



*S. Kumars Nationwide Limited*

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### **Conference Call Transcript**

**June 24, 2011**

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**Moderator**

Ladies and gentlemen good day and welcome to the SKNL 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 Citigate Dewe Rogerson, India. Thank you and over to you sir.

**Anoop Poojari**

Thanks Melissa. Good afternoon everyone and welcome to SKNL's Analysts and Investors conference call. Today on this call we are joined by Mr. Nitin Kasliwal, Vice Chairman and Managing Director, Mr. Anil Channa, Deputy Managing Director and CEO, Mr. Dara Avari, Director - Corporate Affairs, Mr. Jagadeesh Shetty, Group CFO and Mr. Salil Bawa, Senior Vice President – Business Strategy and Investor Relations.

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 sent out earlier.

I would now like to invite Mr. Nitin Kasliwal to share his views.

**Nitin Kasliwal**

Thank you Anoop. Good afternoon friends, thank you very much for coming on to this conference call on a very short notice and thank you for your participation. I want to take this opportunity to address certain concerns that have arisen out of speculative rumors that have been floating in the market regarding pledged shares of SKNL promoters in a very damaging manner.

During the week, due to such baseless rumors the Company witnessed volatility in the share price. It came to our notice that pledge from promoter shares was rumored to be the key trigger for driving volatility in the stock price. I would like to categorically clarify that the equity shares held by the promoters have been pledged to banks who are lenders of SKNL, the lenders to the Company, only as additional collateral during the time of the CDR in 2004. There was a mandatory requirement by the CDR cell for all promoters, who wanted the Company to be restructured in debt; that the shares were to be pledged to the lending banks. This pledge was also for proving to the lenders, the commitment of the promoters of the Company in which the loans were being restructured. Therefore, SKNL shares which were held by the promoters in 2004 were pledged to the lenders of SKNL as additional collateral. Actually not even as collateral, this was just pledged as a commitment and not primary collateral in any case.

The primary collateral of SKNL is more than 2x and that is fixed assets and current assets of SKNL which are much more than sufficient to cover the borrowings of the Company. Therefore, the shares that have been pledged by the promoters to the lenders of SKNL were for the benefit and are for the benefit of the Company SKNL. This pledge has nothing to do with the promoters. Also these shares are also under the process of being unpledged as we speak because the Company is out of CDR. There was a CDR requirement for the pledge and now that requirement is over as the Company is out of CDR. So these shares are under the process of being unpledged and we are very hopeful that in the next few months these shares will be unpledged.

Also I would like to clarify here that there is absolutely no margin requirement on the shares that have been pledged to the banks because there is no price discussion, no price fixation, nothing. And therefore, when there is no margin, there is no question of margin call. I have been repeatedly told by certain people in the media, as well as certain concerned investors have called and asked whether there has been any margin call on SKNL's shares. I have categorically said there is no margin call because there is no margin and if there is no margin there cannot be a margin call by definition.

There is absolutely no risk whatsoever of the pledged shares being sold in the open market by the lending institutions of the Company for reasons that I have just mentioned. There is no margin and there is no price discussion as far as the shares are concerned with the lenders. These shares, again I repeat, are pledged only to our existing lenders of the CDR, including the lead banks like IDBI and they are not pledged to any market people or whoever else may you think of. The banks are not concerned about the share price, so the question of them being sold in the open market does not arise. Additionally, and I am repeating myself for the sake of clarity, for the sake of addressing concerns, that these shares are under release from the lenders over the next few months.

I would also like to confirm here that neither the promoters nor any entities relating to promoters have sold any shares at any point of time in the last several years, forget the last few days, and forget the last few weeks. In fact, you should also know that promoters, that is me and my family, meaning my wife and my two kids have bought SKNL shares. The shares have been bought either through creeping acquisition in the equity markets which have been declared to the stock exchanges on the day those shares have been bought, or through warrants exercised by the promoters in the Company directly as primary investments in the Company over the last three years. So there is no question of us selling any shares.

I would also like to state here and I would like to take this opportunity to reiterate that the Company's fundamentals continue to be extremely strong with a very solid asset and reserve base. As on 31<sup>st</sup> March 2011, the Net worth of SKNL on a consolidated basis was Rs. 3184 crore. Our debt includes working capital debt as well and a major part of our debt is a working capital debt. Our debt to equity ratio including working capital debt stands at 1:1.1 which is an extremely comfortable leverage in our line of business. I would just like to add here that the industry average of debt to equity in the clothing/apparel/textile industry in India is over 2.5 times.

At SKNL it is a constant endeavor of the management to deliver a very sustainable value to all stakeholders. Our management practices and code of conduct have ensured good governance across our businesses. You will be very happy to know that SKNL, the main listed Company and also Reid & Taylor the Company that is a subsidiary of SKNL have a very strong independent board. Both the companies are chaired by non-executive independent Directors. On SKNL's board Dr. A.C Shah is

the independent Director who is the Ex-chairman of Bank of Baroda. Mr. Damodaran, Ex-chairman of SEBI, has also joined the Board of SKNL. This is one of the few boards of private companies that he has joined after he has retired as the Chairman of SEBI and Chairman of IDBI. Also on the Board of SKNL is the Ex-Managing director of IDBI Mr. Jitendra Balakrishna, and there is also Mr. Suresh Talwar who is a leading solicitor and one of the key proponents of corporate governance, like Mr. Damodaran. There are several other independent Directors on the Board of SKNL.

Similarly on the board of Reid & Taylor, we have Mr. Kunnasagaran Chinniah who is part of GIC; he is very senior person in GIC. Also on the Board is Mr. Pradeep Shah who is a very noted and eminent person in the financial circle, Mr. Dara Mehta, who is a leading solicitor and again a very strong proponent of corporate governance. You will be also very happy to know that Mr. Nasser Munjee who is one of the leading personalities in the financial circle in India is joining the Board of Reid & Taylor, in fact a circular resolution to that effect will be passed very shortly and Mr. Naseer Munjee will be joining and coming on Board of Reid & Taylor very shortly. So from a Board perspective, from a corporate governance perspective we have always maintained very high standards. We have always laid a lot of emphasis on transparency which reflects on our commitment to stakeholders, shareholders, business partners and of course employees.

The year 2011 was an excellent year as all of you may be aware but I will just reiterate it since we have a chance of speaking again to each other. Total Income grew by over 35%; EBITDA increased by 37% year-on-year to about Rs. 1056 crore. Revenues at the consolidated level have grown at a CAGR of 43.3% from FY2007 – FY2011. Our EPS closed at Rs. 12.8 on a fully diluted basis for the year ended 31 March 2011. For the year in progress, which is April 2011 to March 2012, our performance continues to be good and all our businesses are doing extremely well. Businesses in India continue to operate at higher levels of growth both in volume and in value.

On our overseas businesses, I am very happy to say, our Company HMX Corporation which is one of the largest formal wear clothing companies in the USA has turned corner and we are now solidly EBITDA positive. We are looking at high cash flows and high growth in both top line and bottom-line emanating from HMX, USA. Our Company in Italy is also performing on a steady state, performing well with EBITDA positive numbers. Our Company in the UK, which runs the DKNY license worldwide, is again doing very well.

In the Indian front, Reid & Taylor continues to grow dramatically both at top-line and bottom-line, our net-worths are increasing on all fronts; product lines are also increasing. In the Company Reid & Taylor, we are also launching a new brand called 'Kruger' which will hit the markets in Autumn Winter 2011 and we are expecting good numbers and good results from there. The new brand we launched at the lower end for mass India, 'World Player' has met with very good results. Sachin Tendulkar has been signed on as a brand ambassador there and we are expecting to hit the advertising campaign sometime in August which is the start of the selling season. Belmonte continues to do very strongly at the middle end of India. Belmonte and Uniformity both in fabric and apparel are doing well. The shirting business under the brand name 'Baruche' which is the high-value cotton fabric business is scaling up to full operational level in this year; March 2012 and then March 2013 will see tremendously good numbers from that business. So overall we are looking at increased business performance.

From a March 2012 perspective, we are looking at EPS in the region of 15 plus on a consolidated basis. An increasing global footprint, compelling presence in higher

margins businesses, deep distribution network, effective outsourcing model and a vertically integrated operational system has positioned us to achieve a very long-term sustainable growth. Our backend-frontend synergy strategy is working very well between our companies in India and our companies overseas. We are looking at overall growth in India as well as the overseas companies. In addition, heightened brand consciousness among youth in India also is leading to tremendous growth in the Indian markets.

To conclude, the Company is in very good stead with extremely good performance and the outlook looking equally promising. In light of the above and of course in light of explanations I have given you in terms of the pledge shares as well as other stuff, I sincerely request you to disregard speculative rumors which are completely untrue and baseless. And if I may use strong words have been spread with malicious intent for reasons unknown to us, of course to benefit certain people but unfortunately at the cost of normal shareholders and normal people who are our long-term believers and long-term investors in the Company. I can also add here that none of our long-term investors have sold any shares in our Company. We have a very strong FII book which includes a very large chunk of long only funds, more than 24% of our Company is held by the long only funds that have a 4 or 5 year horizon. I am just trying to reiterate that from a long-term perspective the prospects overall are very strong.

This is all from my side, we could now move into a question-and-answer session if you all have any and once again thank you very much for joining this call at a very short notice. I thought it is very important to have this call so that if there is any confusion in anyone's mind it is best to address it and clear it rather than to just say that we do not need to do it. At the end of the day though our principal responsibility is to deliver EPS and to deliver performance which we are doing and hopefully will continue to do, it is also our responsibility to ensure that all our investors and all our stakeholders are in a proper frame of mind and have the correct picture as we go forward.

Thank you once again friends. If there are any questions please feel free. Along with me I have Mr. Channa who is our CEO and Deputy Managing Director as well as Jagadeesh Shetty who is a group CFO along with our Director Corporate Affairs and our Head of Investor Relations. So if there are any questions I may answer them or I may request to one of these gentlemen to answer them as well. Thank you again and thank you for your interest and support to SKNL, Reid & Taylor and our group. Thank you.

**Moderator**

Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Divyesh Shah from Pragma Equities. Please go ahead.

**Divyesh Shah**

First of all let me compliment you and your management for acting very fast and proactively and clearing the doubts of investing community. I think you should be complimented. I remember Mr. Narayan Murthy once rightly said, whenever in doubt, you should disclose and I think you are doing the same and please keep it up sir. Sir, regarding some certain queries which have been raised in the last four weeks, which you have enlightened, regarding our shares, are not pledged against any margin that I understand with today's TV interview and now in your opening remarks. It has been given as an additional security to the bankers as per CDR package of 2004. When this can be taken back? What was the time frame because we have given in 2004 and now we are in 2011? So is there any time frame up to which time it should be kept with the bank and who is the lender can you specify the name?

I have few more questions. Regarding a small query as per our disclosed disclaimer, promoters holding is being steadily increasing from 2009-10 in 2011 March, I have the figures with me. 2000 March we have 9 crore shares with the promoters, 2010 we have 11 crore shares with the promoters, 2011 we have 13 crore shares with the promoters. But the pledged shares at the end of March 2010 was 7.88 crore whereas pledged shares in March 2011 is 10.82 crore. There are 3 crore more shares pledged. So a little bit clarification on, between 2010 and 2011 you have pledged 3 crore more shares. So if you can clarify this, please. And did you have any creeping acquisitions because the last five days the stock market went down, specifically our stocks. Did promoters do any creeping acquisitions recent days to enhance their holding and to give the confidence to the shareholders?

One more question, you are the best judge since I think this is the work of a regulator, to come into the picture but you and I know that Indian regulators are very passive regulators, they do not act very fast. They act after the event is over, they do not act at all. So according to you, what can be the mischief that has played in these 5 days because 5 days nothing has changed fundamentally but our stock price took a beating? According to you what has happened?

Also when I go through our more than 1% shareholding there are more Mauritius-based Funds like Morgan Stanley is holding 1.6 cores shares, Cophall Mauritius, Artha Emerging Fund is holding so is there any selling from the financial institutions who are Mauritius-based, have they sold in the market? So our transparency policy, it can be revised, if you can come out with more than 1% holding to the public whether they have sold off or anything like that. These are my few suggestions.

One more clarification, just as a suggestion, kindly put the transcript of this conference call to all the stock exchanges so that who have not attended can listen to the facts and figures of the management. I am a well-wisher of your Company and to you personally, sir. Please put your transcript to the stock exchanges today evening or tomorrow morning as soon as you get the transcript of this conference call to both the stock exchanges. I think you can give in the public domain; the list of top 100 shareholders as on March 2011 and as on today, you can put it on your website so that you can clear all the doubts. Certain things I think within the law, you as a management and we as an investor have to work within certain framework of the laws. But these are certain things, which can let the investors take the judgment, as to what has happened to the market. You can give the top hundred shareholders list as of March 2011 and as on 24th of June. So let the investors take the judgment. Please sir, carry on.

**Nitin Kasliwal**

Divyesh, first of all thank you so much for your interest and support which I truly appreciate personally and our entire management team truly appreciates as a Company and as a corporate. We look forward to your continued support to us as we go forward. As far as the bankers are concerned like I already said in my speech, the bankers consortium is led by IDBI and the pledge of shares is all to IDBI as the head of consortium, as the head of the CDR package. So it is not to individual banks it is directly with IDBI as the consortium.

The shares are expected to be released now, very quickly in the next 3 to 4 months. We are very hopeful that they will be released. Secondly the pledged shares have increased because as the promoter shares increased automatically it went to the CDR at that time, because that was the understanding with them that all promoter shares had to come to them, there is nothing else in that.

The creeping acquisition, I would have loved to do the creeping acquisition now. Divyesh but unfortunately for the year April 2011 to March 2012 as a promoter I am already at a 5% limit with warrants which are outstanding which will now convert into equity. I have already subscribed to 25% of the warrants and they are converting to equity in December 2011 and therefore I am not in a position to make any more creeping acquisitions. Otherwise I have to go into an open offer mode which is a completely different thought process and a completely different animal. But of course at this level I would have loved to make a creeping acquisition again to demonstrate to the market. For me personally, me and my family are in this Company for life and for generations and to that extent for us at this price to be able get our stock is something which is unbelievable.

You asked me a question about what would be the mischief, who could do the mischief. Frankly, there is so much speculation going on the market about who could be doing it, what is happening, what is not happening. So it is best left, not to make any comments on that because it is unfair, if I say something about this then again I will be speculating and I will become no different than the speculators of the market. So for us as a corporate, for us as a business, for us as a Company it is better to talk facts, it is better to talk figures, it is better to talk things which we know about, which are objective rather than talking about subjective stuff. Because nobody really knows, somebody says something but of course mischief has happened, somebody is fooling, somebody has tried to make money at the back of innocent shareholders, there is no question about it, but it is something which is difficult to speak. So I would request you that it is better that we do not talk about this because it does not make sense. It is not going to serve any purpose. It is not going to help us in any manner whatsoever.

As far as the regulators are concerned of course SEBI plays its role but like I said the F&O and other systems are such that it becomes difficult to really pinpoint on someone or to put somebody's name. As soon as this happened we immediately go to the stock exchanges and clarified our position. So, of course, SEBI is also aware of what is happening and hopefully some discussions will happen at some point of time.

As far as Mauritius is concerned, let me clarify two things here Divyesh, and I am sure this will be for the benefit of all our other friends who are on this call that this Mauritius ghost that got created one day before this thing happened on the pledged shares is fictitious and malicious. There is no intention of the Government to do anything which is retrograde or retrospective on the Mauritius front. So, it has happened on speculation and the Government has also clarified, the Financial Ministry has clarified, that there is nothing happening from Mauritius front. Mauritius is one of the routes where a lot of people invest through. There are so many other routes that people invest through so we have not seen any changes in our shareholdings currently based on Mauritius or based on anything else. Like I said, all our long-term FII's and long-term investors are solidly intact with us. In fact a lot of investors have spoken to me over the last few days and have expressed serious interest at these levels. I think like the pledged shares, Mauritius is another bogey that somebody created.

The transcript we can definitely put on to the website of BSE as also on our own website we can put it up so that is a very good suggestion, thank you for that. It would take a day or two days to do that but I think by Monday it should be on. As far as the top hundred shareholders listing is concerned, it is an extremely good suggestion and I would love to do it but we have to take clearance from regulators, we have to take clearance from our lawyers, and we have to take clearance from exchanges and other things if we can do it or not. But if it can be done then of

course it is a good suggestion and our investor relations team will definitely look into it and work on it.

**Divyesh Shah** I think Mr. Kasliwal, you should take a lead of the corporate houses to, and you can take the lead sir. This has not been done by any Company but there is no harm in putting your hundred shareholders. You will be more transparent.

**Nitin Kasliwal** Absolutely and we have no issue. In fact it is a very positive signal when you put out your top hundred shareholders and the 'who's is who' of the investing names come out in that list, it is a positive thing. Only thing is that we have to check with our shareholders or we have to just check with also regulations, we just need to check it out from a systemic point of view but otherwise it is a good suggestion.

**Divyesh Shah** Investing community is worried, only Morgan Stanley Mauritius has 5% and Cophall Mauritius investment has 5%. These are the two giants, both are Mauritius-based. So can you categorically say to the investing community, that in the last four days, they have not solved at least.

**Nitin Kasliwal** Yes, Divyesh, please keep in mind these are P Note holders, this Morgan Stanley is a P Note holder. It is not necessary that it is from one investor, it could be two or three or four or five investors. Please do not worry about it, it is not one investor because it is a P Note. So they are like a holder of multiple investor stocks. A lot of FII's do not have direct access to investments, so they need to go through the P Notes; because some of them have not yet registered as FIIs because of various formalities that they have to undergo with RBI and SEBI.

**Divyesh Shah** Mr. Kasliwal, is there anything to do with our IPO which is about to be struck in Reid & Taylor. I think there is mischief between the IPO and this Company? IPO might get postponed because of the sentiment. It is affecting the sentiment of the market.

**Nitin Kasliwal** Divyesh, like I said to you Reid & Taylor as the business is doing extremely well, we are on a solid performance positioned there. As far as the IPO is concerned, we have top BRLMs - we have J.P. Morgan, HSBC, UBS, Religare, JM Finance, Antique, Edelweiss, IDBI Capital Market, all top, I mean you could not have a better list of people who are advising us and running the deal. Everything is in readiness and we are just waiting for the market to stabilize. The IPO is imminent but we are just waiting for the market to stabilize. As far as the business is concerned, the business is doing extremely well and the plans of Reid & Taylor are already on full steam. So from that perspective it does not really affect the business Reid & Taylor in any manner or whatsoever.

**Divyesh Shah** Mr. Kasliwal, wish you all the best and I think you will come out stronger after the event is over. Thank you very much, sir.

**Nitin Kasliwal** Thank you so much Divyesh and God bless you and thank you for your very kind words and your good wishes.

**Moderator** Thank you. The next question is from the line of Shubhankar Ojha from SKS Capital and Research. Please go ahead.

**Shubhankar Ojha** I was just wondering that has the Company considered applying to the exchanges to perhaps take away SKNL from the F&O derivatives list. Since, you are so concerned about the speculative activities in the stock then there should be a provision for you to exit from the F&O list. That would be one way to avoid any speculative activities, why should you waste so much time clarifying on things

which are not necessarily concerning you on a day-to-day business. Let the speculators do what they want. I mean in the sense a double edged sword because a lot of companies like to have their stock in the F&O list to provide greater liquidity to the stock and also allow speculators to bid it up. I am just talking about the general market practice that there are a lot of manipulations which happen in smaller Company stocks in the F&O segment which works both ways, it is a double-edged sword. So there is some case that one can make for excluding such companies from the F&O list because if you are included in the future and options then people will speculate both ways on the stocks. And you have to live with the volatility. It is just something to think about as well as I do not know if you have any response to that.

**Nitin Kasliwal**

Though it is a good suggestion and based on what has happened on the last couple of days it makes eminent sense not to be there because we are completely averse to speculation of any kind whatsoever, as a Company and as promoters and as a system. The only thing is a lot of our FIIs investors because they have liquidity, they invest into companies where the liquidity is reasonable, that is one of their benchmarks of investment and to that extent, that is one of the cons of getting out of F&O. Like you said there is both advantage and disadvantage. The advantage is of course that it would put an end to speculations from that perspective and negative is that FIIs or people who want high liquidity in these scrip's. They have benchmarks of number of days of trading from an investment perspective.

But of course we will examine this, we will discuss it with our internal teams, we will discuss it with key banks who are involved with us, we will discuss it with our corporate teams and we will take serious consideration of this and we will get back. We will give you a specific response to this over the next couple of weeks. Thank you so much for this advice. I really appreciate it because I know your advice is very sincere and genuine. You are right, over the last two days you cannot imagine me and a couple of our people have just completely wasted our time answering questions and replying and getting onto media for no reason. My job as the CEO of this group is strategy, my job is to get my teams to deliver EPS but in any case in life things happen and one has to be prepared and ready to do everything. But again thank you for your sincere and genuine advice. Thank you.

**Shubhankar Ojha**

Thank you.

**Moderator**

Thank you. The next question is from the line of Samir Arora from Helios Capital. Please go ahead.

**Samir Arora**

I just wanted 2-3 things, one is, I surely did not understand why did coming out of CDR which happened so many years ago, why hasn't those shares been returned? You said they will be returned shortly but what was the angle in not being returned I do not know what a number of years it will be?

**Nitin Kasliwal**

Okay sure I will explain to you.

**Samir Arora**

The second was, when will your accounts be ready or available on the net or mail or whatever because I just want to check how much income tax did you pay last year, as in paid, not what you accrued or what you provided for but how much actual income tax did you pay to the Government of India because that is a big indicator for me? And one more, actually this somebody suggested but I can pass it on, he said that maybe Reid & Taylor should go into underwears and lingerie because those do extremely well in India, so are there any plans?

**Nitin Kasliwal** Underwear and lingerie, I do not know about Reid & Taylor, we will have to have another brand for lingerie. I do not know many women who would like to wear lingerie called Reid & Taylor.

**Samir Arora** Realistically why are their supposed cash flows and all so much better, what is the angle why is their trade so different?

**Nitin Kasliwal** Thank you so much Samir for your questions. Let me just answer them one by one. The Company exited CDR sometime in the middle of 2009. And you know there is a process of un-pledging of shares because there are multiple banks involved in it, of course it is led by IDBI, but the process is full underway now and we are very hopeful of it getting done very shortly. Frankly you know as the Company and as a management team we really were not concerned about our shares being pledged with the bank because we knew that it was kept under safe lock and key of the bank. In fact when I spoke to the Chairman and the Deputy Managing Director a couple of days ago and requested him to initiate the process to clear it quickly which he of course has assured me that he will get it done, but jokingly he said, "Boss, your shares with me are safer than with you". So from that perspective there is no question they are being done very shortly.

As far as the balance sheet is concerned of course the balance sheet will be on the net, it will be there in a couple of weeks. It is under printing now so it will be out very shortly. We have last year paid income tax, I am told by my CFO, Rs. 126 crore.

**Samir Arora** What is the tax rate that means, 30 odd full?

**Nitin Kasliwal** Yes, of course.

**Samir Arora** 126?

**Nitin Kasliwal** 126. I do not have the numbers after the Rs. 126 crore, if you want I can give you the lakhs also. But I am sure it is Rs. 126 crore and some lakhs. Is that okay?

**Samir Arora** Yes very good.

**Nitin Kasliwal** And then in 2009-10 we paid Rs. 99 crore and 2008-09 we paid Rs. 106 crore. 126, 99 and 106 going backwards.

Now as far as "Underwear and lingerie" is concerned, in fact there are two things. All our brands, even world players even Belmonte already has foundation garments in its range. Belmonte already has briefs, World Player already has briefs, Reid & Taylor of course, the Company Reid & Taylor already does the total wardrobe solution in the brand Reid & Taylor, Kruger is a casual wear brand being launched. So at some point of time even Reid & Taylor itself will have briefs in its portfolio of products. So that is already being sold. Now as far as the model of sales are concerned at the lower end of the market it is a pure wholesale distribution model. So you do not have any retail because it is too small a product to have direct retail only for underwear and briefs but you have a wholesale distribution model. I know you are talking to Lovable Lingerie and Page which are these two new companies that have emerged. But let me tell you if you look at the stand alone numbers of Reid & Taylor and you compare them with any of these other companies and I have done detailed comparisons, I mean the numbers of Reid & Taylor are far superior, I cannot talk to you about those now I am under the DRHP regulations I cannot talk specific things but whatever is there in the DRHP is already there, you

have seen Reid & Taylor numbers, Reid & Taylor numbers are far stronger than any of those other companies.

**Samir Arora**

That reminds me what is the delay in the IPO, Reid & Taylor?

**Nitin Kasliwal**

Samir, like I said earlier answering Divyesh, the regulatory approvals are in place we are just waiting for the market condition to stabilize. The IPO is imminent, business is going on as usual and all plans are on full stream. So there is no issue.

**Moderator**

Thank you. The next question is from the line of Arun Kejriwal from Kejriwal Research. Please go ahead.

**Arun Kejriwal**

Nitin, I think you should be complimented for facing the bull by the horns. The markets seem to be quite worried and the kind of volatility that we have seen in the stock is certainly unwarranted and unhealthy for investors as well as the management. Just a couple of quick points. Somebody was talking about F&O part. I'm sure it's not as easy decision to take either which way because if you remove it from F&O, it is like reducing the liquidity in the share and continuing it leads to heightened volatility but it is a call which you as a promoter or as a management would have to take in the greater interest of the Company and its existing shareholders.

I think what we need to address now, which you have achieved to a great extent by this conference call is that you have addressed the issue of the pledging of shares as to what exactly it is. You have also told us very-very categorically that none of your investors whether they are domestic or foreign have panicked in your Company and I think this should help us in a great manner. The one thing or the one suggestion that I would like to give you is irrespective of an event happening or not, I mean, a conference call of this kind, once in three months will always help people to appreciate what's happening in the Company.

**Nitin Kasliwal**

Thank you so much Arun, I appreciate your comments and suggestions. I would also like to thank you very much for your compliments. But I don't really see it as an extraordinary effort on my part or the management's part because we from a fiduciary perspective and from an ethical and moral perspective, we are duty bound to be transparent and open. And more than anything else, frankly speaking as far as I'm concerned, I'm in this Company for life and so hopefully will my kids be as owners, as principle shareholders of the Company. So from that perspective whatever is the valuation that we have on our stock prices only for us personally it's a notional thing because we are never going to sell. So that's okay one end. But on other end I owe it to all our shareholders and stakeholders that we command respectable valuations and of course this is towards that end to assuage and placate any fears and any confusion that people may have.

As far as your F&O suggestion is concerned, of course it is again very valid and like you said there is no easy direct answer to this. So to experts like yourself also we will request your comments and suggestions as to how we should go above this because I'm not an expert in the stock market. I'm an expert in clothing, textiles brands, retail, and distribution. If somebody tells something about that, I can straight away say yes no. But in this I'm not an expert. So we need to be talking to experts like yourself and others in the field and then taking a call, which we will do over the next few weeks.

Arun, I just wanted to remind you that we are actually having regular conference calls after every quarterly result. We have an analysts call. Probably we may have missed on or two calls over the last couple of years but normally we have an analysts call every quarter. Also what we are planning to do, I may share with you and the other

friends who are on the line that we will be holding an analyst meet sometime in July. Like what we did last year. I will also be requesting and advising all our group CEOs to be present in that call. We will have it in a large location like the Taj or the Oberoi where we will have all our friends there. We will have our connected people, our analysts, and investor friends and all so that everybody there could get a complete and detailed picture of the Company, the group as well as have a one-to-one interaction as required. So we will be doing that and in any case that we will definitely do minimum once in a year on a regular basis. So this time we are planning to do it sometime towards end of July linking it with our current year Q1 results.

**Arun Kejriwal**

Thanks a lot.

**Nitin Kasliwal**

Thank you Arun. Thank you for your interest and thank you for your support.

**Moderator**

Thank you. The next question is from the line of Nilesh Karani from Magnum Equity Broking. Please go ahead.

**Nilesh Karani**

Yes I just wanted to know, what your CapEx plans are in the coming years, can you throw some light on that. And going forward which brand that you think will contribute more to your income? I have also heard that the Government is coming out with a new fabric policy. So is there any effect in your business in any manner?

**Nitin Kasliwal**

Nilesh thank you for your interest, thank you for your support, and thank your good words regarding our results. In the current year we have CapEx plans of about Rs. 330 crore in totality, which are already ongoing and almost fully funded and fully tied up.

As far as the brands are concerned our Reid & Taylor brand continues to deliver superior performance. The Belmonte brand also is delivering performance. Over the next three years I think World Player will get established as a very major brand in India. It is a fledgling currently. We have launched it last year and getting superb traction in the B, C. and D towns of India because it is the first mass brand from an organized player. It is the real need of the hour because interior India is very fast moving into apparel consumption from fabric consumption and to that extent World Player is meeting the requirements of the people of interior India in a very big way. We are also launching a brand called Kruger in the premium casual wear segment which again is a very fast growing segment and very profitable segment in India. So these are some of the brands that of course will continue to give superior performance and deliver top-line and bottom-line.

As far as the fabric policy is concerned, Nilesh I'm a little confused, what is that you have heard because we haven't heard anything about any fabric policy as such. Actually, there aren't any real regulations or policies on fabrics in India or apparel in India. The only thing is that there are import duties which range from 25% to 40% to 50% depending on category of product you import. The other policy that there is, there is a TUF team which is in place. So if you are looking at a textile policy. The textile policy basically is more talking about commerce and more talking exports. I will ask Anil to just explain this to you, about the textile policy.

**Anil Channa**

Basically I think fabric policy as Nitin said we don't have a fabric policy. We do have a textile policy, which covers the whole gambit of every activity of textiles be it decentralized sector, the cottage industry, the other fibers like handloom industry, power loom industry then the other fibers like jute. That's a very comprehensive and an integrated policy which the government keeps on reviewing; I mean every half a decade or one decade. So may be some changes are coming in there, that's an

ongoing process. So that actually does not affect us in anyway. So that is more aimed at the decentralized sector. I hope I have been able to answer it.

**Nilesh Karani**

Yes. Thank you sir.

**Moderator**

Thank you. The next question is from the line of Anand Raghavendran from Allegro Capital. Please go ahead.

**Anand Raghavendran**

Just taking it from the previous question, if the Company has exited from the CDR in mid-2009. After that also you have made a lot of acquisitions right? So even the newly acquired shares have gone under pledge? Is there any specific reason?

**Nitin Kasliwal**

So, Anand as I explained already, I think Divyesh had asked this question. I explained that the CDR requirement was that all promoter shares need to be pledged, it was an automatic. So what happens is, the way the banks operate, till they have unpledged the shares, they keep operating on that same system. So it's only to do with the shares. The acquisitions are not of companies, you are talking about the shares buying right.

**Anand Raghavendran**

Exactly shares.

**Nitin Kasliwal**

So that because it is an automatic process. Till they unpledge the shares, it goes on adding up in that manner.

**Anand Raghavendran**

Okay so exit on non-exit doesn't matter for that.

**Nitin Kasliwal**

Yes because they need to unpledge, I mean, they need to say yes. Now we are unpledging the shares then their whole system will stop, for the others it will keep following that system.

**Anand Raghavendran**

Okay, I get that. Thanks.

**Moderator**

Thank you. The next question is from the line of Samir Arora from Helios Capital. Please go ahead.

**Samir Arora**

Nitin I just wanted to say that there should be no thought in your mind about going out of F&O. The speculator has to go out and stop speculating because then tomorrow's headlines will be that you cannot handle this. So don't even think about it. That's all I wanted to say.

We know it's a zero sum game and so if one guy has won, one guy lost which will be decided after your results and everything. It will not be decided in two days that who is making money and not making money. So don't worry about it. Cost of doing business nothing more.

**Nitin Kasliwal**

Okay. Thanks Samir.

**Moderator**

Thank you. The next question is from the line of Rishi Maheshwari from Enam Asset Management. Please go ahead.

**Rishi Maheshwari**

Thank you so much for your clarification. With your assurance it is clear that the technical reasons that hammered the stock price will now be put to rest. Just to obtain a little clarity on the fundamental reason too. I just wanted to understand the recent drop in cotton prices has been very sharp. Now, is there any large

procurement of cotton and as a result in the near future is there a possibility that our cotton stock may be procured at a large price?

**Nitin Kasliwal**

Okay. Rishi thank you so much for your question, thank you for your interest in our Company. And of course thank you for the compliments. As far as cotton, I will say something and then hand over to Anil to give you a little more detailed response. We do not buy any raw material on speculation. We do not buy any raw material on long term basis, we buy only as required for the business cycle, whether the price is high or the price is low. It's a policy which nobody can change. This is a top management policy which is percolated down on all management teams that raw material has to be bought only as per requirement, not as per prices. You may buy from one supplier over another supplier if it is the same quality at a lower price, that's a different discussion, but just because cotton has gone down, let's cover up and keep huge inventories or if cotton is going up let's not buy and let's starve our factories, no that's not our policy. We don't do that. Anil will give you some clarification on the cotton prices and how it may benefit us as we go forward.

**Anil Channa**

Rishi, essentially we cover as Nitin said, we do not do any speculative buying of raw materials. We do cover three to four months in advance and based on which, the marketing will also go normal. To book the fabrics or the garments, based on that cover. So therefore there is absolutely no speculation. Yes as I think all of us are aware since December lot of price increases were in the raw materials and therefore we jacked up our prices for the spring summer. Right now the prices have already gone down both on the polyester rayon side as well as cotton. But fortunately because we are into brands, we are not going to be rolling back our prices particularly on the apparel businesses. And therefore hopefully it should lead to a margin expansion in the second half for us, which would help us in may be using that extra margin for either expanding the market or promoting the product better. So we will take a call on that.

**Nitin Kasliwal**

And also some bottom-line increase.

**Rishi Maheshwari**

Thank you so much sir and wish you very good luck.

**Moderator**

Thank you. The next question is from the line of Paresh Jain from Max New York Life. Please go ahead.

**Paresh Jain**

Just focusing a little bit on the main business and not touching on the pledge side. This CapEx of Rs. 330 crore this is for FY12-13 or is it only for FY12?

**Nitin Kasliwal**

FY2012.

**Anil Channa**

This is between Reid & Taylor and SKNL.

**Nitin Kasliwal**

It is the total.

**Paresh Jain**

How do we break it up?

**Anil Channa**

For Reid & Taylor I think it is Rs. 180 crore and balance is in SKNL.

**Paresh Jain**

Secondly are we also eligible for TUF loans?

**Anil Channa**

Yes we are. The scheme is valid till March 2012 as of now. And actually we will be availing whereby we will get a 5% interest subsidy.

**Paresh Jain** So, I'm just trying to understand that whether this TUF loan, this has started being granted to companies or is it still in the documentation process?

**Anil Channa** No it has been going on, it is an on going process for more than a decade.

**Paresh Jain** No, what my point was that, speaking to a couple of textile companies, what I understand is that for this particular year the TUF loans are still stuck up the and the disbursement is actually not happening.

**Nitin Kasliwal** No Paresh let me explain. The loans get disbursed. What the TUF mechanism does, it is called a Textile Upgradation Fund. The fund is not the loan. The fund is the subsidy to the interest cost. So the government just held up the subsidy disbursement for one year. But now they have already released it. Please understand there are two things. The government announced a TUF scheme. In the TUF scheme all nationalized banks and all development finance institutions of India were eligible to give loans to textile companies for modernization and upgradation on their equipments at the interest rate 'x'. And then the government would give a 5% subsidy to those banks that would pass it on to the Company. So the government launched the TUF scheme eight years ago. In the middle for one year they discontinued the scheme itself, that was about four years ago. Then they reinstated the scheme again. But last year they held up the disbursement of the subsidy. So this has nothing to do with the loans.

**Paresh Jain** So disbursement of subsidy hasn't started off this year?

**Nitin Kasliwal** It has started off, that's what I am saying. It has started last month.

**Paresh Jain** Okay it has started off last month.

**Nitin Kasliwal** Yes. So in any case what happens is that cash flow wise you pay the bank the interest and when they get it from the government they pass it back to you.

**Anil Channa** You get a reimbursement. It is a lead lag situation.

**Paresh Jain** So what is the normal time lag generally?

**Anil Channa** Its about 9 months to 12 months.

**Nitin Kasliwal** But the government takes credit of that.

**Paresh Jain** Right. So effectively, I mean the cost reduction will not be 5% but slightly less than that?

**Anil Channa** Effectively yes.

**Nitin Kasliwal** That is really, fine tuning.

**Paresh Jain** Right.

**Anil Channa** It is a pure 5% for us.

**Nitin Kasliwal** But our costings for business are at the proper interest rates. The subsidy comes additional.

**Anil Channa** Yes that's a bonus.

**Paresh Jain** Okay. Just one last question. With the cotton increase and all that you have seen in past, so what is the kind of expected price increase that will be taking place in the next two or three months to pass on that increase into the garment division and all.

**Anil Channa** See last time there were the cotton increase, we increased garment prices by 15%. Now from the peak level cotton has already gone down by 20% in the future and it will be down another 30%. But we are not rolling back our garment prices.

**Paresh Jain** Okay. So that 15% price increase took when?

**Anil Channa** That was from January onwards.

**Paresh Jain** January 2011?

**Nitin Kasliwal** No actually took place last quarter 10 and 11.

**Paresh Jain** Okay.

**Nitin Kasliwal** So it is already effective. But now the prices have started coming down of the raw material.

**Paresh Jain** No but my point was that in that cotton procurement period, when we would have procured cotton probably lets say in January, February, and March whatever, the prices would have been ruling at an all time high close to that.

**Anil Channa** Yes but this was expected you see.

**Nitin Kasliwal** Based on that our prices had already been increased now.

**Anil Channa** Back in the November we knew that the cotton crop is where it is and therefore there is going to be an increase and based on that we jacked up our selling prices. That's the way we about it and accordingly we cover our raw material. Suppose we have taken a four month cover on raw materials, we take a four month booking position. That is the way we operate.

**Paresh Jain** Okay thank you.

**Moderator** Thank you. The next question is from the line of Anupama Menon from Greshma Shares. Please go ahead.

**Anupama Menon** I appreciate you coming forward and clarifying all the doubts. I just wanted to know that at present how much of your stake is being pledged?

**Nitin Kasliwal** As I already mentioned, it's between 85% and 90%. Like I said, the total promoter stake has to be pledged to the banks.

**Anupama Menon** Okay and when is it likely to be released?

**Nitin Kasliwal** It will be released in the next three to four months Anupama.

**Anupama Menon** Okay, thank you so much.

**Moderator** Thank you. The next question is from the line of Keshav Harlalka from BHH Securities. Please go ahead.

**Keshav Harlalka** I was analyzing the data on BSE and NSE when that hammering happened two days back. The high was Rs. 59 and the low was Rs. 41.65 and between 9.15 am to 2.55 pm the price had moved in the vicinity of Rs.57 to 59. And in the space of 10 minutes the price collapsed by Rs 15. So can you just request the stock exchanges for data as to who has done the manipulation in a space of 10 minutes? I think that wouldn't be a very unfair request to ask for that data. Though it is confidential but this is clearly done with malicious intent and the shareholders are bearing the brunt.

**Nitin Kasliwal** Absolutely Keshav, I really appreciate this. It's a very valid and pertinent question. We will make all efforts to get this data from the exchanges and even if we need to write to SEBI to get this.

**Keshav Harlalka** Yes, because it's happened in 10 minutes. The whole game has happened in 10 minutes.

**Nitin Kasliwal** This is very valid and in fact we have not even thought of it in this manner but it's very valid thought.

**Keshav Harlalka** And I just wanted to know if you could give us some kind of timeline for the Reid & Taylor IPO?

**Nitin Kasliwal** Okay. Like I have mentioned already earlier, the Company is in all preparedness from a regularity perspective. The IPO is imminent but we are just waiting for the market conditions to stabilize. We have been advised by our investment bankers who are absolute top notch JP Morgan, HSBC, UBS, Religare, Edelweiss, Antique, and IDBI Capital Markets. Of course the business is going on as usual in Reid & Taylor. All our plans are on full stream, so the IPO is imminent from that perspective.

**Keshav Harlalka** Okay, I just want to add one thing over here that a similar pattern was observed in GTL and in Orchid when GTL was hammered on Friday in the last half an hour, till 2:30 – 2:35, the price was over Rs. 400. In the last half an year it got hammered to Rs. 335 and then on Monday the pledgers pressed the panic button. So a similar pattern has been observed in the other two stocks as well.

**Nitin Kasliwal** Yes, but as far as we are concerned Keshav you will be happy to know that there is no question of anyone pressing any panic button. The only request to all our existing investors, our long term investors and well-wishers is to have confidence in the management, in the business. Even if somebody is trying to fool around, the idea is for long term players to hold steady because this is the time when long term investors need to hold steady. If there are any speculators we want them out in any case.

**Keshav Harlalka** No, I understand but I think they should be brought to book and they can't just do this.

**Nitin Kasliwal** I completely agree with you Keshav. You will appreciate two things. Number one is, as a management we are hugely aggrieved because whatever you say at the end of the day people start raising questions and start raising doubts and on the other hand even as the largest shareholder of SKNL I'm the greatest sufferer from a notional perspective.

So you are absolutely right, I mean, this is if I may use the word criminal, it is criminal on the part of people who have done it.

**Keshav Harlalka**

Yes, and they have benefited in the process hugely.

**Nitin Kasliwal**

Benefited and small shareholders and small investors and the big ones like us, all suffer either financially, morally and even emotionally and mentally.

**Keshav Harlalka**

Yes.

**Nitin Kasliwal**

Keshav we are very tough people. We are here for life and somebody can try to do it but at the end of the day, there is a God, there is justice. And people, "*Truth always prevails.*" When you know that there is nothing wrong done by you why should you get rattled at the end of the day.

But thank you for your good advice and thank you for your interest and support to SKNL and us and please continue this and also do come and meet me sometime.

**Keshav Harlalka**

Yes sure, thank you sir.

**Moderator**

Thank you. The next question is from the line of Nilesh Karani from Magnum Equity Broking, please go ahead.

**Nilesh Karani**

Okay, I just wanted to know your international business sales and luxury cotton sales were up by 86% and 607%. So what was the factor that the demand was increased?

**Nitin Kasliwal**

See as far as the high value cotton fabric business is concerned the plant had just started out last year in full stream, therefore from the previous year, the sales are up. In the previous year it had just started up in the last month of the previous year, so therefore the increase is from that perspective. Do you understand what I'm saying? In the year 2009-2010 it was just an initial start up. In the year 2010-2011, it went up because the plants started operating at proper capacity; I mean it started building up capacity. In this year it will go to almost full level of working and so you will see a further substantial jump in this year over even last year.

And also in the international business, 2009-2010 was only five months of operation because of the acquisition and then 2010-2011 gave us the full year of operation therefore you will see the 86% jump. But of course having said that, even the high value cotton fabric business we are experiencing substantial demand and even in the international businesses we are experiencing substantial demand and you will see substantial growth even in the year March 2012 compared to March 2011.

**Nilesh Karani**

Yes, okay, thanks a lot.

**Moderator**

Thank you. The next question is from the line of Yeshwant Holkar from Artha Capital. Please go ahead.

**Yeshwant Holkar**

I just wanted to comment you all on how proactive you have been on your communication. We really appreciate this as shareholders. I think what I wanted to ask is, are you actually going to request an investigation on the part of SEBI in to what has happened in the share price?

**Nitin Kasliwal**

Now Yeshwant as a Company, as a corporate we have already written to the exchanges explaining what has happened. As far as SEBI is concerned, we are just now seeking advice again from people; personally I think we probably may make

some sort of reference to SEBI. This kind of stuff is absolute nonsense what has happened but the question is what actually happens from there is something to be seen. So let's see, I think in the next few days we will firm up our minds on this. We are currently under advisement from our corporate affairs team, even from our lawyers as to how we should progress in this manner. Also from people who are very familiar with processes.

We have been speaking to a lot of our lead managers and investment bankers who are on a day to day basis involved with SEBI and other matters. Incidentally as you are aware in SKNL the main Company board, Mr. Damodaran, ex-chairman of SEBI, is a Director. I also had word with him in this morning and we will further discuss with him tomorrow and then decide.

**Yeshwant Holkar** Okay, excellent, good to know, thank you.

**Nitin Kasliwal** Thanks Yeshwant and thanks for all your support and keep up your faith.

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

**Nitin Kasliwal** Thank you my dear. Thank you friends. It has been a very useful analyst call and it's a very useful conference with analysts, investors, key people, friends, supporters. I really appreciate all your support, I really appreciate all your good wishes and I also appreciate your faith in the Company, in the management and I request you to keep up that faith.

Please feel free to talk to us at anytime, talk to me, talk to Anil Channa, talk to Jagadeesh Shetty or talk to Salil Bawa for any questions, any clarifications you may have on any matter whatsoever at anytime of day or night, we are here for you. Inshah Allah we look forward to SKNL valuation also reaching its proper required levels. On my side and on behalf of the management team, I can assure you, we will do everything on our part to deliver performance, to deliver superior and superlative performance and request you to continue your faith and support in us. Thank you so much and all the very best and God bless all of you.

**Anil Channa** Thank you very much.

**Moderator** Thank you gentlemen of the management. Ladies and gentlemen, on behalf of SKNL, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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