"Raymond Limited
Q4 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Raymond Limited Q4 FY2020 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 an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhijeet from Antique Stock Broking. Thank you and over to you Sir!

Abhijeet: Thanks, Janice. On behalf of Antique Stock broking, 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, Mr. Mukund!

J. Mukund: Thank you, Abhijeet. Good evening, everyone, and thank you for joining us for 4Q 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. S. L. Pokharna (President - Commercial); Mr. Vipin Agarwal (President – Corporate); Mr. Ganesh Kumar (Chief Operating Officer - Lifestyle Business); Mr. Suman Saha (Chief Operating Officer - Branded Apparel Business); and Mr. K. Mukund Raj (CEO - Real Estate Business). I will now hand over the call to our Group CFO, Sanjay, who will give you the summary of the results before we open up for Q&A. Over to you, Sanjay!

Sanjay Bahl: Thank you, Mukund. Good evening, ladies and gentlemen, and thank you for joining us today on this earnings call to discuss our results of 4QFY20.

First, let me briefly discuss how the year FY20 has been and how the market conditions were in 4QFY20 for the industry.

The year witnessed subdued consumer demand. The trade channel remained impacted by passive consumer sentiments and liquidity crunch. At retail level, domestic consumption remained sluggish due to muted rural sentiments and low urban demand. However, moderate improvement was seen during festivities & wedding season. However, aggressive discounted offerings continued by apparel and retail companies to drive sales.

Coming to 4th quarter: The calendar year 2020 began on a cautious note with moderate demand that saw the End of Season Sale period being stretched beyond mid-February. The consumer sentiments were moderate with weak macro-economic factors & liquidity concerns.

Now, before we discuss the 4QFY20 results, let me discuss the impact of current pandemic Covid-19 on our businesses and the steps that we have undertaken to address the unprecedented challenges.

Historically, 4Q has always been a seasonally strong quarter for Raymond. However, 4QFY20 witnessed a 'Black Swan' event and we were hit by Covid Pandemic. Nationwide lockdown that was imposed during last fortnight of March severely impacted performance of all our businesses. March, usually is one of the strongest months for both Branded Textile and Branded Apparel on account of higher primary sales. The company was expecting high primary sales in March, due to good number of wedding dates in the period of April to June. However, trade channels started reflecting the sentiments with primary sales getting impacted in 2nd half of March due to COVID-19.

With lockdown, in-line with government guidelines, all retail stores were shut along with, manufacturing facilities and offices. The entire supply chain was impacted as dispatches to wholesale channel, TRS and MBO were stalled. The garment export dispatches were deferred as well due to retail shutdown in US & European markets.

First, with lockdown in place, we immediately formed a crisis group comprising of leadership team supported by business operational teams to set up health and safety measures for our employees and customers. We facilitated work from home for our office employees during the period of lockdown.

Second, we initiated active engagement with all stakeholders including our channel partners, vendors, franchisees, LFS partners, MBO partners and store landlords. Steps are being undertaken including extending support to our channel partners to ensure business continuity. We are in continuous engagement with store landlords to adopt a collaborative approach.

Third, we are focused on enhancing digital capabilities and ramping up our ability to reach out to channel partners, customers and employees through the digital platforms. We have now moved to digital trade show which eliminates any disruptions to our trade channel in booking and ensures seamless supply chain processes. We are leveraging e-commerce & Omni-channel for effective inventory management.

Fourth, as an organization, we are challenging all costs and are restructuring organization to ensure efficiencies. In line with the prevailing market conditions and unprecedented challenges, the company has undertaken the process of cost rationalization & various cost control measures related to sales & marketing, manpower, rentals and others to minimize the impact on business. Also, we have deferred our capital expenditure such as store openings, renovations and technology upgrades in the near term.

Fifth and most important: Conserving cash and managing liquidity: The Company is taking all requisite measures to manage liquidity that includes cost reduction, fund management and focus on collections. The Company is looking at all available options that include long term funding and alternate working capital availability to manage liquidity in the current situation. The Company is in the process of taking steps to issue NCDs that would support rebalancing its debt mix favoring long-term debt. Recently, the Company has raised Rs. 145 crores through NCDs at market benchmarked rates.

Now coming to the quarterly financial reporting:

As we all are aware, Raymond has seamlessly transitioned to IND AS with effect from 1st April, 2019. While the reporting for 4QFY20 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 at Rs. 1,288 Cr is down by 30% and EBITDA negative at Rs. 40 Cr.

The Reported Net Loss is Rs. 69 Cr. This includes an exceptional item of Rs. 31 Cr (Net of tax) towards fair valuation of development rights received as non-monetary compensation towards acquisition of land by Thane Municipal Corporation for public utility

Our 4QFY20 performance was impacted mainly due to 2 reasons:

- First, Covid-19 pandemic which disrupted the entire economy and affected all our businesses

  - As already mentioned, March is one of the strongest months for both Branded Textile as well as Branded Apparel on account of higher primary sales.

  - This year specifically, Company was expecting a good wedding season driven by higher primary sales in March, due to higher number of wedding dates from April to June.

  - However, due to lockdown primary & secondary sales were impacted resulting in topline loss of ~Rs. 414 cr and Rs. 134 cr at EBITDA level

- Second reason impacting the performance was planned trade channel stock correction in Branded Apparel. Let me explain this in detail

  - Overall slowdown in consumption coupled with liquidity pressure in last few quarters impacted secondary & tertiary sales. While primary sales to MBOs grew at 40% + from FY18 onwards till 9MFY20, the secondary sales did not grow at that pace. This resulted in significant increase in receivables in 3Q specifically in our MBO trade channel

  - The need for action was identified & as discussed during 3QFY20 results, we initiated extending support to channel partners for liquidation of stock and in 4Q significant amount of stock correction was done to clear the pipeline o We have adopted a new cash management model that is 'Collect, Sell and Produce / Procure in that order

o Long term steps are being undertaken to align primary sales to secondary channel sales. We are sharpening the booking model to reduce the inventory lead time enabling faster response to market conditions; The impact due to this correction on topline is Rs.209 cr and EBITDA by Rs. 106 cr for the full year and in 4QFY20, the impact on topline – Rs. 122 cr and EBITDA Rs. 54 cr

o However, with above measures we have been able to better NWC Management as Overall GWC is lower by 130 Cr vs Dec'19 and Debtors lower by 133 Cr vs Dec'19 led by planned corrections

Excluding above impacts, the underlying performance would have been:

- For Consolidated 4QFY20 performance over PY
  - Revenue would have been stable at Rs. 1,824 cr (lower by 1%) driven by:
  - Strong growth in retail channels for Jan & Feb (EBO+21%) and LFS (+6%) in Branded Apparel mainly due to increase in number of doors
  - Increased contribution from real estate business (Rs. 38 cr vs. Rs 20 cr PY)
  - EBITDA Margin would have been 8.1% led by:
    - Strong improvement in Branded Textile margins (20.0% vs. 15.9% PY) due to lower raw material prices and better product mix
    - Better utilization of Ethiopia plant & increase in high margin MTM business
    - However, margins got impacted in apparel due to [higher promos, discounting & adverse channel mix) and continued slowdown in automobiles resulting in low capacity utilization of manufacturing plants in Auto Components segment

Now let me explain the underlying performance of each segment.

The underlying results exclude the impact of COVID-19 and planned correction in the Branded Apparel trade channels. The COVID-19 impact for each segment is based on management estimates which are only indicative in nature and are based on certain assumptions. Underlying results have been provided only for better disclosure, comparison and understanding of results.

Branded Textile: Branded Textile segment at Rs. 817 declined by 2% mainly on account of de-growth in the suiting business by 1% due to subdued consumer demand, lower institutional sales & controlled sales of low margin product portfolio such as Combo packs

The B2C Shirting declined by 3% mainly due to lower secondary sales in the trade channels. The EBITDA margins at 20.0% improved significantly from 15.9% in previous year mainly due to benefit from lower wool price and improved performance from B2C Shirting with higher top line as well as better product & channel mix

Branded Apparel:

- Branded Apparel marginally grew by 1%
  - For Jan & Feb - Strong growth came across Retail Channels led by EBOs (21%) supported by LFS (6%) and Online (72%) sales
  - However, Trade Channel declined due to the stock correction undertaken

Underlying EBITDA is negative on account of higher promos and discounting along with adverse channel mix

In Garmenting, the topline at Rs. 211 cr, was stable as compared to previous year, mainly due to lower bulk business & increased focus on high margin, low volume institutional MTM business

EBITDA margin is higher at 6.6% vs. 3.6% PY mainly due to higher utilization of Ethiopia plant & better product mix (MTM business)

In High Value Cotton Shirting, topline at Rs. 162 cr grew by 4% due to higher domestic sale of fabric and yarn from Amravati

EBITDA margin higher at 14.9% as compared to 12.9% in PY mainly due to improved product mix and operating efficiencies-

In Tools & Hardware segment, the topline at Rs. 98 cr de-grew by 4% mainly due to slowdown in domestic files business and EBITDA margin at 10.4% vs 8.2% in PY mainly due to lower steel prices

In Auto Components segment, the topline at Rs. 50 cr de-grew by 26% mainly due to sector slowdown and EBITDA margin lower at 17.4% vs. 21.9% in PY mainly due to lower utilisation

In Real Estate business, during the quarter due to a suit filed claiming protected tenancy, the civil court granted status quo on the construction and bookings in January. The company filed an appeal challenging the status quo order. The Civil Court rejected the injunction application in favour of Raymond.

Overall, during the quarter, we received 52 bookings. Till date, overall booking have been 950 with booking value of ~Rs. 960 cr in the 6 towers having a total inventory of ~ 1,530 units.

Construction of 3 slabs has been completed in 3 towers and foundations is in progress for 4th tower. The Real Estate business has contributed Rs. 38 cr to the topline in 4QFY20. Till date the customer collection has been Rs. 221 cr.

Now coming to the cash flows 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. Our operating cashflows was Rs. 179 cr and free cashflow was Rs. 80 cr.

• An overview of debt: Gross debt is stable at Rs. 2,430 cr vs Rs. 2,420 in Dec-19 however, however, on a year on year basis it is marginally lower as compared to Rs. 2,468 cr in Mar-19.

• Our net debt levels has reduced to Rs. 1,859 cr in March from Rs. 1,946 cr in Dec'19 and Rs. 2,066 cr in March-19. Net debt to equity is significantly lower at 0.7x vs. 1.0x in PY.

• The interest cost at Rs. 60 cr is lower by Rs. 5 cr as compared to Dec-19.

• The average interest cost at 8.57% is similar to Dec-19 at 8.58%

• On the working capital front, Net Working Capital days lower at 103 days as compared to Dec-19 of 105 days

• Coming to CAPEX, our CAPEX spends was Rs. 39 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

Demerger update: In November, 2019 we had announced the demerger of Lifestyle business into a separate entity. The scheme of demerger has been approved by the stock exchanges and now it has been filed with NCLT. As and when we have a meaningful update, we will inform accordingly.

Now coming to the current status of operations (Post Lockdown)

Retail Stores

• The gradual reopening began from Lockdown 3.0 onwards, wherein the government opened up the sale of certain nonessential items in specified geographies.

• Currently 1,332 of Raymond stores have re-opened and the Company is adhering to all COVID-19 guidelines for employees and customers

• On an average, stores are clocking ~45% of pre Covid (Feb-20) sales

• Lower Tier markets continue to perform better with above ~50% recovery (Pre-covid), observed for Tier III – Tier VI markets

Status of manufacturing facilities

• Suiting and shirting fabric manufacturing plants continue to remain shut due to subdued demand and we have adequate Finished Goods inventory to service the demand. The management is evaluating production planning to reopen the plants in a phased manner

• Garmenting facilities of Raymond have partially resumed operations and are deploying stringent health protocols and safe distancing measures in coherence with government directives

• T&H and Auto Segment: The plants have resumed production since May to service pending export orders. The export markets have opened up and inflow of export orders has started.

Real Estate business:

• As per the phased relaxation post COVID-19 outbreak, since the Government has allowed construction work, the Company has initiated pre-monsoon preparedness activity at the site. The construction work will spruce up with the availability of the migrant labour

• With the lockdown in effect, the company has engaged the potential buyers through digital and virtual interactive touch-points The Company has started receiving bookings for flats but sales is expected to pick-up only after the current pandemic impact tapers off

New Business Opportunities (Raymond Care Initiative)

• The Company is utilizing its garment manufacturing factories in Bengaluru to manufacture PPE products including coverall suits and masks, which are currently being supplied to government, corporate sectors and hospitals

• Launched a range of sanitizing products including hand cleansers, hand wash and high alcohol content cologne meeting the highest safety standards, affordability and ease of usage for consumers

Overall, we expect demand to come back to normalcy over the period of few quarters. Our utmost priority remains health and safety of customers & employees, liquidity management, and cost optimization. We are focused on creating a lean organization to emerge stronger to leverage the potential growth opportunity in FY 21-22.

Thank you. We can now take the questions

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Puneet Kabra, individual investor. Please go ahead.

Puneet Kabra Good evening Sir. Thank you for taking my question. Compliments for the good investor presentation. The first question I have is, can you throw some light on maybe if we pick up branded textiles as an example, and what are some of the key assumptions while we made up the underlying results?

Sanjay Bahl: Clearly, the assumption that we had was we had a quarter estimates, which we had for each segment, and we looked at January and February sales in line with those estimates and the fact that the progress towards meeting the March estimates and for the quarter. So the loss of sales that we had during the month of March was what was factored clearly as a loss due to COVID and really, the deferment of orders or cancellation of orders that we got from the trade. So effectively, what we did was we looked at January and February and our March projections which were in line with what we were hoping to achieve and in line with the historical trends that we had as well, and basis that we arrived at what we have really lost because of the flow. First, the slowdown that we saw in demand, and also with lockdown, the cancellations that we had in the order. So that was the base.

Puneet Kabra: Thank you. My next question is on the working capital. Is it possible that you can give a split of working capital days between receivable inventory and payables? So we have the net working capital, but can I get a split for end of this financial year and end of the last financial year?

Sanjay Bahl: We can give you in terms of the number of days. If I see for the last year, number of days of inventory for March 2019, at a consolidated level was 103 days. Inventory has gone up to 122 days. Receivables, has gone down from 69 to 65 days. It had peaked to 84 days in December. It has come down to 65 by end of March 2020, and this shift is primarily also because the sales as we put together, we had about Rs.414 Crores of sales, which was a mix of both retail as well as trade channel sales which did not happen. So obviously, this was resulted in higher inventory at our end and lower receivables at the year-end.

Puneet Kabra: Yes, and payables?

Sanjay Bahl: Payables was from a level of end December 2019 was at 122 days, went up to 127 days, so some increase there, and March 2019 was 116 days.

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

Moderator: Thank you. Next question is from the line of Prerna Jhunjhuwala from B&K Securities. Please go ahead.

Prerna Jhunjhuwala: Thank you. Sir, first question would be on branded textile. This 20% normalized margin that you have mentioned for the underlying business, could you give a breakup of what would be the growth margin contribution in this or volume impact? Because there is no major volume impact as the topline growth in underlying assumption is only negative 2%. So apart from raw material, is there any component or the entire 500 bps improvement that you are seeing is on account of growth, lower raw material costs only?

Sanjay Bahl: Well, primarily, there are two reasons for this. One is lower wool prices. So wool prices, we have been updating in our calls as well since the second half of last year, is that the wool prices have softened and in Q4, we got the advantage of the drop of 25% in the wool prices. So that was one primary reason for the lowering of the input cost as being the reason for the increase in the margin. The second reason is the product mix as well. In the fourth quarter, the sale of higher-value products and less of combos has resulted in a better average margin itself.

Prerna Jhunjhuwala: Okay, and so Sir, this wool prices, how are they shaping now? And how do you think that there will be an increase in this FY2021 given the demand structure today?

Sanjay Bahl: Wool prices continue to remain soft. We have wool stock with us already at the lower prices, which is adequate for production in the coming months. But we also have availability of wool, which is with our Australian vendors, which will continue to be at low prices as well. So we will see the availability of wool continuing at soft prices as compared to the previous year.

Prerna Jhunjhuwala: Sir, second question would be on branded apparel. We are seeing underlying margins in branded apparel also at negative 7.6%. When do we see margin improvement in this segment? How do we overcome this situation because last year, we were profitable in this quarter?

Sanjay Bahl: Yes, you are absolutely right. But we had to take some corrections in this quarter. Some of them were one-time corrections, which were there in the trade channels because of a buildup, as I explained earlier in my speech that it was because of the pipeline correction we had to take. Also, in spite of the pipeline correction underlying was negative because of the higher discounting that was taken in the fourth quarter because of, again, trying to liquidate stock, higher discounting, end of season sales, all of this resulted in our gross margins coming down, which impacted the underlying profitability. So overall, for the quarter, while the underlying was still negative because of the high degree of returns and also the discounting that we had to take; however, for the year, on an underlying basis, we would have ended up at close to about Rs.52 Crores of EBITDA, which is still lower than the previous year, but it would have been positive at Rs.52 Crores. What are we doing and your question as to how will we get back to a better margin of profitability? I think this is one business where post the correction in our trade channel, we are really looking at resizing the whole business model as well in the trade channels and both Suman and Ganesh are looking at in terms of channel-wise profitability, in fact, the scale of our EBO business as well, given the challenges that we now see in terms of revenue growth and also the rental reduction, which have to be in line with the drop in revenues that are anticipated. So essentially each and every channel is going under the radar and strictly from the lens of how do we ensure that we have a baseline of profitability in that channel. So post-COVID, I think what we are seeing is an opportunity to reset and resize the business to a level where we are able to scale down our cost to deliver maybe a lesser growth or a lesser total revenue in the business, but to focus on how do we deliver channel profitability, and with this pipeline correction and the whole cycle and the model that we have spoken about is first to collect, sell and then procure. I think this model will lead to a tighter working capital cycle as well. We are also moving away from a fact that it was earlier two season working capital cycle and now we are moving to enlarging that so that we ensure lower commitments during the year as well on inventory. So there are many steps which are being taken, and we will keep you posted as we make progress on these. But the idea is clearly to now get back to profitability, and this has not just at an aggregate business level, but actually at deep channel level as well.

Prerna Jhunjhuwala: Okay. Sir, then how do you implement the same multiple season products into the wholesale channel? Is the turnover that high in that channel because EBOs, LFS, TRS, we all can maintain because it is under our control to a very large extent but what about MBOs turnover?

Sanjay Bahl: MBOs is also a profitable channel for us. Intrinsically, it is a profitable channel. However, the whole management of the MBO cycle from primary sales to collections is to be managed efficiently, and I think that is where the whole model is being fixed now, and now we are making the changes there to ensure that the stock levels are there is one, visible, and also other it may also move towards the secondary led model as well, and accordingly, then the whole working capital cycle gets more efficient. So it may see lower growth, for sure. We have already taken correction in this channel. Post-COVID, there may be more corrections that may be required because while the corrections that were taken in March quarter, in a business-as-usual environment would have resulted in liquidation of the stocks that were available end of March and collections and would have then sustained the business. But with April, May and June, coming under lockdown and very little sales happening, we have to reassess the inventory, which is there in the pipeline and see whether it may be a better option to take either the inventory back and redeploy it in other channels as well. So those are all options that we will have to now again reconsider.

Prerna Jhunjhuwala: Sir, your portfolio with respect to formal wear and casual wear, what will be the mix and how are you seeing the trends currently in your channels on these two fronts is what I would like to understand?

Sanjay Bahl: What I will do is, I will request Suman, who is our Chief Operating Officer for our Branded Apparel Business. So Suman will answer this question. Over to you, Suman!

Suman Saha: Formal is still about 55% of our overall business. Casual is the rest. The casualization in the overall portfolio has always been a trend for some time now, and formal brands also have started becoming far more expressive. Post-COVID also, if you ask me, we are seeing a little more uptick in the casual side of the business. But however, from a merchandising standpoint, how do you reinterpret formal in the new age and how do you sort of give it an edge is also something that we are working on.

Prerna Jhunjhuwala: Okay. Last question is on cost optimization that you were talking about earlier. How much can we expect as a reduction in fixed cost as per the initiatives taken till now?

Sanjay Bahl: If I look at what are the scenarios that are facing us on the revenue side, and Q1, of course, has been very bleak in terms April & May under full lockdown and lockdown 3.0 resulting in opening up of a few stores. So virtually, the sales have been very muted and very small percentage of what would have been business as usual. So, Q2 also is uncertain as of now. While 90% of our Raymond stores are open and overall at about 80% to 85%, but there is uncertainty now with lockdowns getting reinforced. So it is just scenarios that we are working on in terms of revenue models. But one thing which we believe we have under our control is the cost, and we are looking at now really using this post-COVID now as the opportunity to reset and resize the organization across all cost parameters, and it goes with both employment cost and goes down to the overhead items as well. So we have gone through the spectrum of costs. We believe that we will emerge much stronger out of it with the cost reductions, the actions that have already been taken. We believe that a reduction between 30% and 33%, one-third of cost on the operating side is what we really need to do, and with that kind of a cost structure, we believe that we should be able to withstand the business scenarios, both from optimistic to worst-case scenarios that we may see on the revenue side. So that is what we are really internally focused on in terms of a cost reset.

Prerna Jhunjhuwala: Okay. 30% to 33% operating side, meaning this is on a short-term basis or on a sustainable basis you are talking?

Sanjay Bahl: This is not on the immediate knee-jerk reaction to cost. This is really on a structural, sustained basis because ultimately, what we believe is that if we are able to achieve this reduction in cost, we would be able to emerge much stronger. Our sites are focused on the growth, which is expected to come back in last quarter of the year and certainly, financial year 2021-2022, which will really be definitely a bounce back in growth. So we are really gearing up to prepare ourselves for growth, and the best way we believe is to first get into a lean organization and a lean model on the cost side. So there are some hard calls which have already been taken, and accordingly, these are the focus that we have in terms of numbers that we should achieve to help us to really get back to high level of profitability in the next year.

Prerna Jhunjhuwala: Sir, last question is on the end-of-season sale. Do you think this time it will be a little milder or stronger given the current circumstances and any change in channel mix do you see because of the current situation?

Sanjay Bahl: I will ask Suman to take this question, please?

Suman Saha: Yes. Demand continues to be uncertain, as Sanjay is saying. As we open the stores, we are seeing various levels of throughput. So the market has not been really consistently open. At least the way we see it, we do not see any significant uptick if we do end-of-season sale because anyway the demand is low. If you recollect, last year, the sales actually started pretty early. Last year, same time, the market was fully on sale. Ultimately, you cannot predict what happens in terms of which market player goes on and does what it does, but there is no rationale for the moment to go on to an EOSS, purely from a demand point of view.

Prerna Jhunjhuwala: That answers my questions. Thank you very much.

Moderator: Thank you. We take the next question from the line of Harsh Shah from Dimensional Securities. Please go ahead.

Harsh Shah: Sir, I wanted to ask you about the channel correction which you took in the Q4. Can you mention the amount that you took in Q4 and how much can spill in Q1? If you can give any estimate of that?

Sanjay Bahl: If you look at the total channel returns that we took in Q4, we had Rs.122 Crores of returns that we took in Q4. There is always a certain percentage of returns that we take, which is part of the business model, and so Rs.122 Crores was the over and above returns that we took from the trade, which basically meant that the receivables got converted into inventory, and we had to book the loss on account of the profit margin on the receivables. For the full year, the number is Rs.209 Crores. So the bulk of it was in Q4 and Q3.

Harsh Shah: Do you further think you can take a further loss in this once you liquidate it, maybe even at a lower price once the demand or once the lockdown is lifted and you start selling it back?

Sanjay Bahl: I do not see further loss happening on liquidation per se. I think this is good stock, which was sold last year, which was obviously ahead of the secondary sales, which we have taken back. There is no further loss. It is not a liquidation sale that it will be subjected to. But yes, I mean, there will be the end-of-season sales, etc., and all, and once the stores open up, there will be some pressure on discounting, which will be there. But clearly, this is stock which we will be looking to convert back to deployment in other channels that we have, and today, we have omnichannel, we have very strong EBO network, the LFS is there, the Raymond stores is there, and we will be deploying this stock in other channels, including online as well.

Harsh Shah: Just following up on the question asked by the previous participant. We are seeing more and more work shifting to work from home and even the social gatherings might get restricted in the near term. So how do you see the formal segment of your clothing grow going forward? I mean there will be some competitive intensity, everyone will vie for some pie. They will try to protect their share of market. So how do you see this market panning out in the next two, two and a half years, two to three years?

Sanjay Bahl: Suman will take this.

Suman Saha: Like I mentioned in my other response, this so-called pressure on formal is something not now and not new. There has been increasingly a progressive casualization of the wardrobe, which is happening. Secondly, the players in the formal brands are few and they are far established, and they have been figuring out suitable responses in terms of casualization of the wardrobe, coming more towards the casual end of the spectrum. The work from home and the other things are also getting certain response from the formal brands by creating a special work-from-home collection. For example, if you look at work from home, the need for a white shirt has not really gone down. They are still required to, perhaps for some of the meeting, put on a formal-looking shirt. How sort of it spans out over the period of time? I mean there is any way a large market for formal, which has not really been growing, but there are very few established players, and with formal sort of changing and coming closer to the casualization boundary is perhaps the way to go. What we call formal perhaps is going to sort of morph into what is called a workwear clothing, and the definition of workwear being changing, formals will have to keep pace with it.

Harsh Shah: Just coming to your garmenting division, so which are the countries you cater to and how has the demand been there? I mean we see that the overseas markets are recovering quite fast compared to us. I just wanted to get an idea about how that segment is doing?

Sanjay Bahl: You are right that there is recovery that we see. But initially, I think when there was lockdown imposed across Europe and U.S., the reaction from all our customers was to defer orders, and the outlook was very bleak in terms of how the year would really pan out to be. But thankfully, Europe has opened up. Businesses seemingly back on track, and it started with what feelers and signals we were getting in the Auto segment, our auto ancillary started getting their orders from their customers' factories in Italy and Germany, and that is the early signals that we got that the markets are opening up. Similarly, U.S. retail there is a rebound which is seen in the U.S. retail stores as well. Consumer spends are getting back there. So there is improvement that we see in our export orders coming in both for our Fabric division, our Shirting division as well and also, there is visibility on orders that we are now getting from Q2 onwards. In Q1, what we were dispatching was really the backlog orders which were not dispatched in March. But clearly, there is better visibility that we are getting certainly for the second half of the year, but even Q2, I think, we are now getting from some of the customers due to some markets opening up. So that is the positive that we see in garmenting. The other, of course, what we have done in garmenting is to move towards manufacturing PPE products in a big way. So all our plants, in fact, in May and June were fully utilized for servicing PPE orders that we got from Hindustan Latex, which was the nodal government agency, and that kept all the plants quite busy. Now of course, the export market is also opening up on that. There is a government notification which has come, which has introduced a quota system now. We are getting more clarity, but we have already received export orders for PPEs. So there are positive signs we see in that as well.

Harsh Shah: That is good to hear, and then coming to Real Estate segment. So in last two to three months, I mean, what is the kind of inquiry traction are you seeing? Have you corrected your prices or has there been increasing demand for lowering the prices? How is that playing out?

Sanjay Bahl: Demand has been impacted, of course, during the lockdown phase. While on an average, we were doing about 27 to 30 units of sale a month. So obviously, the April, May, June has been substantially impacted because normally, customers would like to visit the sales center, see the show flats and mull over it for a few days and maybe see it a couple of times with their families and then take a decision. Now all of that was really not possible in the first quarter. So that has been impacted. But what has been a little bit of a surprise to us is that we opened up the digital channels and virtual sales centers with a virtual walk-through for our show flats, Our sales team started engaging with our potential customers and inquiries that were there with us, and we were able to convert close to about 15 customers through the digital virtual walk-through route and that was a surprise for us where bookings happened at a virtual level with, of course, the provision that the customers would come to the sales center and finally confirm the booking. But yes, I mean, we are now waiting for the lockdown in Thane to ease off. There is some news that we have now since yesterday that the lockdown may get extended for another 10 days or so. But as the regulation ease on lockdown in Thane, I think we will open up a sales center. The expectation is that the response initially in Q2 is likely to be tepid, subdued. But we are hopeful that with the onset of the festive season, I think the mood is going to be back in terms of buying again. There are seasoned buyers who have deferred their purchases and will be again looking at closing of deals because these are all end-use apartments at 1 BHK and 2 BHK. So clearly, there is a need. There is a customer base which needs to close out these apartments, and we do not have a lot of inventory as well on hand. So we are not under any pricing pressure as of now. But if required, I think we have the flexibility with us because we have the added advantage that we do not have a land cost sitting on our balance sheet. So if we need some flexibility in pricing to achieve a higher sales velocity, we have the ability to do that as well.

Harsh Shah: Got it. Got it, and have you seen any cancellation of any bookings?

Sanjay Bahl: Acceleration of bookings? No.

Harsh Shah: No. Cancellation. Sorry, cancellation of bookings.

Sanjay Bahl: Cancellation. Cancellations have been, in fact, that way, I would say negligible. There have been customers where moratoriums have been claimed, some deferments as well, request for deferment of payments, etc., and all, but no cancellation. I mean very few, I mean, very, very exceptional basis.

Harsh Shah: Okay, and just last question on your branded apparel side. So the stores, which have opened, probably in the green zone in, say, Tier 3 or below cities where the movement of people have been fairly better compared to the metro cities. What kind of footfalls are you seeing there, compared to pre-COVID levels?

Sanjay Bahl: If you look at our network of 1,632 stores, it is spread across from metro to Tier VI towns, and if I give you a perspective between the metro and Tier I, the sales that we are getting since the stores have opened, are at about 30% of the pre-COVID levels when I look at sales per day. If I look at the second Tier, which is Tier 2, 3 and 4, the sales are at about 50% of pre-COVID. But the Tier 5 and 6 towns, which are really deep into the country, they are at about 60% to 65%. So I think that gives kind of the dispersion that we have seen in terms of how the consumer sentiment is visible across the different segments and different geographies as well. So on the semi-urban and rural side, clearly, there is a better consumer response that we are witnessing. The footfalls that we are seeing in the stores are leading to firm conversions as well. There is a purpose to the customer visiting the store and meeting the needs. There is less of browsing around, as we used to see earlier and more purposeful buying. So footfalls are lowered, but conversions and ATVs are higher to give you a perspective.

Harsh Shah: Just last question so have you taken moratorium on your debt repayments?

Sanjay Bahl: To the extent that RBI has allowed, we have applied for moratorium and most banks have given us that. Because first quarter, our collections, obviously, with our stores being closed have not been as usual.The good thing is that we still had our collections as compared to business as usual. Even with store closures, we had at least 20% of our business-as-usual collection coming in, in the month of April, which got better in May and which in June is even higher than May. So I think that is the positive that we see. But yes, given the fact that our collections were impacted and the costs that we had in the manufacturing, being a manufacturing company, we have high fixed costs. So yes, we have taken to the extent of what is granted by RBI and allowed by banks, we have availed of that.

Harsh Shah: Thank you so much Sir and wishing you all the best.

Moderator: Thank you. We take the next question from the line of Jackie Gandhi, individual investor. Please go ahead.

Jackie Gandhi: Thank you very much for the elaborative presentation which you have given. I have very specific questions. You had a presentation also made on February 17, 2020. In that presentation, whatever negatives which have happened in respect of sales returns, in respect of stock corrections, in respect of so many things which have happened in last one month or so, did the management have no information or any inkling also about all these things happening? See, as you said, the secondary sales have been going down vis-à-vis the primary sales, but that was just thing available to the management on February also. Why all of a sudden, today, we are giving this information?

Sanjay Bahl: February 17, 2020 presentation, I do not know which presentation, but we have repeatedly been informing that we are going to take this correction. Q3 in the investor call also, we had mentioned that. In our information that we had sent to the investors in early June on the post-COVID impact also we had mentioned the fact that these corrections are being taken now, and specifically, the quantum has been in March post the impact of lockdown, obviously, the quantum is high. It is in the best interest of the business to take back the idle inventory, which is lying with the distributors and the MBOs and it has a better chance of getting converted into cash and into sales because we have an omnichannel opportunity with us. So yes, we have made these disclosures at every step of the way that this is what we are planning to do, and these are the challenges which are there in the market, and we are going to take these actions. We took some actions in Q3, and then a higher quantum had to be taken in Q4. Even as we speak, I have also mentioned that is all the corrections being taken, and I clarified also that post-COVID, I think the realities may have changed again, and we have to reassess because the stock, which we believe should be cleared off in the first quarter, now has not happened, so we have to reassess that as well, which we will do.

Jackie Gandhi: So now one more thing, Sir, you have reported a sales of 30% down in the quarter, Q4, whereas if I look at it that and all what you said, the January, February, the sales were as per the underlying projections and other things, but the reported numbers have come down by 30% to 32%, so am I to understand that in last 10 days of that lockdown or whatever we had or maybe 15 days of month of March, so this 30% difference between the reported and underlying has happened in the last 15 days?

Sanjay Bahl: Not the last 15 days, it is the whole month of March that we will have to see because the primaries also got impacted

Jackie Gandhi: So even if am I to understand that March sales was 0? If we are saying 30% downgrade, that means the March sales in three months, one month, you are saying 0, then only you can have 30% downgrade.

Sanjay Bahl: No. You cannot see it that way. You have to see the total quantum of sales which are there, and if you see it across businesses, there are two impacts that are there. One is the COVID impact is Rs.414 Crores as we saw. So the entire impact is not because of COVID, the other impact is also because Rs.120 Crores of sales return has also happened in the quarter. That has added on to this percentage that you see. If you see purely the COVID impact, that is Rs.414 Crores. But if I take out the Rs.122 Crores, the total impact has been higher, and that is the Rs.536 Crores number that we have reported is the total drop in the sales in the fourth quarter. So there are and we have explained this in the investor presentation also that our results have been impacted both on revenues and profitability on account of two counts. One is the COVID impact on sales, which has flowdown from gross margin to the EBITDA level, and the second is the stock returns that we took, which had an impact both revenue and profitability, Rs.122 Crores on revenue and Rs.54 Crores on EBITDA. We have explained this.

Jackie Gandhi: If I understand what you said, is Rs.414 Crores is your COVID impact, which is assuming that it is full month of March you are taking that Rs.414 Crores sales, so then going forward in April and May and June, which we are today sitting on June 30. So that Rs.414 Crores COVID impact would be sometimes, something like, I do not know, 3x, 2.5x, 2x?

Sanjay Bahl: Well, generally, our first quarter sales are lesser. We have averaged at close to about for the whole group, the quarter sales at about Rs.1400 Crores. Normally, our Rs.1800 Crores is the fourth quarter sales, and the first quarter ranges between Rs.1300 Crores to Rs.1400 Crores business-as-usual environment here.

Jackie Gandhi: So against Rs.1400 Crores pardon?

Sanjay Bahl: On a business-as-usual environment that is the trend.

Jackie Gandhi: Absolutely correct. But in this current quarter, which is just ended today, so against Rs.1400 Crores sales, usual sales, which you have, what do you think would be your sales number like look like?

Sanjay Bahl: Well, I do not want to give our guidance now, but I think it is going to be quite, I mean, you can understand that with the whole closure of whole lockdown in April, where there was no store operating and in May, some geographies, the stores started opening up, and then obviously, the consumer response was to the extent of 25% to start with some early footfalls, and there are a lot of stores which opened but had no sales initially. But yes, I mean, now we move to a situation where towards the end of June, where 80% to 85% of our stores are open now and the responses average of over 45% of pre-COVID. So we will have to assess the numbers. But clearly, it is not a quarter where we can say that obviously, revenue has been severely impacted because at the end of it, we have a very large B2C business. The B2B business, to some extent, is there because there were export orders which had to be serviced, which I mentioned to you that the auto and engineering business started in May and June to service those orders. But otherwise, this is largely the B2B business, which has got impacted. So the Q1 numbers are not about how much sales, I think, we did. The Q1 numbers are about how much of cost we were able to save. I think that is really the right perspective to see, and that will prevail upon Q2 as well. This year is going to be more about how much of costs we have been able to restructure and save, and we have to see as to how these scenarios on revenues pick up. We are hopeful that in the second half of the year, we should see with the festive season, a better bounce back. If we today are at about 45% of pre-COVID, we certainly expect that, as I mentioned earlier, to come back to a much higher level with the festive season starting towards end of September and in Q3. Q4, we definitely anticipate it to be a growth year versus the previous year. So I think we will have to see it how it plays out uncertain as of now.

Jackie Gandhi: So what do you expect, what sort of sales return would you expect in this quarter? As you have done Rs.122 Crores in last quarter, so this quarter, April, May, June quarter, what would be your ballpark number of returns, which you would be expecting?

Sanjay Bahl: Unable to give you a specific number here, but I said what we are going to do is to reassess that has been going on in terms of the stores have opened, what has been the kind of sales velocity in those MBO channels. We do not have visibility on a day-to-day basis on MBOs, but we have visibility on our Raymond stores in terms of how the consumer offtakes are. We want to assess that. Even if it does not happen in Q1, certainly immediate actions we will have to see as to what happens in Q2 because if you see that there is a buildup, then it may happen in Q2 rather than Q1. Q1 is coming to an end right now, and warehouses were closed, I mean, there was very little movement that was being allowed. So there is not much of initiatives that could be taken with respect to stock movements. But the whole focus was really to get our stores opened. But that assessment will happen now, and we will let you know when we give our results for quarter 1, and we declare our results as to what is the position with respect to the outlook on terms of any other planned corrections that we have.

Jackie Gandhi: I appreciate. Last quarter has been majorly management thrust has been of restructuring of the cost and other things, most part of it, and I understand as a part of this exercise, you have done retrenchment of your employees also some roughly about what can you throw some light on that?

Sanjay Bahl: Well, I mentioned earlier that if you are looking at a cost reset, I think the cost reset will happen across all aspects of cost, the whole value chain that we have and starts with employment costs and goes down, as I explained earlier, towards the every overhead item as well on a zero base. It will be assessed in terms of what is essential for the business, and there are roles which clearly were surplus to the current needs of the business, and those were delayered, restructured, all of those have happened. We have had to take those decisions, and we have done it in the interest of all stakeholders, interest of business and also in line with all the service conditions of staff. So we have done that, and we have honored every service condition that we have, but business exigencies, unprecedented times, demand unprecedented and some of these actions, quick actions as well, and we have had to take that. We want to emerge stronger as a business entity as well. Whatever actions had to be taken have been done in accordance with all service conditions. So I can reassure you on that.

Moderator: Thank you. Excuse me, Mr. Gandhi, I am so sorry to interrupt, may I please request you to rejoin the queue for your follow-up as we have people waiting for their turn? Next question is from the line of Puneet Kabra, individual investor. Please go ahead.

Puneet Kabra: Sanjay Sir, just because we are in a unique situation, we are actually at another quarter end, just wondering if you can throw some light on what kind of activity we have seen in the month of June, example the auto plant. Just directionally or at a ballpark level, what is the kind of utilization that we are seeing in the auto plant or what is the utilization in the engineering plant and likewise. I know our manufacturing plants for textiles are shut. I would assume that we are doing some billings out of the inventory we have and what kind of billings are we seeing just for the month of June on a like-to-like basis versus last year?

Sanjay Bahl: I can give you some indications on the engineering because they are largely export-led. The domestic market in both auto and engineering are yet to open up to a significant extent. But the export market, as I mentioned earlier, have opened up. We would be at close to about 60% to 65% in terms of utilization there, and hopefully, as we see, let us see how things shape up with global markets, a little bit of a wait and watch also with what is happening there. So far, it has been a bit positive coming in, and we have opened up our plants to service those requirements. On the textile side, we have enough inventories with us, and we will use that inventory to see that with the stores now opened up, with secondary movement started happening now. So that we will now try and service it from the inventory we have. Manufacturing is likely to start later. So in Q2, for sure, but right now, we have enough inventories to service the current demand. So I think that is where we are, Puneet.

Puneet Kabra: Could you give some indication by when just as, directionally by when do you think the textile manufacturing could get started for us?

Sanjay Bahl: For us, I think manufacturing is, as I said, in terms of the cycle that we used to follow has changed now. For us, it used to be first we would produce, and then we would sell and then the collection would happen. So I think we have changed that cycle now. Now it is collection, sell and then produce, and we are first focusing on opening up the stores, and we are waiting to see the wholesale. I think markets are especially in the east, if you look at the whole spectrum of tier wise, where the markets have opened up, east actually is lagging behind. So there are wholesale markets in east, which are yet to open up fully. In Delhi also, they are impacted so while the stores are opening up, wholesale market which is obviously the other dealers, etc., and all are yet to bounce back completely. So essentially the point I would like to make is that we have enough of inventory with us to service the requirements that we have, and manufacturing will only come into service the third quarter requirements, and we have time for that. As for Q2 requirements, we have inventories in stock, finished goods as well as WIP that we have on plant. But largely if we have more than Rs.420 Crores of finished goods inventory so that is going to come in and service the needs that we have in Q2 and some part of Q3 as well. So manufacturing will start as we see visibility on fresh orders, etc., and launches that the sales team is now working on.

Puneet Kabra: So this Rs.420 Crores finished goods inventory you mentioned is related to textile or it is related across?

Sanjay Bahl: Suiting.

Puneet Kabra: Textiles? Branded textiles?

Sanjay Bahl: Overall, inventories are much higher, but I just took out since you mentioned textile, I said for Suiting, this is what we have.

Puneet Kabra: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Over to you all, members of the management!

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

Moderator: Thank you. On behalf of Antique Stock Broking that concludes this conference. Thank you all for joining. You may now disconnect your lines.