



## **S Kumars Nationwide Ltd.**

### **FY2011 Results Conference Call Transcript**

### **June 02, 2011**

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**Moderator** Ladies and gentlemen good afternoon and welcome to SKNL FY2011 results conference call. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call you may signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. 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 Farah. Good afternoon and welcome to all of you to SKNL's FY2011 analyst and investor conference call. Today on this call we are joined by Mr. Nitin Kasliwal – our Managing Director, Mr. Anil Channa – Deputy Managing Director and CEO, Mr. Dara Avari – Director, Corporate Affairs, Mr. Jagadeesh Shetty – our Group CFO, Manish Mallick – Head of PR and Jai Shah my colleague here.

Before we begin I would like to point out that certain statements made during this conference call maybe forward looking and a disclaimer to this effect has been included in the conference call invite as well as the investor release sent out earlier. I would now like to invite Mr. Nitin Kasliwal to give us all an insight on SKNL's performance for the year ended 31<sup>st</sup> March 2011. Over to you Mr. Kasliwal.

**Nitin Kasliwal** Thank you Salil. Good afternoon friends and welcome once again to the SKNL's 2011 results conference call. I will begin this call by sharing my views on some of the business developments and operational performance during the year under review. After this, I will hand over to our CEO and Deputy Managing Director Mr. Anil Channa and then to Mr. Jagadeesh Shetty our Group CFO who will then run you through the details of the financial performance.

I am delighted to share that this has been a very strong year for SKNL with domestic as well our international businesses reporting substantial improvement in overall performance both top-line and bottom-line. Total income for the year improved by over 35% to approximately Rs. 5,200 crore and our EBITDA increased by 37% to about Rs. 1,056 crore, this is driven by strong volumes and higher pricing realizations across all our businesses. A customer led design-centric and distinct approach for

each of our businesses combined with streamlined and vertically integrated operations has enabled our company to register a robust growth. A comprehensive and well diversified product portfolio and brand portfolio catering to all price segments and price categories from the mass i.e. the economy segment to the luxury segment has de-risked our business and has yielded substantially superior returns.

I would also like to add here that all our brands enjoy a very strong pricing power because of a very high brand recall and brand-connect with the consumer. And therefore in spite of raw material price increases, which went very high in the last year we were able to register a 12 to 13% price increase in the last year thereby resulting in our margins being maintained. Another good news is that raw material prices have started coming down now and because we are in the branded end of the business we don't need to reduce our prices and to that extent we are hopefully likely to see margin increase and margin growth over the next couple of years as we go forward.

We are also very pleased with the progress of our international subsidiaries post their acquisitions. International revenues have grown remarkably by 87% to Rs. 13,334 million which is Rs. 1,330 crore in FY2011. EBITDA was about Rs. 47 crore as compared to Rs. 9 crore for FY2010 EBITDA margins have gone up by 221 bps to 3.6%. I am very happy to inform you that the turnaround of our two acquisitions has been absolutely complete and they are both EBITDA positive now and going forward we are looking at substantial growth in both top-line and bottom-line.

During the year, we have revamped HMX's business model by streamlining operations, following a brand oriented approach rather than a manufacturing play and initiated synergies with domestic businesses. HMX boasts of an impressive line of brands like Hart Schaffner Marx which is incidentally President Obama's preferred brand, Hickey Freeman, Exclusively Misook, Austin Reed, Jag Jeans, Bobby Jones, and many more brands which provide tremendous growth potential in the US market. You will also be happy to know that our brands are today present at all top US retail networks such as Barneys, Saks Fifth Avenue, Neiman Marcus, Bergdorf Goodman, Bloomingdales, Dillard's, and Nordstrom. So these are absolutely the top-line US retailers and for an Indian corporation operating in these retail networks with international brands is a matter of pride for all of us.

Our Italian subsidiary Leggiuno has also benefited from the implementation of our backend-frontend synergy with the high value cotton fabric business which operates out of India. The joint venture with DKNY which operates out of London for its global menswear license has unfolded a tremendous opportunity and is expected to drive growth through geographic expansion. The DKNY business is growing substantially and it's a global license as you are all aware. Top-line and bottom-line both will grow substantially over the next two three years. The product has been accepted extremely well by the market, by all markets in the world, and we are looking forward to a very substantial business from the DKNY license.

Another very happy position is that the US markets themselves have started looking upward, retail is getting stronger in the US and we are looking at signs where we feel that the business will grow substantially in these markets. The overseas businesses will register improved volumes and profitability over the years to come and thereby adding substantially to our top-line as well as bottom-line and very favorably adding up to our return on capital employment and return on equity.

I will now hand over to Mr. Anil Channa who will take you through the details of the entire business. Especially, more details about the domestic businesses as well as give you an idea of how we are looking at going forward.

Thank you very much friends for your continuous support and involvement in SKNL. We look forward to this involvement, support and guidance in the coming years. Over to you Anil, thank you.

**Anil Channa**

Thank you Nitin. Good afternoon friends. So I will run you through our domestic businesses. First, coming to the Consumer Textiles division, FY2011 revenues stood at Rs. 19,424 million up by 22.6% from the previous year. This segment has reported consistent growth over a period of time mainly attributable to Belmonte which has increased its market penetration. EBITDA stood at Rs. 4,361 million as compared to Rs. 3,295 million for FY2010, a growth of 32.4%.

In FY2011, Luxury Textiles delivered a growth of 21.5% on y-o-y basis with revenues of Rs. 9,289 million. EBITDA grew by 26.3% to Rs. 3,548 million and EBITDA margin improved by 147 basis points to 38.2%, on account of high realizations from both polyester-wool worsted and polyester-viscose fabric which are currently marketed under this brand name. During the year this company has expanded weaving capacity which helped improve overall operations and profitability. The increased capacity also enabled us to capture the strong demand witnessed in this segment.

For the period under review, Ready-to-wear division across all the brands has witnessed a remarkable growth of 53.7% with revenues of Rs. 6,103 million. This segment as you are aware comprises apparel and garments under the brand names of Reid & Taylor, Belmonte, Stephens Brothers and World Player. Ready-to-wear is the fastest growing segment across our businesses and has reported volume expansion in all product categories. EBITDA grew 54.5% to Rs. 1,294 million as compared to Rs. 837 million for FY 2010. Our economy brand 'World Player' launched during the year has been well received. We foresee excellent prospects for this brand and are optimistic it will deliver healthy volumes as we expand its market reach and penetration in FY2012. We have always looked to extend our presence across demographic segments and expect to launch a new brand in the casual premium segment in Q2 of the coming financial year.

Moving onto our Luxury Cotton division, this segment is represented by the 12.75 million meter capacity at Jhagadia, Gujarat. This facility is scaling up its operations and for the year its revenues amounted to Rs. 1,107 million and EBITDA stood at Rs. 208 million. EBITDA margin was 18.8%. Going forward, as the facility reaches optimal capacity utilization,

which is a typical phenomena in very high value shirting's business because we have to present it to the international customers and then scale up the volume, this business is expected to register much higher margins and also register a huge expansion in terms of volumes.

In FY2011 the Total Home Expression division reported a growth of around 10.5% with revenues of Rs. 4,264 million, in accordance with the sector performance. Growth in this category has been stable, and with the improving demand scenario we expect that this would be taken to a higher level of growth in the coming year.

As all of you are aware, during the year Reid & Taylor (India) Limited filed Draft Red Herring Prospectus (DRHP) with the SEBI for its IPO. RTIL has evolved into a sizable business entity and we believe the listing will unlock substantial value for stakeholders. Currently we are awaiting SEBI clearance; we are therefore unable to comment on specifics related to Reid & Taylor's business and operations.

On the sectorial front, the industry witnessed an unprecedented increase in the raw material prices which is common knowledge to all of us. SKNL being a branded player was successful in passing the additional cost to the consumer and that's why we have been able to maintain good profitability levels. So as Nitin mentioned earlier, this actually is a reflection on the strengths of our brand, that even in these kinds of adverse situations in the market we are able to pass on the price increases which get sustained and therefore that really speaks of SKNL's strength.

Going forward, we plan to leverage our strong brand portfolio and expand our retail network in India through exclusive brand outlets largely in the Tier 1 and 2 cities. With positive consumer sentiment towards all our brands we are expecting increased market penetration. We anticipate healthy demand for the textiles and apparel industry in India driven by growth in organized retailing, increased consumerism, expanding middle class and heightened brand consciousness among the youth. SKNL is well positioned to capitalize on this industry developments through its market leadership position. We have taken several strategic initiatives over the past including synergies with international subsidiaries, presence in high margin businesses, vertical integration of operations and effective brand positioning which will help us deliver an enhanced overall performance in FY2012.

Before I close, I am also happy to announce that in the Board of Directors meeting dividend of Rs. 1/- per equity share of Rs. 10 each i.e. 10%, subject to requisite approval has also been recommended. I now request Mr. Jagadeesh Shetty our CFO to take us through the Company's financials. Thank you very much. Over to you Jagadeesh.

**Jagadeesh Shetty**

Thank you Mr. Channa. Good afternoon everyone. I am very happy with the healthy financial performance reported for the period under review. SKNL total income from the operation for the year stood at Rs. 5,222 crore as compared to Rs. 3,860 crore for the year 2010 marking a significant growth of 35.3%. This growth resulted from improved performance from all the business divisions and higher volume across all

the product categories. Kindly note, that the results under the review are consolidated with Reid & Taylor, Leggiuno, SKNL UK, which is our joint venture with DKNY, and HMX Corporation - our subsidiaries.

During the year EBITDA increased to Rs. 1,056 crore from Rs. 773 crore in the previous year, signifying a growth of 36.6%. EBITDA margins during the year improved marginally to 20.2% with Consumer Textiles and Luxury Textiles delivering improved margins and increased contribution from Luxury Cotton division. EBTIDA margin from our international businesses have also improved from 1.4% during the year 2010 to 3.6% for the current year.

As we have scaled up operations, total expenditure has increased accordingly. Depreciation for FY2011 increased by 53.3% to Rs. 124 crore primarily on account of the commissioning of the HVFC plant in Gujarat along with the consolidation of the international businesses for the full year.

In FY2011, interest stood at Rs. 357 crore as compared with Rs. 249 crore during the previous year owing to the increased working capital requirement on account of the increased sales and also due to the domestic interest rate hike. However, the overall interest cost has been contained at 11.5% for the consolidated Company.

Net profit after minority interest for the year under review, increased by 44.5% to Rs. 330 crore as compared to Rs. 229 crore during FY2010. EPS diluted increased to Rs. 12.77 from Rs. 9.33 over the last year signifying a growth of 36.8%. This increase is attributable to the improved earnings reported in the domestic businesses as well as in the international businesses.

As on 31<sup>st</sup> March, 2011, the net worth of SKNL on a consolidated basis was Rs. 3,184 crore and the total consolidated debt including the working capital facilities and standalone or independent debt in the subsidiary companies was Rs. 3,414 crore. The total debt to equity ratio stood at 1:1.1 which is a very comfortable leverage for SKNL and also one of the best among the textiles industry in India.

In terms of current asset level as on 31<sup>st</sup> March 2011, the inventory was 3.7 months as compared with 4.1 months as compared to the last year. The sundry debtors stood at 4.5 months as compared with 5.3 months as on 31<sup>st</sup> March 2010. As compared to the position as on 31<sup>st</sup> March 2010, the financial ratios are at a healthy level.

This is all from the finance side. We may now move into Q&A session. Thank you very much.

**Moderator**

Thank you very much sir, the first question is from the line of Kesvinder Suri from Span Capital Services. Please go ahead

**K.C. Suri**

Yes, hi, this is K C Suri from Span Capital. My query is primarily related to World Player could you throw some more light as to what is the price point and what kind of response have you seen to it? And then coming to your HVFC plant what kind of capacity utilization is it at and by when do

you see it reaching the optimum utilization? The brand 'Baruche', are you selling that in the domestic market and if yes at what price point is that? Also, what price point are we looking at for the casual brand which you plan to launch and what is the Capex plan for the shirting and suiting factory?

**Nitin Kasliwal**

Thank you for your questions and your interest in SKNL. The World Player brand is a mass brand; in fact you will be very happy to know the first mass apparel and clothing brand by any major player in the clothing and apparel industry in India. We have a lot of confidence in this market segment because this is actually the mass market of India which is the largest market from volume and also is becoming a very brand conscious market even in the interiors of India, in the BCD towns.

Now the brand we have launched is the total wardrobe solution; so we have shirts, trousers, jeans, knitwear, all product categories. Shirts for example our price at retail from over Rs. 270 going up to about Rs. 500 and this is the retail price not the wholesale. This is absolutely competitively priced but at the same time we have given very high quality products. The lowest products we make are some poly-rayon fabrics and we also go up to poly-cotton and at the top end of the products are Chief Value Cotton. It's a very robust product mix.

You will be happy to know that Sachin Tendulkar, the greatest cricketer ever born on the face of this earth, is our brand ambassador for this brand. We are going to launch a pan India advertisement campaign on television from August but intermediary campaigns have already been launched in localized media because we did a localized launch of this brand. We did not do a pan India launch as we normally do for other brands but we started with the south we have gone all over the country now and from August we will be hitting a pan India advertising campaign. The initial response for the product and the brand has been very encouraging and hopefully in the next four to five years this brand has a potential of hitting sales of up to Rs. 500 crore a year. So it's a very solid chunk of the market that we are catering to and again we are the only organized player in this category. It's not an easy category to operate in from a product and pricing perspective but once you get the model right then this is where heart line India is, now moving towards wearing garments from wearing stitched clothes.

The group SKNL is the clothier to India. We are the largest players in the Indian market and to that extent our objective is to cater to all segments of the Indian market that want to wear a branded product. We have fabrics set all levels of the market - lower, middle and the upper end. Even for apparel we were in the middle and upper end with our brands Belmonte, and Reid & Taylor and Stephen Brothers. And so now we have launched World Player by S Kumars at the lower end of the market. Also as a strategy each of our fabric brands have forward extended into apparel India's own category of market segment. Reid & Taylor has fabric and apparel both at their segment, Belmonte has fabrics and apparel and because we have S Kumars fabric at the lower end we have launched World Player by S Kumars in that apparel category. We are covering all segments of the Indian socio- and economic segments of the market.

As far as HVFC is concerned I think they are operating at about 50% capacity which will go to about 100% capacity within this year. It's currently about 12.75 million meters and very soon because there is a very strong demand I think our people are planning to go up to about 19 million meters in this.

As far as the Baruche brand is concerned, its a high value cotton fabric shirt, fabric product, manufactured in this plant in Jhagadia, Gujarat. Jhagadia is a small village but the district is called Bharuch, so what we did is we launched the brand called Baruche. So the brand is Baruche which is a take off from Bharuch and just to be prominent to the place but at the same time to make it sound international, it's called Baruche. Baruche is already being sold in the Indian market through retailers currently and of course it will also go into international markets to clothiers there. So it will get established in India over the next couple of years. Our product categories are already established as the best product in the market from a design perspective because of Leggiuno which is probably the world's best shirt fabric maker operating in Italy supplying to all the top brands of the world like Hermes, Dolce & Gabbana, Prada, and Gucci. And to that extent their designing prowess is being used by the Baruche team to make very high quality designs and high quality products, which are being offered to Indian retail and Indian garment brands and also being offered internationally to various garment brands. So that's a very strong product line that is coming into our system with a very high margin EBITDA margins in the region of 28 to 30%.

As far as Kruger is concerned, it is being offered at the premium segment of the Indian market. Reid & Taylor operates the premium end of the market and Kruger it's a total wardrobe solution - formal wear, fusion wear and casual wear. Reid & Taylor has the bent of being more formal, the DNA of Reid & Taylor is more formal. We find that there is a big void in the Indian market for a premium casual wear, there are only two brands currently operating in this segment one is Color Plus and one is Provogue. There is a very big segment of the youth of India which wants premium products in casual wear and so we are launching a brand called Kruger which will be Friday, Saturday, and Sunday dressing. Of course some people can also wear it to work but generally the DNA of the brand is casual. It's like an Abercrombie & Fitch, if you have heard of that brand in the US, it's that kind of DNA, it's not funky wear but it will include smart casual and causal. It includes all kinds of product categories - shirts, causal shirts, washed shirts then very strong line of denims, very strong line of chinos, very strong line of knitwear's, some outer wears, that kind of stuff; shorts, the works. The shirts will be from about Rs. 1,500 to Rs. 1,600 going up to about Rs. 3,000. This is a very sweet spot of the Indian market which is actually very profitable from a business perspective at the same time its not very expensive, catering to about 150 to 200 million Indians. This is the same market in which Reid & Taylor is operating, the same market in which now Kruger will operate.

Anil, will you just explain the Capex plans to our friend?

**Anil Channa**

Yes, on the Capex plan in the next one year we envisage to increase our fabric manufacturing capacity at Mysore from 8.4 million to 10.2 million. We are in the process of setting up of a suit factory; we are also setting

up for our forward integration plan for finishing for Belmonte. The total Capex envisaged over the next one year is in the region of around Rs. 400 crore.

- Jagadeesh Shetty** Yes. Absolutely correct Rs. 414 crore.
- K.C. Suri** Thank you so much.
- Moderator** Thank you our next question is from the line of Grishma Shah from Envision Capital. Please go ahead.
- Grishma Shah** I just wanted to know the consumer demand given that you have increased their final product price; as well as the excise duty impact? I want to know your tax rate going ahead and the overall volume growth?
- Nitin Kasliwal** On consumer demand, fortunately in spite of price increases, the entire industry has not really felt any setback currently and luckily now that raw material prices have already started going down there are no further price increases envisaged. So to that extent I think we are on a healthy wicket from the consumer demand perspective.
- Of course, consumer demand is dependent on the growth of the Indian economy, dependent on the monsoons, dependent on inflation rates. As far as the growth of the economy is concerned, we are steady at about 8% to 8.5% which is fueling this demand. Monsoons currently appear to be on track and the forecast is also that they are supposed to be normal this year. As far as inflation is concerned this is one thing which going forward, one never knows the way the trend is going. Sometimes what happens is inflation tends to run away, so then some consumer demand may get impacted, but currently the Reserve Bank of India and the Finance Ministry are making all efforts to contain inflation. And from that perspective I think consumer demand is pretty steady in the domestic market.
- Internationally of course, US consumer demand has started picking up again, especially in menswear more than women's wear. We find in the US, the consumer demand is quite robust, which is a very healthy sign for us going forward. Rest of the world is reasonable, Germany has very good demand, Italy is average, UK is average, other markets are good, Southeast Asia is good, and Australia is good. Overall we find that the consumer demand is reasonable to good.
- Grishma Shah** Do you then think that now going ahead in FY12 you would be able to grow between 25 to 30% overall, does that give you the confidence?
- Nitin Kasliwal** Absolutely. That is what we are working towards and that is what we are pretty confident of.
- Grishma Shah** Beginning April have you taken any price increases?
- Nitin Kasliwal** We increase prices in two periods of the year, Jan and July. April we do not need to. Now I think there will be minor price increases which are inflation dependent, which are not raw material dependent because the

raw material is not going up, it is going down. So therefore we will see some margin growth.

As far as excise duty is concerned, Grishma, basically the government has increased small amounts of excise duty on the apparel and that has resulted in a maximum 1% increase as far as we are concerned, because it is Modvatable. I normally do not like to talk negative about associations and industry bodies, frankly speaking on the excise front, I think they are just a little too impatient when they started crying wolf. And nobody had really understood the real impact of what is going to happen. But the real impact is marginal, it is almost negligible. And in a branded play, even if excise duty increases by 5% it is not the heaven and earth coming down. So it is very marginal, negligible impact which is already being absorbed by the price increases.

**Grishma Shah** But you did not see any slowdown in volumes or you did not hold back your stock in March?

**Nitin Kasliwal** Absolutely not.

**Grishma Shah** So for you it was business as usual unlike the other players in the industry?

**Nitin Kasliwal** No, everybody has the business as usual. You just name one player in the apparel or textile industry that has reported reduced sales or growth. You do your study; you analyze all the competing companies in India who are operating in the apparel and textile industry, whether branded or even unbranded players. I do not want to name players; you need to go your own research. But you go through any branded or unbranded players and all of them have recorded substantial increase in both top line and bottom-line. So it is more to do, like I said it has become a habit, if I may use these words, the textile apparel clothing players they always like to cry, which we never do because at the end of the day whatever it is you have got to live. The government also has the right to live. Everybody has to balance the budget.

In any case in two years time the entire system is going to go on a VAT, which is 8 to 12% VAT, which will be applicable for everyone. Today it is not there in textile industry it is only 4% at retail level. So when that goes to 8% or 12%, it is going to be universal for all product categories.

As far as the tax rate is concerned currently we are at a full tax rate. We are paying full tax on both SKNL as well as Reid & Taylor.

**Grishma Shah** But this year average tax rate has been around 29.5%?

**Nitin Kasliwal** That is right. Jagadeesh going forward, what is the rate going to be?

**Jagadeesh Shetty** We would still be continuing with the maximum rate for the next year. I think more or less it will be at the same rate.

**Grishma Shah** And the volume growth?

**Nitin Kasliwal** In the next year or in the current year?

**Grishma Shah** How much have we clocked so far in FY2011 full year?

**Nitin Kasliwal** I think in the overall growth of 35%, volume has been about 22%.

**Grishma Shah** Thank you and good luck.

**Moderator** Our next question is from the line of Rupesh Patel from HSBC Securities. Please go ahead.

**Rupesh Patel** First for you Nitin. How do you see the competitive dynamics in the domestic market evolve over the mid-to long-term in the industry segments that the company operates in? Strategically what are the steps do you feel that the company still needs to take to protect and grow its share? And my second question is given the rising interest rate environment, what impact do you expect that to have on the company's current cost of debt over the next year or two?

**Nitin Kasliwal** First as far as the competitive environment is concerned, as everybody knows the clothing and the apparel industry worldwide is a competitive industry. However, the branded segment that we operate in is somewhat restricted by numbers, in terms of the number of players. At the mid-end and at the upper-end of the market there are restricted numbers of players. Like in the mid-segment where we operate Belmonte, in the fabric business there are 5 to 6 players and in the apparel business there are 6 to 7 players. Similarly in the segment where we operate Reid and Taylor, which again in the fabric segment we have two or three competitors, only one real competitor there and in the apparel industry there are about 8 to 10 competitors.

Now, in both the segments, the competition has been more focused on quality, on service, on design, on style and on placement rather than on price. There have been no real price wars in the Indian branded segment over the last 7 to 10 years and I do not foresee any pressure on price going forward. Now to be ahead of the curve in terms of being a consumer-oriented brand, we have three things happening. One is that we have very strong product teams, we have international designers working on all our brands based out of Bangalore, based out of India and also we have consultants who work out of Italy for us, plus we have a very strong design team and design talent in our American company called HMX, which has one of the worlds best designers called Joseph Abboud, who works with us full-time. So we have a very strong product and design team which is producing cutting edge products, contemporary products and therefore that gives us one advantage.

The other advantage which we have and which we continue to insist upon is quality of our products which we never compromise on. Even when raw material prices went up a lot of players moved and reengineered products making chief value cotton and making other types of products. As far as we are concerned we stuck to our product categories and we insisted that it is better to increase price and maintain quality rather than to maintain price and reduce quality. I think a lot of Indian players, everybody goes

through a process of learning and evolution and to that extent I think we have a substantial position in the market.

Of course our brand building is also good. We have strong brand ambassadors, Amitabh Bachchan in Reid and Taylor, Shahrukh Khan in Belmonte, and now we signed on Sachin Tendulkar, for World Player. Additionally, for the Reid and Taylor brand and especially for the apparel category, we are in process of taking on an international Hollywood star to be our brand ambassador. From a promotion perspective we want to be top of the mind, we want to have ads that get recalled.

And therefore I think in the competitive scenario, of course it is not a cakewalk, it is not easy, but these are some of the things that you keep doing, everyday is a new learning and there is not a single day that the task is complete or the task is over. It is a continuous work and it is evolution as we go along. But we have great teams working with us, we have product people, we have designers, we have very high talented people who are working round the clock, looking at the international trends, international qualities, and international products.

Additionally, in the domestic market we are making major in-roads into the distribution channels. We are adding a lot of retail stores which will give a lot of brand recognition as well as brand availability at the consumer level. So there is a major retail thrust also going on and we are penetrating the Indian market in a very substantial manner. We are also penetrating international markets; we are also looking at globalizing some of the foreign brands that we have, bringing them to other parts of the world. So there is a lot of activity happening, lot of different teams are working on different businesses. Overall I think we are pretty much on the ball with the competitive environment and if I may say so, we may be slightly ahead of the curve as well.

**Rupesh Patel**

That is very helpful, and one quick follow-up on that. Do you expect the number of players in the high-end segments to increase given the visibility you have presently?

**Nitin Kasliwal**

I do not think so. It is not very easy to come into these segments from a quality perspective, from a promotional perspective; you need to advertise a lot. So therefore there are very few players who actually operate in the branded segment of the market. If you look at within India there are only three or four groups. There are very few groups who operate in the branded segment. I would not like to name competitive groups on an open call like this. But if you do your own research you will find that there are hardly 3 or 4 groups who are actually operating multiple brands. So it is also a mindset, it is also a question of guts, it is a question of talent, it is a question of wherewithal, it is a question of knowing the market, it is a question of wanting to be a branded player.

A lot of the clothing and textile companies are all unbranded commodity players who operate large volumes, who actually supply to other brands. As a strategy, in our group we do not do third-party supply. We are vertically integrated in manufacturing, all our manufacturing is done for our own brands itself. So I do not foresee many players coming into these segments.

**Rupesh Patel** And then on the interest rate?

**Nitin Kasliwal** As far as the interest rate is concerned Rupesh, currently we are operating at about 11.5%. And maximum the RBI may increase 0.5% or something going forward, I do not think that they will be increasing more. We are also working on the TUF scheme that is still on. So we may be reducing some debt currently here and some debt may be coming in TUF. Overall we are looking at our interest rates remaining in the same level going forward. We are trying our best to reduce this number but worst-case scenario it will remain at the same level.

**Rupesh Patel** Okay thank you.

**Moderator** Thank you. Our next question is from the line of Nirav Shah from Antique Stock Broking Ltd. Please go ahead.

**Nirav Shah** A few questions, first thing on the numbers front, can you just provide the breakup of revenues between HMX, Leggiuno, and DKNY and the EBIDTA for the same for FY2011 and Q4? You just mentioned that our interest rate is around 11.5%. Can you just give a breakup between what is the interest servicing at the overseas companies and the domestic market? If you could also give the breakup between the domestic data and the overseas debt? And the final question would be, we are seeing there is a sharp jump in the loans and advances in the balance sheet, any reasons for that?

**Anil Channa** Actually the full year numbers for Leggiuno are Rs. 168 crore and EBIDTA of Rs. 5 crore, and EBIDTA percentage being 2.7%. HMX is Rs. 1092 crore, Rs. 45 crore of EBIDTA, 4.1% margin. SKNL UK that is DKNY business, sales is Rs. 73 crore. There is a nominal EBIDTA loss of Rs. 2 crore because there is a lot of developmental work which is happening in terms of product merchandising and things like that, so therefore the EBIDTA loss is also 2.2%.

**Nitin Kasliwal** Which is becoming substantially positive this year.

**Anil Channa** So therefore for the full year the international businesses accounted for Rs. 1,333 crore. The EBIDTA was Rs. 48 crore and the EBIDTA percentage was 3.6%. There was a lot of turnaround period. Now the product development is in place, the new product offerings are coming up. So therefore these international businesses would grow substantially in terms of both the top-line and bottom-line in this current year.

**Nirav Shah** Can you just share these figures for the 4<sup>th</sup> quarter please?

**Anil Channa** 4<sup>th</sup> quarter I do not have it readily available. We can send you the figures.

**Nirav Shah** Breakup of debt between overseas and domestic and the interest rates?

**Jagadeesh Shetty** Of the total debt Rs. 340 crore is the debt overseas, the rest is all domestic debt. The domestic would be close to about 12.75% and the international debt would be 6%.

**Nitin Kasliwal** International debt would be lower than 6%.

**Anil Channa** HMX would be at 6%, Leggiuno is around 3%. The pool would be around 11.5%.

**Nirav Shah** Loans and advances?

**Jagadeesh Shetty** You would see a jump in the loans and advances mainly because we are implementing many projects, particularly the establishment of stores in Reid and Taylor. We have taken a lot of effective steps and we have hired at few places and rental deposits have been kept plus we have been implementing debottlenecking of Reid and Taylor facilities. And these amounts are currently under loans and advances till they are capitalized in to fixed assets and capital work-in-progress.

**Nirav Shah** A follow-up regarding these capacity expansions, so what is the target scheduled for the commissioning of Reid and Taylor, Mysore facility and Suit facility, will it spill over to FY13, or it will?

**Jagadeesh Shetty** Everything will get completed during FY12.

**Nitin Kasliwal** It is very well in progress, it will complete in FY12.

**Nirav Shah** So the loans and advances should again come back to normalized levels as of March, 2012?

**Nitin Kasliwal** Thats right.

**Nirav Shah** Thank you.

**Moderator** Thank you. The next question is from the line of Abneesh Roy from Edelweiss Securities Limited. Please go ahead.

**Abneesh Roy** You gave the breakup Between HMX, Leggiuno, and DKNY. My question is, if you could give us the expectation for next year and how does the margin start panning out and when do we see margins stabilizing in all the three businesses?

**Nitin Kasliwal** You want the next year's expectations of the international business?

**Abneesh Roy** Sales and margins that is first one? Second question is how do we strategize on targeting rural India because monsoons are expected to be good and most consumer companies are getting a major part of growth from rural India. You briefly did speak on distribution, if you could further give clarity on rural demand?

**Nitin Kasliwal** As far as FY2012 is concerned though we are currently not giving out guidance. Actually we will be sending out our FY2012 guidance to the market in the next few weeks. But basically I can tell you one thing in FY2012, all the 3 businesses are on full track to have substantial growth in both top-line and bottom-line.

The turnaround in HMX has been absolutely complete and like I said in HMX as you saw the figures, HMX is EBIDTA positive last year itself. And in the current year with the growth, we are expecting sales in HMX to grow

at about 25 to 30% which will result in a much larger expansion in the EBIDTA margin and a larger growth of the EBIDTA in absolute numbers. You will get this guidance over the next couple of weeks and because we have not given the guidance out, so I do not want to give out specific numbers. But as far as HMX is concerned we will see at least a 25% to 30% increase in top line and substantial increase in EBIDTA in an absolute number as well.

As far as the DKNY business is concerned which is under the company SKNL UK, this again will see major growth in turnovers because the last year was almost like the first year of the operation and to that extent it is on a rollout plan. And the growth here is again going to be abnormal for the next 2-3 years. So it will be substantial growth in top line and very-very substantial growth in EBIDTA as well. As far as Leggiuno is concerned it is a steady-state business, so we are looking at top-line going at about 10% to 12% and EBIDTA will go to about 4.5% to 5% of top line.

**Anil Channa** Just to add to what Nitin has said, I think there is a substantial growth which is coming up based on the budgets and the EBIDTA levels are definitely going to be in two digits as against single digits in this year.

**Abneesh Roy** Overall for international?

**Anil Channa** I think we will give the exact expectation over the next few days

**Abneesh Roy** And the stable companies in these countries would also be having similar double-digit margins.

**Nitin Kasliwal** Well operating companies have double-digit margins. Companies that are not operating well have single-digit margins. So in fact if you are vertically integrated completely including retail play the margin can be as high as 20%, which is there in many companies. Even a company like Ralph Lauren operates at a 14% to 15% EBIDTA, and you have other companies that are operating between 12% - 20% EBIDTA. It depends upon how you operate, what channels of distribution you operate in but then the investments change. If you want to go on a fully vertical play in terms of retail, then you have to invest much more money. It is a trade-off between how much you want to invest and where you want to be at.

Currently we are not looking at major retail play in the US. We are looking at minor retail play with major wholesale play. Meaning our brands are manufactured, design, distributed, and wholesaled by us to large format stores and multi-brand stores in the US. We have a few retail stores of our own plus a few more are being added. But that is more from a branding and distribution perspective. Over the next 2-3 years we will still maintain a major play at the wholesale level. I think even in HMX at full levels we can be looking at EBIDTA margins going up to 13-14-15% for sure in the next 2 to 3 years.

As far as rural India is concerned Abneesh, this is exactly what I was mentioning about "World Player". The reason why we have launched World Player as an apparel brand at this level of the market is to cater to the rural India. The rural and the mass India, which is wanting more and more branded products, though they are still price conscious, they do not

want to pay per unit very high-value, but they do not mind buying quantity products. They do not mind buying many shirts but for each shirt they will not pay Rs. 1000-2000-3000, unless it is for a very special occasion like a wedding or something of that where they would spend money. Therefore a brand like World Player is being launched. In fact the target for the World Player itself is to go to about 650 districts. We are already at about 290 districts and we are further rolling out.

Our fabric business is already dealing in rural India in a very big way, both S Kumar and Belmonte and even to some extent Reid and Taylor products also go into some rural markets. We are currently selling through 35,000 retailers countrywide, in over 700 towns and cities in India. So we are already having a very strongly distributed portfolio of brands in India. I think we probably understand rural marketing, in this industry we are probably one of the early pioneers of going into interior India with products and brands.

Good monsoons auger very well from demand perspective. Also there is a very strong wedding season, which again fuels massive demand for fabric sales. That is one of the things that have been happening even last year. Reid and Taylor and Belmonte saw a very high demand in fabric because of the robust wedding season. You know in India wedding dates are based on the shastri's and the pundit's and there were massive number of wedding dates last year and even this year.

**Abneesh Roy**

Urban India, World Player presence will be limited?

**Nitin Kasliwal**

In Urban India, World Player presence will be limited, like in Mumbai, World Player would be in all these suburbs for sure. You would be happy to know that Wal-Mart which is now coming up with about 30 to 40 stores in India has selected World Player as one of its partners, to sell World Player in Wal-Mart stores. So Wal-Mart stores will come in a lot of places.

Actually India and the Indian consumer is a typical consumer, not how we have in the Western world. Even in cities like Mumbai you have enough territories and enough segments of Mumbai, they may be rich but they want to buy mass value products. Typical example is even the Big Bazaars do well even in south Mumbai in Phoenix Mill which is south-central Mumbai. So World Player is not only a rural brand, it is of course, catering to the rural market in terms of pricing, but a lot of city centric buyers also do buy products which are at this end of the market. We will not be having a store in south Mumbai or Connaught Place, but of course there will be stores in Kandivali, Borivali, and Dadar and there are other MBO's and retailers in these territories which will be selling, so it is a mix.

**Abneesh Roy**

Do you plan to do dedicated stores for World Player?

**Nitin Kasliwal**

Not in this year, but as the brand gets established. We already operate 10 franchise stores in World Player in different parts of the country. But it is not a major play that we are looking at from a retail perspective. This is more a wholesale business. As we go forward and as the brand gets established, one could look at having a retail play.

**Abneesh Roy** One last question on the raw materials side, you said cotton prices are correcting. So how long are our contracts normally and inventory. My question is when exactly do you start benefiting?

**Nitin Kasliwal** Actually, Abneesh, we do not have long contracts at all, plus or minus. So we always buy as per the needs of the production and the business cycles. Even if prices are going up or going down we will only buy as per what we need. We do not speculate on raw material and we do not go long or short, irrespective of the prices because we operate in the branded end of the market. We have confidence in our brands; we have confidence in our pricing power. And even if raw material prices are going up, we do not buy less or if they are going down we do not start buying more.

**Abneesh Roy** Would it be fair to say in Q2, we should start seeing some improvement in margins?

**Nitin Kasliwal** Absolutely Q2 and Q3.

**Abneesh Roy** Thanks a lot.

**Moderator** Thank you. Our next question is from the line of Ashish Rathi from Centrum Broking Pvt. Ltd. Please go ahead.

**Ashish Rathi** Firstly it is only advertising and promotion expense, how much have we done in the last year and the year before that? The second question is on the Reid and Taylor IPO. You know it is in the process of getting approval and I will not be asking a lot in detail on that. But my concern was that it had been postponed multiple times.

**Nitin Kasliwal** It's not been postponed. I'll explain later. I think the last year we spent on advertising and promotion about Rs. 80 crore. Jagadeesh, if I am not mistaken?

**Jagadeesh Shetty** That is right.

**Nitin Kasliwal** That was in FY2011. Do you know the number in FY10 off hand or can we send it to you, Jagadeesh.

**Jagadeesh Shetty** It is close to Rs. 100 crore all divisions put together.

**Nitin Kasliwal** FY2011.

**Jagadeesh Shetty** Yes, I am talking about FY2011.

**Nitin Kasliwal** It is 100 crore. This is in total including the international businesses. And FY10, do you remember the figure of FY10 Jagadeesh?

**Jagadeesh Shetty** That was close to about Rs. 80 crore.

**Nitin Kasliwal** FY2010 was Rs. 80 crore.

**Jagadeesh Shetty** Yes.

**Nitin Kasliwal** As far as Reid & Taylor IPO is concerned, firstly let me tell you; it's not that we have postponed anything. The DRHP was filed in December with SEBI and because of multiple reasons in terms of multiple other government deals and PSU deals with SEBI, there has been some delay at their end. As far as the company is concerned, in fact you will be very happy to know it's a very clean process from the company's side and even there were no queries from outside. So it was a very smooth process from that perspective. Unfortunately, there were other priorities that were there in the system.

Now we are told that it is on the absolute last leg of clearance at the ED level and again there haven't been any queries now. So we are looking at receiving clearance as I have been told by our BRLMs. We have all the top BRLMs on this deal, JM Finance, JP Morgan, Edelweiss, Religare, HSBC, UBS, Antique and IDBI. So we have all the BRLMs and we have been told that we are expecting clearance any day now.

**Ashish Rathi** Right, okay. So sir, when this money comes in? Is there any plan to reward the shareholders such as S. Kumar or?

**Nitin Kasliwal** We just rewarded the shareholders of SKNL with 10% dividend.

**Ashish Rathi** Any one-time dividend time something like that?

**Nitin Kasliwal** No, there is no need of one-time dividend because we are a growing company. Everybody will prefer to have growth.

**Ashish Rathi** Yes definitely.

**Nitin Kasliwal** All of you will be happy to know that FY2012 SKNL and Reid & Taylor both independently will be cash flow positive from operations. So from that perspective there is already a substantial shift because in the last five years we have been growing at a CAGR of 35% and lots of our internal accruals have all gone into Capex and working capital funding. But going forward FY2012, we are cash flow positive from operations both in SKNL and Reid & Taylor.

**Ashish Rathi** Now I have just one more question on the industry side, you are seeing steady growth and you are confident about 28%-30% growth, is there any key concerns on your mind as to what could be a hurdle in achieving that kind of a growth in the current scenario?

**Nitin Kasliwal** In the Indian markets, there are two three hurdles. One is interest rate, I mean resulting from inflation higher interest rates on one hand and also reducing availability of funds at the consumer level if the inflation goes up; so that is one key concern. Looking at the scenario going forward, it's a risk, but I don't think it's a major risk from that perspective.

The other thing of course is happenings in the international market and the international scene which jitters markets, but luckily the clothing and apparel market doesn't get jittered much like what happens to the stock markets and other markets. America has turned around a bit; I mean America expected to grow at about 3.5% this year, which is substantial for a country of America's size, from GDP perspective. I think we are

looking at a reasonably good period; even in India consumerism is growing, it's booming, more and more people want branded products and we are looking at a substantial growth coming from domestic and international operation.

**Moderator:** Thank you. Our next question is from the line of Ravindra Deshpande from Elara Capital. Please go ahead.

**Ravindra Deshpande** I just wanted to ask how much has the current assets increased during the year.

**Nitin Kasliwal** Jagadeesh, can you just answer this, please?

**Jagadeesh Shetty** The net current asset for the year has increased by Rs.1076 crore.

**Ravindra Deshpande** Okay, so sir majority?

**Jagadeesh Shetty** Loans and advances, debtors and inventory. All combined.

**Nitin Kasliwal** In fact the inventory and debtor months have come down by over a month and a half this year over last year.

**Ravindra Deshpande** Okay. So sir, nearly 80% of your revenues are getting locked and increased in current assets, so any specific step to address this issue?

**Jagadeesh Shetty** There are two parts, the current assets utilization as such as has come down as compared to the number of months of inventory holding as well as debtors holding. But in loans and advances, we have an amount sitting which is pertaining to the various stores, EBO rollout plans that we have embarked in Reid & Taylor. Plus there have been some expansion plans, de-bottlenecking the facilities. When the facilities are completed, we will move from current advances into capital or part of fixed assets. Till that is done, you find an arithmetical increase in the other current assets.

**Ravindra Deshpande** Right. And how much of the current assets have led to increase in working capital debt during the year.

**Jagadeesh Shetty** The working capital facilities have gone up by Rs. 243 crore in this year on a consolidated basis.

**Anil Channa** I think Ravindra, just to add to what Jagadeesh said, the increase in net current asset is not 80%, it's in the region of our around 35%-40%.

**Ravindra Deshpande** No, I was saying that revenue...

**Nitin Kasliwal** No, to sales. You were saying how much revenue increased, so the revenue has increased by Rs. 1400 crore and the net current asset has increased by Rs.1000 crore that's what he is saying.

**Anil Channa** No, that is including the net current asset increase because of the Capex plans which are getting implemented. The current assets toward inventories and the accounts receivable is just increased by about Rs.

500 odd crore, so it's around 35%-40%, of the sales growth and that's the point I just wanted put across.

- Ravindra Deshpande** Fine sir.
- Moderator** Thank you. The next question is from the line of Divyesh Shah from Pragya Equities Pvt. Ltd. Please go ahead.
- Divyesh Shah** Sir, regarding luxury cotton, how much did we produce in FY2011 and what was the average realization for that? And second thing, what are our growth plan for our home textile business?
- Anil Channa** Essentially we produced around 5 million meters and the average price was around Rs. 200.
- Divyesh Shah** Okay. And how much we planned for next year?
- Anil Channa** Our capacity is 12.75, so I think we should be touching close to around 90% utilization this year.
- Divyesh Shah** And regarding the growth plan for our home textile business?
- Nitin Kasliwal** As far as the home textile business is concerned, generally the branded business has been a little slow and laggard in India and, we have been growing at about 15%. But we are looking on process of revamping and increasing presence in the Indian market. Also, we are now going to start over the next 6-8 months looking at taking some exports businesses as well. Currently, we are looking at about a 15%-16% growth in this business.
- Divyesh Shah** How do you feel the successful listing of Reid & Taylor will add value to our shareholders for SKNL?
- Nitin Kasliwal** How will it add value?
- Divyesh Shah** Yes.
- Nitin Kasliwal** SKNL owns currently 74% of Reid & Taylor and going forward even after the listing as we have projected the holding should come down to about 60%. So a successful listing of Reid & Taylor will show the shareholders of SKNL that an asset which they own 60% off is worth an X amount, and that is only 40% of the SKNL's balance sheet and then what should be the total value of SKNL. From that perspective, that is the math that everybody can do. I don't think it's right for me to get into that mathematical calculation from a market perspective.
- Divyesh Shah** Okay sir, thank you.
- Moderator** Thank you. The next question is from the line of Abhishek Ranganathan from MF Global Sify Securities India Pvt. Ltd. Please go ahead.
- Abhishek R** Sir, I have noticed, you mentioned that you are seeing a trend, in the non-urban markets there is a movement from stitched fabrics to

readymade. How do we see both these segments in different markets of India, primarily I would again presume the non-urban would be dominant in this, but how do you see this moving? You being closer to the ground than we are, since you are conducting the business, how do you see this pattern evolving, what are the emerging trends?

**Nitin Kasliwal**

Abhishek, as far trends are concerned, overall in India at a macro level in India, about 75% of all consumption is by way of consumer going to a retailer buying fabric and getting it stitched and 25% is by way of just going and buying ready to wear. Now this is fast moving, this is primarily because in India two things happen, one is that tailoring is very cheap, it's a mom and pop industry, it's a cottage industry. So tailoring costs are very, very low, even today in the urban markets, you can get a suit stitched for anywhere between Rs. 3000-5000. In the rural markets, you can get a suit stitched from anywhere between Rs. 1500-2500. So internationally, it would be 3000 and 2000, 4000 dollars and pounds. So tailoring is very, very cheap, which makes people buy fabric and get it stitched.

On the other hand, retailing is unorganized in India, there are 200,000 retailers in India, 0.2 million retailers in India which are the mom and pop retailers of the country in clothing and apparel. They have no proper shelf space, proper visual merchandizing and are very basic rustic stores. And there, it's very difficult to sell clothing; you only are able to sell fabric and textiles on tables. Now as retailing is becoming organized in India, there is a big shift happening from textile and stitching to ready-to-wear, there is a shift happening at the consumption level. Therefore the apparel business itself is doing at a very robust tip of 30%-35%.

Now this trend is also emerging and evolving in rural India. One more aspect of this culture of consumption is that typically a large population of rural India had a lot of time, they were not hard-pressed for time and therefore they were okay with buying fabric and getting it stitched, whereas people in urban India are having a paucity of time. Even in rural India people are now seeing more advertising, more brands and therefore, they also want to buy a ready to wear. So there is a shift happening both in urban and rural India. The shift is faster in urban, it is slower in rural India, it's logical from that perspective.

As we go forward, I think because we operate in both branded fabrics and branded apparels, we have a unique advantage of catering to both the demand patterns that continue to evolve and emerge. In India, I think it will be another 30-40 years if at all, where there will be a complete shift from fabric to apparel. When you go internationally, the main consumption is in apparel, 99% is in apparel and the remainder of the percentage is in fabric, getting it custom tailored. And in India like I said, there is currently 75-25 and going forward for it to go to those levels, it's a very, very long process and till that process, branded fabric and branded apparels both will be continuing to be in demand at the consumer level.

As a group, we are one of the only few players or probably couple of players who have branded fabric and branded apparel in their portfolio; we are at a unique advantage from the Indian market perspective. There

is a definite trend towards apparel; there is a definite trend towards moving there both in urban and rural India.

**Abhishek R**

And so just to take it ahead, any discernable changes in terms of the kind of fabric or the kind of garments which are being purchased in the non-urban markets that you are witnessing?

**Nitin Kasliwal**

In the non-urban markets, again by and large, a large section of the population wears standard clothes. The youth of India is moving towards casual wear in a very big manner, therefore even a large part of the World Player category is denims, knitwear, casual shirts, washed clothes and washed shirts, rather than formal wears. There is a big shift happening towards casual wear and also denim is becoming very big.

**Abhishek R**

Right sir. And lastly, I mean there are lots of people who say that, there is a lot of demand, but we are not able to actually satisfy that demand or satiate that demand. What are the challenges you see in terms of capacity constraints? And also with respect to distribution in terms of getting the last mile connectivity, getting the product in time, basically the entire supply chain from production to distribution, what are the challenges which are there, because in India, it's not easy to get all this linearly aligned. How are we placed and what initiatives are we putting in place to improve them?

**Nitin Kasliwal**

Your question has been very wide, you have covered three-four aspects in the question. First of all, according to me, India has a lot of capacity for fabric; there is no shortage of fabric capacity in India. There is certainly a shortage of apparel capacity in India and as consumption is increasing from fabric to apparel, more and more apparel capacities must come in. For that the government also has to make some changes in our workforce laws, hire and fire has to become easier. The garmenting industry is very low capital intensive, but very high manpower intensive. So that's why a lot of large players feel very scared of putting up large capacities for apparel in India, because they don't want to have the burden of very large workforces at one site. This challenge is gradually getting overcome, but it's still a challenge.

For Logistics, India has a very strong distribution network. Mass brands are sold through wholesalers who operate all over the country and then they distribute, so logistics to the MBOs is not a real major problem. But of course if you have to go your own retail, then you establish retail in far-flung rural areas, which is not easy and therefore very few players currently do that, it's better to sell through MBOs in interior India. It doesn't make sense to go through your own network because it is very difficult to even manage from a reach perspective and from a communication perspective. Otherwise, there are not any major logistical challenges in terms of getting your products going into rural India. Of course the road network must improve, railway networks are there, they have to also improve in terms of service, and these are things which are ongoing challenges. It's not a deal-breaker if I may use the term.

**Abhishek R**

You are happy going the wholesaler route?

- Nitin Kasliwal** Absolutely, and rural India it is foolish to try and do your own retail, because personally as a company you can't manage it and its far-flung. Your overhead cost would go so high to manage those that it would not make any sense.
- Abhishek R** And you see this continuing, I mean after a point rural may not remain as...?
- Nitin Kasliwal** Absolutely, these are all moving targets, as the market evolves and as rural India becomes more urban, you would start treating it as how you treat urban market.
- Anil Channa** Just to add to what Nitin had said, again another trend which we are noticing is that lot of global companies are coming into warehousing and logistics in India. That's also going to be a very effective model going forward to be able to be present across the country. Already a lot of third party logistics companies have started operating and there is a lot of keen interest particularly by multinational companies to get into this area.
- Abhishek R** Sir, how soon can we see and what kind of changes can we see by them entering in the space from where we are already?
- Anil Channa** That's going beyond the discussion of our company. But yes it is moving up fairly rapidly.
- Nitin Kasliwal** I think it's a 5-10 year program.
- Moderator** Thank you. Our next question is from the line of Satish Kataria from Venus Capital Management. Please go ahead.
- Satish Kataria** A broad question which is concerned to all of the textile industry. Any idea on raw material prices like cotton and polyester prices, as we have seen a huge uptick after that they have come down to less than expected?
- Nitin Kasliwal** So Satish, you will be happy to know that raw material prices for polyester, cotton, and viscose are on the downward trend now. They have already reached a peak; they are already on a downward trend. I think cotton prices have already come down 15%-20%.
- Satish Kataria** Yes exactly they come down from 60,000-65,000 to 45,000, I believe.
- Nitin Kasliwal** Even polyester prices have come down, and viscose have come down, only wool prices continue to remain steady and slightly high, but overall the prices are down. This augers well for a branded player like us because margins will tend to improve. We don't foresee any these prices going up now, because they had reached an abnormal level, it was more of speculative trading going on which had taken these prices up. It is not demand led or it is not shortfall and supply led.
- Satish Kataria** Okay, that's why I was concerned about what's your view going forward about this.

**Nitin Kasliwal** Yes, they should remain, if we may use the term “soft” at these levels, but these levels are already higher than what they were earlier. So in any case, they are at a higher level but they are considerably lower than what they had reached. They are still higher than the earlier levels. We don’t foresee them going to those levels at the moment, that will be a huge drop. They are already down 15%-20% from the peak levels and we have increased the price based on peak levels.

**Satish Kataria** Okay because the farmers this season have also increased area under cultivation.

**Nitin Kasliwal** The crops have been extremely good.

**Satish Kataria** Just wanted to share this information which I have come across, as I was in some districts and some places in villages, farmers have increased area under cultivation.

**Nitin Kasliwal** Yes absolutely that will also tend to reduce the price more.

**Anil Channa** Satish, I am grateful to you that you confined your question only to the textile fibers. There have been one or two cases where we have been asked about soybean also.

**Satish Kataria** Okay, thank you sir.

**Nitin Kasliwal** But you know you can make soybean fabrics Anil. You can always make fabrics from everything.

**Anil Channa** My very good friend is in Italian brand call Loro Piana, they have started making fabric from lotus root fiber.

**Satish Kataria** Okay because there is also bamboo fiber and all that.

**Anil Channa** That’s right, so you can make fabric from any fiber.

**Moderator:** Thank you. Our next question is from the line of Manas Majumdar from SPA Securities Ltd. Please go ahead

**Manas Majumdar** Can you give me the sales breakup in terms of your brands that is Belmonte and Reid & Taylor? And sir another question that I have, the Capex that you were talking about, I just wanted to know apart from the IPO that is coming of Reid & Taylor, what are the sources of fund that you will be using for the Capex? And on the World Player scenario, I just wanted to know the contribution of World Player brand also. For the nine months FY2011, you said that the company is targeting a reach of 560 districts for the World Player, so what’s the current status for that?

**Anil Channa** Yes I think because of this DRHP probably we would not be able to share these numbers...

**Nitin Kasliwal** We will share it within few weeks.

**Anil Channa** I think we can send it on mail to you just because we are expecting these clearances to happen very soon and we will be able to share it.

**Nitin Kasliwal** So Salil, will you make a special note to send to Manas specifically the details?

**Salil Bawa** No, that will be in public domain as soon as it is cleared.

**Nitin Kasliwal** Salil, send the details to Manas on his mail.

**Manas Majumdar** It's [manas.majumdar@spagroupindia.com](mailto:manas.majumdar@spagroupindia.com).

**Anil Channa** As far as our Capex is concerned, I think that's again as we mentioned earlier on, there is a Capex happening in Reid & Taylor.

**Nitin Kasliwal** No, he was asking, other than the Reid & Taylor IPO, what are the sources of funds.

**Anil Channa** That was the textile upgradation fund which is at 5% interest subsidy, it has already been approved.

**Nitin Kasliwal** Partly Yes. And balance is internal accruals.

**Manas Majumdar** Okay. And sir, the World Player status?

**Nitin Kasliwal** World player, currently is launched in most parts of India, some parts of India are still yet being launched. We will be hitting our full target plan by the end of FY2012.

**Manas Majumdar** And just a follow-up question, can you just give me the volume breakup for the Q4 FY2011?

**Nitin Kasliwal** Jagadeesh, can you give a volume breakup for the quarter for FY2011. Volume, you are talking about which product category? I think Salil, please send this to him, I don't think it will be available off hand. So volume breakup he wants for quarter four FY2011

**Manas Majumdar** The volume breakup of all our product categories,

**Nitin Kasliwal** I think Salil, please send this to him, I don't think it will be available off hand. So volume breakup he wants for Q4 FY2011

**Manas Majumdar** Q4 and FY2011 both.

**Nitin Kasliwal** And total FY2011.

**Manas Majumdar** That's it. Thank you.

**Moderator** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand floor back to the management for closing comments.

**Nitin Kasliwal**

Thank you Farah. Thank you friends for all your involvement and your interest in SKNL. We have spent substantial amount of monies in the last 3-4 years in growth and we are now poised to start reaping the fruits and benefits further off. Of course we have had good performance in the last 3-4 years as well. Going forward I think the investments that we have made will start reaping benefits in terms of substantially increased top-line, bottom-line as well as free cash flow. We realize free cash flow is a very important aspect from a market and a company's perspective.

There is a very strong synergy that we are now having between our domestic and our international businesses through the backend-frontend synergy model. This is going to add substantial margins both to the Indian companies as well as to the overseas companies because the telescope of the margin being very high with high quality, low cost manufacturing in India and Southeast Asia and high end market inroads in the western markets. So the price captured ultimately in the channel and then the trade network becomes very high. We are looking at a very substantial business growth from those areas and an enhanced distribution network. We have a comprehensive brand portfolio of over 45 brands with which we will cater to all demographic segments both in India and Overseas.

Our vertical and laterally integrated model again gives a very strong competitive position going forward over the next 5-10 years. We have seamless supply chain. We have a presence across the value chain starting from fiber and right up to retail which provides a very strong foundation for us for a healthy growth over the next few years.

Like I have mentioned before the philosophy with which we are working at is clothier to the nation today and to the world tomorrow. We have already established ourselves as a very strong clothier to India and God willing by the grace of the almighty and with support of all our stakeholders and shareholders we are looking at becoming a major clothier to the world, thereby fulfilling the vision and mission statement of the group of being clothier to the nation and to the world.

Thank you friends, for all your support. I hope we have been able to answer all your questions satisfactorily. In case you have any further questions, please do not hesitate to contact any one of us in the company. Salil Bawa, our Head of Investor Relations is always on track. You can also contact Anil Channa, our group CEO and MD, Jagadeesh Shetty, our group CFO or even myself if you have any other questions. We would be very happy to answer them. Thank you once again and thank you for taking time and joining this call.

**Moderator**

Thank you very much sir. Ladies and gentlemen, on behalf of SKNL that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.

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