into account our performance for the period is better than the guidance given earlier. EBITDA for the year under the review have increased to Rs. 7,734 million from Rs. 4,881 million marking a growth of 59%. The EBITDA margins worked out to 20% in the year FY10 as compared to 21% in the year FY09, now this is optical, the reduction in the EBITDA margin is optical. It is very important to note that the domestic margins have improved to 24% from 22% during the last year supported by an increase in the volumes and higher realizations across all SBUs.

Overseas' EBITDA margins currently are at 1.4% which is in line with the planned estimate in the initial period of the operations of the overseas business. The reduction in the EBITDA margin is optical and is on account of the consolidation of the overseas business with lower margins. It is very assuring however that SKNL's HMX business has become EBITDA positive in its five months of operations consolidated here.

The total expenditure during the year FY10 excluding interest and depreciation increased by 73% at Rs. 30,875 million as compared to Rs. 17,891 million during the last previous year. So, increase is correlated with the increase in the net sales and the margins. Depreciation for the year FY10 increased by 84% to Rs. 813 million from Rs. 442 million in FY09, this increase is due to the commissioning of our superfine cotton plant at Bharuch and also the inclusion of depreciation on account of Leggiuno and HMX. The interest cost increased during the year to Rs. 2,492 million from Rs. 1,388 million in the year '09. With the increase in interest cost is attributable to the amounts rate for funding the company's overseas acquisitions namely HMX and Leggiuno, interest on the debt on the TUF funds for expansion plans of the company and the market lead rate of interest on the debts of the company exit on account of exit of CDR.

The weighted average cost for borrowed capital is at 10%, debts in the overseas companies, cost is in the region of 5% to 6% and the TUF debts for expansion in the domestic businesses is about 7% to 8% per annum. Profit after Tax before minority interest stood at Rs. 2,773 million as compared to Rs. 1,951 millions during the last year, indicating a healthy earnings performance. Net profit after minority interest for the period under review stood at Rs. 2,290 million compare to Rs. 1,766 million. This translates into an EPS of Rs. 9.68 per share.

The overseas rentals especially HMX are the businesses with very strong brands and to that extent the company expect major benefits to be realized in the current year in which there will be full year working of HMX. Also once the integration efforts and the front-end backend synergies are complete the profitability is expected to improve further.

As on 31st March 2010 the net worth of SKNL was Rs. 24,484 million and the total consolidated debt including the working capital facilities and the independent debt on the subsidiary company were Rs. 28,352 million. This results in a total debt to net worth ratio of 1.16, but this is an ideal leverage level and compared to various favorably with the rest of the players in the industry.

The debtors at the inventory levels have substantially improved as on 31st March 2010 signifying a decrease of 1.4 months of debtors and 0.5 months of the inventory. The debtors as on 31st March 2010 is 4.5 months of sales worked out on annualized basis. The inventory as on 31st March 2010 is 3.5 months of sales worked out on the basis of an annualized sale with a total of debtors and inventory 8 months and as compared to 9.9 months as on 31st March 2009. So, this signifies in all a reduction of 1.9 months of sales. I think this is a very strong achievement in terms of working capital management, overall. As on the balance sheet debt, the company has a cash and bank balance of Rs. 1,321 billion for the day-to-day operations at various business divisions. This is all from the finance side. Now, maybe we move in to question and answer session.

Moderator: Thank you sir. The first question is from the line of Nirav Shah from Antique Stock Broking, please go ahead.

Nirav Shah: In terms of CAPEX, how much processing capacity at Gujarat for our HVFC has been commissioned and when will we be at the second end commissioning?

Anil Channa: As of now the total capacity is 80,000 meters a day.

Nirav Shah: Okay and is there any second phase which we are planning to come up with because we will require a second phase right?

Anil Channa: No, see second phase I mean this project has originally envisaged was up to this level. Now, looking at the very healthy booking which we are getting, possibly we could look at little bit of expansion but then the finishing capacity will not have to be added for that. So, right now the weaving capacity, the cloth

manufacturing capacity there is as I said 12.75 meters which is to about 35,000 meters a day, the finishing capacity is already there for that, even if we put up some additional weaving capacity because the infrastructure has been created and looking at the sales booking which we are getting is very healthy trend, we are getting so may be we could even do that and that would help us in moving the margins even better.

Nirav Shah: And in terms of exports. Now, the euro is at around 55 or 56 level, will we be able to pass that on to say Leggiuno as of now, because that will be the primary customer initially?

Anil Channa: No it is not that Leggiuno is our prime customer. Leggiuno would definitely be buying some part of it but then end of the day see if I look at the European operations also there, the prices would have to go up because the dollar to euro parity is also taking their input costs little higher, so therefore the pricing in the euro term will actually be moving up but then since USA has revived in a very big way, so HVFC is targeting more on US sales right now apart from the domestic businesses, domestic RMG sector as well as the over-the-counter sales, which would constitute the bulk of the sales and that Europe is not contemplated to be the bulk of the sales.

Nirav Shah: And in terms of pending CAPEX, what is the target schedule for home textiles facility at Gujarat, the suits manufacturing and for Reid and Taylor expansion what is the target date for commissioning these?

Anil Channa: Actually all of them are under commissioning or implementation as we speak, so I would expect that within this year all these three facilities which you have said they would all get commissioned for next six months or so.

Nirav Shah: Okay so we can safely say that by March everything will be up and running?

Anil Channa: Yes by March all these three definitely will be commissioned for sure.

Nirav Shah: And in terms of our overseas revenues, can you just provide a breakup, definitely the Hartmarx will be as of December only but for DKNY and for Leggiuno of the total Rs. 700 odd crore of revenues from overseas business, can you just provide a break up for that bid also?

Anil Channa: Yes the Leggiuno sale during this year was Rs. 155 crore, and HMX was Rs. 525 crore and DKNY as we just started in the last couple of months it was Rs. 34 crore but naturally for HMX also as Jagadeesh said that this is only a five month performance from August to December, otherwise if we had gone for a full consolidation probably another Rs. 300 plus crore would have got added up.

Nirav Shah: So, you are trying to say that for this quarter the likely revenue stand would be in the region of Rs. 300 crore for HMX?

Anil Channa: Yes for January- March which we have not consolidated.

Nirav Shah: Okay what are the likely numbers in terms of operating profit for the year for these three?

Jagadeesh Shetty: Yes, Rs. 11 crore minus Leggiuno for the last year and HMX on a sale of Rs. 525 crore we have done an EBITDA of Rs. 38 crore and SKNL UK on a sale of Rs. 34 crore and after writing all the licensing and we write off totally all the expenditure incur for establishment of the business the EBITDA is minus Rs. 18 crore, so in all put together you have a sale of Rs. 714 crore and EBITDA of Rs. 10 crore plus.

Nirav Shah: Okay so on HMX front, is it safe to assume that as of now the current state of business that we are doing a run rate of say Rs. 100 odd crore per month or may be it may have increased post March?

Anil Channa: Yes, definitely at a run rate of Rs. 100 crore in terms of that.

Nirav Shah: And on the working capital you have given the break up and the way it has decreased. Can you provide a break up between the working capital days for our India operation and for HMX and Leggiuno, because there the working capital requirement will be much lower than what it is in India that is what I believe?

Jagadeesh Shetty: Yes I understand, I have consolidated numbers which we read out for you. Naturally the working capital levels in the domestic business will be much more than as the international level, the individual SPV wise carrying base we will have it mailed to you.

Nirav Shah: Okay but any broad range because you have given that the working capital for India, Whatever it is, by how many days will it be lower?

Jagadeesh Shetty: The Indian debtors will be from 4.5 months which is added to the consolidated level and debtors will be at least 1 to 1.5 months higher than the consolidated numbers.

Nirav Shah: Okay, so 40-45 days is the difference between the cycles?

Jagadeesh Shetty: That is right.

Nirav Shah: Okay and by when are we likely to declare the HMX numbers for the quarter?

Jagadeesh Shetty: This is a situation which is allowed under the accounting standard, now we have adopted the audited results, the accounting year of HMX is on up to December, so what we will do that as allowed under the accounting standards for now onwards, so when we in SKNL adopt the results for say June first quarter, June 2010, so we would have the results of HMX coming in for the period of January, February, March.

Nirav Shah: So, that will be one quarter lagging with the other numbers?

Jagadeesh Shetty: At the end of the year when I finally audit the balance sheet there is not lag to be explained between the unaudited numbers and the audited numbers at the end of the year.

Nirav Shah: And when we declare or when we come out with the annual report that will also contain HMX numbers till December?

Jagadeesh Shetty: The accounting year is from 1st January to 31st December so the consolidation is for the full year that is the correct thing and it is followed by many companies and it is also supported by the accounting standards.

Nirav Shah: What is the pending CAPEX for FY11 and FY12 including India and the overseas operations, if you are doing anything over there, how much are you going to spend in these two years?

Jagadeesh Shetty: In the Indian operations we will have a CAPEX of about Rs. 500 crore during this year. International business I think Mr. Channa would you like to add

Anil Channa: No, there are no major plans on the CAPEX for the international businesses.

Nirav Shah: That is insignificant and for FY12?

Jagadeesh Shetty: FY12 I think the Indian operations would only have the normal CAPEX which is about say Rs. 50-60 crore in all the plants put together, at the moment we have no further plans.

Anil Channa: Yes in fact consciously, we have decided that we are on a consolidation mode right now and that is why whatever is in hand is what we are getting, we are implementing over the next couple of months and therefore going forward, we have actually not envisaged any CAPEX right now, we evolved our plans.

Nirav Shah: Sir actual debt repayment will start from FY12 onwards, where after this whatever CAPEX we have missed and we are not doing anything, so actual debt repayment will be happening from FY12 onwards.

Jagadeesh Shetty: That is right, there we have project are commissioned so there is no.

Anil Channa: But then just to clarify this point, I think bulk of our loans are actually working capital loans both the Indian operation as well as the overseas operation, the term loan or the TUF loan is relatively about Rs. 700 crore.

Jagadeesh Shetty: That is only where all these projects go on sales.

Anil Channa: That is right, so therefore the repayment liabilities very minuscule in overall contact.

Nirav Shah: And how much did you mention the TUF balance Rs. 700 crore was as of March?

Jagadeesh Shetty: No, no this is not as of March. As of March we have Rs. 320 crore when all the projects get implemented at the end of the year it could be.

Nirav Shah: Around Rs. 300 odd crore?

Jagadeesh Shetty: Little less than that, close to may be.

Nirav Shah: Okay thank you.

Moderator: Thank you. The next question is from the line of Arun Malhotra from Smith Management, please go ahead.

Arun Malhotra: There is a huge increase in the staff costs from Rs. 73 crore to Rs. 313 crore, is there a scope to reduce that and if yes, by how much?

Jagadeesh Shetty: This is mainly on account of the consolidation of HMX result, the staff costs that US is not comparable to Indian levels. So, that is how you will find a huge increase on year-on-year basis but in the domestic business they are comparable, the cost have gone up by about 20% and that is mainly on account of the various expansions and also year to year cost increase.

Arun Malhotra: Is there a scope to reduce this component?

Anil Channa: Yes, I think we are honestly seeing much rationalized units and if there was a potential, believe me we would have implemented it. It is a very lean organization everywhere, in fact even the overseas companies when we took over particularly HMX which was operating either SG&A run rate was 150 million but when we took over the company we actually brought it down to about 100 million, so we have already rationalized it significantly.

Arun Malhotra: The overseas business is through an EBITDA 1.4%. Where do you think we can take this to in the next two years?

Anil Channa: See, actually as Jagadeesh said that overseas business is particularly HMX is only a five month performance and DKNY is even less than that period 3 to 4 months performance and therefore it has been weak, it looks as if it is a very suboptimal performance but based on the business plan, we have not place and based on the commitments made by the management teams, I think it is safe to say I do not know whether I can say it but it should be in the region of 15% overall, or company by company it would be different but overall the three companies combined would be in the region of 15% in terms of a potential, how much of that potential we will be able to achieve right now the business deals are very, gung ho about it but going forward we have to get this done.

Arun Malhotra: On the CDR is there a payback clause; if we start doing well which we have is there any payment made to the institutions who had taken a haircut?

Jagadeesh Shetty: We have already paid them the recompensed amount as per the discussions with our lenders, so there is no hanging liability on us, there is no future liability, we have settled the recompensed amount as collectively asked for by the lenders has been settled, so there is no liability on that.

Anil Channa: Okay, well just to add to that point, we have not actually given any haircut to any of the lenders. Jagadeesh please correct me if I am wrong.

Jagadeesh Shetty: Absolutely, we have paid all the lenders we used, there have been no haircuts at all, the recompenser has been paid for interest, concessions given but there is nothing on the principal, we paid everybody full principal amount.

Arun Malhotra: The debt is close to Rs. 2,800 crore. How much is long term debt and how much of it is working capital?

Jagadeesh Shetty: The broad break up we have working capital facility in the domestic companies, Rs. 1,193 crore there is a TUF of loan of Rs. 320 crore and the overseas companies independently in their own standalone balances have Rs. 443 crore without any recourse to India and the balance of other debts is Rs. 879 crore that is the break up of 2,835 crore.

Arun Malhotra: On Reid & Taylor is it fair to assume looking at the difference between the net profits you showed, and minority interest, the net profit is close to Rs. 200 crore?

Jagadeesh Shetty: Yes.

Arun Malhotra: Okay and where are we in the process of filing for DRHP I think there was a news article on CNBC that we have already filed, so we would just like an update on the status.

Jagadeesh Shetty: We know the matter is discussed internally, so we have not filed any prospectus as of now, but we are considering if that actively this process of monetization of hand raising funds at Reid & Taylor. But publicly informed that decisions needs to be taken.

Moderator: Thank you. The next question is from the line of Angad Sawhney from Millgate Capital, please go ahead.

Angad Sawhney: I am little bit confused in the Q3 2010 numbers, your overseas EBITDA margin you said was about 3.9% and now you are saying it is about 1.4%, can you just clarify what the discrepancy is?

Jagadeesh Shetty: Two things have happened, the DKNY business is a freshly started business and as on accounting policy we do not try to capitalize the initial launch expense of the business that has been expenses incurred in connection with the establishment of the license, establishment of the offices, so everything has been totally written-off in my accounts up to March 2010, that is how you will find a dip in the margins between December and March.

Angad Sawhney: Okay what is HMX business evaluating at?

Jagadeesh Shetty: The HMX business as I said the sale was Rs. 525 crore and we have EBITDA of Rs. 38 crore for the first five months of operations. That effectively led 7.3% EBITDA.

Angad Sawhney: And we will get the numbers for the first quarter of HMX when you publish your first quarter results, from January to March quarter?

Jagadeesh Shetty: Yes, the first quarter we would add January to March.

Angad Sawhney: And of the working capital reduction which is very impressive indeed. I just wanted to know how much of that was optical because of the acquisition of the overseas business and how much of it was actually reducing inventory at the domestic business level?

Jagadeesh Shetty: The domestic businesses through that have been a reduction in both debtors and inventory, you know and of course part of this because of the levels overseas are lower, I would see at least the domestic business have gone down by at least a month as compared to the previous year.

Angad Sawhney: And this is a month in total, AR plus inventory.

Jagadeesh Shetty: Debtors and inventory put together.

Angad Sawhney: And what are your goals for working capital going forward to maintain it at this level to reduce it further?

Jagadeesh Shetty: Of course we are definitely tightening our belt in our terms of utilization at all level but more importantly we are focusing more on ready-to-wear garments business, you know even during the last year we have grown substantially ready-to-wear garments business and we wish to continue to focus on the growth in the ready-to-wear garments which is leaner on working capital and hence we expect a further reduction as well.

Angad Sawhney: Fantastic. Thank you.

Moderator: Thank you. The next question is from the line of Atul Gandhi from Span Capital, please go ahead.

K. C. Suri: If I have understood correctly the fourth quarter numbers for the overseas business now only include those related to DKNY, right.

Jagadeesh Shetty: Yes.

K. C. Suri: So you mentioned that DKNY did a business of Rs. 34 crore minus 18, if we do a math vis-à-vis your third quarter release, it comes to revenue of something like Rs. 59 crore and a Rs. 13 crore EBITDA loss. Where is my disconnect here? Could you help me on that?

Jagadeesh Shetty: There are two things, one is that Leggiuno for the accounting here is for December 2009 and we have consolidated accounts for March 2010. From 1st January, 2009, to 31st December, 2009, the full year's results have been consolidated. Now once we have this going forward we have period to period consolidation when we declare the results for the next quarter and the HMX will find a lag of one quarter when I consolidated June 2010 we will have March quarter of Leggiuno and March quarter of HMX consolidated so that at the end of the year between the unaudited numbers and the audited numbers you would see no difference. You know they are totally aligned.

K. C. Suri: Okay, and with regards to the HMX business you have been able to turn it EBITDA positive in five months that is really commendable, what exactly has brought about this turnaround?

Anil Channa: See when we were going through the process of diligence, there were several things which were not being done correctly in our context, because it was being run more as a manufacturing firm and not as a brand firm. So what we did is that we firstly got in CEO, Doug Williams, who is worthy no. 3 man in Polo Ralph Lauren to be heading the business and then he has actually changed management teams that is on the structure part but on the operational part the company was having something like 6 manufacturing facilities, they were having 6 distribution centers so what we took over was only 3 manufacturing facilities which is what we thought going forward we would like to maintain because there a Made in America or a Made in Canada label is important for those particular brands like Hickey Freeman which retails at \$1500 to \$2000 and Hotshots in the market retails at \$700-\$800 and Copley which retails at about \$900 to \$1000. Barring these three brands we decided that all other brands we need to go on an outsource model either

from China, India or Far East. So therefore that has been instrumental in cutting down the cost, the cogs and as a result in improvement in the gross margin. So the gross margin last year was in the vicinity of just about 29% which we have actually targeted it to grow it to at least 40% in this year and maybe even higher because the potential according to us can be almost gross margin of going up to 45%. And similarly on the SG&A cost as I mentioned earlier the whole company was at a run-rate of \$150 million. When we took over we retrenched more than 45-50% of the workforce that is partly because of the rationalization of the distribution centers as well as the manufacturing facility plus we have effected a lot of other cost saving. And so we brought the SG&A run-rate down to about \$100 million. So these are the three focus areas, which helped us in turning it around very quickly.

K. C. Suri: Could you share some details about the DKNY deal and the contours of the deal? How does it work for you and what are your strategies going forward when it comes to this business?

Anil Channa: See DKNY I think as I said it is been licensed to us for a total period of 12 years, so essentially we have the global rights to do the complete designing, merchandizing, and wholesaling in all parts of the world except for Japan. We also have the right to get into retailing operation in more than 80 to 90 countries where they do not have a presence right now and that is crux of the arrangement with the DKNY menswear.

K. C. Suri: How much do you pay DKNY for this?

Anil Channa: Towards the license we did not pay anything that has actually covered as a royalty which is linked to the top-line depending on the sales the royalty payments are in the region of around 7% to 8% it is a scaled up format. And apart from that there are some payments to be shared in terms of cooperative advertising and PR activity which Dona Karen International would be doing. But that would be netted out of the sale.

K. C. Suri: Okay, and how much would you be putting into the business over the next year or two?

Anil Channa: See essentially it is just a working capital so that now of course, I do not know whether I can make a forward statement like this because we see a potential of that business to go up to even 200 million over the next two years, so to that extent the working capital would be required, that is about all we need to put in.

K. C. Suri: Okay, thank you.

Moderator: Thank you. The next question is from the line of Nalin Ladiwala from Shanti Asset Management, please go ahead.

Nalin Ladiwala: I just had questions regarding our working capital management. Our EBITDA for the year increased to Rs. 82 crore while our debtors increased to Rs. 512 crore. Do you think it would make sense to sacrifice margins and consider factoring? Is that option available to us given the credit worthiness of our distributors?

Anil Channa: As a matter of policy we have not been doing any kind of a factoring because we feel that that has a negative impact on the brand because typically if we go for a factoring of let us say 45 days or 60 days and then on the due date on the redemption date the wholesaler needs to repay the money to the bank based on the factoring and if the retailer has not paid him in turn you know then he would be tempted to discount the goods, and once you start discounting the goods you know it has a chain reaction in the other territories, not only his territory that could actually upset the whole applecart. We have consciously said that for a branded, because we are not like other commodity players where we can keep on rotating our bill 30 days or 45 days. We have taken conscious decision on this that we do not wish to get into a factoring mode. It is detrimental to the long term interest of the brand.

Nalin Ladiwala: Okay, it does make sense. Just one clarification, you had said that your capacity for the HVFC plant is 80,000 meters, is that the finishing capacity?

Anil Channa: Yes, it is the finishing capacity. The weaving capacity is 35,000 meters a day which translates to about 12.75 million meters per annum.

Nalin Ladiwala: Okay, this is what 100 working days?

Anil Channa: 358 working days. So all the units actually in India work on that basis that barring 9 public holidays which is statutory as per the government that is all we give, otherwise the plants are all 7 days 24 hours working. That is the normal operating.

Nalin Ladiwala: And the other question was Leggiuno by itself has not quite worked for us, would you think it has disappointed us on the turnaround.

Anil Channa: Yeah, so therefore it looks a little again optical you know because Leggiuno is a company which is absolutely in the luxury segment of this shirting business where it is a company which is probably one of the top three companies in the world. Now as we all know I think luxury sector has taken a massive hit in the last one year, so rather than trying to bring it down and trying to maintain sales of say of about 32 million which they did last year. We decided that it is not worth doing it just for a short time because once you bring it down to unit values and those who are different types of customers just to get your original 32 million back, then it has a disastrous effect going forward. So we decided it is better to take a sacrifice in one year and right now. I am very happy to say again that already our booking this year are almost 40% higher and going forward I think we will be able to achieve the numbers very easily.

Nalin Ladiwala: Okay. What would be the geographical spread of the sale at Leggiuno?

Anil Channa: See they operate almost around 60-65% within Europe.

Nalin Ladiwala: Within Europe if you could help us?

Anil Channa: They are into Italy, UK, Germany, Spain and virtually into most of the Western Europe countries. So, therefore since they are operating on a Euro basis so therefore even this so called Euro-Dollar parity getting disturbed that does not really affect them.

Nalin Ladiwala: Thank you.

Moderator: The next question is from the line of Pen Yang from Capital Investments, please go ahead.

Pen Yang: We all would like to know do you have any other opportunity to find it is clothing licensed like DKNY with LVMH Group and how about the DKNY male costume pricing strategy in the future.

Anees Fazalbhoj: Well the DKNY license of course is with the LVMH Group and we hope that we should shift with the LVMH Group, will give us access to more brands but right now our license is limited to DKNY Menswear. We are sure that going forward with a large portfolio of brands within the LVMH group and with our performance in DKNY we are sure that we will expand that relationship that is why we have a joint venture with them. SKNL UK is owned 20% by DKNY International which is company of LVMH and 80% by SKNL. So, we are sure going forward the relationship will grow more.

Pen Yang: Thank you.

Moderator: Thank you. The next question is from the line of Upendra Kochar an individual investor, please go ahead.

Upendra Kochar: First of all I want to ask a question which other participants have also asked about sundry debtors, inventory, and loan and advances, I think it is too much, so what steps are you taking to reduce it in future and by what time do you think it will get reduce? (50:56) – Question was asked in Hindi

Anil Channa: See it is like that we are in a branded segment; we are not in commodity segment. Typically what happens in branded segment whatever buying and selling happens it happens twice a year only. Like buying and selling in spring and summer and similarly there is buying in winter so for that we get the booking for the limited period but manufacturing for us goes on for the whole year because of that our inventory level always will be between three to four months. As far as our debtor is concern as I have told earlier we do not do factoring so our normal market trend is such wholesaler takes material from us at the credit of 90 days and going ahead he gives it to retailer so he should be giving the payment by 90-120 if he delays the payment then we charge 18% interest. But it is the trend of the market but till the time retailer pays him and as far as the guarantee of our of our payment is concern there is an agent in between who brings the wholesaler to us so there is a guarantee of the agent that he will bring full payment to us so because of that our bad debt if you see for the last 9-10 years it is less than 1 crore bad debt is there in this large operation so the money is very secure but yes the cycle of that bad debt is very long. If we are operating in brand then naturally in the brand we have to keep a different cycle for that as compared to commodity business.

Upendra Kochar: So you mean to say it will not go lower than 90 days whenever it will be it will be about 90 days.

Anil Channa: It will not go lower than 90. In retail business it does not happen. And as far as foreign business is concerned foreign business today HMX because most of the business of it is with major retailers of the USA like Normstrom, Effex and all their payment term is about 60-90 days so because of that overall coming down than 90 days it seems impossible seeing today's trend.

Upendra Kochar: See if you keep it 90 days then according to shelf it should be 750, 800 or maximum 900 total but actual is almost double.

Anil Channa: Yes I am telling that only 90 days is just for sake of saying but then if someone delays a little bit then there is a lot of strategies are there because what happens many a times in market in Indian operation the business depends on mainly festivities and marriages so suppose if any dull period comes in between like now there was a good period from May onwards lots of marriages were there for full 1 year so at this time if retail sales is good then rotation also becomes good but it does not go on for full years. In the whole year only two to four months are such where there are no festivities and marriages are also not there. At that time there is some dullness at the retail level so because of that the cycle becomes a little long because we never had any problem of bad debt so for that we control a bit but that does not mean that we will pay all our attention on that.

Upendra Kochar: No you are right but on a quarterly basis if you do in balance sheet then analysis will be easy like how you did this.

Anil Channa: I think every quarter we are reporting the quarterly result that is there.

Upendra Kochar: I am talking about the balance sheet.

Jagadeesh Shetty: So according to the new regulation of SEBI in that you have to publish half yearly balance sheet at that time we will give you the balance sheet and we would be very happy to give you.

Upendra Kochar: That is right according to SEBI if you give me quarterly that will be much better for us.

Jagadeesh Shetty: We can give you quarterly as well. With investor release we will definitely give you quarterly information.

Upendra Kochar: My second question is your share holding in that FII has a big stake but in wholesale fund is very less so for that are you doing anything any conference or to increase their confidence or something?

Salil Bawa: Upendra we are starting this process and we have started meetings. Initially our focus was on acquisition so that is why we were not able to meet many people in between. Now we have started the process again in that we have started meeting people and I think in few months or in few quarters may be you will see some change.

Upendra Kochar: And third question is related to dividend, just now you informed that your CAPEX in coming years it is going to be significantly less so according to that by when you will start giving dividend?

Anil Channa: This matter will be decided at the board level. I do not think that we can do anything on that.

Upendra Kochar: But there has to be some company policy.

Jagadeesh Shetty: See last year whatever overseas businesses we have acquired they had taken some years to stabilize. Our performance is good. This year board of director they should take a positive thought.

Upendra Kochar: Okay thank you very much.

Moderator: Thank you. The next question is from the line of Abhishek Ranganathan from MF Global, please go ahead.

Abhishek Ranganathan: Basically just looking to understand the strategy of the company going forward. I would have missed a good amount of the call in the beginning, looking at the way we are growing on the especially Reid & Taylor front it is a phenomenal growth which we are witnessing. From a strategic perspective what is it that we are doing or what we would be looking to do to sustain this growth and secondly that vis-à-vis our competitors or nearest competitor how do we differ in strategy?

Anil Channa: See strategically I think we are essentially as we said earlier on we are essentially a branded company and therefore we are making sure that our brand go from strength to strength. Already, all our Indian operation brands particularly Reid & Taylor, Belmonte has been at a very high note, Carmichael is also there and similarly overseas brands are also very-very strong with very high visibility and recall with the consumer. So that actually is helping us in improving our market share and that is resulting into this higher growth, of course there has been several strategies going behind it, so basically there is a lot of product innovation which is happening with the expansion of that distribution network and then also we have been pursuing the opening of the exclusive brand outlets also in India. So there have been various strategies which are in place it is helping us in sustaining high growth.

Abhishek Ranganathan: So just to touch upon the distribution network how much have we grown in terms of distribution, in terms of how better are we going to penetrate and what would be the actual reason why we are able to penetrate so well and I understand that obviously the product offering is also quite strong which basically makes the consumer, but are we look like seeing, we are basically able to bring in consumers new people to come and buy the product or are we seeing a shift from product x to product z..

Anil Channa: See it is both ways. See firstly, we are exploring definitely newer territories in the Indian operation, I mean we are getting into newer towns, we are getting into new set of customers especially since the consumer income levels are going up very rapidly in India, so that is providing us a great opportunity to be able to capitalize upon that and capture that new customers which are coming in. Secondly, because of our product innovation and our brand visibility I think we have also been cannibalizing into some market shares of other competitors that has been helping us definitely.

Abhishek Ranganathan: So when we are essentially speaking of newer towns, is there any particular strategy we look at in terms of which kind of Tier-1, Tier-2 cities?

Anil Channa: Yeah, we have done a complete PAN India mapping, based on that you know today across all brands we would be presenting something like 700, I mean more than about 30,000 retailers across all our brands, so that is what we keep on doing. So there is a marketing team which is absolutely focusing on increasing the distribution network apart from servicing the existing clients.

Abhishek Ranganathan: And across how many cities would this be?

Anil Channa: It should be in excess of around 500 odd cities in terms of, in terms of towns and all it could be even 700.

Abhishek Ranganathan: No, basically I am just looking at; it's a quite impressive number.

Anil Channa: Yeah it is, that is the way to, because today even Tier-2 cities particularly we are noticing that they have got a lot of buying power there. So a lot of them are actually getting into a branded play and therefore that is what we are capitalizing upon.

Abhishek Ranganathan: And what is your view on Tier-3 and Tier-4 cities?

Anil Channa: There essentially we have to get into rural marketing which has I think been a challenge for not only our kind of company but I think across all consumer companies whether FMCG or it is always been a challenge. So that I think is the ultimate that if we can reach all of them I think probably it will be phenomenal.

Abhishek Ranganathan: I guess you will have to offer a product which would actually make it?

Anil Channa: No, we have product, you see we have a basket of products but right now apart from Reid & Taylor, Belmonte we are also doing on the ready-to-wear we have just started in the economy segment a brand called World Player, very soon I think you will hear more about it in the newspapers because we have started a test marketing already in three southern states. So that will also be going PAN India within the next couple of months. And that is intended basically to be able to reach the lower segments of the society you know. So therefore we have got brand positioned against each of the socioeconomic segments and that is what is helping us.

Abhishek Ranganathan: Thank you very much.

Moderator: Thank you. The next question is from the line of Ashwin Shetty from Execution Noble, please go ahead.

Ashwin Shetty: Just want you to confirm, whether you will be able to in a position to give the unaudited numbers for Hartmax for the period 1st January to 31st March.

Jagadeesh Shetty: When we declared the results for the June quarter, the first quarter of SKNL consolidated naturally we would add these two quarters' performance in this.

Ashwin Shetty: Basically you will be giving it in the June quarter, right?

Jagadeesh Shetty: Yes.

Ashwin Shetty: And it will be followed with one-month lag.

Anil Channa: One quarter lag.

Ashwin Shetty: Okay. And the second question is I missed on the EBITDA number for Leggiuno, I heard the sales is 155 crore but what is the EBITDA number.

Jagadeesh Shetty: The EBITDA number of Leggiuno for the full year was (-11) crore.

Anil Channa: And that is as I said earlier on because we consciously decided that since the luxury segment is not doing too well rather than downscaling the unit to a different product category and a different

clientele, it is better to take loss in one year and this year already we are getting 40% higher bookings. And that is a very conscious decision.

Ashwin Shetty: In the investor analyst meet on 4th May you had given the CAPEX plan for FY10 at Rs. 670 crore, I just want to know how much has been capitalized and how much is lying in the capital work in progress?

Jagadeesh Shetty: You are referring to the year which is over?

Ashwin Shetty: FY10 basically.

Jagadeesh Shetty: We have a consolidated Rs. 700-odd crore of capital work in progress.

Ashwin Shetty: Okay. Thanks a lot.

Moderator: Thank you. As we have no further questions, I would like to hand the floor back to Mr. Anil Channa for closing comments. Please go ahead sir.

Anil Channa: Thank you friends on just coming up for this call. I would like to say that SKNL has consecutively delivered healthy performance at all times and has stood through growth in business earnings even in the challenging environment. Given that consumer sentiment is improving, our performance going forward looks encouraging. SKNL is well-poised for growth on the back of strong brand presence across various socioeconomic categories in the domestic branded, textile, and garment industry. The company's acquisitions in the overseas markets have provided us with a growing presence in global regions with a dominant position in the domestic branded garment and textile industry, a strengthening position in the international geographies and an improving global market we are confident that we will deliver improved and sustainable performances going forward. If you have any queries and questions feel free to mail to Salil and we will be most happy to answer it. Thank you very much for sparing your time and joining us on this investor call.

Salil Bawa: Thank you all. Thank you very much.