



“Raymond Limited - Q3 FY2020 Earnings Conference Call”
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Mr. Sanjay Behl – CEO (Lifestyle Business)
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Mr. J. Mukund - Head, Investor Relations

Moderator: Ladies and Gentlemen, good day and welcome to Raymond Limited Q3 FY2020 results conference call, hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. 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 Stock Broking, I would like to welcome all the participants in the investor 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 Mukund!

J. Mukund: Thank you, Abhijeet. Good evening everyone, and thank you for joining us for 3Q FY2020 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. Sanjay Bahl, Group CFO; Mr. Sanjay Behl, CEO of Lifestyle Business; Mr. K. Mukund Raj, CEO of Real Estate Business; and Mr. Bibek Agarwala, CFO of Lifestyle Business. I will now hand over the call to our group CFO, who will give you the summary of the results before we open up for Q&A. Over to you, Sanjay.

Sanjay Bahl:

Good evening, ladies and gentlemen. Thank you for joining us today on this earnings call to discuss our results of 3QFY20.

At first, let me briefly discuss the prevailing market condition in 3QFY20 of the industry.

It was a quarter with continued sluggishness - subdued consumer sentiments and liquidity concerns in the trade channels. Domestic consumption remained impacted due to muted rural sentiments & low urban demand and liquidity concerns continued to affect the trade channels impacting the ability to buy additional merchandise coupled with stock built-up

Generally, 3rd Quarter is marked by retail uptake driven by festivities and onset of wedding season. However, this time there were multiple footfall dampeners including weak consumer sentiments, socio political unrest and aggressive online sales. EOSS started in mid-December across industry with aggressive offerings. Retailers had possibly built up a huge inventory position in anticipation of strong festive sales resulting into increased discounts to de-stock

Overall the quarter was moderate with weak macro-economic factors & liquidity concerns coupled with moderate consumer sentiments

Coming to the quarterly financial reporting:

As we all are aware, Raymond has seamlessly transitioned to IND AS with effective from 1st April, 2019. While the reporting for 3QFY20 is based on IND AS 116 basis however for the ease of reference for comparison with earlier quarters, pre IND AS 116 financials have been provided in the investor presentation

Coming to our quarterly performance: Our revenue grew by 11.6%; and the EBITDA margins were lower at 9.6%. The Net Profit was Rs. 196 cr vs 38 Cr in PY; however the current quarter included one-time land sale impact of Rs. 160 cr. During the quarter, we closed transaction of sale of ~20 acres of land of our Associate Company JKIT in which Raymond Ltd. holds [47.66%]. The one time land sale impact of Rs. 160 cr is the Raymond Ltd' share which has been reported in the consolidated 3QFY20 financials.

Overall, revenue @ Rs.1,903 cr up by 12% mainly driven by growth in Branded Apparel, Garmenting & Real Estate business. At profitability level, the EBITDA Margin is lower at 9.6% vs. 10.9% in the previous year mainly due to higher discounted sales & adverse product mix in Branded Apparel and lower capacity utilisation in Auto Components

The positive contributors to the margins were Branded Textile where the margins improved led by lower wool cost in Suiting & improved performance in B2C Shirting due to topline growth & better product mix

The interest cost is lower by Rs. 5 cr i.e. Rs. 65 cr in 3QFY20 vs. Rs. 70 cr in 3QFY19. The interest cost in 3QFY19 includes one-time provision of Rs. 9 cr on potential interest on deferment of ULC payment related to the land. Excluding this one-time provision, the interest cost is higher by Rs. 4 cr mainly due to higher average borrowing during the quarter. We received Rs. 350 cr from land sale & debt reduction in 2nd fortnight of December month hence related interest cost savings is negligible in 3QFY20. The annual interest savings of Rs. 25 cr would start reflecting from 4QFY20 onwards.

Now, let me highlight the business initiatives undertaken during the quarter:

Mini TRS: In-line with our stated asset light expansion approach in the core textile and apparel business, we opened 44 mini TRS under franchise route during the quarter. Overall till date, we have opened 362 mini TRS stores in 600+ towns including 250+ new towns in Tier 3, 4 & 5 towns.

Tailoring Hubs: During the quarter we have added 9 more franchise based tailoring hubs taking the total number of tailoring hubs to 71 with total conversion capacity of ~2.4 million meters of fabric per annum. This is in-line with our stated strategy of facilitating quality tailoring services through tailoring hubs which tailors the customers' requirement in quality controlled environment

Now let me explain the performance of each segment

Branded Textile segment grew moderately by 2% due to continued impact of consumption slowdown in a quarter affected by sluggish & subdued consumer sentiments and lower exports:

- The suiting business grew by 1% led by growth in:

- Domestic business by 1% driven by the price hike undertaken in the worsted wool portfolio & combo packs - low priced products
- However, domestic volume growth was impacted by continued lower off-take in the wholesale channels on account of lower secondary sales and lower institutional sales

In **B2C Shirting business**, topline grew in Q3 by 10% driven by growth in TRS channel

The EBITDA margins at 17.0% improved significantly from 14.8% in previous year mainly due to benefit from lower wool price and improved performance from B2C Shirting – higher topline as well as better product mix & channel mix

Branded Apparel segment grew by 23% with strong double digit growth across all 4 Power brands. Strong growth in Parx - 92%, & RR - 26% supported by growth in PA -16% and CP -23%. The channel growth was driven by MBO channel - 93% along-with strong performance in LFS channel -17% growth. The SSSG growth was high at +8.6% mainly driven by better product mix in RRTW & Park Avenue EBOs driven by wedding & winter season. The EBITDA margins lower at 0.3% vs. 2.2% in previous year mainly due to higher discounted sales & adverse channel mix.

Also, during the quarter the growth in MBO Channel was high at 93%

The high topline growth in 3QFY20 was driven by the primary sales growth in the MBO channel

- Higher primary sales were driven by large growth in orders for 2HFY20 placed in Autumn Winter season booking in Jan-19
- However, weak macro-economic factors & low consumer sentiment had an adverse impact on secondary & tertiary sales
- This resulted in accumulation of inventory at channel level and consequently resulting in increase in receivables in 3Q
- We have extended support to channel partners for liquidation of excess inventories which has impacted the profitability in 3Q
- Also, we sharpened the current AW20 season booking model & are in the process of reducing the inventory lead times to enable faster response to market conditions
- These initiatives will also have a short term impact on channel sales & margins in 4Q but will ensure the growth & stability of network in the long term.

High Value Cotton Shirting Segment grown by 5% driven by fabric & yarn sales. The EBITDA margins stable at 13.9% vs. 14% in PY

Garmenting segment has grown by 29% to Rs. 239 cr, driven by higher exports to US & Japan markets. Ethiopian operations regaining momentum with improved capacity utilization during the quarter. EBITDA margins stable at 3.8% despite sales growth mainly due to increase in minimum wages & higher freight cost. The revision of minimum wage cost was applicable retrospectively from April, 2019 and the total impact was Rs. 4.5 crores for 9 months

In the Auto Components business, the topline de-grew by 36% due to overall sectoral slowdown. EBITDA margins lower at 14.6% vs. 21.8% in the previous year mainly due to lower capacity utilisation

Tools and Hardware Segment sales at Rs. 103 Crores, up by 3% over previous year, mainly due to better off-take in Latin America & African markets. EBITDA margins higher at 12.3% vs 11.8% in previous year due to lower steel prices

The Real Estate business has seen a good response from the customers even when the overall Real Estate market was generally sluggish. Within 10 months of launch, we have received ~900 bookings with booking value of ~Rs. 920 cr in the 6 towers having a total inventory of ~ 1,530 units. During the quarter, we launched 1 BHK flats in 1 of the 10 towers in the existing project and total bookings for the quarter was 171 units.

Construction of 3 slabs has been completed in 3 towers and for the 4th tower construction has commenced. Overall the progress is in line with target schedules. The Real Estate business has contributed Rs. 43 cr to the topline and contributed Rs. 2 cr towards EBITDA for the quarter. The customer collection during the quarter was Rs. 69 crores and till date the collections has been Rs. 200 cr.

A brief look at the cashflows and Balance Sheet:

Balance Sheet & Cash Flow

- Despite facing liquidity challenges in the market, we have been able to maintain our free cash flow and operating cash flow in the quarter as compared to previous year. For the quarter, our operating cashflows was Rs. 180 cr and free cashflow was Rs. 81 cr.
- An overview of debt: Gross debt has reduced by Rs. 415 cr during the quarter as compared to Sep-19 position however, on a year on year basis it has reduced by Rs. 189 cr from Rs.2,610 cr in 3QFY19 to Rs. 2,420 cr in 3QFY20
- Our net debt levels has reduced to Rs. 1,946 cr in 3QFY20 from Rs. 2,195 cr in 3QFY19. Net debt to equity is significantly lower at 0.7x vs. 1.1x in PY.
- The average interest cost for YTD Dec'19 increased by 44 basis points to 8.58% vs 8.14% in PY. The increase was mainly due to increase in market interest rates, replacement of commercial papers with higher interest rate loans.
- On the working capital front, Net Working Capital days remains same at 102 days - excluding real estate basis
- Coming to CAPEX, our CAPEX spends was Rs. 34 crores during the quarter mainly as replacement capex in suiting plants, related to bulk-line to MTM line in Garmenting business to cater to international MTM solutions and IT capex for implementation of SAP Hana

Demerger update: In November, 2019 we had announced the demerger of Lifestyle business into a separate entity. The scheme of demerger has been filed with the stock exchanges. We expect the regulatory process to take 6-9 months for closure.

Outlook for 4QFY20:

- Coming to the 4th quarter, we are experiencing continued lower consumer sentiments and liquidity concerns in the trade channel.
- The aggressive discount offerings continued in the current EOSS in January as well.
- From Raymond perspective, our focus remains on improving operating cashflows and protecting the operating margins
- Continued focus on improving the working capital management remains a top priority. We are currently working towards better collaboration among channel partners, improving inventory management with stronger controls which will help us in optimising working capital thereby improving cash flows & reducing debt
- Accordingly, in 4th quarter:
 - In Branded Textiles segment, wholesale channel is expected to remain impacted due to de-stocking of inventory
 - In Branded Apparel segment, the MBO channel correction as stated would have a short term impact on topline growth & EBITDA margins
 - However, in-line with our 3QFY20 growth momentum, we expect uptake to continue in our TRS & EBO network driven by continued wedding season
 - For 4QFY20 guidance, we expect the topline to be stable as compared to previous year
 - The consolidated EBITDA margins to be in line with 3Q
 - Branded Textile EBITDA margins expected to improve by ~50 bps over previous year driven by benefit of price hike and lower wool prices
 - Branded Apparel EBITDA margins expected to be in-line with 3Q due to impact of trade channel stock correction
 - Also, due to lower capacity utilization of Auto Components business, the EBITDA margins to remain impacted
- On a full year basis,
 - The topline growth expected to be mid-single digits driven by growth in Branded Apparel & Real Estate. Branded Textile expected to have stable revenues
 - The EBITDA margins expected to be lower by ~100 bps mainly due to channel stock correction in B2C businesses and low capacity utilisation in Auto Components due to slowdown in the industry

As the economy in general is showing the signs of muted growth in the short term along with weak consumer sentiments, we stay invested in our core fundamentals and focused on improving our operating cashflows and protecting operating margins

Thank you. We can open for question and answers

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Puneet Kabra an Individual Investor. Please go ahead.

Puneet Kabra: Good evening, Sir. The first question is on the Garmenting business. Recently, one of the competitors has notified that the Ministry of Textile has withdrawn the merchant exports from India scheme with retrospective effect, can you throw some light on what will be the impact of that on our Garmenting business and whether that is provided for in Q3 or it will come as a one-off in Q4?

Bibek Agarwala: We have not provided anything as of now because this is an internal gazette only. There is no notification issued so far on this. However, we have also reached out to various Apparel Promotion Councils and their CEO's also and awaiting their clarification. So as of now, nothing has been considered in our accounts. Once we receive the notification, then only we will be able to give you further input on this.

Puneet Kabra: The second question is on the Apparel business. We understand that we had a few bookings, which happened in the January trade fair and we had to undergo the stock correction. Do you think that the bookings which happened subsequently for the spring trade fair in August were moderated and this correction will finish in Q4 or you think it will prolong and go into the next financial year as well?

Sanjay Behl: Puneet, SS2020, which has just started in January, part of the correction was already taken in the booking cycle of July-August and another part of it was further taken in November-December post Deepavali. So, we have had 2 sets of correction in SS2020, but that only takes care of our ability to have a healthy pipeline from January to June. So that does take care of that. However, there is a slowing pipeline, which is coming from the last AW2019 as well as SS2019 stocks. So the season, which has just kind of got over and a season before that, correction will not get over in 3 months alone and part of it will continue in Q1 of next year. Majority of the intensity of correction, we will try to see that this quarter takes care of it. However, if secondary sales continue to be as subdued as we have seen in the last couple of quarters, then the prolonging of some level of correction effort will continue and spill over into Q1 and maybe part of it could go into the rest of the calendar year. What we have done as we are in the process of booking our Autumn/Winter 2020 stocks, a very significant level of correction has already been taken into that. So it is a de-bleed right now, but that bleed will continue to keep going down, as we go progressively into the quarter. It may also completely disappear as the secondary sales offtakes go up. However, it is a very big effort in this current environment. We don't foresee any significant up-tick or triggers happening for consumer sentiment to move up in the next 2 or 3 quarters.

Puneet Kabra: Sanjay, just one more question on the apparel related. Earlier you have indicated that we are aspiring for a double-digit or a high single-digit margin. Given the economic environment and given the correction that we are undergoing right now, when do you think that scenario is now likely and how far is it pushed out?

Sanjay Behl: Puneet, it is a very difficult question really to answer. But you are right, we had indicated that and we have got this unprecedented hit because of aggressive amount of discounting that we have had to do because of lower consumer sentiment and then additional inventory, which got stuck in the channel. So my sense is that we have got pushed back at least by a year, if not 6 quarters on to our ambition to reach a double-digit kind of operating margin. So what we were attempting to do in 2020 end or 2021, is at least getting pushed back by a year or so. Next year, you would see a significant improvement

happening if most of the correction gets over in the next 6 months or so and then we will get into our recovery path, but we do not want to carry something, which is very obvious sitting on our hands as a problem into the next few quarters and actually, we want to play a little more moderate game because we do not see any trigger, whether it is in the industry level, market level, economy level that is coming, which will give me a confidence to give you a guidance that, Yes, we are probably 4 quarters away or 6 quarters away from double digit. So, we have to say that you will see progressive improvement in margin after 1 or 2 quarters of shock or whatever correction we have to build in. Post that you will start seeing a significant improvement in margin, but double-digit at this point of time, we don't have a sight on it. We have a sight on either single digit or high-single digit.

Puneet Kabra: And last question, on demerger, and this is for Sanjay Bahl, Sir. I think our scheme of arrangement is with effect from April 1, 2020, and in that context, what I wanted to understand is, if we have any non-core asset monetization, be it land sale or anything else that happened after April 1, 2020, is it fair to assume that those profits can only be used for reducing the debt in the existing company and not in the new Lifestyle company?

Sanjay Bahl: See, the process for demerger is expected to take about 6 to 9 months. So it is going to extend into the next fiscal year. If there is any land sale, hypothetically speaking, that land sale is going to happen in Raymond Limited. So if it happens for the lands business which will continue to be part of the Raymond Limited entity, the proceeds will rest with Raymond Limited.

Puneet Kabra: So any land sales, say, that happens hypothetically even in the month of April, those proceeds will eventually reduce the net debt of the Lifestyle company?

Sanjay Bahl: No, the Raymond limited because the proceeds will rest with Raymond Limited.

Puneet Kabra: Okay. It will be with Raymond Limited. So, is it fair to state that after April 1, 2020, debt reduction, if any, in the Lifestyle company will have to be only out of the operating cash flows?

Sanjay Bahl: Will be through the free cash flows, yes.

Sanjay Bahl: That is fair to assume, yes.

Puneet Kabra: Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Shubhkam Ventures. Please go ahead.

Dikshit Mittal: Sir, my question is on wool prices, how are they trending currently and have you seen any further softening as compared to last quarter?

Sanjay Behl: The wool prices are anywhere lower by 10% to 12% than last year, which has been an average at this point in time. It has been pretty stable from around 3 to 6 months. We do not expect much of a decline to happen here on. So from November till about March, we estimate that similar prices will continue which

is about 10% to 12% lower than last year. In next year, our forecast is that prices may actually go up marginally over the current low base. However, compared to the prices which we saw in 2019, that had peaked, we expect 2021 to be a little softer on those prices, with 5% to 7% more than this year, but definitely it will be lower than 2019 prices.

Dikshit Mittal: Yes, Sir. On this point, you mentioned in your guidance that you expect around 50 bps margin improvements in the Branded Textile on a Y-o-Y basis, which will lead to a sequential decline in margins, but historically, if we see Q4 is the strongest quarter for you in terms of margins in this segment. So just wanted to understand why will the margins fall sequentially in next quarters?

Sanjay Behl: So it really would not lead to a sequential decline.

Sanjay Bahl: Higher than the previous year.

Sanjay Behl: Yes, if you see higher than previous year. So last year, Q4, there was 15.9%. This year, the guidance is 50 basis points more than 15.9%, so the guidance is on 16.4% to 16.5% in Q4 alone. At this point of time, our margins are already running marginally ahead of last year on YTD basis, so additional Q4 accreditation will actually give you only a little higher margin for branded textile.

Dikshit Mittal: No sir, I am saying quarter-on-quarter, like this quarter, we did 17% and Q4, your guidance is 16.5%, but historically, what we see is Q4 is the largest in terms of the margin performance out of all the 4, so we are expecting that maybe we can grow 17% in Q4, so I just wanted to get the guidance conservative guidance, or is the wool prices?

Sanjay Behl: Yes, it is a little conservative from sequential quarter perspective. what you are saying. Quarter-on-quarter comparable, it is higher, but you are right. If the same trend continues like what we saw last year where consumer sentiment was still on ascend and we had also seen a good strong ASP growth of our suiting mix in Q4. So this quarter, we still expect despite the subdued consumer sentiment that margins will be up. If there is a little bit of a last year kind of a trend and consumer sentiment picks up because even this quarter is very heavy on wedding, which has already started last week, so if we continue because weddings are continued till May, so there is no reason for us to see if there is going to be any dramatic change. So 16.5% with a little bit of a push in optics could actually start looking closer to 17% also, but we would like to maintain our guidance at 16.5%, but we will see at where we end up at the end of this quarter.

Dikshit Mittal: Sir, in this Branded Apparel, you mentioned the inventory buildup, so which channel has seen the maximum buildup in inventory?

Sanjay Behl: Almost 75% to 80% of buildup, has happened in multi-brand store (MBO) channel which contributes about 22% to 23% of our sale. About 75% of buildup has happened in multi-brand channel because it is a primary channel in which there is made to order. So if they book an order, as Sanjay had explained in his opening remarks, in January - February of last year, they had actually given us orders for July to December. These are the stocks that we have made to orders and had to be supplied, which is where the inventory and the receivables are getting stuck. Most of our other channels are secondary-based channels

and only consumer sales is reported as revenue and there it automatically gets adjusted. There is a little bit closer to market and flexibility that we have in controlling our inventories there. So this is largely, multi-brand stores.

Dikshit Mittal: And MBOs, you sell on an outright sale basis?

Sanjay Behl: It is outright, you are right, absolutely, yes.

Dikshit Mittal: So this channel contributes only 20% of the revenues, so even if there is some de-growth going into Q4 because of destocking, so overall, I think apparel should still grow in double digits in top line?

Sanjay Behl: Yes, it will. That is right because this channel is not the entire contribution, still could be close to a double-digit growth in apparel at a top line level that will happen on a full year basis; however, given that this channel is taking a very strong kind of a correction getting built in Q3, you have seen partly, but also massively in Q4, in terms of overall operating margins, we will have a year which will be lower than last year.

Dikshit Mittal: And Sir, lastly on cash flow perspective, so the full year, will we see a positive free cash flow for this year or after like working capital and capex?

Sanjay Bahl: We are looking at positive cash flows in Q4, given that we had 81 Crores free cash flows in Q3. We expect Q4 including the inventory correction and receivable correction that we are doing and low capex, to also be positive. However, we will still be negative as far as the full year is concerned.

Dikshit Mittal: And so, the cash flow that you shared in the presentation, it is after working capital and capital expenditure, right?

Sanjay Bahl: Yes.

Dikshit Mittal: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

P. Jhunjhunwala: Congratulations on a good set of results. I just want to check what is the extent of increase in receivables on a quarter-on-quarter basis because of this huge increase in MBO channel?

Sanjay Behl: So, in Lifestyle business, which is particularly a major business where receivables have gone up, we have seen an increase of about 375 Crores YoY, which is comparable December to December. From this 375 Crore increase in receivables, 215 Crores is in Apparel, while 175 Crores out of that 215 Crore is in multi-brand store.

P. Jhunjhunwala: In what?

Sanjay Behl: In multi-brand channel.

P. Jhunjhunwala: Sir, in this multi-brand channel, will you continue to supply them? How are you going to manage this receivable increase in multi-brand? Will you continue to supply at least small quantities or how are you planning if the consumer sentiments continue to remain subdued?

Sanjay Behl: We will have to cut down on our supplies, which is what the plan is. We will significantly cut down on supplies, but the only challenge here is that they are sitting on largely Autumn/Winter stock, and we are getting into a summer season and the merchandise is very different for winters and different for summers, So some supply, which is very summer-specific orders and some of those multi-brand stores, which are reasonably okay on receivables will have to be supplied, so that the business continuity remains. Having said that, there will be a significant correction or discount sharing, which will have to be done on the build-up inventory, so that even the old inventory gets liquidated over the next 6 to 8 weeks, which is the impact that you are going to see in Q4, so it will be lower inwards, lower dispatches, higher collection, combination of all 3 will have to be done. These 3 levers will have to be done over the next 3 months very intensely or maybe over to 6 months. We will have to see how our collection and dispatch effort goes, and then really see as to where we land up. But at this point of time, there is a significant cut down on dispatches to multi-brand and an additional incentive on liquidating the current inventory, which is sitting there, so that we can get the collections back in place. You would see close to about 70 Crores of collection or additional of receivable reduction that is happening purely just on this channel in the next 3 months.

P. Jhunjhunwala: Okay, can you just help me with the days increase in receivables in this Lifestyle business, December over December?

Sanjay Behl: NWC has not really gone up. At a group level, excluding real estate, net working capital remains the same on number of days, so our health in receivables in all other channels, whether it is Raymond shops, large format retail, EBO remains good. It is only this channel, which has gone up, so overall, if you see at a NWC level, it is not really any different in number of days.

P. Jhunjhunwala: I am almost done with my questions. Thank you so much.

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

P. Hazariwala: I have a question regarding our Ethnix brand, it was just launched and I would like to know how is the response with this brand?

Sanjay Behl: Ethnix?

P. Hazariwala: Yes, what kind of response do you have got and what kind of, which you can like give me like turnover for last quarter on Ethnix brand?

Sanjay Behl: So overall, Ethnix, just to give you a broad sense, we have about 25 exclusive brand stores, which have started over the last 3 quarters. Most of them are meeting the initial benchmark we had in terms of revenue per square feet, cost per square feet and footfalls that we had planned to get in these Ethnix channel. We would see a significant growth in Ethnix going forward, even including this quarter and next quarter, but on a reasonably low base. This is because, the commercial launch of Ethnix has really happened in the last one season or so. Before that, it was largely a proof-of-concept with very minimal sweeping into the market. The real commitment on retail investment on Ethnix started only 3 months back with the season starting and with these 25 stores that we have really set it up over the last 3 to 9 months, we are very bullish in terms of continuing to invest in our Ethnix portfolio.

P. Hazariwala: So, how is the response as you have almost spent 9 months and last 3 months are the peak like time of the marriage season?

Sanjay Behl: Response has been very good. If you see the number of footfalls versus the initial metric as it was, walk-ins into our Raymond shops and exclusive Ethnix shops, the conversion that we are getting inside a shop, the pricing that we are able to charge. For example, our discounting is under 10%. Actually, it is close to 5% compared to market discounting, which is high, which again, is a proof of a very strong product with hardly any discounting there. We have all these 25 stores as exclusive franchise stores. So the entire capital investment is on the back of confidence of this product doing well, the franchises have invested in opening exclusive stores for us. So various metrics we take with the consumer conversion, our pricing, discounting, capital investment by franchisee, if you put together all these metrics and then take a holistic view of the outcome, the initial response to Ethnix over the last 6 to 9 months has been meeting our expectations and we are going to continue to, as I say, stay invested in this.

P. Hazariwala: And with all this cleanup, which is going on currently, what kind of operating margin we are expecting for next year, not this quarter, but the next year, FY2021. Can we see like 2% kind of jump on the EBITDA margin ?

Sanjay Behl: Which products?

P. Hazariwala: Overall margins?

Sanjay Behl: At a Lifestyle group level, your saying?

P. Hazariwala: Yes, Lifestyle group level.

Sanjay Behl: In Lifestyle, at this point in time, you are getting close to about 14% to 15% margin in Branded Textile, that is the current range which we are having. Last year, it was close to about 14%. This year is going to be a little more than that at about 14.5% to 15%. We expect these margins over the next 1 to 2 years to remain at this level with marginal improvement. So there could be a little upside actually on the Branded Textile margin is what we foresee. Apparel, which has been a bit of a challenge and got a little setback this year, we do not see it bouncing back in an immediate term. We expect its margin to bounce back at best to 5% to 6% next year and then we will have to see as to whether they can go even further up, as I told to a single high digit, at least over the next 6 to 8 quarters. In Garmenting, the current margins are

trending at about 4% to 5%. We expect exit margins to jump up to about 6% to 8% on back of global MTM operations that we are doing and Ethiopia is stabilizing. So we expect them to jump up to 6% to 8% and then stay at that level for about the next 4 quarters. So you will have an upside on textiles versus this year, an upside on apparel, but nowhere near to FY2019 kind of margins where we got last quarter, 6%-7% margins, so there is some makeup to be done there. In Garmenting, there could be an upside of 2% to 3% next year.

P. Hazariwala: If I am taking Raymond Lifestyle, so what kind of free cash flow you guys embedded last quarter, if you can give that figure for Raymond Lifestyle only?

Sanjay Behl: I think as I said, first half of the year because of the increase in working capital that we had, which build-up of inventory and receivables, these cash flows are negative. However, if you look at the second half of the year, it is going to be positive. With the pipeline correction that we are doing now, we are hopeful that in next year as we get into the next fiscal year, the cash flows for the whole year are going to be positive. Free cash flow for the group as a whole is largely led by Lifestyle, so Lifestyle, we clearly expect positive free cash flows in financial year 2021.

P. Hazariwala: All right. One more, now advertisement is like it is on every channel and everywhere, the models type, I do not understand why you select such a disappointing even look like cheerful kind of face, so I do not have any idea about the models, what kind of models we should select or but when you see them, you should feel good, that is what my idea is, right, but this models like some kind of some Ethnix models are like they do not look like cheerful, so if you can improve on this or you can explain why we have this kind of models?

Sanjay Behl: I think, it is a subjective view, as you said that everybody has, but it is a feedback that we will take on board, and we will share with the marketing team and see if we can look at cheering them up a little more.

P. Hazariwala: Yes, when you see them, you should ...

Sanjay Behl: Your feedback is well noted. I think I have taken a record of that and I will definitely share it with my marketing team and maybe in the next advertising campaign we do, we look forward to your feedback. Thank you very much.

P. Hazariwala: Thank you.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Good evening. So, what are our gross margins in Branded Textile and Branded Apparel for the quarter?

Sanjay Behl: So, we actually do not report the gross margin. I think operating margins get reported, but there is a upsurge of gross margins when it comes to textile, if you want to know the delta, we have had actually a growth in gross margin, both in suiting of about ~1.5%, in shirting of about ~3.0%. So, part of the reason why operating margins are looking up is because our gross margins have gone up. The reason why

suiting gross margins went up largely was on 2 accounts, one is the wool price softening over last year same quarter. Second is the price increase that we took is taking a full effect in Q3, and then it will continue to go on in Q4. In shirting, it is a combination of better product mix and the price increases that we have taken, so these are the reasons why our gross margins in textiles have gone up by ~1.5% in suiting, ~3% in shirting. Our gross margins in apparel have actually dropped and dropped quite significantly over the last quarter-on-quarter and that is largely because we had to account for all the discounting, which has gone up. So if you want to understand the quantum of discounting, the discounting in Q3 went up from 52% last year in Q3 to 66% this year. Though the extent of discounting came down and the intensity of discounting came down from 32% to 21%. But still, 66% of the stock in these 3 months got discounted and we saw the largest EOSS in the industry of about 80 days and then it started again in December. So 21% average discounting on 66% of stock led to a reasonable drop in gross margin of apparel. On top of it, there was some correction for MBO channel, which also had to be built in and impacted our gross margins. So in one business, huge upside on gross margin, other business, there was a drop in gross margin.

Chetan Phalke: Can you just indicate the ballpark negative delta we had in the gross margins in apparel?

Sanjay Behl: About 4.5% to 5%.

Chetan Phalke: And when it comes to EOSS I mean?

Sanjay Behl: You can see that EBITDA has not dropped that much, which means that in opex, we were able to have 3% savings, so that we can restrict the overall drop in EBITDA margins to 188 bps. There was huge savings in opex to basically mitigate the extent of the gross margin drop.

Chetan Phalke: What is our EOSS year to date? For the quarter, you just mentioned the number 66%, but how is it for the year till now?

Sanjay Behl: So overall, YTD, we have had an average of 21% discounting rate on about 67% of stock during EOSS.

Chetan Phalke: How is this number compared to last year?

Sanjay Behl: So last year, it was 54% of stock discounted, but was discounted at 29% rate.

Chetan Phalke: The quantum has gone up, but the discounting has come down?

Sanjay Behl: Discounting has come down. Yes, that is where we have been able to control.

Chetan Phalke: And how do we fair on this particular metric against our competitors, like let us say, ABFRL or others?

Sanjay Behl: I think competitors will also declare the numbers. So I do not know the last quarter numbers for these competitors. However, based on a first half indicator, we were better than Arvind, and a little lower than Madura. But ballpark, it is likely all of them are pretty much in the similar region. Having said that, then there is a huge brand-to-brand difference, depending on the strength of brand, within our brands as well

as competitive brands. Some of the stronger brands will have much lower discounting and weaker brands will have much higher discounting. Also channel mix has a large role to play, if you have a large online then the overall discounting does go up. So it is very difficult to have a common metric and then compare. But overall, ballpark, I think all 3 big listed players are in the same region, plus or minus 4% or 5% up and down.

Chetan Phalke: And in apparel, growth is pretty much on track, we are very happy with the growth, but if we compare with the leaders in the industry, then we are still few notches below them, so when can we catch up with them, any guidance on that front?

Sanjay Behl: Yes, I think it depends on what we are going for and there are 2 things is the way you need to see it. I think, one you see the overall revenue of Branded Apparel leader versus comparing it with us, but that overall revenue is made up of many more brands and many more verticals. For example, in case of ABFRL, they also have Pantaloons, which is not at all comparable with us because we do not have any of our own retail. They also have brands in categories that we do not really represent like women wear, innerwear. We do not have any presence there. For a like-to-like comparison, at the brand level, a better comparable way is to look at the strengths of each of the players in the market. That is the way we are looking at it and comparing ourselves. So I am saying that we have 4 brands; Raymond, Park Avenue, Parx and ColorPlus. How do we rank amongst the top 10 Apparel brands in India? It is just a choice, whether you want to inorganically keep adding more brands and keep increasing your revenue. Secondly, is revenue the only metric to grow, and that, we believe, is only one of the many vectors on which we would like to evaluate our overall market leadership, but very important market leadership criteria that we are currently looking in the context of the environment we are in is - return on capital as well as cash flow, and in some of the earlier, I think, questions were addressed on free cash flows and the metric, which is the overall holistic metric. So I think it is about profitability, cash and revenue growth, all 3 of them in a balanced way is our basic kind of a premise on which we would like the overall growth of branded apparel to be done. So if you say, how much time will it take, honestly, it is not a relevant benchmark at this point of time for an operative team because we are not going behind market leadership on revenue and all. There are other parameters that we are looking - largely a more profitable, sustainable growth with a reasonably good ROC. This is the metric that we are chasing.

Chetan Phalke: Since we are aggressively expanding our store footprint as well, of course, most of it is via the TRS franchise route, how do we see the rental market shaping up across Tier 1, Tier 2, Tier 3 markets and also amongst our existing stores, are you seeing any rental renegotiations technically at a lower price, higher price?

Sanjay Behl: Yes. So what we do every year is whatever rentals are coming for renegotiation, we try to renegotiate the price. We have also seen that the market have softened in last 3 to 5 years. Commercial rentals have actually marginally softened, and they have softened even more so in Tier 1 and Tier 2 towns relative to Tier 3 and Tier 4. So there is a softening, which has happened there. Having said that, there is still a very wide disparity between rental rates in Tier 1A location, Tier 1C location, Tier 3A location, Tier 3C locations. So there are differential rentals which range from Rs.80/square feet and heightening up to Rs.200 / square feet. It all depends on which location, which city, which tier market we go. However at a

holistic level, we have seen some softening of rates. Every year, we also do manage to successfully renegotiate a few of our rentals down and we have been able to do it.

Moderator: Thank you. The next question is from the line of Rahul Dani from Karma Capital. Please go ahead.

Rahul Dani: Sir, can you confirm the gross debt number for the Lifestyle business and the Raymond Limited business?

Sanjay Bahl: Yes. The allocation of gross debt will be done subsequently as we get into specific debt allocation because from April 1, 2020, the accounting is going to be between the 2 entities. We had already given broad indications earlier when we had made the demerger announcement. So coming to specifics, we will do it closer to the point in time as the demerger comes into effect.

Rahul Dani: Just to confirm, you have said 75-25 is Lifestyle and Raymond Limited?

Sanjay Bahl: Broadly, yes.

Sanjay Behl: Broadly, in that zone. Yes.

Rahul Dani: And same applies for working capital and cash as well?

Sanjay Bahl: See the working capital will move with the business. For Raymond Lifestyle business today, approximately 25% to 25.5% on turnover is the net working capital and it will remain within that range. This will move with the business. On the debt reduction front, 415 Crores has happened in Raymond Limited.

Sanjay Behl: So, out of total working capital of ~2000 Crores, ~1700 Crores is Lifestyle. So ~85% of total working capital will move with the Lifestyle and the balance 300 Crores will be with the rest of the business.

Sanjay Bahl: At the end of fourth quarter is when we will get a picture on the free cash flow and the net debt position there and then the allocations will happen based on the business-specific working capital and business-specific flows.

Rahul Dani: Thank you.

Moderator: Thank you. The next question is from the line of Arjun Sengar from Nippon Mutual Fund. Please go ahead.

Arjun Sengar: Good evening, Sir. This is a question regarding your Branded Apparel segment. As you mentioned in your presentation, your same store sales growth or your EBOs is 8.6%. so this, of course, for you to have 8.6% SSSG growth, the secondary sales has to be good for that naturally, but for the MBO segment, there has been an inventory pile up because of low secondary sales, so I just wanted to reconcile why is there such a big difference in the secondary sales between your EBOs and the MBO segment, is it that your MBO segment is focused on some of the slower moving brands like ColorPlus or is there any other

reason for that or is it that this 8.6% SSG growth number is distorted by some newer stores, which are showing very high growth, just wanted some color on this?

Sanjay Behl: So I think the difference is really, one is primary sales and one is secondary sales. So EBO, as you said is secondary sales is whatever we sell gets reported as revenue. So if 8% is increase in L2L stores is reported as revenue and that is what it is. Whereas, in MBO channel, if you see, our growth is 93% in this quarter, which basically means there were confirmed orders. Now, even if we have a 30% secondary sales growth, still there is an inventory buildup versus the orders that were placed. So we have an indication of secondary sales growth and accordingly we had built up the stock with about 15% to 20% expectation of same store sales growth in multi-brand stores in January. If this comes down to 8%, equal to EBO SSSG, there is still a strong buildup which has happened. So when we say it is lower secondary sales growth in MBO, it is a relative context of what really went into building up the stock in the channel versus what it landed up to. This is really the reconfiguration.

Arjun Sengar: Understood. So going forward, how can we make the planning more streamlined so that imbalances are no longer there to the extent that they are right now? Is there something that can be changed in the processes to make it more lean going forward?

Sanjay Behl: Yes, I think you are asking a good question because this has really been a struggle that industry has been going through. The way supply chain is configured in terms of fabric inward, Garmenting conversion, lead times, warehousing, logistics, intermediaries in the sales channel and eventually the consumption. So the cycle actually works at about a 8 to 9-month kind of lead time and the question that you are asking is can we bring it down to 6 months, 3 months and become a little more responsive in the market. There are many levers. It is not that there are none, there are a lot of levers and some players have established doing this. One of the levers is to really move from 2-cycle booking to 4-cycle booking by moving from conventional autumn/winter and spring/summer to go for spring, summer, autumn and winter. Analogically, break these 2 alphabets into 4 alphabets or a 4-cycle booking. This is one of the levers what we are looking at. Second lever is to improve the never out of stock and take that out of made to orders. For example, if we have a perennial product or a never out-of-stock product like a blue shirt or a white shirt, which is not dependent on the booking cycle of January or July, then you just run an algorithm based on your last 2 or 3 years sales. Then, put a modest growth target or whatever has been the growth basis based on your forecast. Now, instead of making it in January or February of your order booking basis, you make equal quantity and come very closer to market basis based on the response of the market or go as close to replenishment-based production as you can. These are just 2 initiatives I said and then there are 3 or 4 more initiatives, which are also possible. So, combination of each of these initiatives as a business model change is what we are now evaluating. In fact, we have been actively evaluating for some time now and reconfiguring the whole supply chain. After mentioning supply side initiatives, there are demand side initiatives also where we are working as to how quickly can you pick up, what gets sold today into planning cycle tomorrow and not really have a lag in that and that means overhauling of the entire point-of-sale system, IT architecture. We are also investing in SAP/4HANA, which is currently being configured and in the next 6 to 9 months, Raymond would have completely upgraded its IT infrastructure from sourcing to point-of-sale to SAP4 plus Microsoft kind of packages, end-to-end supply chain. So there are supply and demand side initiatives, everything has to

work together seamlessly for us to be able to change the model. I think it will take us 6 to 9 months before we demonstrate a tangible ability to have moved into the direction that you are asking.

Sanjay Bahl: I think you also just to add that what has been witnessed in the second half of the year has been quite unprecedented in terms of the consumer sentiments as well. Because as we got into the second half of the year, the expectation from trade as well as business was that there were some green shoots that we saw in boosting the consumer sentiments in the rural side, better monsoons, etc., and all. Now the sentiments have only gone weaker and this has not helped in terms of secondary sales side. So there was a conservative optimism, which has not materialized in the second half of the year.

Arjun Sengar: Also, on this 8.6% SSSG, how much of it has materialized because of a very good winter, just to get a sense of that, how much of a role has the strong winter played in this kind of growth?

Sanjay Behl: I think there is a role, which is a little deferred. Most of the real winter impact will happen and we are seeing early signs, and I know what you are talking about extreme winter in parts of North India and East India and that definitely helped us in month of December, and is helping us as we speak in January. But I think largely, this is also to do with the better merchandise and sharper product lines in our EBOs. What we have been able to do is to dramatically drop our SKUs, sharpen our portfolio, re-price them in terms of becoming more so, also there is a sharper product proposition. I think, there has been a bigger reason, but yes, there is always going to be some up-tilting because of weddings, because of weather, and there is some bounty of that also, which has got it.

Arjun Sengar: That is it from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Vaishnavi Mandhania from Anand Rathi. Please go ahead.

V. Mandhania: Actually I had a similar question on step forward, so basically, in terms of our lead time, which you said was around 8 to 9 months and we are only working at like in the apparel segment that is like a 2-cycle model while you have peers like ABFRL and Madura, basically, you have shifted to like a 12-season model?

Sanjay Behl: Yes. So we are also watching them, and we are learning from the industry. I understand that there are attempts to move to even beyond 4 season, but there is no tested, validated model at this point of time. We have also seen in one of our brands, we have taken this entire business model and tried to land our product from idea to shelf in 6 weeks or so. We have met with part success there. So yes, I take your point that like our competitors are doing, various industry models are there for us to learn from and get inspired from. We are also very actively working to change the overall model to make sure that our number of rotations gradually move up over the next 4 to 6 quarters upwards from where we are today from maybe 2.5, 3 terms that we do to 3.5 to 4 terms, so we are also trying to do that.

V. Mandhania: My other questions have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Khusboo Darya from Cap Grow Capital. Please go ahead.

Khusboo Darya: Actually I just wanted if you can provide projection or return on investment capital, segment wise?

Sanjay Behl: Well, which investment segment wise?

Khusboo Darya: All segments.

Sanjay Behl: You wanted the capital invested, we can do that offline then

Khusboo Darya: No, the return on capital?

Sanjay Behl: Yes, textile segment is about 30%. That is the FY19 ROCE. Apparel is about 10% and Garmenting would be 6% to 8%.

Khusboo Darya: Thank you so much.

Moderator: Thank you. The next question is from the line of Puneet Kabra an Individual Investor. Please go ahead.

Puneet Kabra: Just a quick question on SAP HANA implementation, so based on my past experience, some of these large ERP implementation also caused some amount of disruption in the supplies sale, inventory build up, everything else. In this environment, when macros are weak and we already are going through stock corrections, etc., are we covered enough in terms of the implementation is not going to cause any disruptions over the next 9 months or we have provided that, there maybe some hit because of the ERP implementation at work?

Bibek Agarwala: So just for information, we are already in SAP ECC. Basically, what has happened, we are just going to the next version of SAP. We have been doing the groundwork from the last 6 month and our base architecture is already ready. Now at this point of time, we are doing as-is and to-be processes. We are cognizant of the fact that there will possibly be disrupt, but, we have taken a full precaution for the same. We have also kept our system processes ready so it does not impact businesses. There could be a 1-week or 2-week disruption at the time of migration but it will be taken care of.

Sanjay Behl: So Puneet, we have already implemented this. We are live on Garmenting already. We went live in December. Now we are sitting in third week of January, and we have been running our operations pretty smoothly because there has been a year's pre-work, which was done. We have partners like PWC on board. We also have SAP directly working with us including the SAP global team. There is a dedicated team internally, which has been taken off the business. The best and the most profession high-performance management people have been taken off and have been full-time put on working for SAP implementation across all our businesses. So yes, while this is point well made Puneet, and I think, yes, there are enough examples where this has risked the business in terms of some business disruption, we are well aware of it. We acknowledge it, and we are doing our best to put our homework in terms of right people, right processes, and we may run a parallel system for about 2 or 3 months before it gets fully

stable. So there are those options plan B, plan C mitigations thought through. So, there is at least adequate amount of preparation from our side. Hopefully, our execution, which has already been proven in one business, will continue and give us reasonably good results moving forward.

Moderator: Thank you. We have the last question from the line of Sharan S an Individual Investor. Please go ahead.

Sharan S: I just wanted to understand on the Garmenting segment, for the Ethiopian facility, what would be the EBITDA margin compared to the Indian facility?

Sanjay Behl: At this point of time, this year, because we have had the first 4 or 5 months of lower production, lower capacity utilization on account of civil unrest. This year, EBITDA will be negative, but next year, going forward, we are looking at a 4% to 5% EBITDA positive operationally and at a cash level, we are wanting to breakeven, next year.

Sharan S: But what would be the targeted EBITDA from the Ethiopian facility because, I mean, since we are trying to move out of, since the wage hike and all in the Indian facilities, Ethiopian option would be a good one?

Sanjay Bahl: So at a stable level, fully utilized capacity, on a stable level, we can look at about 8% to 10% EBITDA margins coming out of the facility.

Sharan S: Sir, I just missed your comments on the MEIS rollback, its impact on our company, so can you just throw some color on that?

Bibek Agarwala: See, there is an internal gazette has been issued at this time. On January 14, 2020, there is an internal gazette, but there is no formal notification on this gazette. We have connected also with the federation of export organizations. They are also internally evaluating, so once the notification comes, obviously, we will also intimate accordingly.

Sharan S: Okay, but what is your view on this and then if officially you will get the notification on an industry perspective?

Sanjay Behl: At this time, we believe that it is unlikely because there is actually the overall apparel exports out of the country has got impacted, if you see the last 3 or 4 quarters actually has declined, so it is very unlikely that the incentive, which has been given to the industry to promote and reduce the forex deficit in the country, apparel is a very large contributor to the overall export about \$40 billion equivalent of export comes from apparel textile and apparel industry there. We believe it is unlikely in the current environment, it will be notified in a hurry.

Sharan S: Thank you, Sir. that is it from my side.

Moderator: Thank you. Sir, we also have Puneet Kabra, he came back in the queue. Puneet, you may proceed with your question now.

Puneet Kabra: Thank you, I think I got that bit, Sanjay Sir, on the SAP implementation, just one last question on luxury cotton shirting. This business has done well despite the slowdown and everything else. But being B2B in nature, do we see some lag that will come into this business, starting Q4 or we think this business will be able to hold and maintain its performance even going into Q4 and say, Q1 next year?

Sanjay Behl: I believe, Puneet that our capacity is still much smaller to the overall industry requirement. We are only about 27 million meters in Kolhapur and about 4.8 million meters in Amravati. So overall you are looking at a 32 million meter capacity that B2B Raymond has compared to the overall industry requirement, which is very large, including internal Raymond business growing. So between our in-house requirement and the overall market, which continues to grow, I do not see any drop that could happen suddenly because of the market slowdown or a lag effect happening. If we were in 50% or 60% of captive capacity, then those issues will definitely start with a lag showing some impact that is one. The second thing is, I also do not see a huge upside or uptake in terms of positive growth because this is the capacity that we pretty much committed. We do not have any other capex coming up, in Brownfield expansion or Greenfield expansion for sure. There is none in the next 1 year and no Brownfield expansion beyond the existing capacity. So we have to now make more efficiency out of the existing capacity there, so You can pretty much expect a stable, predictable growth in this business at the current rate margins that we are extracting.

Puneet Kabra: Thank you, Sir. That is it.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

J. Mukund: Thank you everyone for taking your time out and participating in this call. In case you have any further questions, please connect with me and the IR team. Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking, we conclude this conference. Thank you for joining us. You may now disconnect your lines.