SKNL's Q3 & 9M FY2011 Results Conference Call

Investor/Analyst Conference Call Transcript

January 28, 2011

Moderator

Ladies and gentlemen good evening and welcome to the Earnings Conference Call of SKNL. 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. If you should need any 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. Salil Bawa from SKNL. Thank you, and over to you, sir.

Salil Bawa

Thank you, Farah. Ladies and gentlemen good evening and I will use this opportunity to wish you all a very happy new year. Welcome to SKNL's Q3 & 9M FY2011 analyst and investor conference call. On this call, we are joined by Mr. Anil Channa, CEO and Deputy Managing Director, Mr. Anees Fazalbhoy Group Director, SKNL, Mr. Dara Avari Director Corporate Affairs; Mr. Jagadeesh Shetty, group CFO, and Mr. Ashesh Amin who is head of Apparel and Retail.

I would now like to invite Mr. Anil Channa to give us an insight on SKNL's performance for the quarter and nine months ended 31st December 2010. Over to you Mr. Channa.

Anil Channa

Thank you Salil, good evening everyone, happy New Year to all of you. I welcome you to SKNL's Q3 & 9M FY2011 results conference call today. I will begin the call by sharing my views on the business and operational performance during the quarter and the nine months under review after which, Mr. Jagadeesh Shetty will run you through the financial performance.

I'm pleased to share with you that all the SBUs reported a healthy performance during Q3 & nine month period in FY2011 with the total income for the nine month period under review increasing by 31% to 37,552 million, and EBITDA improving by 30% to Rs. 7,323 million. Consumer Textiles, Luxury Textiles, Total Wardrobe Solutions, Luxury Cotton division continue to contribute significantly to overall revenues. The distinct strategic approach adopted by each of the SBUs supported by a proficient operating model has proven effective in driving growth. An exhaustive product portfolio which covers all the possible price categories from the economy to the luxury segment both in the domestic and international markets gives us an edge over other players in the branded apparel segment. Vertically integrated operations, an expanding distribution network and successful brand positioning had yielded its returns during the quarter.

With regards to our overseas businesses, we are optimistic about the growth potential given our strong set of brands, which include Hart Schaffner Marx, Hickey Freeman, Exclusively Misook, Austin Reed, Jag Jeans, Bobby Jones, Leggiuno, DKNY to name a few. In addition, we have also undertaken several initiatives in these overseas businesses, which will result in significant contribution and improvement in the long-term which is what was envisaged at the time of making these acquisitions. These companies have already undergone the process of team building, new product lines have been created, customers are coming back on the table looking for bigger volumes and I would say that these companies have stabilized the way we expected them to stabilize, and they would reach their full potential by FY2012 of achieving around 12% EBITDA at the minimum.

As you are aware there has been a steep increase in the input prices, which I think it's not only specific to textile, it has been prevalent across the board in several places. But as far as we are concerned since we are in branded play, historically we have been able to pass on the increases in the input prices by increasing the prices of the finished goods. During October to December quarter, we have realized higher prices by about 3 to 5% and our current bookings are around 12% higher for the ongoing quarter which means we have actually mitigated our risk of all price increases because we have a raw material covering of almost up to end of May.

I would also like to highlight with great delight that during the quarter Reid & Tailor (India) Ltd. filed a Draft Red Herring Prospectus, DRHP in short, with SEBI for its IPO. We believe that RTIL has evolved into a sizeable business entity, and the listing will unlock substantial value for the shareholders. The proceeds from these; from the funds will be used to further expand the businesses of Reid & Taylor by setting up a factory for making readymade suits; setting up 160 EBOs across the country by FY2012; while SKNL will use the proceeds to reduce its debt.

Now, let me update you on the performance of each of our SBU's during the quarter. Consumer textiles which addresses the economy and mid-price data of the society, reported a growth of 13% in revenues on a quarter-to-quarter basis. EBITDA for the quarter increased by 22% over the corresponding quarter of the previous year. This is primarily on account of deliberate efforts at improving contribution from high value Belmonte products. We expect the same trend to continue in the future as well.

Moving on to Luxury Textiles - Revenues for the quarter grew a healthy 19% to Rs. 2,361 million. This division caters to the premium and super premium segments which are high growth areas. Keeping in line with the revenue the EBITDA has also improved by 20% to Rs. 913 million as compared to Rs. 763 million for Q3, FY2010.

In Q3 FY11, Total Wardrobe Solutions, the segment including ready to wear garment offerings of Reid &Taylor, Belmonte, Stephens Brothers and World Player witnessed a remarkable growth of around 48% as compared to Q3 FY2010. Strong demand across all product categories driven by strategic price points continues to assist in registering high volume growth in this particular category. Additionally, World Player our economy brand which was just introduced a few of months back has been well received in this market. We have already done test runs, and it is now headed towards an all India launch in the next financial year. We are positive that this strategy to phase out the launch of 'World Player' will pay very rich dividends going forward.

We are also excited about Kruger, our new brand in the casual premium category to be unveiled in the coming financial year. This is again in line with our strategy of extending our presence across all segments.

Coming to our Luxury Cotton division at Jhagadia, Gujarat, this 12.75 million metres capacity has gained operational momentum. This facility is expected to witness higher capacity utilization in the coming quarters pushing overall volumes. The division is expected to contribute substantially towards the growth in top line and bottom line in the coming quarters as some of you may be aware it has potential to reach Rs. 280 crore in the top line at full capacity utilization.

In Q3 FY2011, Total Home Expression's division reported a growth of around 9% in revenues. Growth in this category has been stable with the improving demand scenario. We expect home textile unit at Bharuch to be operational next year which will be an opportune time as healthy demand level are expected in FY2012 for the home textile category.

As you are aware, the company had made substantial investments into organic and inorganic growth over the last few years, and based on the implementation of the plan, these investments would actually reach their full potential by FY2012. So, therefore we would expect that there would be huge incremental growth in the turnover and the EBITDA in the coming quarters.

Our concerted efforts at streamlining and expanding operations have resulted in a stable financial performance for the quarter and nine months ended 31 December 2010. Mr. Jagadeesh Shetty, our CFO will share more details with you in this regard. He will now take us through the company's financials. Thank you.

Jagadeesh Shetty Thank you Channa saab, good evening everyone. I'm very happy with the healthy financial performance reported for the period under review. SKNL's total income from operations for the quarter has grown by 12% to Rs. 13,526 million from Rs. 12,104 million in quarter three of FY2010. Sustained volumes across all brands and increased contribution from all SBUs led to this growth. Kindly note, that the results under review are consolidated with Reid & Taylor, Leggiuno in Italy, SKNL UK and HMX Corporation - our subsidiary companies.

In Q3 FY2011, EBITDA continued to improve and stood at Rs. 2,647 million compared to Rs. 2,175 million for the corresponding quarter of the previous year; marking a growth of 22%. EBITDA margins reported an improvement from 18% to 19.6% over the corresponding quarter. This was mainly due to the enhanced margin reported by Belmonte of consumer textile divisions and luxury textile segment that is the Reid & Taylor brand.

Total expenditure increased mainly on account of expansion of operating activities. Depreciation for the quarter was Rs. 298 million higher by 79% owing to the higher depreciation charges for the super fine cotton plant at Gujarat along with the consolidation of overseas businesses.

During the quarter, interest was higher at Rs. 916 million as compared to Rs. 706 million for the quarter three of 2010. It was mainly due to an increase in the working capital requirement to support adequate supply during the peak season for Reid & Taylor. It is to be noted that the interest cost for the current quarter is lower, as compared to Rs. 937 million in quarter two; this reduction in the interest cost has happened despite the general increase in the interest cost in the current scenario.

In Q3 FY2011, profit after tax before minority interest stood at Rs. 955 million as compared to Rs. 808 million in quarter three of 2010. This is an improvement of 18% over Q3 of 2010.

Net profit after minority interest for the quarter under review stood at Rs. 797 million compared to Rs. 675 million in quarter three of 2010. This can be attributed to sustained improvement in earnings in the domestic businesses.

I would like to briefly take you through nine months of FY2011 financial performance. Total income during the period increased by 31% to Rs. 37,552 million from Rs. 28,758 million for nine months ended FY2010. EBITDA improved by an equivalent 30% to Rs. 7,323 million from Rs. 5,627 million during the corresponding period of the previous year. Profit after tax and after minority interest enhanced by 17% to Rs. 2,063 million as compared to Rs. 1,771 million during nine months ended FY2010. Going forward, we expect a healthy financial performance from all SBUs.

This is from the financial side. We may now move into question and answer session. Thank you very much.

Moderator Thank you very much. Our first question is from the line of Abneesh Roy from Edelweiss Securities Limited. Please go ahead.

Abneesh Roy Margins overall has gone up by 160 bps and specially in consumer textile business, it has gone up even more. So why are we focusing more on the margins rather on sales because that is the strategy most consumer companies use, that focus on sales is more important, getting market share is far more important. Why is the focus on margins higher?

Jagadeesh Shetty Yeah, I don't think we are focusing on margins alone. If you see our nine months result, revenues have grown by 30% as compared to what it was during the previous year, so I think a 30% growth in the overall revenues is quite commendable, and it only stresses that we are also looking at volume growth, and not necessarily on EBITDA growth. My submission is that we are looking at both volumes and revenue growth as well as improving our EBITDA. It's a combined two pronged approach to better results.

Anil Channa To add what Jagadeesh has said, essentially we are into branded play. We can get substantial volume by getting into commodity play, which we are not interested in doing.

Abneesh Roy So it's more of a premiumization?

Anil Channa That's right. In fact we have been moving up the value chain, that's been one of our key strengths. That's what is helping us in sustaining consistent performance quarter-on-quarter, and that's been our goal.

Abneesh Roy Because, that is coming more in Q3 versus in the nine months. Nine month sales have grown by 20% while in Q3, 12%. Similarly EBITDA margins in Q3 again is higher compared to the overall earlier six months. So, suddenly in Q3, it has become a stronger focus.

Anil Channa No, so this is an ongoing exercise because in Q3, actually virtually the whole company is at play at different parts including the overseas companies.

Abneesh Roy Sure and we were speaking to the other retailers who have come out with results. They were saying that in FY12 in the branded garment section further say 10-15% price hike would be needed to pass on the raw material pressure, so you agree with that further 10-15% is needed or you have already taken most of the price hike?

Anil Channa No, you see this is an ongoing process; we have already taken some increases in the prices in the last quarter, last six months, last season. Even for the new seasons, we have taken a price increase of almost around 10 to 12%, so that has already been factored; now if there are further increases again we will take that into our strides. Again because we are into branded play, so we are able to actually pass on the increases at the consumer level. Now, the advantage of that is that once the prices have been increased at some stage if there is some rollback in the prices of the input prices, we don't actually rollback our prices, so it actually leads to a bumper profit in the times to come when the raw material price has actually stabilized or fallen down a little bit. Which is what we have noticed in the past also that after couple of months, the raw materials stabilize, our finished product prices have already moved up, but then since we are not rolling that price back, I guess it helps us in improving our profitability.

Abneesh Roy And are the other players taking similar price hike?

Anil Channa You see everybody is very consistent. Actually the industry has to take it into its stride but everybody has to evolve his own strategy.

Abneesh Roy And coming to overseas business, how do you see the margin profile earlier you had said that you're investing in terms of, marketing in terms of brands and you'll see good benefits in the more medium term**?**

Anil Channa Actually we are doing that. Our first step was to create a team because these companies, particularly let us say HMX was being run more as a manufacturing company and not as a brand company in spite of having something like 34, 35 brands in its market. So our first effort there was to convert them into a brand company. We put teams who were very proficient. Doug Williams who is the CEO there was the number three man in Polo Ralph Lauren. We got in Joseph Abboud, an icon in the fashion industry. They have brought a lot of middle level managers, and a whole new team has been created, a whole new product range has been created. Typically, in these overseas businesses, it always takes two seasons for the product to penetrate the market because normally the markets move two seasons in advance. So, therefore we are absolutely on track. We have already done two offerings to this trade, and both offerings have been very well received, so I'm very confident that in times to come, we'll be able to get a much better top line as well as the bottom line. Whatever has happened till date, it's been fairly consistent with what we expected when we made this acquisition. We never expected wonders right in the first year. We expected them to be very moderate. Basically, the idea was to streamline this company with a moderate EBITDA which is what we have achieved in this short time.

Abneesh Roy And most people believe that in the international parts of the business turnaround is going to be very fast compared to India where in maybe there are some hiccups in the near terms, are you seeing that underlying signals from the international consumer demand getting stronger compared to the earlier plans of yours?

Anil Channa Yeah, see international businesses had been very dormant particularly in the last one and a half, two years, and definitely we are also seeing signals that now possibly it should start picking up much bigger sales in the coming quarters. We are seeing those signals, now our companies are very well poised to take that into our stride, and to be able to capture that additional volume. We are already poised for that now, but of course end of the day; yes the markets have to be better. These indicators are there, but end of the day it will have to be translated at the retail level.

Abneesh Roy And could you talk about World Player and the new brand of Kruger which you plan to do? Basically how things are moving in World Player because it's in the economy segment and that segment has seen the maximum impact of food inflation because they are the urban poor, rural poor so is are you feeling more pressure on World Player, lesser growth compared to the other premium segments, and regarding Kruger what would be the timeframe you're looking at in terms of launch?

Ashesh Amin Good afternoon, on the World Player we are now almost eight to ten months into our launch that we started back in April, and we are on target with the districts. We have taken a very scientific approach to the penetration of world player. India has 620 districts and we have targeted 560 out of them. We are already in 200 districts as of today, and we are quickly ramping them up. We have just taken a major step in World Player this week. We have signed Mr. Sachin Tendulkar as our brand ambassador which is now going to take our World Player brand into a whole different area. Now, we'll be in a situation where the demand is really picking up as we have ramped up for the supply for the last three months. This segment actually is full of surprises and we have actually managed to get through a lot more than what we expected till date, so over the next three to four months, you will see a very aggressive push for this brand in the marketplace. As far as the Kruger brand is concerned, we have scouted out some properties. We have made some space deals with some of the large format stores in the country and as per our previous estimates we are on target to launch this brand within the next few months. It will start launching itself definitely before the end of the year, financial year. So, we are hoping that that will be a good launch as good as our launch of World Player.

Abneesh Roy And is it possible to give the break up for each of the segments of volume growth and price growth in terms of sales for this quarter.

Jagadeesh Shetty We will have it worked out.

Abneesh Roy Okay

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

Nirav Shah What is the reason for our lower revenue growth in Hartmarx, and why are the margins are lower? Are we spending more in advertising over there right now?

Anil Channa You see typically Nirav, actually October, December in international business is not considered to be a peak period because normally they are into apparel businesses. The apparel businesses, would actually start more from January to March therefore that's one of the reasons why yes there is not been a significant growth in the sales. But yes you're right, we have invested a lot of money on to product development into advertising because that would actually see their top line coming back because we are positioning all these brands with a new avatar all together and actually there is some expense being there which is been factored into the October, December results, but the top line and the bottom line would naturally come in the coming quarters. It will lead to healthier EBITDA margins.

Nirav Shah In the September quarter, we were piling up inventory that was the reason given for the higher interest cost in the September quarter, and we were piling up inventory for the current season, so that inventory is still lying in our system and not in the market. So, is that the reason?

Anil Channa No, which particular inventory are you talking about?

Nirav Shah In the September's quarter's conference call we mentioned that the reason for higher cost was inventory build up at HMX, so that was not reflected in this quarter's numbers in the revenue numbers.

Jagadeesh Shetty No I don't think we have made any reference to the HMX. We have said that the domestic business particularly the Reid & Taylor business during that quarter required a lot of inventory and the debtors. The comment was on our domestic business.

Nirav Shah Okay, so even in the current quarter, the inventory pile up is at Reid & Taylor and not at HMX?

Anil Channa There is no pile up**.**

Nirav Shah Increase in working capital to put it in another way?

Jagadeesh Shetty There has been no increase in the working capital, in terms of number of holdings we have become lower than what it was in September. In September, we had 8.2 months of holding of inventory and debtors. In December, it is close to 7.9, there is a decrease in the level of current assets and it will come down further as business progresses.

Nirav Shah Fair enough, and sir are we giving any revenue guidance for HMX in FY12 that how much revenues will you be doing and our target margins over there, in FY12 especially for HMX?

Anil Channa We will send it across to you.

Nirav Shah And the debt and cash position as on December 2010?

Jagadeesh Shetty Yeah debt position as on December is equating to a debt equity ratio of again 1:1. We have total debts including the working capital and consolidated corporate level including all subsidiaries of about of Rs. 3,175 million as compared to a net worth of Rs. 2,953 million and in terms of debt equity we have become lower than what we had left in the last year in March 2010, and as a policy we would continue to maintain this level. In fact, this I think is one of the proper debt equity ratios in the industry.

Nirav Shah What is your average interest cost and how has it moved over to say last four, five months?

Jagadeesh Shetty The average cost at least in the domestic market has actually gone up by about 75 basis points; that's the case with all the corporates, and company as a whole, at corporate level we have cost between 10-11% of total borrowings.

Nirav Shah And the March quarter's interest. Will it be lower than the current December quarter?

Jagadeesh Shetty It is not likely to be higher.

Nirav Shah Okay fair enough, and on the home textile expansion front. The release mentioned that it'll be commissioned somewhere in the second quarter of FY12 and I think our earlier guidance was somewhere around the fourth quarter in the current financial year, so any particular reason why there has been a delay in commissioning the facility?

Anil Channa See basically I think the home textile market which is again linked to the international market has not been as buoyant as we hoped it to be, and therefore we also decided that unnecessarily why create a capacity, and then you look for order, it is better to wait for the market to improve before actually we get into that.

Nirav Shah So it's basically a planned delay?

Anil Channa Yes absolutely planned.

Nirav Shah Fair enough.

Moderator Thank you. Our next question is from the line of KC Suri from Span Capital Services. Please go ahead.

KC Suri In the opening statement you made some reference to a 12% hike in the current quarter. I kind of missed the link as to what that related to?

Anil Channa 12% hike in the finished good prices.

KC Suri You've actually effected a 12 % hike in the current quarter are you saying that?

Anil Channa Current quarter means January, March quarter. Jan onwards.

KC Suri Okay, and with regards to the HVFC facility, at what capacity utilization levels are we running it now?

Anil Channa We are currently at around 50%, and gradually it's getting scaled up. Because you know this is a fashion product, and it requires offering to the customer and the cycle takes at least one year for it to come to full utilization.

Jagadeesh Shetty And that was at the projected level.

KC Suri And the World Player brand. Could you just provide us some numbers as to how big it is, and what kind of margins it enjoys, that will be really helpful?

Ashesh Amin For World Player, the first four to six months we were in test mode from April and year-to-date we have crossed the number of Rs. 10 to 12 crore, and our margins on this business after we take out everything is very close to about 11 to 12%, and that as we go along will increase as our volumes increase because this is a volume based game. So a lot of our costs are fixed costs and are amortized over lower volumes as planned, so the minute we scale to the 500 districts that we are planning to, those margins will start looking much better.

KC Suri And what is the current marketing strategy, is it retail through EBOs and MBOs or how is it done?

Ashesh Amin The majority of the strategies, the majority of the distribution channel we are using is MBOs, which are at the grass root level. These MBOs are funneled the product through distribution agents. They actually have the core competencies in these smaller towns. We are talking about towns that could be as small as 10,000, 15,000 people as well as we had of course outlets in Hyderabad and other larger cities of India as well, so that's one model. We have done some test modeling also with free-standing shopping shops, but there is only three or four of them. We have just started the test. So we have to actually analyze that and see how we can penetrate the rest of the country with that.

KC Suri And what's the price point it addresses?

Ashesh Amin Current price point we are at is Rs. 129-499, so far that has been the price point, and we are finding that the customer is actually preferring the higher price point product within our metrics.

KC Suri Okay and what was the volume growth and value growth in the quarter ended December. For the overall numbers what you have reported the 12% growth what we have shown for the October, December quarter in the top line. How much was attributed to actually a price hike, and how much was actually increment in volumes?

Ashesh Amin See last quarter the price hikes were not a very big factor, it was only 3-4%. But this quarter is what we will have a much larger price increase because remember we buy raw materials almost nine months before it goes to market, so not much of the attribute should go to price hike in our growth, that's your question.

KC Suri Yes that, and the Kruger brand, what kind of price range are you looking at launching that?

Ashesh Amin Kruger will be around Rs. 1000 going all the way up to Rs. 3,800-4,000. The merchandise is still work in process. We are manufacturing our first set of products that is completely subject to change depending on the demand in the market, and where we find the niche for the brand.

Anil Channa And to add, to what Ashesh said earlier on in World Player. The added advantages are that we are not setting up any kind of manufacturing facility, it's purely on an outsource model therefore the ROI in this particular category would be relatively much better.

KC Suri Okay, so what kind of critical level would you see in the World Player when you would want to do complete in house production of wholesale or will it be a totally outsource model?

Ashesh Amin It will be a totally outsource model for now. We may do certain products as in house when we reach really big scale, but that's not even on our radar right now. We are not in to that right now.

KC Suri And what about Kruger, also I believe would initially be an outsource model?

Ashesh Amin Yeah, but we are using our own fabrics in Kruger so it will be an outsource model, but some of our fabrics are up to the mark in terms of the right quality, so we are using that.

KC Suri Okay, Thank you.

Moderator Thank you. Our next question is from the line of Rishi Maheshwari of Enam AMC. Please go ahead.

Rishi Maheshwari Staff cost in absolute terms have declined quarter and quarter, what is the reason behind that?

Anil Channa See essentially in the earlier quarter, HMX was running at its full capacity, whereas this quarter we have actually pruned it down, we have gone more into outsource model. Typically what happened is in HMX they have three manufacturing plants, and in September '09 or December '09 they were running fully whereas right now a lot of outsourcing is happening, so therefore this employment cost has gone down.

Rishi Maheshwari So, going forward this will be the levels and it's staff cost will be maintained, or does it have further reduction possible?

Anil Channa See, our domestic businesses naturally are going up, like Bharuch is going up, so as a percentage of sale definitely it will go down, but in absolute numbers, it can go up because that is linked to the top line.

Rishi Maheshwari Sure, when did you book your raw material, and for how long is it booked?

Anil Channa See, we actually envisage that there is going to be an acute increase in the prices, so therefore we did an additional booking somewhere in October to December, and we have covered ourself till May.

Rishi Maheshwari So if I had to benchmark say October as the price what would be the average price at which you would have booked for in percentage terms, if you could tell me the increase because I see the increase in raw material has happened very drastically in the month of towards the end of November and December across segments, there is wool-polyester, viscose or cotton, so how are you placed at your raw material position in terms of percentage increases if you can give me an idea?

Anil Channa See to get a weighted average is very difficult, but yes I can tell you we have been covering material when it was going down it was bottoming out, at the bottom of the draft, but we have also covered something in December, but then by that time we realized that we have already covered till May and therefore we let it be because we did not think that this price could be sustainable for a very long period of time.

Rishi Maheshwari Sure, what is the trend that you are seeing in each of the segments of raw material if you can give me an idea on cotton, wool and polyester?

Anil Channa I wish I could answer that question so simply.

Rishi Maheshwari Yeah I know Mr. Channa it's just that since you're so close to the trade you would have a fair idea.

Salil Bawa Rishi can you give me an idea what the stock market will be next week and then next week after that, it's just like that.

Anil Channa We would all be kings if we could anticipate that, though yes we always have expectation, so based on that expectation we thought that yes, the price level which are prevalent in December probably they are not going to be sustainable for very long period of time, and therefore any increase beyond that maybe a little artificial.

Rishi Maheshwari And what is the growth estimates for FY12? For the company as a whole?

Anil Channa I think almost around 20-25% approximately.

Rishi Maheshwari This is in bottom line as well as top line?

Anil Channa Bottom line should actually be little better than that earlier.

Salil Bawa I think we will answer this question in the annual call.

Anil Channa Because lot of our activity is getting fructified now, so therefore we don't need to make massive investment. I would expect that given that there is going to be a price increase everywhere that the top line would increase, by 25%, the bottom line actually should grow better than that.

Rishi Maheshwari Sure, given that you're also factoring the raw material price increase in this?

Anil Channa That's right; that's already been covered.

Rishi Maheshwari Okay, sure, so any color on Reid & Taylor IPO what timeline are you looking to launch at, and any color on the valuation front? Is it possible for you to speak on that?

Jagadeesh Shetty We have already filed the prospectus on 9th of December, and we are working with SEBI now, and we anticipate by about 1st week of March we should have the SEBI card with us to go about the IPO. We have been working with eight merchant bankers and all the merchant bankers are quite bullish about Reid & Taylor IPO and the valuation. They have given the valuation anything between $1 – 1.2 billion. And this is the valuation given by the merchant bankers, and we hope that they will sustain this.

Anil Channa But in any case just to add to what Jagadeesh is saying in terms of valuation definitely anything which is lower than what GIC invested at, two and half years back probably won't excite anybody.

Jagadeesh Shetty And just to continue that as far as we are concerned, from SKNL we have made an offer for sale of shares in Reid & Taylor and predominately that money is going to be used for repayment of debt, and in SKNL as I spoke a few minutes earlier that we have a debt level of 1:1, that is debt to equity ratio. It means I have no compulsion to, I have no pressure for doing the IPO in SKNL, and Reid & Taylor is relatively a debt free company except for the working capital; for all their project needs they can always fund it by TUF loans, so we are definitely waiting for the right valuation. So there is no pressure on us to push for an IPO.

Rishi Maheshwari So in other words to say that if the valuation, markets don’t permit you to value it below GIC valuation then you might not come with an IPO?

Anil Channa GIC valuation is far below, that is rock bottom, is what I'm saying. Definitely we are looking to better that, the purpose is to actually unlock the value, and not to destroy any values. And what Jagadeesh is trying to say that we are in no tearing hurry, there are no compulsions on either Reid & Taylor or SKNL to do a fund raising if the valuations are not right; that's probably what Jagadeesh is trying to convey.

Jagadeesh Shetty That is exactly what I am trying to say.

Rishi Maheshwari Okay, perfect. Thanks. The analyst meet last time you had given guidance of a Rs. 300 plus crore of bottom line are you on set to achieve this for this financial year?

Jagadeesh Shetty I would answer the questions slightly differently. In the first three quarters, we normally do about 60-70% of our revenues, and the net profit booking and rest of the things I leave to you.

Rishi Maheshwari Thanks.

Moderator Thank you. Our next question is from the line of Nalin Ladiwala from Shanti Asset Management. Please go ahead.

Nalin Ladiwala You touched briefly upon your debtors could you comment on your working capital?

Jagadeesh Shetty On working capital, we have been keeping a very tight lease, even under this conditions we have not exceeded the working capital levels that were there in September 2010. In September 2010, debtors and inventories put together we had 8.2 months of sales, which we have been able to bring down to 7.9 months, it's already come lower**,** but I think what is satisfying is the trend not the quantum.

Anil Channa So essentially I think Nalin of course all of us know that we have to view it in light that we are a branded company and we are in fashion business, we are not in commodity business and therefore the cycle is relatively longer. And what I think Jagadeesh is trying to say is that we have been monitoring it, and trying to bring better efficiencies into the cycle, and we hope to do it even better than what we have done by end of December; that should actually help us in releasing some cash flows, and reduce our debt apart from redemption of some of the debt through the IPO mode. So these are some of the steps which we are envisaging to do in the next couple of quarters.

Nalin Ladiwala Okay. Could you help us with the break up of our overseas business sales in terms of HMX which you know and SKNL UK?

Jagadeesh Shetty You wanted for the quarter or for the nine months?

Nalin Ladiwala Quarter would be better.

Jagadeesh Shetty Leggiuno has done a turnover of Rs. 52.4 crore, the HMX USA has done a turnover of Rs. 295.8 crore and the SKNL UK has done a turnover of Rs. 12.88 crore in all amounting to Rs. 361.08 crore.

Nalin Ladiwala And in terms of EBITDA how would it stack up?

Jagadeesh Shetty EBITDA that you know is Rs. 1.47 crore and the HMX is Rs. 11.23 crore, and SKNL UK has a negative EBITDA of Rs. 2.18 crore. This business is getting established, and these are first few quarters of the establishment, and we don't have a policy of deferring our advertisement and brand building and establishment costs, we write-off fully; even in HMX we have written of the brand promotion expenses, totally completely.

Anil Channa During the quarter, we spent close to Rs.16 crore towards brand building exercises, which will fructify into better results in the coming quarters, but nevertheless we have expensed it during this quarter. It has led to a marginal apparent aberration that the EBITDA is lower, it's not actually.

Nalin Ladiwala Alright so the Rs.16 crore is about SKNL UK?

Anil Channa No across all the three companies.

Nalin Ladiwala Okay, fine, that's it from my end.

Moderator Thank you. Our next question is from the line of Kishan Gupta from CD Equisearch Pvt. Ltd. Please go ahead.

Kishan Gupta Even after accounting for the Rs. 16 crore you just spoke about brand building even after that margins are lower in the overseas business, and so is the revenue so, any reason why both were down?

Anil Channa If the margins had not been lower in the overseas businesses the Asian economies would never have come up. So they're bound to be lower because the costs are very high there, so while the realizations are very high, the cost is also very high. According to whatever companies we have been studying, best companies actually get 12 to 15 %. I'm talking of branded companies getting 12 to 15% EBITDA, and in India probably we don't even look at the company which is been doing 12 to 15%. Here probably the raw cotton has to be 18% plus, so there is always going to be a differential.

Kishan Gupta But each year results on a nine months basis, both the profits as well as the data was very higher in the overseas business, but that's not the case in the last quarter, so any specific reason why last quarter was particularly bad?

Anil Channa No that's what I'm saying, because we factored in Rs.16 crore expenses in the last quarter which translates to almost around 4.5% on the sale, 4% roughly. So actually if we would not have spent that money at least EBITDA would have been about 8%. But that is hypothetically, and if we have to grow the business we need to make those investments.

Kishan Gupta And what about sales, sales were also down 3%?

Anil Channa Sales is down because in HMX when we took over the company in August '09, naturally there was a lot of debt inventory which we liquidated up till December '09. Whereas this time, after that since the old inventories are gone, everything is absolutely based on new orders and new designs, so therefore the differential is only coming because of that. That there is a drop of almost around Rs. 30 crore because the old inventory liquidation was happening last year but this year there was no such activity.

Kishan Gupta But if you see the first nine months have been quite good.

Anil Channa See when we acquired the company there was some old inventories which was more than around Rs. 70-80 crore if I remember the number. That is what we were liquidating last year, whereas this year is absolutely fresh production. If I look at the total inventory level and all, there has been no increase since December to the whole financial year, actually.

Jagadeesh Shetty May I give you additional information on that, the HMX sales have grown up from Rs. 233 crore during the last quarter that is September quarter to Rs. 295 crore. There is a substantial growth on a quarter-on-quarter basis.

Kishan Gupta Okay thanks a lot.

Moderator Thank you. Our next question is from the line of Manas Majumdar from SPA Capital Services Limited. Please go ahead.

Manas Majumdar In the beginning of the conference call you said that you've taken the price increase of 3 to 4%, so the rest of the sales increase of 12%, should we assume that is it 7 to 8% increase in volumes?

Anil Channa See its product mix related, there are so many things to it, it's also product mix related, it is also different companies, Bharuch is coming up.

Manas Majumdar And as we see in the investor presentation, Belmonte and Reid & Taylor they have been the major products for you this quarter, so can you give me a break up of Belmonte in consumer textiles, and the total Wardrobe solution as well as for Reid & Taylor?

Jagadeesh Shetty Reid & Taylor textiles for this quarter is Rs. 236 crore, and consumer textiles for this quarter is Rs. 484 crore, which is I would say about 90% Belmonte, uniformity by Belmonte brand and MVCF which is a part of Belmonte.

Manas Majumdar Okay so should we assume that what is the percentage of Reid & Taylor in total Wardrobe solution?

Jagadeesh Shetty No I mentioned in the worsted fabrics, the Reid & Taylor Fabrics is Rs. 236 crore; Reid & Taylor garment is about Rs. 80 crore.

Manas Majumdar Can you give me the volume growth as well as the price increasing on the total Wardrobe solution brands that are present here like Belmonte?

Jagadeesh Shetty I think we need to work it out and Mr. Salil Bawa would have it mailed to you breaking down into price increase and quantity for the last quarter.

Anil Channa But overall this segment has actually grown by 48-49%, and if I say very roughly of the cost, the price increase was hardly about 5%. No, but okay you want to get a macro feel, so from that perspective, naturally rest of it is coming out of a volume growth, which is partly because World Player has been introduced, Belmonte has grown, Reid & Taylor has grown; the sum total of all these things.

Manas Majumdar Okay so can you just share with me the share of income that is been contributed by World Player right now, like what portion is it contributing?

Jagadeesh Shetty Rs. 12 crore.

Manas Majumdar Can you just give me the average transaction size for this segments like for the total Wardrobe solution what has been the average transaction size if you consider all the brands?

Ashesh Amin What transaction means each garment, each fabric?

Manas Majumdar Yeah average selling price as we consider all the brands in your total Wardrobe solutions.

Ashesh Amin In World Player right now which is our wholesale business our average price right now is about Rs. 289, and it's changing rapidly because as you can understand it's a new brand so there are big strings in that. As far as Reid & Taylor is concerned the average retail is now reached Rs. 1389 and Belmonte, I don't have that figure at the top of my head, I'll give it to Salil he'll send it to you.

Anil Channa But it will be roughly around Rs. 680, 690, somewhere.

Ashesh Amin Because Belmonte we have a direct retail and we have wholesale and in all a lot of channels so it's a little hard to give you from the top of my head.

Manas Majumdar Okay, and do you've the volume growth figurers for your SBUs like it would be comes at consumer textile, luxury textile?

Ashesh Amin We have it, we can send it to you. It is not in this set of papers that we have because that's a whole lot of numbers there, so we can send it across.

Anil Channa And that's a combination of lot of things.

Manas Majumdar And you said that you have robed in Sachin Tendulkar for the World Player ambassador, so can you just disclose the details of the deal?

Ashesh Amin Yes it's a three year deal, and it's a branding deal that we have had with him where we will be doing TV commercials, we'll be doing stills, he we will be doing some promotions for us. It's staggered over a period of 36 months and it's got a cool off period of eight months after that, so effectively it's for 44 months.

Manas Majumdar What is the deal size in amount?

Ashesh Amin There are lots of numbers thrown out in the newspaper, we haven't confirmed anything, so it would be unfair to confirm it.

Anil Channa There should be something confidential also about it.

Ashesh Amin From Sachin's perspective, we don't want him to play badly in the World Cup.

Manas Majumdar Okay that will be all from my side

Moderator Thank you. Our next question is from the line of Abhilasha Satale from Techno Shares & Stocks Ltd. Please go ahead.

Abhilasha Satale I just one doubt you said that we have increased the prices of finished goods by 12% during the quarter and sales growth we have witnessed 11% during the quarter year-on-year, so is it that on volume terms having not grown during the period?

Anil Channa Abhilasha, I think what I said was that this 12% increase is the increase which will be applicable from January onwards for the next few quarters. That is basically because the raw material prices have increased so this would be applicable for the period from January to May and June. The increase in the last quarter was around 3 to 4% is which is what I've said.

Abhilasha Satale Okay, so out of this 11% can we assume that 3-4% is attributed to price realization growth and around 6 to 7% of attributed to volume growth?

Anil Channa Volume plus, there is a product mix also; there are lot of other factors it could be different combinations that play.

Abhilasha Satale Can I get your current market share in worsted segment.

Anil Channa It should be at around 23%, that's an estimate which one of the marketing firms had made independently sometime back, so it's around 23%.

Abhilasha Satale Okay, could you just throw some light on how CAPEX would pan out over the next two years because we have been discussing about Reid & Taylor IPO and the time line is not fixed, but could we get some sense on the exact CAPEX planning for the next two years.

Jagadeesh Shetty In the next year we would be spending about close to about Rs. 300 crore and completing all the plans that we have. This 300 is based on the numbers -- is based on the plans that we have already undertaken.

Anil Channa I also would like to add to what Jagadeesh is saying, essentially we have made investments in the past, and the money has already been ploughed and naturally all the plans are getting churned, and hopefully that should lead to much more incremental increases for our top line and the bottom line. But additionally our plan is only to put in Rs. 300 crore, but that is contingent on the IPO. Now, if it gets a little delayed it doesn’t really bother anybody in terms of setting up retail operation, so there is no tiering hurry for us to be able to do that. For the IPO what we have said that hopefully the way the process is going, we expect the IPO process to get completed by sometime by March.

Abhilasha Satale What will be your capex for like first nine months? How much have you spend?

Jagadeesh Shetty This year it’s close about Rs. 400 crore where about 75% has been already spent

Abhilasha Satale Okay, and 3000 crore, what you are anticipating as per the next year?

Jagadeesh Shetty No not Rs. 3000 crore, Rs. 300 crore. We are saying you that we do not have any capex commitment other than what we have done and only a small portion needs to be spent during the next year which is Rs. 300 crore.

Abhilasha Satale Okay fine sir.

Moderator Thank you, our next question is from the line of Satyan Wadhwa from Artha Capital. Please go ahead.

Satyan Wadwa Could you please just set some light on what percentage of raw material is wool polyester and cotton, just rough break up?

Anil Channa The way we do it is that actually all our divisions does their own planning on raw material.

Ashesh Amin We have some areas where our raw material is a finished product we sell to customers and in some area our finished product is our raw material, so it's very difficult for us to answer that from our corporate perspective. In fact I don't think we have a mechanism to do that.

Satyan Wadwa Or may be just how many tones of each material were bought in the last nine months or last year just an average?

Ashesh Amin You mean in the fabric businesses?

Satyan Wadwa Yes.

Anil Channa I think we'll have to get back to you with this information. We have the numbers but then we don’t have the quantity available readily as there are so many variations to it.

Satyan Wadwa Alright Okay.

Moderator Thank you, our next question is from the line of Rajiv Ghosh from Wealth Managers (India) Pvt. Ltd. Please go ahead.

Rajiv Ghosh Can you share the revenue on Belmonte for the nine months as well as the quarter?

Jagadeesh Shetty The nine month revenue for consumer textile division which is predominantly Belmonte is Rs. 1,353 crore of which about 90% is Belmonte. Belmonte business is made of Uniformity by Belmonte and medium value cotton fabric. As for quarter ended, the figure of sales in consumer textile is Rs. 484 crore and 90% of that should be Belmonte.

Rajiv Ghosh Okay and you were saying in Luxury textile, entirely would be Reid & Taylor?

Jagadeesh Shetty Yes, luxury textile fabric division is the entirely Reid & Taylor.

Rajiv Ghosh And how much is fabric and how much is garments?

Jagadeesh Shetty Fabric sale for the quarter is Rs. 236 crore and Reid & Taylor garment division sale for the quarter is Rs. 91 crore. We include Stephan Brothers in that Rs. 91 crore.

Rajiv Ghosh Okay sir thank you.

Moderator Thank you. Our next question is the follow up from the line of Manas Majumdar from SPA Capital Services Limited. Please go ahead.

Manas Majumdar You said that you will be contemplating price increase of 10-12% going ahead, what will be the future volume growth growing rate?

Anil Channa That actually depends on the bookings, the bookings are currently on, so normally lets say for spring the booking would actually get completed by February. That is the way the whole situation works, so I don't expect that the volume should contract.

Manas Majumdar Okay and can you give me the volume growth figures of Belmonte and Reid & Taylor for this quarter?

Jagadeesh Shetty I think there have been some questions from the volume and the volume growth, the bifurcation we would organize to send it across.

Manas Majumdar Okay fine that is from my side, thank you.

Moderator Thank you, ladies and gentleman that's was the last question. I would now like to hand the floor over to the management for closing comments.

Anil Channa So, thank you very much for joining us, I actually see excellent growth prospects for SKNL with brands catering to all addressable socio-economic segments and effective brand positioning strategy and a strong designing team that have further strengthened and de-risked our product portfolio. An increasing global foot print, compelling presence in high margin businesses, deeper distribution network, effective outsourcing model and vertically integrated operations would help us to achieve growth on a long term sustainable basis.

I hope we have been able to answer your questions satisfactorily and in few cases as promised we will be sending the details across. If you have any other questions and would like to know more about the company we would be happy to be of assistance. Thank you once again for taking the time of to join us in this call. Thank you good evening and good night.

Moderator Thank you, on behalf of SKNL that's concludes this conference call. Thank you all for joining us and you may now disconnect your line.

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