



S Kumars Nationwide Ltd.

Q1 FY2012 Results Conference Call Transcript

August 17, 2011

Moderator Ladies and gentlemen good day and welcome to the SKNL's quarterly conference call. As a reminder for the duration of this conference, all participant lines 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. Should you need assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you.

Anoop Poojari Thanks Melissa. Good afternoon everyone and welcome to SKNL's Q1 FY2012 Analysts and Investors conference call. Today on this call we are joined by Mr. Anil Channa, Deputy Managing Director and CEO, Mr. Tarun Joshi – Joint Group Director and Mr. Jagadeesh Shetty, Group CFO of the company.

Before we begin, I would like to point out that certain statements made during this conference call may be forward looking and a disclaimer to this effect has been included in the conference call invite emailed to you earlier.

I would now like to invite Mr. Anil Channa to give us an insight on SKNL's performance for the quarter ended. Over to you.

Anil Channa Good afternoon everyone. I welcome you to SKNL's Q1 FY2012 results conference call. I will begin this call by giving you a brief overview on the business developments and overall operational performance during the quarter under review. Thereafter, Mr. Jagadeesh Shetty, our CFO will take you through the financial performance.

I'm happy to announce that SKNL has reported a substantial improvement in revenues and delivered enhanced margins during this quarter. This is testimony to SKNL's brand strength and operating efficiencies which has enabled us to deliver superior returns in varied environments. For the quarter under review, the total income increased by 22.7% to Rs. 14,613 million and the net profit after minority interest improved by 40.3% to Rs.

880 million. Robust growth from Consumer Textiles, Luxury Textiles, Ready to Wear and enhanced contributions from Luxury Cotton division remained key to the healthy performance delivered in Q1 FY 2012. Further I'm pleased to share with you that 'World Player', our brand in the economy segment is gaining momentum in sales and the response it is receiving has been very encouraging.

All our brands enjoy strong pricing power because of high brand recall and brand-connect with the consumer. Concerted efforts in the past on brand positioning have begun to yield results. We have laid additional emphasis on quality, service, design, style and placement, and are equipped with a strong product and design team which is producing contemporary and differentiated products. We are broadening our distribution channels and expanding market penetration with additional thrust on retail stores. This is expected to further improve brand visibility. Our extensive range of brands spread across different price points covering the entire socio-economic matrix has proven effective in driving growth.

With regards to our international businesses, I'm pleased with the overall performance post the acquisitions. During the quarter, International revenues stood at Rs. 3,587 million, witnessing a growth of 9% on a year to year basis. EBITDA was up by 28.1% at Rs. 219 million. EBITDA margins reported an improvement to 6.1% in Q1 FY2012 predominantly based on the elevated margins reported by Leggiuno in Italy and HMX USA. We have undertaken several initiatives for these businesses including product innovation, pruning down costs, brand oriented approach which are bearing fruit and are expected to pay rich dividends over the years to come.

At our US subsidiary HMX, we manufacture, design and distribute to leading large format and multi-brand stores which includes Barneys, Saks Fifth Avenue, Neiman Marcus, Bergdorf Goodman, Bloomingdales, Dillard's, and Nordstrom. HMX portfolio comprises of top notch brands like Hickey Freeman, Exclusively Misook, Austin Reed, Jag Jeans, Bobby Jones which are doing well and provide tremendous growth opportunity. Our Italian company Leggiuno has benefited from the implementation of the backward-forward integration with the BSFC plant at Bharuch. Leggiuno boasts of a lucrative client base with marquee names, which the company can definitely en-cash upon. SKNL UK, our joint venture with DKNY is making healthy in-roads in the men's global apparel business. We anticipate excellent prospects for this venture as DKNY is a very strong and highly recognized brand and is poised to witness growth through geographic expansion.

As you are all aware during FY2011 Reid & Taylor (India) Ltd filed the Draft Red Herring Prospectus (DRHP) with SEBI for its IPO. RTIL has already evolved into a sizable business entity, and we believe the listing will unlock substantial value for stakeholders. All the regulatory approvals are now in place. The IPO is imminent and we are waiting for the market conditions to stabilize before we proceed with the listing of Reid & Taylor.

Let me now give you a brief overview on the operational performance for the quarter. In Q1 FY2012 Consumer Textiles delivered a health growth of 28.4% in revenues on a year to year basis and stood at Rs. 5,453 million. This is mainly attributable to 'Belmonte' with its increasing market penetration. EBITDA stood at Rs. 1,210 million marking an increase of 35.9% over the corresponding quarter of the previous year. EBITDA margins grew to 22.2%, this is primary on account of higher price realization for blended fabrics and expanding volumes for 'Uniformity', which is a sub brand under this division. The company will continue to lay additional emphasis on 'Belmonte' and is optimistic about its future prospects.

Moving on to Luxury Textile, this division started the premium segment of the Indian fabric market. Revenues for the quarter grew 13.2% on a year to year basis to Rs. 2,438 million predominantly based on higher product pricing. EBITDA grew by 17.1% to Rs. 930 million and EBITDA margin improved by 130 basis points to 38.2% on account of high realizations.

For the quarter under review, Ready to Wear which includes garments/apparel offerings of Reid & Taylor, Belmonte, Stephens Brothers and World Player witnessed a remarkable growth of around 63% as compared to Q1 FY2011. Strong demand across all product categories driven by strategic price points continues to assist in registering high volume growth in this segment. In line with revenues EBITDA grew 71.7% to Rs. 372 million as compared to Rs. 216 million for Q1 FY 2011. Our brand in the economy segment 'World Player' launched during FY2011 has started showing traction in sales. We expect to launch this brand across the country during the year and anticipate notable volumes going forward. Additionally we are also excited about Kruger, our new brand in the casual premium segment which will be unveiled during the latter part of this financial year.

Coming to our Luxury Cotton division - the BSFC plant at Jhagadia, Gujarat has gained operational momentum and has reported Rs. 400 million in revenues for the quarter. This facility is expected to witness higher capacity utilization in the coming quarters pushing overall volumes significantly. EBITDA margins were higher at 20%. Brand 'Baruche' launched during FY2011 under the premium category has been receiving an encouraging response. Luxury Cotton operates in a high margin segment and is expected to deliver substantial margin growth going forward.

In Q1 FY2012, the Total Home Expression division reported a growth of around 10% in revenues. Growth in this category has been stable following the industry trend.

Going forward, we expect a healthy demand for the textile and apparel industry in India. Strong underlined economic growth, population expansion and rapid construction of organized retail infrastructure will drive this growth. With the expanding middle and upper class consumer base, there will also be opportunities in India's Tier II and Tier III cities. A strong diversified and global business along with rising brand-connect equips us

to capitalize on these opportunities and sustain robust overall growth. We look forward to the year with enthusiasm where we are expanding capacities, launching brands, broadening our market reach which will help us sustain our upward growth trajectory and improve overall profitability.

I now request Mr. Jagadeesh Shetty to take us through the company financials. Thank you.

Jagadeesh Shetty

Thank you Mr. Channa. I'm very happy with healthy financial performance reported for Q1 FY2012. SKNL's Total income from operations for the quarter has grown by 22.7% to Rs. 14,613 million from Rs. 11,912 million in Q1 FY2011. Sustained volumes across brands and increased contribution from all SBUs led to this growth. Kindly note, that the results under review are consolidated with Reid & Taylor, Leggiuno, SKNL UK and HMX Corporation – our subsidiary companies.

In Q1 FY2012, EBITDA continued to improve and stood at Rs. 2,993 million compared with Rs. 2,255 million for corresponding quarter of the previous year; marking a growth of 32.7%. EBITDA margins increased to 20.5% from 18.9% of the corresponding quarter. This was mainly due to the enhanced margins reported by the Consumer Textile division, Luxury Textile division, the Ready to Wear garments segments and Luxury Cotton contributing at a higher capacity.

The total expenditure increased mainly account on account of the expansion of the operating activities. Depreciation for the quarter stood at Rs.336 million, marginally higher by 9.4 % on a year on year basis.

During the quarter the interest expenses were higher at Rs. 1,088 million as compared to Rs 733 million for Q1 FY2011. This was mainly due to the increase in the working capital requirements on account of sales growth and also rising interest rate levels.

Net profit after minority interest for the quarter under review grew by 40.3% to Rs.880 million compared to Rs.627 million in Q1 FY2011. Diluted EPS increased to Rs.3.03 from Rs.2.54 for Q1 FY2011, up by 19.4%. Earnings grew on account of the sustained improvement in performance of the domestic businesses.

This is all from the finance side and we may now move into question and answer session. Thank you very much.

Moderator

Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Rishi Maheshwari from Enam Asset Management. Please go ahead.

Rishi Maheshwari

Congratulations to the management on a good quarter. My question is related to the international division. I wanted to understand the sustainability of this expansion in EBITDA margins that has come across. If you could also highlight the volume and the value growth that has happened particularly in the international division? And which part of the

division is actually giving you the maximum EBITDA increase that we have seen?

Anil Channa

EBITDA margin has grown both in Leggiuno and HMX, Leggiuno has now come up to 9.6% during this quarter and HMX has gone to 6.1%, whereas DKNY business which is relatively a new business under SKNL UK is almost at breakeven EBITDA levels. Consequently the overall EBITDA for the international business is about 6.1%.

These business have been restructured ever since they were acquired, particularly HMX and Leggiuno. Leggiuno has been with us now for more than 2.5 half years. HMX has been with us for 1.5 years, almost close to 2 years now. And DKNY is of course relatively less than 1 year. Basically we have got teams which are new, who have restructured the entire product offering where we are now coming out with offerings which are more in sync with the market trend, the consumer taste, so that we can capture some of the lost market share which the erstwhile managements had lost. This is what the current teams are operating at.

While, there has not been a significant growth in terms of the overall market size in the US as well as in Europe, but since we have restructured our product offerings, we are noticing an increase in our demand and also taking up some of the market share from our competitors. So that is helping us in some growth of around 9% to 10% in terms of top line. In terms of the EBITDA margins, it's a sum total of several things. We basically improved our supply chain mechanics. We have improved our operating efficiencies, which has helped us improving our gross margins and we have also cut down our SG&A cost significantly. All of this is helping us to improve bottom line and this is absolutely sustainable.

Going forward, we are very optimistic about these businesses; irrespective of the markets where we are today, while we don't expect that significant growth, which will be in sync with the Indian operations, but even at the current level of growth, they would hopefully be in EBITDA levels of two digits, somewhere in low teens very soon. That is our expectation and that is what we been working towards. Our teams comprising of Doug Williams, CEO of HMX, Paolo Ingegnoli, CEO of Leggiuno and Michael Morris, CEO of DKNY, have been working very hard with the teams, motivating their teams and I think the results are just round the corner now, for their improvements.

Rishi Maheshwari

That is very encouraging. The second question is towards strategy on pricing on the Indian front post the raw material dip that we have seen on cotton and your expectations on wool, how is that trending?

Anil Channa

Yes there was a steep increase in pricing, in the raw material prices across the board, in all categories whether it was wool, polyester, cotton. Wool has gone down by almost around 10% and hopefully there should be a little more reduction because the Australian exchange rate is becoming a little better for us. The Australian dollar had gone up to almost 47, 48 levels and now has gone down to almost 45 level, so that also is definitely very helpful. Similarly the polyester and viscose prices have also gone

down and cotton has drastically reduced. This means that there is going to be a reduction in our input cost going forward, but since we are in the branded play, we would not expect to kind of roll back our prices. This is not normally done in any kind of a branded play. Hopefully I think it should lead to a margin expansion for us in the coming quarters.

- Rishi Maheshwari** Mr. Jagadeesh, gross debt and cash at the end of this quarter?
- Jagadeesh Shetty** We have a debt of Rs. 3,620 crore at the end of the quarter. And cash equivalent of about Rs. 67 crore in the system.
- Rishi Maheshwari** And what should I take as the average interest rate for the entire year FY2012?
- Jagadeesh Shetty** For the last year we had an average cost of close to about 11% and which has gone up by at least a percentage point during the first quarter. This year it would be about close to 12%.
- Rishi Maheshwari** And how much CapEx have you done in the first quarter?
- Jagadeesh Shetty** In the first quarter the CapEx was about Rs. 45 crore, all divisions put together.
- Moderator** The next question is from the line of Jaibir Sethi from CLSA India Limited. Please go ahead.
- Jaibir Sethi** I wanted to ask about two things in particular. First we have been hearing from a number of manufacturers as well as retailers that there has been a bit of a slowdown in domestic demand, starting about May or June and people are a bit cautious looking to the second half of the year. Do you share something similar and would you share that caution about demand? The second is that, given the increasing uncertainty about western economies in general and Europe in particular, do you expect that there might be a risk of performance in those businesses again deteriorating as those economies soften?
- Anil Channa** Coming to your first question on the demand compressions in the domestic market, yes there was a steep price increase which naturally got translated into higher MRP levels. During May and June there were some indications that the demand is getting a little slack. I don't know what the others are feeling, but at least in July we have seen that whatever slackness we observed during May and June, in July everything has been restored and July sales have been absolutely very strong and very robust. At least till March 2012, a lot of marriages are coming, they are on the anvil. In fact, people who believe in all this they say that calendar is very crowded and that's why lot of weddings are happening even in the summer months when normally they will happen only in the later half of the year. Because of the wedding seasons, I think the demand is going to remain very robust and very strong. I don't foresee any kind of a slackening in spite of the increase in the finished good prices.

Secondly on the Western economies and Europe, we factored in the budgets based on the present market conditions. We have not factored a 20% 25% growth as we are doing in our domestic businesses. There we factored in relatively 9% to 10% growth which is absolutely in sync with the effort which that teams are putting in and the kind of market expansion they are doing and the new product offering they are doing. I don't think our estimates are going to be off. Therefore we are quite comfortable in whatever projections or forecasts we made in these international businesses.

Moderator The next question is from the line of Samir Arora from Helios Capital Management Pte Ltd. Please go ahead.

Samir Arora Good results but my point is that in the last six months the number one priority for you guys should be to get back your pledged shares. Every time any company's shares get sold, your name comes along with it. Although I know the whole story and I know the explanation but I think it's gone beyond the limit now, 9 to 12 months to get back shares where the loans are already out of CDR. So please tell me the status, but more than that do nothing about Europe, do nothing about anything else, go and sit at IDBI office and get your shares back. This should be the number one priority. The stock will go up 25% the day you get your shares back.

Jagadeesh Shetty On this pledge shares, I think we have already discussed with IDBI and they have no reason now to sit on the shares because we have paid all the CDR dues. And now I think it's coming back and we have already had a dialogue with them. But, you know, with the Indian banks and financial institutions once certain things are with them, it's a big process to get it released and we do realize the importance and we have had negotiations with them to release it. It should soon happen.

Samir Arora Everybody in the market can see what is the market cap of SKNL and what is the targeted market cap that you want for Reid & Taylor. How will I give USD 1 billion or USD 750 million to Reid & Taylor? It's a chicken and egg. First, SKNL stock has to go up. How will any investor buy Reid & Taylor at USD 1 billion if you see that parent market cap is USD 300, 400 million?

Anil Channa Yes Sameer, we quite appreciate what you are saying. In fact we are fully seized with this issue ourselves and believe me we are sparing nothing to get our pledge share out of the CDR kitty. Mr. Shetty and team would definitely have a very positive answer very shortly. So kindly bear with us some more time.

Samir Arora I am saying it publicly because I want you to feel the pressure. The stock price anyway is down a lot and nothing more will happen to it but you guys should see this as the priority.

Anil Channa We will definitely get them back very soon. I think Jagadeesh and team are working very hard on it. There is no reason why they should not be released very soon. So we are hopeful. So let's keep our fingers crossed.

On the next quarter call, we will probably have better things to report. I understand, proof of pudding lies in eating, so we will try to get them released as soon as we can.

Samir Arora

Correct.

Anil Channa

We will definitely put all our efforts to do that quickly.

Moderator

The next question is from the line of Sumeet Rohra from Silver Stallion Investments. Please go ahead.

Sumeet Rohra

One that I wanted to know is that, what's the time frame you are targeting for IPO, because the IPO has been doing the round since quite a long time. So when you actually plan to do that? Secondly seeing the environment, the way it is, you guys actually guided for a Rs. 6,500 crore top line with about Rs 15 EPS. So is that holding? And thirdly I wanted to ask about the total debt and the cost of funding which I think you are already answered. So I just wanted an updated on the first two questions please.

Anil Channa

In terms of IPO timing, I think I have already mentioned in my introductory remark that we have the necessary approvals, they are all in place; we are just waiting for the market to be a little better. We are naturally guided by lot of our investment bankers, we have got 8 investment bankers who are in this deal and they have told us that maybe it will take us a couple of weeks more. We are all waiting for a right window to open up so that we can do it.

As far as the forecast for this year is concerned, I don't see any reason why there should be any downward revision. Our domestic businesses are doing very well and as I said earlier on, there is likely to be a margin expansion. Our international businesses, we have not forecast a very huge growth there, we forecasted 8% to 10%, which definitely is on the anvil. So we don't expect that there would be any downscaling from the expectation which we have given earlier on.

Moderator

The next question is from the line of Vinay Agrawal from CRISIL Research. Please go ahead.

Vinay Agrawal

My question is regarding the growth in the Ready-to-wear segment. So can you explain what the reasons are and which are the brands present in this segment?

Anil Channa

Actually we have got five brands here. We have got 'Reid & Taylor' in the premium segment. We have 'Stephens Brothers' in the super premium segment. We have 'Belmonte' and then we have 'World Player'. And 'Kruger' is the one which is just getting into the launch stage.

Vinay Agrawal

Okay Sir. Regarding the 63% growth that you have witnessed y-o-y, what were the main drivers? Did you launch any new brand?

Anil Channa World Player was introduced a few months earlier on. That has started picking up momentum. And essentially a lot of growth has come both in Reid & Taylor and in Belmonte brands. Partly driven by a steep price increase of almost around 15% to offset the raw material price, particularly the cotton prices, they went up through the roof and therefore to offset that we had increased our MRP levels by almost 20%.

Vinay Agrawal Okay across all the brands.

Anil Channa Yes.

Vinay Agrawal Okay and sir regarding the future CapEx plan for the next year and FY13, sir what are the plans that the company is looking for?

Jagadeesh Shetty In terms of amount, it would be about Rs. 330 crore for this year and about Rs. 150 crore for the next year that would be about Rs. 480 crore. That would take care of all the plans that we have spoken of. There is no additional commitment on any CapEx in any of the companies.

Vinay Agrawal Okay and sir of this Rs. 330 crore, Rs. 45 crore has already been incurred?

Jagadeesh Shetty Yes.

Vinay Agrawal And sir are these loan under TUFs or?

Jagadeesh Shetty yes majority of the amounts have been tied up under the TUF and from the various banks and financial institutions.

Vinay Agrawal Okay sir and of the total fabric and garments that companies sell. Sir what proportion would be manufactured in-house and what proportion would be outsourced?

Anil Channa We roughly outsource about 60% of our production. Outsourcing in the sense we are thoroughly involved, right from the design stage to the quality control and delivery. About 60% is outsourced.

Vinay Agrawal Okay and sir after this future CapEx plan, is this proportion expected to go down?

Jagadeesh Shetty Would be very marginal, but I think it would still be about 60% because we are producing only high quality items like Reid & Taylor fabrics which cannot be outsourced from anywhere else, where the quality is very critical. Otherwise we definitely would like to continue with the cost advantage of outsourcing wherever needed.

Vinay Agrawal What is the projection for FY12 revenues if we include Reid & Taylor in SKNL?

Anil Channa I think it was mentioned earlier on.

Vinay Agrawal Okay sir and what proportion would be Reid & Taylor of the total revenues?

Anil Channa It is roughly 20%.

Moderator The next question is from the line of Satish Kataria from Venus Capital. Please go ahead.

Satish Kataria As you mentioned earlier that being a branded player you would not be a reducing your prices because inventory prices have been crashed. The thing is, if I look at your numbers a lot of revenues come from Consumer textiles and Belmonte and SKumars which are the products for the masses, those are not the premium products as such. If there is a price reduction of open cloth, loose cloth by 20-30%, then you can see some competition in this space again. So why would you not reduce the prices? Can there be some inventory loses because you may have some high cost inventory?

Anil Channa See the question here is that we cover raw material, we do a market forward booking. So we normally do not end up in a situation where we are speculating on the raw material cost of pricing. Therefore, let us say in December we envisaged the prices are going to go up, so we decided that we will do a three month raw material booking and correspondingly the marketing team was told that they need to do only a three month booking and nothing beyond that. Thus, the risk of raw material price increases gets mitigated.

If we look at the Consumer Textile, the predominant fabrics there are under Belmonte and Uniformity. Now because of the power of the brand, we don't need to scroll back the pricing even if the polyester or the cotton or the viscose prices goes down by about Rs. 3/- to Rs. 5/- or Rs. 10/- a kilo. We don't need to roll back to the old leve. There could be marginal adjustments in sync with the competition but that roll back would never be coming back to the original price. So when I say that there will be no roll back it means that we will never roll back to the original level.

Satish Kataria yes definitely.

Anil Channa Raw material has already come back to the original levels and the price will never come back to original level. That is why there will always be an enhanced margin for us. That's the point I am trying to make. The delta would always be to our advantage.

Satish Kataria Right that would be in a longer term but in here that there should be marginal decline?

Anil Channa No, it's on a quarter-to-quarter basis. Because after all our covering, our booking, everything is quarterly we don't do beyond that, we don't do long covering. In a market like this we don't do long covering because we don't like to speculate.

- Satish Kataria** And my second question is about your 8-10% growth which you have said or guided in the overseas business. But looking at the current scenario, when all the countries of Europe and USA is going through some problems, can there be some demand slowdown which happened in 2007-08 because in that case if this 8 to 10% would be a difficult task I believe?
- Anil Channa** So far, if I look at the actually absolute growth till June, the men's apparel business in the international market was doing better than the women's and men's apparel business had actually grown by 10 to 12%, till May and June. Yes in July in the international businesses, while the domestic business has become very strong at the retail level but the international businesses actually stagnated or maybe there was a negative traction also for a month or so. But some time it is seasonal also, because July August is a holiday season and people naturally spend money on holidays rather than on shopping.
- I think the trends are a little to early to predict but based on our discussion with the CEOs, they don't foresee any kind of a reduction from the 8 to 10% growth which has been envisaged by us. That is essentially by doing a better product offering and also by capturing some of the other competitor's market share. Even if the market is not expanding, but because of a product offering which is absolutely brand new, we will be able to get the additional market share.
- Satish Kataria** Now but what if people cut back their spending, in that case, it would be a challenging task?
- Anil Channa** Yes but since the costs are very well under control I don't think it will overall have a significant impact on the bottom-line also.
- Anil Channa** The costs are very much under control now.
- Satish Kataria** So these kinds of margins would be sustained in those?
- Anil Channa** Yes margins are definitely sustained. So end of the day, even if we lose some top-line, if that eventuality happens, but the bottom-line will get protected, because that's totally under control now because of the better outsourcing model and other things.
- Moderator** Thank you. The next question is from the line of Deepika Naga from Capital Markets. Please go ahead.
- Deepika Naga** Just wanted to understand out of this 23% top-line growth, how much was due to the volume growth and what would be the realization growth in this quarter?
- Anil Channa** That's a difficult one to answer, to do a macro number like that but I would take a guess that almost 50% is coming out of price growth.

- Deepika Naga** Just wanted to understand because you there was working capital increase and because of that the interest cost is also high I just wanted to understand what division the working capital is high? Is it in domestic or the international front and how are our receivables currently?
- Jagadeesh Shetty** The working capital utilization has proportionately gone up in line with the sales plus in the domestic market as we all know there has been at least a percentage increase in the interest cost by the banks. Internationally, there has not been any change in the interest scenario nor in the utilization. Utilization may have marginally grown with the increase in the sales.
- Deepika Naga** Can you just give me the breakup of the debt, what is the overseas debt and the domestic?
- Jagadeesh Shetty** Out of the Rs. 3620 crore of total debt on a consolidated basis, we have about Rs. 360 crore of debt on the international books, which is a standalone debt on the international companies. And the balance is with the domestic company.
- Deepika Naga** What is the ECB debt?
- Jagadeesh Shetty** Internationally it is the borrowing in their respective currencies. The UK would have in Pounds and HMX would have in Dollars.
- Anil Channa** And Italy we have Euro but we at a corporate level, we don't have any ECBs, at a corporate level in India.
- Jagadeesh Shetty** That's right, in India we don't have any exposure to any foreign currency.
- Deepika Naga** One more point on this HVFC segment. When are we trying to ramp up to a full capacity utilization?
- Anil Channa** It's a very fashion led business, not a commodity business. We are already at around 65% and I think quarter-on-quarter, its increasing say about 8% to 10%. So by the end of this financial year will be at full 95%.
- Deepika Naga** In the Home expressions business, what is your outlook on pricing as well as the demand front going ahead?
- Anil Channa** See on the home expression essentially I think there is a lot of capacity built up in India which is based on export and obviously based on the western world, where the demand has slackened a little bit because of the state of the economy in those countries. My feel is that maybe it will take us one more year for the demand to maybe come back full circle.
- Deepika Naga** How are the capacity utilizations in home expressions?
- Anil Channa** In fact we have a project which is to be implemented, in Jhagadia itself along the shirting division. But we have gone little easy on it in terms of

implementation because right now the EBITDA levels are not very great for us to be putting too much money in it. EBITDA margins are just around 17-18% which is not very good.

We are watching the international market movement and when we see that the market is turning around, we can actually do the implementation in a quick time of just three to four months because the entire infrastructure is ready. But we are consciously keeping ourselves away from that investment for the time being.

Deepika Naga

On HMX front, how is the demand spanning out there in view of some slowdown in US markets currently and what is your growth target in HMX and Leggiuno also?

Anil Channa

See as far as HMX is concerned as I mentioned earlier on, till June there was a substantial growth in the men's wear but not in the women's wear in the US markets. In July it was negative little bit may be 1 or 2% and August is too early to say. Normally July and August are lean months because of the holiday season. We are looking at a growth of 10% this year and 10% is what we are definitely achieving. We have done it in the first quarter and I don't expect any problem going forward also but that is because of our better product offering and the hopefully we will take away some part of the competitor's market share.

As far as Leggiuno is concerned, this business is in the luxury segment dealing with all the luxury brands. Now there actually the year-on-year growth is more than 20%. Luxury which had dipped very drastically in 2008 and 2009 actually had come back in later half of 2010 and 2011. If I look at my order booking position, it is almost 25% higher than what it was last year, which is very encouraging.

Deepika Naga

Great sir can you give us the revenues for the quarter under Leggiuno, HMX and DKNY?

Anil Channa

Yes sure. Leggiuno I will say that Q1 last year and Q1 this year?

Deepika Naga

Yes no problem.

Anil Channa

Leggiuno Q1 last year was Rs. 42 crore and Q1 this year is Rs. 50 crore that's the growth of 19%. HMX was Rs. 277 crore and Rs. 288 crore and DKNY was Rs.10 crore and Rs. 21 crore.

Anil Channa

Total is Rs. 329 crore and Rs. 359 crore.

Moderator

The next question is from the line of Richa Naram from CRISIL Research. Please go ahead.

Richa Naram

I just wanted to know in the Ready to Wear segment you said that there is a 63% growth. So how much of it would be the volume growth and how much of it would be price driven growth?

Anil Channa See as I said price driven is almost around 20%, 18 to 20%, rest of it is volume. Partly, because we introduced a brand called 'World Player' in the economy segment, that was an organic growth actually for us.

Richa Naram What would be your outlook on the domestic Ready to Wear segment going ahead?

Anil Channa I wish we had a crystal ball. Right now there is an end of season sale going on which is true for all the brands and I think the sale in the end of season sale has been very very robust and very good as compared to last year. This means that a lot of merchandise which has not gone under full price is getting liquidated. That's a very positive sign and if I were to go as per this trend, I think the season should be very good, even the winter season should be very good.

Moderator The next question is from the line of Aman Sonthalia from Suvidhi Capital Markets. Please go ahead.

Aman Sonthalia Sir what is the current holding of the company in Reid & Taylor and how much equity divestment has the company been thinking of?

Jagadeesh Shetty We have 76% holding in Reid & Taylor. We are proposing for a Rs. 500 crore primary issue in Reid & Taylor and a Rs. 500 crore of offer for sale by SKNL as well as GIC. Roughly about Rs. 400 crore of offer for sale by SKNL and about Rs, 100 crore of offer for sale by GIC. The planned issue is Rs. 1000 crore.

Aman Sonthalia Rs. 500 crore for SKNL and Rs. 500 crore for PE fund?

Anil Channa No Rs.500 crore for Reid & Taylor as primary issue for growth needs of Reid & Taylor, Rs. 400 crore by SKNL as offer for sale and Rs. 100 crore as offer for sale by GIC.

Aman Sonthalia What will be the debt-equity ratio of the company at the end of the current financial year?

Jagadeesh Shetty See if we are talking about SKNL on a consolidated basis, currently also we are close to 1:1 ,debt means the total debt including working capital advances and debt individually on international companies. At the end of last year we had about 1:1.06 and this year too we would be in the region of 1:1 without any significant variation.

Aman Sonthalia Sir what is the price range for World Player and what is the marketing budget for the brand now?

Anil Channa For 'World Player', naturally there is a shirt, there is a trouser, and there is a jean. So let's talk in terms of a shirt, we started at Rs. 250/- retail going up to Rs. 500 which actually has moved up to Rs. 300 going up to 700 now because of the price increases. You will be a little surprised that

the Rs. 250/ shirt which we thought would be a hot seller actually doesn't sell as well as the Rs. 350 shirt, it's a little bit of surprise to us also.

- Aman Sonthalia** What is the marketing budget for the brand?
- Anil Channa** Around Rs. 15 crore to Rs. 20 crore, that includes the launch also. We have got Sachin Tendulkar as the brand ambassador who has already signed on and will be launching a campaign with him as soon as our distribution networks are fully in place in the next one or two months.
- Aman Sonthalia** What is the turnover we expect from this World Player brand for the current accounting year and for the next accounting year?
- Anil Channa** This year we keep our fingers crossed, if everything goes well we should touch around Rs. 80 crore and it has the potential to go up to almost Rs. 500 crore in the next two to three years.
- Aman Sonthalia** What is the market share of Reid & Taylor in the premium fabric category?
- Anil Channa** Market share is very difficult to measure but yes based on some market researchers study, I think we should be at around 24-25%. We are the number two in this segment.
- Aman Sonthalia** Sir how much turnover we expect from this High Value Cotton Fabric division?
- Anil Channa** Rs. 280 crore with an EBITDA of 30%.
- Moderator** The next question is from the line of Aman Jain from Parasnath Securities. Please go ahead.
- Aman Jain** Just have a couple of questions regarding business in general rather than this quarter. What kind of relationship do we have in the Brandhouse Retail?
- Anil Channa** Brandhouse Retail is basically a master franchise for the SKNL brands. It's a company which emerged as a process of a demerger, with the result that the shareholding of Brandhouse and SKNL was a mirror image, when the company was formed and therefore SKNL does not own it. The promoters of SKNL and Brandhouse were common at that point of time and then the other shareholders were common and over a period of time maybe some shareholders have changed hands.

As far as SKNL is concerned the working relationship is that they are master franchise. There is an agreement at the terms at which the merchandise is given to them at the same terms as being supplied to the wholesale trade for the MBO channel. It's a totally arm length approach and that's the way the model works.

Aman Jain So, apart from the Brandhouse, are the stores owned by the company or everything all the retailing parts the stores which we see in the market are all under Brandhouse?

Anil Channa No there are two models; one is the Brandhouse stores which are under the master franchise agreement. The other is that there is a private entrepreneur franchisee model which is operated directly by the brand through Brandhouse Retail. That is actually owned by the private entrepreneur.

Now going forward we are also proposing to setup 160 stores under Reid & Taylor for operating the Reid & Taylor, Kruger, and Stephens Brothers brand and also around 50 stores for Belmonte. These will be directly under the company. That is a retail model which the company would also be getting into very soon and we will be able to capture the better margin.

Aman Jain It will have better margin I understand right?

Anil Channa Yes.

Aman Jain So, as of now SKNL does not operate any of its stores. Any of the exclusive stores which we see in the markets today are under Brandhouse?

Anil Channa Brandhouse or private franchisees. SKNL does not own any store as of now.

Aman Jain Own or lease nothing of that sort I understand?

Anil Channa Yes that's right. That process has already been approved by the board, getting into the direct retailing and therefore it will get initiated in the next one or two months.

Aman Jain So, that will be only done by Reid & Taylor and not under SKNL?

Anil Channa No, Belmonte will be done under SKNL. Reid & Taylor, Stephens Brothers and Kruger will be done under Reid & Taylor India Limited.

Aman Jain I think sometime last year in a television interview Mr. Kasliwal indicated that the company is hoping for a \$5 billion sales some times in the next five years. So just want to understand what kind of brands, which we are looking for scale up? Basically what kind of mix we are expecting for that kind of growth?

Anil Channa Those are actually vision statements. Frankly our corporate plan is yet to be evolved, yes those are visions and I think that probably requires a separate discussion. I think the time given to this question answer session is going to be too small to be able to discuss that plan. Those are very visionary statements and that probably requires a separate plenary session.

- Aman Jain** I was just wondering where exactly the company is retailing the Baruche brand, I haven't seen any stores in Delhi. Do we have a store in Delhi Baruche?
- Anil Channa** No 'Baruche' as a brand we are not going into retailing. Baruche is a fabric brand coming out of Gujarat. It is being supplied to the export market, it is being supplied to Leggiuno as a backend and it's also being supplied to the readymade garments in India, both our own garment divisions as well as the competitive private garment divisions. It is also being supplied over the counter at the retail level.
- Aman Jain** So, okay where exactly is it being retailed locally in India?
- Anil Channa** You can go into a Reid & Taylor store and get a 'Baruche' fabric there, of course that is being marketed by Reid & Taylor. That gives us the maximum value for our product you see. Reid & Taylor has a great network and a great brand and therefore we are able to command a premium pricing when we are marketing it under Reid & Taylor.
- Aman Jain** At retail level at what prices are these selling, the Baruche shirting fabric or probably trouser as well if we have that sir?
- Anil Channa** Trousers we have not gone into as yet. Shirting fabric is being offered but then that's very product centric. The base price there is roughly around Rs. 350/- that will be the base price per meter. Going up to Rs. 800/- to Rs. 1000/- also.
- 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.
- Anil Channa** Thank you. To conclude, our performance is reflective of sound business policies, well-defined growth strategies, strong execution capabilities, and a bold vision of being closer to the nation today and to the world tomorrow. We are committed to deliver superior returns to all stakeholders. Further, several strategic initiatives undertaken during the past has set us up well for continued success for remainder of the year.
- I hope we have been able to answer your question satisfactorily. If you have any further questions or would like to know more about the company, we would be happy to be of assistance.
- Moderator** Thank you gentlemen of the management. Ladies and gentlemen on behalf of SKNL that concludes this conference call.

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