"Raymond Limited
Q2 FY2021 Earnings Conference Call"

November 11, 2020

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Moderator: Ladies and gentlemen, good day, and welcome to Raymond Limited Q2 FY2021 Earnings Conference Call, hosted by Antique Stock Broking. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijeet Kundu from Antique Stock Broking. Thank you, and over to you, Sir!

Abhijeet Kundu: Thanks. On behalf of Antique Stockbroking, I would like to welcome all the participants in the earnings call of Raymond Limited. I have with me Mr. J. Mukund, who is the Head of Investor Relations of Raymond Limited. Without taking further time, I would like to hand over the call to Mr. Mukund. Over to you, Mukund!

J. Mukund: Thank you, Abhijeet. Good evening, everyone, and thank you for joining us for 2Q FY2021 earnings conference call. I hope all of you would have received a copy of our results presentation. I would like to urge you to go through this along with the disclaimer slides.

Today, we have with us Mr. Amit Agarwal, Group CFO; Mr. Joe Kuruvilla, who has recently joined in mid of October as CEO of Lifestyle Business; Mr. Ganesh Kumar, Chief Operating Officer, Lifestyle Business; Mr. Suman Saha, Chief Operating Officer, Branded Apparel.

I will now hand over the call to our Group CFO, Amit, who will give you the summary of results before we open for Q&A. Over to you, Amit!

Amit Agarwal: Thank you, Mukund. Thank you, Abhijeet for hosting this call.

Good evening, ladies and gentlemen. Thank you for joining us today on this earnings call to discuss our results of second quarter of fiscal 2021.

Let me give you an overview of the market in 2QFY21 quarter.

The first two months of July and August witnessed localized lockdowns. Progressively, the markets started opening up as well as consumer sentiments started recovering. From September month recovery of secondary sales were seen which resulted in corresponding improvement in primary sales.

The government stimulus package under 'Atmanirbhar Bharat Abhiyan' and related measures coupled with good agricultural harvest, resulted in improved liquidity in the hands of rural consumers.

Now, let me talk about Raymond, and give you an update on various steps undertaken in the current financial year:

Firstly, safe shopping experience and processes for health and safety for our customers and employees have been a key focus area and the same continues. As of Sep 30, 2020, ~99% of our stores had been operational, complying with stringent safety guidelines including contactless payments.

Secondly, the cost rationalization measures undertaken in the areas of sales and marketing, manpower, rental and others has enabled the restructuring of the organization; thereby improving the efficiencies and overall productivity.

In Q2, our operating cost of Rs. 304 Crores, is 48% lower on a y-o-y basis and similar to Q1 levels while revenue has been up by 3 times as compared to 1QFY21. This includes a portion of our cost which is directly linked to operational level of performance. On a half yearly basis, the opex was lower by Rs. 497 Crores which is 46% lower on y-o-y basis

Additionally, the rent cost savings for the full year is Rs. 53 Crore at about 30% of previous year levels. This has been achieved through adoption of a collaborative approach with landlords, mainly through combination of rent waivers during lockdown as well as realigning the rentals.

Thirdly, during the current pandemic times, keeping healthier liquidity has been critical for the business. The company continued its focus on cost reduction and working capital management which resulted in positive free cash flow and a positive operating cash flow during the quarter and first half of the year. Our operating cash flow was Rs. 138 Crore and free cash flow was Rs. 32 Crore in H1FY21. Collections during the quarter continued to remain strong similar to 1QFY21 and with reduction in inventory, the net working capital stood at Rs. 1,359 Crore which is Rs. 191 Crore lower as compared to June and lower by Rs. 495 Crore as compared with March.

With these efforts, we have been able to maintain September end liquidity at ~Rs. 600 Crore similar to June & March levels.

Considering all the above initiatives, our net debt as on September, 2020 stood at Rs. 1,817 Crores as compared to Rs. 1,827 Crore in June, 2020 and Rs. 1,859 Crore in March, 2020. Our gross debt was also lower at Rs. 2,409 Crores vis-à-vis Rs. 2,423 Crores as of end of June and Rs. 2,430 Crore as of end of March, 2020. The average interest cost is 8.6% similar to June levels.

Fourthly, our initiatives in PPE product manufacturing continued to perform well under Garmenting segment and product in sanitizing and hygiene categories in FMCG business. The PPE business has contributed ~Rs. 90 Crore in the first half of the year.

Now, let me talk about the quarterly financial performance

Our consolidated financials for the quarter are revenue stood at Rs 732 Crores with an EBITDA loss of Rs 52 Crores resulting in a net loss of Rs 133 Crores. As per the Ind AS accounting, the rent concessions of Rs. 20 Crore received during the quarter has been recognized under Other Income.

Now let me talk about our various segments.

In terms of Branded Textile, July and August months were reeling under local lockdowns and the primary markets remained impacted. Slowly the markets opened and we witnessed strong increase in September sales as compared to July. This was driven mainly from improvement in secondary sales with onset of festivities and upcoming wedding season. The secondary sales in our pan India ~630 town spread TRS network shown significant improvement with recovery clocking ~65% in September.

We have also recently launched an antiviral technology-based fabric called VIRASAFE, which protects against bacteria and virus and is also anti-odor and sustainable. This was launched in Autumn Winter booking in Aug-20 and we received good traction with wide dealer coverage. In the retail outlets, it has received good customer response during the festive season starting in October

Our initiative, Garment Exchange Program was also very well received by the customers. This is an initiative where a customer can avail free tailoring on fabric purchase in exchange of old garments. Overall, about 1.45 lakh garment were exchanged.

Overall for the quarter, the sales was at Rs. 230 Crores with EBITDA loss of Rs. 6 Crores. The EBITDA margins were impacted due to lower realizations on account of higher proportion of PV Sales

In terms of our Branded Apparel segment, the retail channel i.e. EBO store network, which has more or less equal presence in malls & high street stores and LFS, which are mostly present in malls, were impacted in July & August due to intermittent lockdowns. However, with the opening up of malls from September onwards and with the on-set of festive season, we have seen an uptick in sales.

Coming to our trade channels i.e. MBO and TRS – we have exercised control on primary sales to them due to weaker secondary sales. The focus has been to support the channel partners liquidate inventory to speed up our collections.

The quarter also witnessed higher proportion of online and clearance sales to realize cash as we continue to focus on working capital management and liquidity

Overall, from margins perspective, while we have been able to bring in opex reduction, however the gross margin was impacted on account of higher discounting on account of higher EOSS period which lasted about 30 more days than normal, controlled primary sales, adverse channel mix in terms of online & clearance sales as well as inventory provisioning for older season stock as per the policy on a smaller revenue base.

The primary focus in this business in the current such testing times has been working capital management and with the measures that we have taken, we have been able to achieve the same with 30% reduction in Net working capital from Mar'20 to Sep'20

Our Garmenting segment recovered to ~80% levels to Rs. 187 Crores in Q2 mainly led by improvement in bulk & institutional MTM business to key markets of US & Europe markets along with contribution from sale of PPE products. EBITDA margins higher at 10.1% vs 5.3% in PY led by better product mix and cost optimization.

High Value Cotton Shirting segment performance remained impacted mainly due to weak demand in the market.

Both our engineering businesses are back on track with:
Tools & Hardware segment back to previous year levels to Rs. 100 Crore led by growth in domestic markets and well supported by exports to LATAM & US markets. EBITDA margins improved to 15.2% vs 13.8% in PY mainly led by cost optimization measures

Auto Components segment recovered by 93% to Rs. 49 Crore led by revival in demand from domestic markets and well supported by exports market. EBITDA margins improved to 20.7% vs 15.4% in PY mainly led by cost optimization measures

In our Real Estate business, our traction in bookings has been good. The physical visits of the customers are back to 60-70% of pre Covid levels. Factors such as launch of bank subvention scheme along with stamp duty reduction and low home loan interest rates have helped overall demand in the market. We also launched our 7th Tower in August, 2020. Overall, there have been 49 bookings in 2Q, resulting in total 1,012 bookings till September 2020, which is over 60% of the total inventory booked in the 7 towers, having 1,688 units, with a booking value of nearly Rs. 1,000 Crore. In this pandemic situation, certain customers were facing temporary challenges and were evaluating cancellation of booking of flats. However, we were able to retain them through bank subvention schemes and converting 2BHK bookings into 1 BHK bookings. With the labors back to normal strength in September month, our construction is on full swing and currently the status is: 14th slab work in progress in Tower A, B & C. Ground floor is in progress in Tower D and in towers E, J & K excavation work is in progress.

Let me update you about the demerger. Demerger has been an important step for the group. We have received approval from stock exchanges and already filed application with NCLT. Due to Covid_19 pandemic and related lockdowns, the entire business environment and processes including regulatory approvals have been impacted due to temporary closure of business offices and government departments. We expect the overall process to be completed in next financial year. As and when we have a meaningful update, we will inform accordingly.

Now let me cover the outlook - With the opening up of the economy, continued government measures including advance to government employees & waiver of interest on interest for loans in addition to the stimulus package recently announced provides an impetus to consumer spending and accelerate economic activity

Additionally, with salary and bonus restorations, adequate savings and willingness of people to go out for shopping in the current festive season and the winter wedding season, we expect demand momentum to continue in H2.

Also, our TRS network, having presence across 600+ towns and cities, the sales are back to 70% of previous year levels in TRS network in October month. We are witnessing strong recovery of 85-90% in the Tier III to VI markets where we have a strong distribution network.

In Branded Apparel segment, 99% of our EBOs are operational with consumer demand back to ~50% of previous year levels. Festive sales have been encouraging and if we look at comparable sales, the Diwali festival recovery is higher the Dushera / Navratri recovery

As the marriage season begins now, we are hopeful that the secondaries in the trade channels will further pickup and lead to reduction in inventory at the channel partner's end.

Let me talk about the exports, in 2QFY21 the global demand had been progressively recovering especially European market had opened up. We received good traction in orders from US & Europe markets in Garmenting business and from Latin American & US markets in Tools & Hardware business. The Bulk and MTM orders for U.S. and U.K. markets witnessed gradual increase in Q2 however with the second wave of Covid_19 pandemic in Europe region we expect lockdowns may impact demand in the short term.

We continue to see customers planning to shift their purchases from China to India and we expect to benefit from the same

With sales improving in 2HFY21 driven by festivity & winter wedding season and cost optimization measures already undertaken which is expected to reduce our costs by 30-33% on a full year basis, our focused working capital management and lower capex, we expect to maintain adequate liquidity

With the various initiatives undertaken, the restructuring of the business will bring in better efficiencies for a sustainable growth and profitability.

Thank you very much. Now we will be taking the questions.

Moderator: Thank you very much Sir. The first question is from the line of Meet Jain from LKP Securities. Please go ahead.

Meet Jain: On real estate business, Q1 value of bookings was around 960 Crores and this quarter we are showing it was around 948 Crores, which is 12 Crores was conversion of 2 BHK to 1 BHK or there are cancellations as well?

Amit Agarwal: Primarily you are right, as I mentioned also in the script that people have converted from 2 BHK to 1 BHK, but they continued to remain invested in our project because of the locational advantage and the amenities provided by this project.

Meet Jain: There was no cancellation during any other quarters?

Amit Agarwal: No, nothing significant.

Meet Jain: Thank you Sir.

Moderator: Thank you. The next question is from the line of Manish Dhariwal from Fiducia Capital Advisors. Please go ahead.

Manish Dhariwal: Thank you for this opportunity and thank you for sharing an excellent commentary and your presentation is basically is a very good perspective. Thank you. I basically wanted to compliment the management on an excellent commentary and on very good presentation. Now my question was basically pertaining on the management team. I note that there has been a change in this last quarter wherein Mr. Vipin Agarwal, President Corporate and Mr. Mukund Raj who was the CEO of Realty, I do not find in the Q2 PPT and obviously I welcome the gentleman who has recently joined in the FMCG space. So, if you can just share some inputs on that and its implication on the restructuring process which is something that is very important in the scheme of things?

Amit Agarwal: Thank you Manish, so let me give the perspective that Mr. Vipin Agarwal has retired from the business and Mr. Mukund Raj who used to look after the real estate business had decided to pursue some other career opportunity outside the group. As far as Mr. Joe is concerned, he has come and joined from Unilever Group from the FMCG, he is the CEO for the Lifestyle Business, so he brings a valuable experience in terms of how our business has to be shaping up, so it is a part of a major change, which we are looking at and seeing this company to go to the next level. So, he is part of this process and he takes over as a CEO for the Lifestyle Business. On the FMCG business, we have the same management, which continues to be there.

Manish Dhariwal: Right, so Mr. Agarwal, basically retired.

Amit Agarwal: Yes. Vipin retired.

Manish Dhariwal: My second question was on the ongoing efforts which are there to contain costs? How much of that is sustainable because you did mention that costs are significantly down i.e. 48% quarter on quarter and continuing with Q1 to Q2 as well. So, if I ask you that what is going to be the position say in the Q2 of the next year? What kind of cost profile would you see? Obviously, you are variable cost or operating costs will go up, in terms of total cost savings, how much of it will be sustainable is understanding that I want

Amit Agarwal: Look, as I mentioned that a portion of this cost is obviously in-line related to the revenue and the operation level of performance. So, to that extent, we will see a cost going up. However, the kind of savings, which we have achieved especially in terms of the manpower, the way we will spend money on the digital advertising, on the trade shows which we do, renegotiated the rentals, that all or more permanent in nature. So, as we talk about, I would say that close to Rs. 400 Crores of the total opex cost may be permanent in nature.

Manish Dhariwal: That is fantastic, that is wonderful. Now see Mr. Mukund Raj's absence, who is handling the realty because he was the CEO of the Realty Business.

Amit Agarwal: You see we have an able team led by the one who has been very long associated with Raymond - Mr. S L Pokharna and then we have the existing able real estate team, both in the sales and operation front who are looking after this business.

Manish Dhariwal: Is it Mr. S L Pokharna who is the President Commercial and he is sort of responsible for the reality business right?

Amit Agarwal: Yes.

Manish Dhariwal: Thank you very much. Thank you and all the very best.

Moderator: Thank you. The next question from the line of Govindlal Gilada an Individual Investor. Please go ahead.

Govindlal Gilada: Thanks for giving the opportunity to ask question. So, my first question is our apparel sales is down by 92% versus ABFRL apparel sales is down by something around 60%. Why this variation being in same business?

Amit Agarwal: Look as far as our apparel sales is concerned, we are primarily into that primary and we wanted as mentioned in our script our channel partners to reduce their inventory and therefore we restricted to an extent our primary sales to the channel partners. As well as some of the sales, which has gone through the online and through the other channels are at a discounted price and we all know in this period in this quarter there was an extended EOSS that has impacted the revenue for the apparel business.

Govindlal Gilada: But I do not know being in the same field, they have done a lot better. Another thing is we have removed employees, but salary cut most of the companies are now restoring the salaries because scenario is going to be better in future, so anything on that will our salary cut continue or we are restoring?

Amit Agarwal: Basically, what we do is - we are going business by business, level of operations as we continue to improve, we accordingly adjust and we strongly believe that in terms of the rationalization which has been done across the businesses and across the line items of cost whatever is really needed at that point of time is being restored back and rest continues to be the cut.

Govindlal Gilada: So cut has been restored or it will continue?

Amit Agarwal: As I mentioned wherever it was required it has been restored back wherever it is not required, it is not being restored.

Govindlal Gilada: Partially it has been restored and partially not restored? Is still not 100% it has been restored.

Amit Agarwal: Yes.

Govindlal Gilada: My last question is that to an earlier participant you have replied that out of 700 cr something operating saving on cost we are doing right now run rate, so even out of that almost 60% i.e. ~400 Crores is permanent that is right what you told?

Amit Agarwal: Yes, that is correct.

Govindlal Gilada: Just I want to understand right now it looks feasible but suppose if you go back to earlier kind of sales and operations, I want to understand how it is possible to have same level of sales or are you seeing that earlier we were doing some inefficiently operations or how now we will justify saving of 400 Crores on same level of operations again? So that I want to understand Sir

Amit Agarwal: First, let me tell you that there is a concept called continuous cost reduction and improvement & productivity improvement and through productivity improvement you can achieve lot of things and this is part of that. Second thing once you grow an organization, what happens is over the period some of the costs get added, but you need certain time to correct the cost and there has been a major correction in the cost that has happened. For example, in terms of rationalization of some of the stores which you put it, and which were supposed to be profitable have not become profitable. Some of the stores are very, very profitable. So those stores appear cutting down that are cut down. Some of the people who are somehow into the excess, they have been taken out. There has been a productivity improvement because of the rationalization that is helping the cost. There have been certain changes the way you source the material that has helped in the cost. Certain offices across the country, which you had, which you may not require has helped the cost. Certain advertisements, which were spent on the print media you are moving to digital. Certain trade shows which you were doing physical you are moving away. You are taking it to a digital mode. So, all those various things and it is not one two items. We have a laundry list of more than 150 items which are being scanned through and such cost rationalization has been done. So, it is effort which has been performed and organizations undergo this kind of cost rationalization and we have achieved and it has been demonstrated in our case very clearly if I am saving today 46% of the cost in the first half, clearly reflect upon that it has been already delivered. It is not anymore that we will deliver that.

Govindlal Gilada: So, you mean to say that net-net we can go back to 6500 Crores of sales of what we have done in 2019-2020 due to 400 Crores of saving that is possible in, you mean to tell is it? Even that kind of operations also with 400 Crores of cost saving?

Amit Agarwal: First, let me tell you I am not giving a guidance that whether 6500 Crores sales is something which is at a certain level of operations. Considering the impact of COVID and everything, we do not know whether that is happening tomorrow, 2 months, 6 months, 12 months, 34 months or in 3 years or 5 years. So, I know based on the prognosis which the company internally has deliberated, it seems feasible that based on the level of operations, we foresee that if possible going forward this is right level of expenditure for the company and we continuously evaluate and monitor that.

Govindlal Gilada: I am not telling that 6500 Crores is going to happen next year. It may happen after two years, three years, five years, what you told that, we do not know, two years, three years, five years, but only thing I am making clarification from you is that when the 6500 Crores of sales what you have done in future whenever it happens that time this 400 Crores cost saving can we do with same kind of operation that is what I want to ask you or again this cost can go up?

Ganesh Kumar: The variable cost which is linked to sale those are the costs will proportionately go, but otherwise the fixed cost what we are seeing as of today will continue as per the guidance that Mr. Amit has given.

Govindlal Gilada: Sir that is out of 700 Crores, to better know, my simple question is that when that kind of operations again we go back to 6500 Crores level what cost savings will be doing a lot right now out of 700 Crores so again what costs we will be doing up how much permanent cost savings will be there? That is what is my question.

Amit Agarwal: Yes, that is what we said permanent cost savings we have considered 400 Crores.

Govindlal Gilada: So, the next question is given up 6500 Crores operations also whenever it happens in future, we will do 400 Crores of cost. So, let us say 150 Crores PBT was there, suppose in future it will be there so another 400 Crores we will be adding so that is I want to understand.

Amit Agarwal: You are free to do your math on your own.

Govindlal Gilada: Sir that is math Sir. Earlier we used to do 150 Crores PBT suppose same run rate happens after 3 years, 4 years when 6500 Crores. So, 400 Crores will be added benefit because of cost saving that is what is my math. So, what you told that. I am not telling that 150 will come, 150 will come or not, whatever earlier used to come on 6500 Crores operation, 400 Crores will be extra in the future and again it depends upon the future which is dynamic. I am not telling that if earlier we have done, it will be done. Example earlier we used to be…

Amit Agarwal: That is what I said that you are free to do math.

Govindlal Gilada: Yes, on that basis this 400 Crores extra whatever PBT you will be doing the cost saving is going to be permanent. That is what I wanted to clarify. Thank you.

Moderator: Thank you. The next question is from the line of Umang Shah from Edelweiss. Please go ahead.

Umang Shah: Good evening. Good commentary & strong performance. Sir I just want to understand from Mr. Joe, so you are moving from digital front in Unilever - any clue, any idea what are your ideologies going head, how you are going to lead this particular team you know getting back to the glory?

Joe Kuruvilla: Thank you so much. 24 years in Unilever and this is definitely a different industry. Well I am 15 days into the job so still learning of the ropes, but what I can say is that if I look at this particular business, is obviously a lot of the consumer trends that this particular business needs to move into given the disruption we see in the market. So, my one big thing which I want to look at is really how do in this changed circumstances there are two big trends one how close we can get to the consumers and that something which comes from a bit of my FMCG background and the second is obviously having done digital transformation in Unilever for a considerable period of time, I clearly see there is huge opportunity I guess for every organization, but definitely for Raymond, it would definitely be a competitive advantage going forward.

Umang Shah: Just to be very clear on it that we are looking at growing our digital front via our own website versus the likes of Myntra's and Amazons, we are looking at developing our own digital footprint in Indian markets? I mean, we would be hoping for that.

Joe Kuruvilla: Let me just give you an answer which comes from a 15-day kind of an experience, I think it is a combination of…

Umang Shah: But I am sure with your experience it will be easier for you to understand?

Joe Kuruvilla: Sure. It is going to be a combination of both because at the end of the day we cannot say one or the other but specifically Mr. Ganesh, our COO will probably need to just give a much more tangible answer if you need that.

Ganesh Kumar: Thanks Joe. So, let me say first say that the digital space is beyond e-com for any organization. The way we are looking at it is getting into supply chain, it is getting into designing, it is getting into, how do we reach to the consumer or even the channel per se. So, we are looking at a digital transformation and Joe is going to lead us with his experience in terms of how do we bring it altogether thereby creating an efficiency and a very agile organization which is responsive to changing consumer trends. I hope that answers your question. E-com is just one part.

Umang Shah: I was hoping for more of our own digital footprint versus e-com because in our business it is more of tailoring, it is more of the customer experience that one has versus I would say more of a touch and feel kind of business. So, I get my gist of it.

Amit Agarwal: Today is the age of disruption, so there can be many disruptions possible and we would be looking for some of those disruptions to see in our business to take this business to a different level.

Umang Shah: That would obviously help with our balance sheet numbers also, so bettering our working capital cycle. That will be more helpful hand I would say. Thank you so much.

Moderator: Thank you. The next question is from the line of Prashant Hazariwala an individual investor. Please go ahead.

Prashant Hazariwala: Good evening Sir. Sir, my first question is regarding branded apparel. We keep on doing corrections, in branded apparel. So, how much more do we need to do on this front because last quarter we did 96 Crores of turnover and 107 Crores from minus negative profits, so how much corrections we needed to do on this branded apparel?

Amit Agarwal: In this quarter what we had to do we told, we restricted our primary sales, we did some of the online and liquidation sales and what has happened is that certain provisions had to be taken on this and this is based on the current situation. Whatever has been there we have provided for and considered that. Now on a go forward basis, this is a business of fashion where season to season things change and had we seen in the quarter the normal sales at normalized level without a COVID we would not had to take the effect of the online or the liquidation of such inventory and we had explained that clearly that the EOSS lasted longer and we controlled the primary sales, we had adverse channel mix in terms of online and clearance sales as well as some of the inventory provisioning that we did for the older stock as we have a policy made in the company beyond a certain number of seasons you need to provide for such inventory. Normally if you are in a normal business in a normal cycle without the impact of the pandemic that material would have gone out and sold in the marketplace, so you need not have to take such an inventory provision.

Prashant Hazariwala: That is fine, but how much more do we need to do it, next quarter, or another two quarters, how many more quarters do we need to do this, all this correction?

Amit Agarwal: What we have done is done at this juncture. So, there is not much we are talking about that it will be done in the next quarter or beyond quarter. As of now, the information which we have today, whatever was required has been done.

Prashant Hazariwala: From Q3 onwards we will not see this kind of big correction figures?

Amit Agarwal: It depends on the market situation. If we need to still go out and do some of the liquidation sales, if we need to continue more discounting in the marketplace, which is dependent upon the marketplace.

Prashant Hazariwala: Right, but Q3 is almost about half of this is gone, so, you still get an idea about Q3?

Amit Agarwal: I am telling you October has been quite good for us because of the festive season that has been very, very good for us in terms of the month of October.

Prashant Hazariwala: My concern is only Branded Apparel?

Amit Agarwal: I am talking about Branded Apparel only. We have seen very robust sales in the month of October for the Branded Apparel segment.

Prashant Hazariwala: Last two quarters, we have constrained our primary sales, so secondary inventory, EBO inventory, EOSS inventory is almost going to be finished?

Amit Agarwal: You must understand during the lockdown how much sales has happened in the secondary channel also because for the first five months of this half-year primarily there were lockdowns. So, the malls were not opened. So, the EBOs sit there, so they were not able to sell, but there is still a lot of material sitting with these EBOs and secondary channel players.

Prashant Hazariwala: That is what my question is. If there is still lot of materials sitting with them, we need to correct them, because these are all old inventory, it is not new inventory because we have not pushed our primary sales, right? So, these inventory needs to be corrected.

Ganesh Kumar: What we are basically doing is if I have to sell for example X number of units as primary sales to give freshness to the collections, we are restricting it and working on an agreed pattern for inventory reduction and we would like to see if the market suddenly booms up, then it will be backed up with primary sales as well. As of today, we are equipped for any primary sales demand that comes and shoots up in the market.

Prashant Hazariwala: Ganesh, that is fine. Do you guys have any idea how much inventory is with secondary sales guys or we do not have any idea about it.

Ganesh Kumar: We have. There are across different channels for example, our business runs through the MBOs, the EBOs and the Raymond Shops. We control the inventory at the EBOs because it is our own inventory and we control the inventories at the Raymond shop. There the things are very much in control. It is the MBOs where the inventories we do not have a line of sight for that. And we are still working on the collections on the MBOs, but it is not very significant.

Prashant Hazariwala: Do we see on green peak on this branded apparel for us in this quarter?

Amit Agarwal: We cannot give the outlook on that specific manner for the current quarter.

Prashant Hazariwala: No Sir, any idea about it?

Amit Agarwal: Idea is obviously we are running the business, so we know what we have. I told you that we have seen a robust increase in the sales in the month of October clearly based on the festivities which we have seen and the onset of the wedding season. We have seen a robust sale and beyond that I will not give a comment.

Prashant Hazariwala: Thank you very much.

Moderator: Thank you. The next question is from the line of Priyanka Trivedi from Antique Stock Broking. Please go ahead.

Priyanka Trivedi: Thank you for the opportunity. I just wanted to get a sense on what would be the conversion ratio on our e-com website for those who visit our site.

Joe Kuruvilla: We are presently, our site is about 10 to 12 weeks old and we are getting a conversion rate on any day between 0.8% and 1.1% even though the visitors are increasing with every passing day and we are seeing good traction there.

Priyanka Trivedi: My second question is on the raw material side. How is the raw material cost position right now and how do we expect our gross margins to be in the coming quarter?

Amit Agarwal: If you look at the wool prices have fallen. There has been a significant fall in the wool prices, but considering that we have an adequate amount of inventory available on the wool, the benefit of such drop in the wool prices would be seen would be seen only in the fourth quarter and as far as the cotton prices we are seeing the benefits of it, but some part of the benefit is given back because the Cotton Corporation of India has also recently increased the prices substantially. So, wool you will see the impact of almost in the fourth quarter and the cotton prices whatever has been the drop in the second quarter has almost recovered back in the third quarter as we speak today.

Priyanka Trivedi: How do we expect our gross margins in the coming quarter, if you give an idea on that as well?

Amit Agarwal: I think if you talk about the gross margin, the prediction, then you are already talking about the guidance. So, we are not giving a guidance at this juncture.

Priyanka Trivedi: Last question is since the summer is almost over so how you are preparing for the winter and fall, in terms of like new designs or are we not going with any new introductions. So, basically what is the inventory line up going ahead?

Amit Agarwal: You know we have launched Virasafe which is doing very, very well and Raymond as a brand is very, very well known for the winter. So, we are clearly prepared for that, maybe Ganesh, you would want to add a line?

Ganesh Kumar: In fact, we have done our assessments on the requirement of the market and we have our inventories well positioned to reach the market as the demand picks up.

Priyanka Trivedi: That is, it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Darshil Shah an individual investor. Please go ahead.

Darshil Shah: I wanted to know about the news which states that Raymond is planning to exit the FMCG business. So, can you please give us some clarity on the same?

Amit Agarwal: As we mentioned on the response to that, we cannot comment on speculation and as you know we will evaluate rightfully the opportunities which will come upon us and if there is something concrete which makes the disclosure necessary, requirement for disclosure, we will disclose. So, we cannot comment on the speculations which people talk about, but we will evaluate opportunities. As a group, we have many businesses, we will evaluate the opportunity.

Darshil Shah: Thank you so much.

Moderator: Thank you. The next question is from the line of Prashant Hazariwala an individual investor. Please go ahead.

Prashant Hazariwala: I would like to know about the export traction like you have said in your initial presentation that you are seeing export traction and moving from China. What kind of thing is going on that front and what kind of orders do we have or are we seeing in the coming quarters?

Amit Agarwal: Look, we are seeing very clearly, I would not use the word, anti-China sentiment, but very thing similar to that we are seeing very clearly people talking about and across our businesses. Let me first talk about textile. People who have bought from us maybe in 2014-2015 because of whatever the reason, be it the pricing or whatever, they were not coming back to us. However, we have seen in the last few months that they have started to engage into a meaningful dialogue to talk about whether there is a potential purchase from us. This is a fashion business so it will not be a commodity that you place an order at an x price, and you get the delivery today or tomorrow. Since it is a fashion business you will take time, let us say six months to nine months to convert into a tangible order because they need to feel the design and so on so forth, so that takes its while. However, if you talk about conversations, there is plenty of conversations which are happening. Now let me talk about our auto business, some of the major OEMs out of Europe have started to negotiate with us for a new program, which they would launch maybe in 12 months from now to 15 months from now which they have been traditionally sourcing from China, they have started to engage very much with our auto business so very clearly that is a very good sign or a strong sign. Similarly, in the tools and hardware business we have seen also the traction of the export be it in the Latin America market or in the African market, we have seen a significant improvement in that market from a demand perspective. Ganesh, do you want to add something?

Ganesh Kumar: As Amit has rightfully said from the export side it is more about all the customers looking at diversifying and keeping an additional source and we are discussing with them. It is also an opportunity for us to expand our own capabilities in terms of moving beyond suits, jackets, shirts and trousers, so we are looking at co-creating a lot of collections. There are discussions going on at various stages of progress and we are hopeful that this will set up some strong foundations for us to build on the export business.

Prashant Hazariwala: I understand it will take time, but by what time we will be confirmed about this positive traction from the export? Which quarter? By the end of this year?

Ganesh Kumar: It will start tricking down by about after two quarters, because the effort is on, we are developing samples, conversations are happening, so it is a very structured process. Unlike as Amit has said in the commodity, here first you share the creative designs then based on the design yardages are made and based on that garments are made. So, there is a cycle which it follows, and it is typically a 12-month lead cycle that the international buyers follow.

Prashant Hazariwala: Auto, tools and hardware will be much ahead of all these stuffs, maybe next three months, or six months kind of thing.

Amit Agarwal: Yes, absolutely because if you see that is the reason, we talked about that in the tools and hardware we are seeing the recovery coming back almost to pre-COVID levels because clearly the markets are moving, new customers are being added, so that has aided to get back to the recovery faster.

Prashant Hazariwala: Are we seeing any benefits from government like PLI scheme for textiles or for any of our segments?

Amit Agarwal: Look, there has not been a major scheme which is related to the textile; however, there is a rub off effect. One, I can tell you classically previously on the linen side - on the yarn there was a duty imposed because of the Chinese import; however, that has been extended let us say two months back even on the fabric. So, that has absolutely helped us in order to become more competitive in the linen fabric point of view. However, the rub off effect, which I say is on the consumer because the consumer having a little more cash in the hand, will enable him to go for such purchase of the spent on the fabric or in the clothes and so on and so forth. So, there is a rub off effect is the larger one I would call upon.

Prashant Hazariwala: One more like on the real estate side when will be the completion of our first phase of our project?

Amit Agarwal: This project is a five-year project and the first delivery will be given in 2023, first phase which we have already launched almost one and a half years back, say 15 - 16 months back, will be given in 2023.

Prashant Hazariwala: FY2023 or is it calendar year 2023?

Amit Agarwal: I think it is calendar year 2023. What we are talking about is somewhere September to October month.

Prashant Hazariwala: It takes five years to make one building?

Amit Agarwal: Not five years.

Prashant Hazariwala: We have started almost in 2019-2020.

Amit Agarwal: But we have lost also, but we have to get the amenities also made, because we want to get the OCs done, all the things have to be completed, the whole amenities, the parking space, the whole parking garages, all that has to be completed, therefore we have taken the time accordingly.

Prashant Hazariwala: Once we complete the first building then the other four, five buildings will be fast, within next two years?

Amit Agarwal: Yes. What we are doing is after the first building anything after three to four months every building will keep on coming and getting delivered.

Prashant Hazariwala: Thank you very much. Wish you Happy Diwali.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you Sir!

Amit Agarwal: Thank you very much. Look forward talking to each one of you in the next quarter and wishing everyone a Happy Diwali and Prosperous New Year.

Moderator: Thank you. Ladies and gentlemen this conclude today's conference call. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining us. You may now disconnect your lines.