



“Raymond Limited Q1 FY-20 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Raymond Limited Q1 FY20 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, 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 Shubham from Antique Stock Broking. Thank you and over to you ma’am.

Shubham Maheshwari: Thank you so much. 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, Mukund.

J. Mukund: Thank you Shubham. Good evening everyone and thank you for joining us for Q1 FY20 earnings conference call. I hope all of you would have received a copy of our results presentation. I would kindly urge you to go through this along with the disclaimer slides. Today we have with us Mr. Sanjay Bahl, our group CFO, Mr. Sanjay Behl – CEO of Lifestyle Business, Mr. K Mukundraj – CEO of Real Estate Business, Mr. Vipin Agarwal, President - Corporate 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 results before we open up for Q&A. Over to you, Sanjay.

Sanjay Bahl: Thank you, Mukund, and good afternoon, ladies and gentlemen. Thank you for joining us today on the earnings call to discuss the results for Q1FY20

At first, let me briefly discuss the prevailing market condition in 1QFY20 of the industry as a whole.

Generally Q1 is a moderate period, given its seasonality. The quarter began with sluggish and subdued consumer sentiments in the weak macro-economic environment mainly due to liquidity crunch in retail across all consumer industries and low consumer sentiments.

The trade channel was also impacted due to the overall subdued consumer sentiments and liquidity crunch. However, during the course of the quarter, the sales at wholesale levels moderately improved on account of wedding season in the latter half of the quarter.

In the apparel sector, at the retail sector level, the off-take was relatively lower in the month of April and May on account of low consumer sentiments. In the middle

of the quarter, the industry players came out with aggressive promo offers during Ramzaan festivity and upcoming marriage dates in June. However, even EOSS did not meet up with the expectation of upliftment of consumer sentiments normally seen during the EOSS period. Consequent to the above consumer sentiments, the channel credit / receivables increased in the market.

Coming to the quarterly financial reporting - During the quarter, Raymond has seamlessly transitioned to IND AS with effective from 1st April, 2019. As per this accounting standard, all leases to be recognised in the balance sheet as asset & liability. Accordingly the accounting treatment is given to the relevant items as applicable. While the reporting for 1QFY20 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 - all nos pre IND AS 116 for like-to-like comparison –

The quarter witnessed, a growth across all core segments. Our revenue grew by 14%, without Real Estate, the growth was 9% which is ahead of the guidance given in the last quarter. However, the EBITDA margins were lower at 7.1%, without Real Estate, the same was 6.7%. Pre IND AS 116 net loss for the quarter is Rs. 12 crores. The overall profitability was impacted mainly due to adverse product mix, increase in wool prices, stock correction in Branded Textile segment and low capacity utilisation of Ethiopian plant due to socio economic environment & change in product mix in Indian operations for Garmenting. Also, the interest cost was higher by Rs. 9 cr due to increase in average cost of borrowing & increase in borrowings due to higher NWC requirement. Also, there was a gain on account of income tax refund of Rs. 9 Cr in PY vs Rs. 3 cr in CY

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 8 mini TRS under franchise route during the quarter. Overall till date, we opened 308 mini TRS stores in 250+ towns including new 250+ towns in Tier 3, 4 & 5 towns.

Tailoring Hubs: During the quarter we have added 3 more franchise based tailoring hubs taking the total number of tailoring hubs to 54 with total conversion capacity of ~2 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: The Core Branded Textile business grew by moderate 2% to Rs. 600 crores, due to impact of consumption slowdown in a quarter affected by sluggish & subdued consumer sentiments, liquidity constraints in trade channels coupled with inventory correction in B2C shirting:

- The suiting business grew by 6%. While there existed lower off-take in the trade channels on account of lower secondary sales, the growth was led by expansion to new smaller outlets through low priced products. The benefit from the price hike undertaken got impacted due to the adverse product mix

- The B2C shirting topline de-grew by 12% mainly due to lower offtake & inventory correction in the trade channels.
 - Planned stock correction of ~Rs 12 Cr in trade channels to compensate for sluggish retail demand for the past few quarters.
 - We initiated this correction in 4QFY19 and expect the revival in H2 of current financial year
- The EBITDA margins were impacted due to adverse product mix & impact of wool price in Suiting business

Branded Apparel segment sales grew by 12% to Rs. 313 crore with growth across all 4 Power brands. Strong double digit growth reported by Parx (27%) & PA (15%). While subdued consumer sentiments impacted the retail network (EBO: 7% growth & TRS: -3%), our MBO channel (46% growth) continued strong performance along with LFS channel (16% growth).

The EBITDA margins improved to 5.1% vs. 2.4% PY due to lower average discounting and operational efficiencies

The High Value Cotton Shirting segment continued strong performance with 11% topline growth driven by yarn sales and EBITDA margins improved to 15.4% against 12.4% led by improved product mix and operating efficiencies

The Garmenting segment topline grew by 16% to Rs. 190 cr driven by higher exports to US and Japan markets. However, the EBITDA margins were lower at 1.6% as compared 6.0% mainly due to:

- Lower gross margins in Indian operations: The topline was driven along-with change in product mix which impacted the gross margins.
- Lower Capacity utilization of Ethiopian operations: The business faced challenges in the Ethiopian operations which was impacted by political unrest in the country leading to high absenteeism & consequent lower capacity utilization. We hope the uncertainty will end soon with the Govt of Ethiopia taking some effective measures.

In the Auto Components business, the topline grew by 8% driven by higher demand from international customers. EBITDA margins lower at 19.9% vs 24.0%, mainly due to reversal of one time provision reversal to the amount of Rs. 2 crore last year & higher contribution from lower margin PV segment. Overall, the business has maintained its profitable sales growth momentum.

The Tools & Hardware de-grew by 5% mainly due to slowdown in domestic files market. EBITDA margins lower at 7.3% vs 8.3% in previous year mainly due to lower contribution from higher margin domestic business

The Real Estate business has seen a good response from the consumers. Within 4 months of launch, we have received 581 bookings with booking value of ~Rs. 612 cr in the 4 towers having a total inventory of ~ 1,050 units. Construction has commenced and progress is in line with target schedules. The Real Estate business has contributed Rs. 61 cr to the topline and contributed Rs. 10 cr towards EBITDA for the quarter.

A brief look at the cashflows and Balance Sheet:

- Our free cash flow was negative during the quarter at Rs. 215 crores. Our cash flow from operations for the quarter was negative at Rs. 94 crore impacted by higher net working capital, which is mainly higher receivables due to liquidity crunch in the market and higher inventory, which is normally built up to service our Q2 sale
- An overview of debt: Gross debt stood at Rs. 2,739 crores as on 30th June versus Rs. 2,578 crores last year and the net debt was at Rs. 2,303 crores as on 30th Jun versus Rs. 2,135 crores last year. Our net debt levels increased this year mainly due to increase in working capital. Net debt to equity is stable at 1.1x. The average interest cost increased by 52 basis points to 8.5% for 1QFY20 vs 7.9% in PY
- On the working capital front, Net Working Capital days @ 102 days higher by 1 day vs PY. NWC Days excluding Real Estate @ 97 days in CY vs 102 days in PY
- Coming to CAPEX, our CAPEX spends was Rs. 60 crores during the quarter mainly related to bulk-line to MTM line in Garmenting business to cater to international MTM solutions, auto components business capacity expansion and maintenance capex

Now, coming to guidance for the 2nd quarter

- Domestic consumption remains impacted as the consumer sentiment remains subdued and liquidity concerns continues to affect the trade channels
- At retail level, the quarter started with low consumer sentiments as the EOSS which started in the mid-June did not meet up with the expectation of upliftment of consumer sentiments normally seen during EOSS period.
- Overall, we expect the quarter to be modest in terms of growth & consumer sentiment and expect pickup in demand from mid August with onset of festivities
- At the cost level, the input prices such as wool, cotton, polyester have softened and benefit expected to flow down from 2HFY20 onwards
- We expect low single digit growth in topline and possibility of marginal dilution in EBITDA margins as compared to previous year
- 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 our profitability & health of our working capital.

Thank you. We can open for question and answers

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Zain Iqbal from Alpha Invesco.

Zain Iqbal: My first question pertains to the full-year guidance in the Textile business. We already know that year-on-year the cotton and wool prices are anticipated, so what will be the full-year guidance in the Textile business?

Sanjay Behl: I think normally if you see the seasonality impact of Textiles, close to about 90% of our profitability really gets pushed in the Quarter 2 to till Quarter 4 and If you see overall sales so about 80% of sales happen from Quarter 2 to Quarter 4 months. Just take the last 2 or 3 years and look at that average. Now Sanjay did mention that there are couple of macros which are a little bit of concern, one is the lower consumer spending in discretionary consumer product categories. One has seen the impact on a lot of industries in sectors in the first half and we believe that particular macro will continue to be a dampener over the earlier estimates that we had done. However specific to the Raymond Textile portfolio given that 80% of the sales really happens most of it gets pushed towards the latter part of the Quarter 2 and really builds up to Quarter 3 and Quarter 4, if there is a slight improvement in consumer sentiments - picked up with festivities we believe that we should be able to bounce back if not entirely, mostly as per the original guidance. So we continue to maintain our guidance of mid to high single-digit growth if you take the full year in terms of topline for our textile business. However in EBITDA I would say that we would like to stay a little conservative at this quarter. We will see the real impact of a price increase and the static wool prices in the last about 3 or 4 months really building to the second half. So at the annual level we may come back to last year levels on the overall operating margins, on topline we will maintain that we will be mid to high single digits in terms of topline growth.

Zain Iqbal: The second question is on the possibility of reorganizing multiple businesses like you have mentioned in the BSE disclosure, what is that about? Can you just throw some light on what reorganization are we looking at?

Sanjay Bahl: What we have now is the authorization from the board to look at how do we structure our businesses within the Raymond Group. So what we have stated earlier as to what is the core businesses and what is non-core and we have diversity within the portfolio, so we will now look at how do we align some of these businesses, the core businesses, how do we structure them and I think there is going to be work which we are going to do in this area. So it's early to sort of make a statement right now as to what it will be but we have a direction now from the board which will now help us to work this out and come back to the board with some of the

proposals that we may have in terms of restructuring our businesses and certainly once we have the approvals from the board then we will inform our investors.

Zain Iqbal: Is it related to monetization of the non-core assets?

Sanjay Bahl: No, but that's a strategy that we have stated earlier that one of the strategy that we have to de-leverage our balance sheet is to monetize our non-core assets. But this one is really about business structuring, so where does our Textile, Garmenting or Branded Apparel business - these are branded businesses, integrated business that we have, how does this retain within the group. So we will look at the structure for the portfolio of businesses that we have. We have Engineering business, Real Estate business and we have our Consumer and Branded businesses, so we will look at the structuring of these businesses.

Zain Iqbal: Any timeline on this thing?

Sanjay Bahl: We've just been given authority by the board now, so we will certainly work now internally as well as with external consultants and come back, no timelines really has been fixed. But whatever time it takes to come back to the board with some concrete proposals and then seek necessary approvals, I think we will work with that. We don't have a timeline to indicate but this process does take some time, maybe over a couple of quarters at least.

Zain Iqbal: My next question is on the Real Estate, how many units are we planning to sell this financial year? We already have close to 600 bookings, so what are we looking for the full-year?

K. Mukund Raj: Cumulative till now we've done about 600 till July end, out of which about 200 were done in the last financial year. For this financial year we have set a target of 700 units. So at the end of the year we're looking at reaching about 900 units.

Moderator: The next question is from the line of Puneet Kabra, who is an Individual Investor.

Puneet Kabra: My question was around this liquidity crunch, consumer sentiment what's happening on the external front. So can you throw some color on what we are doing internally whether it is in terms of policy change with channel partners or whether it is in terms of product innovation, whether it is any initiative, terms wherein we are making sure that as and when the demand does come back and the liquidity

improves we are well positioned to actually capture it and you don't lose it because our channel partners are stuck with the wrong stock or our channel partners are hesitant to pickup inventory because they are overstocked or over leveraged kind of thing. So what exactly are we doing internally, whether it is a tie up with the banks for our channel partners to keep them in comfort?

Sanjay Behl:

So Punit, Sanjay Behl here. Couple of things that I think a little bit of a word of caution here that Quarter 1 results may reflect some part of the external environment on our results, we are hoping that the next three quarters which is the real quarters where we get most of our value added business really getting pushback because of seasonality, especially with the festivity which starts really middle of August is going to pick up. So while general gloom and doom of liquidity seems to be the overarching kind of perception one is having, I would first of all tell you the internal measure before that. The internal management team's intent and the mindset currently remains extremely positive. We are continuing to invest in all core fundamentals and there is no real reason of any derailment of any of the internal plans that are being running for the last 2 or 3 years—that you have been observing us quarter to quarter. So nothing strategically is getting derailed internally to manage the short-term perception of a liquidity crunch which is a reality to some but it's also getting a little more accentuated in a few categories. So that I want to assure you that strategically, nothing gets derailed. Coming to certain tactical measures which is what you are asking what is management doing, there are a series of tactical measures that we are taking. On the side of easing a little bit of liquidity in our channel what we have done is we are looking at channel financing with some banks, non-recourse channel financing with the few banks if we can aid—I understand the bankers are little conservative at this stage in terms of lending and extending any credit limits to businesses—but given a strength of our brand equity, given our kind of a track record we are able to get a lot of headway made in terms of channel financing which is a trade side of it. Not only that we have also been working on the other supply side of it. On the supply side of it we have been able to actually open up fairly significantly in the last few quarters and we continue to maintain over the next few quarters. We are making a lot of headway on vendor channel financing also. So channel financing both ends whether its vendor side which is we're looking at about Rs. 200 to 250 crores kind of a vendor financing limits to open up and on the trade channels side where we already enjoy about Rs. 200 crores we are looking and if we can extend it further. There are measures being

taken on both the sides. Some other measures that we are taking are clearly internally there is a strong discipline that management team has put in relooking and re-evaluating all the past items which may have a little longer term impact, from medium to long-term, can we recalibrate, can we defer a little of those expenses without really curbing investments in the strategic enablers like retail, go-to-market but there are a few of them in terms of admin, facility, infrastructure expansion plans. So in a way we are bucketizing a lot of our investments and relooking and rethinking to further ease up and keep a little tight leash on the actual investments that we do. In terms of overall some part what we are doing is at the sourcing and we are also looking at vendor managed inventory so that we can get a little more time in our hand. So if you see look at the Quarter 1 to Quarter 1 last year the net working capital position is pretty healthy from our organizational perspective just about a day despite Real Estate having come into this business the rest of the business has actually come down by about 5 days. So the real cash requirement or the burden on the business is actually being reduced by almost a week in Quarter 1 despite all the liquidity on light of these initiatives. I would say we are keeping our fingers crossed obviously there is a lot of actions which are in the place right now. Hopefully middle of August as festivity kicks in, some easing of liquidity, some spending goes up and I think we should be well placed with all the fundamentals being invested. So that is what I will say Puneet.

Puneet Kabra: Just one more question on the Branded Apparel business. We have seen a very good growth quarter-on-quarter in the MBO segment. Now given the liquidity challenge that we are facing and even otherwise on a standalone basis do we think this kind of growth in MBO is sustainable or we are at the peak of it and the next leg of growth will probably come from EBOs or from LFS or any other channel in Branded Apparel?

Sanjay Behl: So Puneet on Branded Apparels, this kind of growth that we are seeing quarter-on-quarter are not sustainable. If straightaway, one look at the percentage CAGR because where we started about 3-year journey we have been talking about 35% to 40% CAGR year-on-year. Now 35% to 40% CAGR that we have got in MBO channel would straightaway mathematics tells you that we have gone about 3 times in last 4 years in this channel. So continuing to get those levels of category growth rate with most of the multi-brand universe now fairly well benchmarked with industry competitors of Raymond but the same level of expansion will not happen here. So clearly that numbers will have to be now getting re-calibrated. The second is the reason that you specifically pointed out about liquidity in multi-brand channel also

getting now squeezed up because largely this is the universe which really walks on borrowed capital from various institutions whether it is NBFC or Bankers and that's where if there is a bit of a squeeze happening then clearly it is putting pressure on us also in addition to their consumption also slowing down because retail footfall also continues to go down. So to answer your question MBO channel is it sustainable, the answer is no. Will it continue to be the front-runner channels for Apparel for some time to come I think yes it has some life over the next 1 to 2 years where we see this channel continuing to be strong double-digit growth but clearly not 35% to 40% kind of CAGR that we have enjoyed. It is going to come down. On the other side, what is the role of other channels there? We see the value channels will do well in any slowdown, any kind of a perception of some liquidity crunch, lower household savings, lower spends on products in our industry specifically we see some downtrading happening across sectors which is also visible, if you see in the last about 2 months or so whether it's towards e-commerce products or value players there is going to be some downtrading which is adverse to Raymond. However, if we have the relevant footprint in the right markets in the right locations which is what we believe we are building up over the last few years and will continue to stay invested in the EBO, in the right LFS doors; in our Raymond shops which is about 1000 stores in the country, we believe that we have enough in our platform to not really depend on one channel but to really have a fairly balanced growth profile across channels. But the channel which is going to have a big kicker in addition to MBO because MBO slowdown by 20% today means what we used to get 40% earlier in absolute terms will definitely have to be EBO because EBO is a profitable channel. That's where the product plays the best. Our margins are also the optimal there so clearly that channel that currently last quarter had zero same store sales growth in Apparel, we believe that is going to start kicking and we will start touching mid-single digits and could go up to 7% to 8% in about a year and year and a half from now. That's what we believe.

- Moderator:** The next question is from the line of Govindlal Gilada, who is an Individual Investor.
- Govindlal Gilada:** I've got two questions. One on unlocking of our non-core assets. Anyhow we are developing some 20 acres land bank, so anything on outright sale of land bank, anything is happening on that front, Sir?
- Sanjay Bahl:** We had mentioned earlier that we were open to selling smaller parcels of land. That exercise is currently on as well and it does take time, so there is no timeline that we

really can give in terms of when land sale will conclude. But it's a long process. From an intent perspective we are very clear that we would like to sell smaller parcels of land and I think activity and all our focus is in that direction. The market situation is tough in terms of liquidity as well as in terms of funding land acquisitions. But having said that, we remain focused on this activity, this is very strategic to us and we will continue with our efforts on this.

Govindlal Gilada: Anything at advanced level going on for land sale, because Singhania has gone on record saying that some 'work-in-progress' is happening on land sale?

Sanjay Bahl: I can't make a comment on this. From a mandate perspective, yes, we have mandated one of the leading agencies in real estate to really look for potential buyers for smaller parcels of land. So, yes, the mandate has been given and as I said it will take some time on if there is a closure that has to happen, if there are offers which we are happy with or we can conclude, we would certainly do so. But right now, it continues to remain work-in-process.

Govindlal Gilada: Then my second question is on guidance. Anyhow, our first quarter was disappointing, year-on-year our loss has gone up. 12 crores already loss is there any second quarter is not going to be great what you are guiding. So, now coming back to 2020 guidance, earlier we have been re-iterating that we are on track of revenue growth 10-12% margin improvement 70 to 100 bps, all that. So, seeing now first half how it is going to play, are you still sticking to your full year guidance for 2020?

Sanjay Behl: First quarter, thankfully in the overall scheme of things for Raymond, if you see, let's say our textile business is ~20% revenue and ~10% EBITDA. So, 80% of revenue is in starting Quarter 2 onwards and about 90% EBITDA is really there. Similarly, if you compare the same numbers with Apparel, first quarter is about 17% revenue, so 83% revenue happens in the next three quarters and clearly about 90% EBITDA is really skewed towards there. So, looking at first quarter to be the reflection of year specifically in context of our business of Raymond, given our skews and seasonality maybe a little far-fetched and the reality may pan out if things start improving with the festivity a little better is our view. So, at this stage it maybe a little premature to give a wide variance versus our guidance that we gave you last quarter. So, I think it's too early. Having said that, macros are not looking as good as we saw about a quarter back, as you are aware. Across industries there is a both consumption side as well as liquidity side crunch which is building up. It then remains for the

management team now to look at some of these macros and see how we recalibrate our mid to long term investments versus tactical investments and still continue to make the shift afloat and come very close to the guidance. So, at this juncture sitting more or less in early August for end March 2020 guidance, I think I would like to say that let's hold on to the guidance that we had given. There could be some variation given Quarter 1 dampening which you already have seen the results and our guidance of Quarter 2 but with a bit of a stroke of some consumption increase happening, some liquidity being put, some measures taken by government structurally to infuse more positive consumer sentiment in the market hopefully which we believe should come and it's no later than about 4 to 8 weeks some concrete actions will come either on the side of GST or other measures that government is currently in dialogue with the industry. So, we would be able to give you a better guidance at the end of Quarter 2 rather than giving you today for the 2020. But what we see that almost sitting four weeks into this quarter, this quarter is the guidance that Sanjay has already given that internally we are targeting to come close to our operating margins but there could be marginal dilution. There could be 30 to 50 bps I am sure is a risk that we are sitting on in this quarter in terms of the way the first four weeks how it is panning out to be. But the real guidance for FY20 I will give it only I think by middle of the year. That will be better.

Govindlal Gilada: I can understand macro factors have deteriorated in the last one quarter but just sometime back you told that we will be back to last year operation level, that is what is worrying me. Last year operating level and this guidance what 2020 lot of variation is there. Are we going back to last year's operation level then it is disappointing.

Sanjay Behl: But the guidance was that we will do about 50 bps to 100 bps more than last year operating level in terms of margin that is the guidance which was given.

Govindlal Gilada: 70 to 100 bps.

Sanjay Behl: Correct, that's what it was given, isn't it, last year. So, at this point in time I am just saying that we may get back to the guidance that we had given by the end of the year.

Govindlal Gilada: I got a confusion that last year operating levels we will be achieving, that's what I was wondering.

Sanjay Behl: I would say that we would need another quarter to make a firmer estimate on that, but there is risk to that seeing what has happened in the first four months but we are hoping that at the end of two months things will with the festivity and some measures should improve. If they improve, we are well-positioned. We are well-positioned as a company with our brands, with our strength of retail, with our go-to-market strategy, with our investments that we have made, we are well-positioned to do a bit of catch up, that's all I am saying.

Govindlal Gilada: One more question. Anyhow, the first quarter debt has gone up by 161 crores already. So, we are sticking free cash flow generation this year or year-on-year we are seeing further debt going up this year? Any reduction debt possible this year?

Sanjay Bahl: This year, the way we have begun Quarter 1, we have seen this liquidity crunch. It has impacted our revenue growth in Quarter 1. Quarter 2 the start hasn't been very encouraging and we had planned for clearly a higher growth quarter. That was at the end of last year, fourth quarter we had planned for higher revenue growth. Now inventories have gone up so we have seen that impact in working capital. We have clearly said that our focus now will be to really maintain our margins, focus on profitability and a very healthy working capital as well. But if the margins impact depending on how Quarter 2 goes we will have to see if the impact is marginal and we are able to sustain our revenue growth then we should be on course in the second half of the year to remain true to our earlier guidance of free cash flows otherwise we will give you an update on Quarter 2 if the headwinds continue as they are now then we may have to revise our guidance at the end of Quarter 2 because there the journey may take a little bit more time than we had earlier estimated. However, as I said we are also focused on deleveraging through of non-core. So, if we are able to achieve that over the next 2-3 quarters then we may still be able to stay as per earlier guidance of getting to free cash flow. So, it's a mix of multiple factors right now.

Moderator: The next question is from the line of Keval Shah, who is an Individual Investor.

Keval Shah: In a recent Business Line article Mr. Singhania has given a timeline of 42 months for the completion of our Real Estate project and in our presentation we mentioned around 5-6 years. So, can you please explain the difference?

K. Mukund Raj: The first set of towers that we have launched and for which the construction has commenced, we have an internal target of 42 months for handing over these apartments. But then, we have 10 towers to be done in this particular 14 acres of land parcel. So, the entire project could go 5 to 6 years but the 42 months which the Chairman has talked about is our target to handover the first set of apartments.

Keval Shah: In Garmenting business so when do we expect the business to turn around and what will be the current ROCE for the business and what would be our target ROCE for it?

Sanjay Behl: In terms of Garmenting business I don't know what you mean by turn around; it's an existing business which is being continuing at a reasonably okay profitability level. It's just that the last 1.5-2 years we have expanded Greenfield into Ethiopia and like any garmenting plant given the mix of the product and the volumes between Indian operations and Ethiopian operation there is a dampening of margins that you see which is a temporary phase because obviously we are creating more capacity. Having said that last quarter has been exceptionally low in profitability and that this may be what you are referring to that 6% getting diluted to 1.6% and possibly if you trace back to last about 1.5-2 years you would think 8% kind of margins in this business and maybe that's what you are referring to. And if that is the context of your comparative then 8% was India's standalone operation, 6% is with initial phase of Ethiopia which should have been where it is and it should have gone up. However, the first quarter margins are at a little under 2%. The reason for Garmenting business to show low margins in this particular quarter was briefly mentioned in Sanjay's opening remark but let me reiterate that. It is to do with about close to about 15% to 18% of our revenue in this quarter was targeted to come from Ethiopia and there are certain fixed cost in line with that 18% revenue that we should have got. Against that we had a drop in that revenue because of ongoing political situation in the country wherein there has been a very high level of civil unrest, ethnic clashes due to which all the operations, Manufacturing and Logistics have got disrupted not once but time and again; almost through the quarter April-May and June only aggravating towards the end of June. That led to against our budgeted number of let's say 100 we have not been able to do even 65% of the production while as Garmenting is largely a fixed cost operation. If I had to maintain my margin of last year Quarter 1, I should have delivered a 12 crores EBITDA against that it's a 3 crores EBITDA so it's a 9 crores dilution. This 9 crores dilution is not a story of turn around going forward. This 9 crores story is to restore

back Ethiopia into stable operations what we had earlier targeted internally. As we see in July, we have come close to over 90%-95% of our production has been met, so Ethiopia is getting back to normalcy. Of this 9 crores dilution that you see in percentage gross margin, 6 crores out of that is attributable only to one plant which is Ethiopia because of the long disruption periods that we have had in the Quarter 1. But as I told you July has been over 90% production, August we are hoping that it will go over 95% and that's the level that we should be able to sustain over the next few months. In terms of our order books from now till December our order books in these plants are full. So if we are able to get a little benefit of political stability and continuity of workers reporting on to work and no real civil unrest in that country, no security threat we believe that we will start seeing a jump in the margin from this quarter itself because as I told you July was fairly good and we are hoping that the normalcy will restore there. It is about a quarter getting impacted because of one plant and it's a quarter if the plant comes back, we should see the turnaround in what you say in this quarter itself and then only the numbers moving up.

Keval Shah:

What kind of ROCE can we expect from this business?

Sanjay Behl:

Because it's a large investment that we have made in Ethiopia the ROCE have got dampened. But one can assume that in the long run we can start looking at about a double-digit ROCE starting middle of next year so we should start looking at about 12%-13% return on a B2B operation, that's what it should be.

Moderator:

The next question is from the line of Devan Kabra, who is an Individual Investor.

Devan Kabra:

My question is for Branded Apparel. Now you had the Spring Summer trade fair which is just recently concluded and considering that what you had mentioned in the growth aspect scenario of MBOs I would like to ask in the overall scenario Branded Apparels given in the multiple channels what is the growth which we are expecting with regards to the industry?

Sanjay Behl:

We have been doing about 15%-16% odd CAGR for the last about 3 to 5 years now. so that's the kind of a growth rate that we have been getting broadly across all the four brands that we have. First quarter we have registered a 12% growth that's been the growth, with Parx being actually a stellar performance with 27% growth. Park Avenue at about 15%, Raymond at about 9%, Color Plus had 5% so that's been the growth. Ethnix which we have added to our portfolio has grown 60% but that's

on a very small base. Overall we have got about the 12% growth in our Apparel portfolio. The specific comment you made on MBO channel possibly slowing down and not sustaining that level growth, what would be the overall growth forecast. We continue to believe that we should get a strong double-digit growth barring the quarter here on there. So this quarter may be a little dampener because of a poor EOSS that has been a laggard EOSS from June and continuing a little bit of impact which happened in July where we saw a dampened consumer sentiment there but we see a recovery happening in the second-half that to a double-digit growth there. So an annualized basis we should still score a strong double-digit growth, may be at this quarter could be an exception where we could get a little but still it will be a growth. So it will be a strong single-digit growth but overall we came back to double-digit, yes.

Devan Kabra: What is the targeted revenue from the Ethnic Wear segment in FY19-20?

Sanjay Behl: We don't report actually segmented numbers in terms of specific, so difficult to give you a specific number on that. But we expect that it will be about twice of what we did last year, so there is a continual growth which we will see at least in the next 1 or 2 years given the base is quite small. We see this portfolio doubling at least for the next 1 or 2 years.

Devan Kabra: What will be the store count? If you could give me the store count, if not the exact number for Ethnix?

Sanjay Behl: For Ethnix right now?

Deven Kabra: Yes, by end of the year what will be the increase in the number of stores for Ethnix?

Sanjay Behl: We currently have about eight stores and we have a plan to open about two to three stores every month. So you can add another 20 to 25 stores by the end of this year, so we should be close to about 30 to 35 stores by the end of this year. Again, this is because we go for these stores which are franchisee investments. The large part of our plan is also dependent on franchisee sentiment to invest in this kind of a macro scenario that we have seen, so on the realistic side we should cross 30 stores but if things don't plan out the exactly the way it has we could end with about 20-25 stores. That's the ballpark number I can give you.

Moderator: The next question is from the line of Rama Krishna from Zen Wealth.

Rama Krishna:

Just wanted to understand a couple of things. At the beginning of the presentation you have mentioned that in a couple of segments the decline in margin was also due to changing product mix. Can you please elaborate a bit further on this particular thing and the second thing is, what is the CAPEX on the Ethiopian plant?

Sanjay Behl:

On the margin side the specific point was made if you see the Apparel segment the margin is increased and it's only the Textile segment. So this comment that Sanjay made was specific to the Textile segment. In Textile segment we have seen a margin dilution of 245 bps so that's basically from a 7.5% Quarter 1 last year we have ended up at about 5.05% so it's a 5% EBITDA margin this year. Now that is a total of about close to a 15 crores dilution and EBITDA which has happened; half of it almost close to about 7 crores is actually on account of the increase in wool price. If you see the Quarter 1 last year prevailing price versus Quarter 1 this year prevailing price and the consumption mix of Raymond between the two quarters it's about 7 crores which is there. However, we had foreseen that and in the end of Quarter 3 and early Quarter 4 we have taken up price increase of close to 4% to 5% anticipating getting into a much higher wool price and anticipating that it's not going to soften so rapidly so to neutralize that. We have had of price increase benefit of 7 crores in the quarter and we have had wool price impact of 7 crores so more or less they were neutralized. The two-thirds of the rest of the impact, so about 9 crores of the rest of the impact is on account of poorer product mix. Poor product mix is about dilution of ASP from high margin, high revenue products to low margin low revenue products. That's what has happened and in specifically two segments but one segment which has come very strongly. We had about 10% of our revenue contribution in Quarter 1 last year coming from combo packs. Now combo packs are the ones which sell at about a price point of about Rs. 500 to 600 in the market but pack about 3 meters of fabric so you can understand the average selling price per meter is much lower. So this 10% last year Quarter 1 has almost doubled, so it's gone to about 18% contribution of sale in the first quarter. In the overall things of slow down this is the lower price packs, more affordable units, more value attractive products have found far better traction than the high value products and expensive items. So that is the reason why overall mix in Textile has diluted leading to this 9 to 10 crores margin dilution. The rest of the 3 or 4 crores is largely in terms of the nominal inflation and cost escalation on the overall overheads of the business. So that really explains, so 7 crores wool, about 9-10 crores product mix, about 4 crores normal inflation partly made up because of the price increase we took in the first

quarter calendar basically January of this year and that helped us to neutralize part of this impact. That is where it is.

Rama Krishna: CAPEX on the Ethiopian plant?

Sanjay Behl: Total CAPEX that we have invested till now is close to about 90 crores odd in the Ethiopian operations.

Rama Krishna: You said given CAPEX was approximately 60 crores odd in Q1FY20, so what is the full year CAPEX you are looking at and for what requirement?

Sanjay Bahl: We have given clear guidance earlier that would be within 200 crores and any future CAPEX, given the current macro-economic environment will be put through more filters in terms of whether this could be postponed given the economic benefit from the CAPEX so those decisions would be taken. So we hope to contain this certainly within 200 crores but the target would be whether we can do it within 150 to 200 crores.

Moderator: The next question is from the line of Prashant Hazariwala, who is an Individual Investor.

Prashant Hazariwala: What about the debt reduction plan from the operations not any strategic diversement or anything else but what about from the operations only?

Sanjay Bahl: We are focused really as Sanjay also mentioned to stay tuned in terms of all our activities during the year to focus on our core fundamentals and investing in what is really core to each business. The guidance also he talked about full year as well, so really the journey to a free cash flow is through better operating margins, revenue growth and higher operational cash flows and I've also covered this earlier when I had said that it's really after Quarter 2 we will have to give you a better focused guidance rather than probably now when the situation on the macro-side is still looking to be fairly weak with headwinds still facing the business segment specially in the consumer discretionary spend segments. So yes we are looking at generating a positive free cash flows from the operating side and that remains our goal whether we will be able to achieve it in financial year '20 remains a question mark in terms of how the year pans out, how would Quarter 2 also pans out and how are growth outlook remain for the rest of the year. But what we are clearly focused on is given the situation on the liquidity side; on the consumer spending side is to look

at our working capital and our pipeline stock, health of our inventory and our debtors. We have a plan within each of our core businesses to really look at working capital metrics really on a week to week basis. So I think there is a greater degree of focus on working capital, conservation of working capital and that remains.

Prashant Hazariwala: If everything goes well with Ethiopian plant, what kind of margin do we expect by the end of the year for Garmenting?

Sanjay Behl: Garmenting business we should be able to restore back the margins; definitely come back to the level of last year's if not better because the dampening that we have had in the first quarter should get recovered in the balance three quarters. So we should be coming in back to the last year levels on overall margins.

Prashant Hazariwala: 6% kind of thing, right?

Sanjay Behl: Yeah about 5-6% which was the last year margin we should be back

Moderator: The next question is from the line of Amit Vora from PCS.

Amit Vora: I know you have spoken a lot about the debt aspect, just that the interest cost has gone up because of the increasing working capital in Q1. Now that we are already through the first month and how are you seeing this playing out and can we expect that 61 crores kind of pre Ind-As interest cost will remain in the following quarters?

Sanjay Bahl: What is really happening in the increase in the interest cost is couple of factors. One is of course the increase in working capital that we are seeing; the other is also the rate increase that has happened. The mix of our total debt portfolio that we have had earlier subsidized textile loans which are called TUFF loans, as they mature they are getting replaced with now the prevailing cost which is higher. So there is a mix which is changing and as a result of that you are seeing marginal increase in the interest rate as well. So from our longer term perspective I had mentioned this earlier that the focus is clearly to get to positive free cash flows and if you are able to sustain that within the year then surely we will see debt levels coming down purely on account of higher cash flow generation. The other aspect for focus is to really look at strategic sale of non-core and that will give a boost to really a big reduction in the total debt portfolio and bring down the interest cost substantially. It's a combination of both these that we are focused on in the current year. The

dampener is really the liquidity issues and the other is slowing down of the demand side and that will remain to see how it pans out.

Amit Vora: If not for the working capital what is being the incremental in the cost of funds and would that be continuing, I am assuming for throughout the year now?

Sanjay Bahl: If you see what is playing out in the financial markets now with the banks that there is a little bit of risk aversion that they see so the cost of mutual funds investing in commercial paper, the cost of that is going up. Earlier there used to be availability of low-cost short-term papers so that is changing now as well. So the mix is changing, mix of debt profile is changing and we have to recognize that in the current prevailing situation where liquidity issues are facing nearly all sectors. There is an impact that we see, however we also are looking forward to RBI's monetary policy declaration later in the first week of August and we hope to see some rate cuts happening there. We look forward to seeing some measures taken by RBI to reduce interest cost as well and make liquidity available with the banks.

Amit Vora: My only thing is that our debt cost has gone up from around 50 crores quarterly level to 61. Is it normal for some time or how we seeing this?

Sanjay Bahl: As I said we are at a certain level of working capital and investments that we have done in the Real Estate, this business so that has resulted in the increase in the total amount on investment side which has been partly through borrowed capital as well and real estate we had earlier given guidance that the total investment would be contained at 250 crores. I think we are at that level and we do not see any increase further in the total fund infusion in the real estate project. The construction has picked up, sales velocity is high so the business would be a positive contributor in the coming quarters. So maximum investments that had to take place has been done but that has also resulted in an increase from the 50 crores to the 60 crores that we see, but future increases will be entirely really working capital led.

Moderator: The next question is from the line of Govindlal Gilada, who is an Individual Investor.

Govindlal Gilada: Anything on non-core asset sale - Auto and the Engineering is also anything we are considering?

Sanjay Bahl: Auto we had mentioned earlier that Auto we believe that we would be looking at the any offer or opportunity that comes for consolidating this business or looking at

any value creating opportunity in this business. We are certainly open to that however given the current situation that is prevailing in the Auto slow down space it will be a tough scenario to look at any option here. We would have to wait for a while before the sentiment changes in the whole Auto space.

Govindlal Gilada: I keep a track of wool prices; they have substantially come down year-and-year. It is because of old inventories affect has come on margin wool prices?

Sanjay Behl: Wool price have come down but we need to see what part of the wool price really comes down. Now wool really ranges from about 10 microns to 30-35 micron wool and what Raymond uses for 90%-95% of our consumption is between 17 to 24 micron wool. Some part of the wool while it has come down but it had gone up by 35% last year and it's been going up by that kind of a number 25% to 35% for last 2.5 to 3 years. So what has softened is the rate of acceleration, increase is not happening at that level and it is kind of been running pretty much flat over the last 2 quarters. So whatever it peaked to in the last quarter, Quarter 3 is where it is at this point of time or there is a marginal softening of about 3% to 5% that we have seen in the Wool Index Prices. But when you look at our base for example Quarter 1 last year to Quarter 1 this year, we still had a 7 crores hit because of the prices and we had to the course of price increase to neutralize it but it still was pretty high. At this level I would say even if it stays at this level, we should be able to purely on the wool prices our guidance doesn't get shaken because of this one commodity price if it stays at the current level. But if it goes up again at the levels of even half the levels of what it has been going in the last 2 years then there will be a serious concern and we will have to again either neutralize it through price increase which is very adverse environment to do that or take some extreme measures to really neutralize or mitigate that risk. But at this level the benefit of the wool pricing softening you will see in the second half because second half base will have price increase impact this year which was not there last year and will have a moderated wool price which was not there last year. So both the double impact will happen only in the second half which is where most of my wool mix has been any case so we should see good impact of that in the second half not in this quarter but from Quarter 3 and Quarter 4.

Govindlal Gilada: Net-net at least comparing last year second half vs this year second half, we can see at least hope of improving margin?

Sanjay Behl: Yes that is absolutely right. There will be some bump-up because of benefit. If wool stays at this level Govindji then there will be some benefit but if wool gets increase then we have to see how we will do it but if the wool remains at this level then we will have benefit, definitely.

Govindlal Gilada: All the raw material prices such as wool, polyester yarn, cotton, have been decreased according to me.

Sanjay Behl: Yes, absolutely. Crude is also cheapened, wool is also softened so all these three things impact we will have in the second half.

Govindlal Gilada: But interest burden should be reduced. They are doing rate cuts and all. These are all tailwinds so I was seeing second half should be at least anyhow. First half to last year comparing it was disappointing. Second half can we make up that what I was wondering comparing last year this second half should be a more better.

Sanjay Behl: So Govindji, as I said just reiterating the principle point. We have stayed invested and our fundamental product quality, product mix, go-to-market, retail stores everything is aligned. What you are saying that if we get a little bit of tailwind of consumption cycle in the market kicks in then we should have a reasonably good second half. Now consumption cycle has slowed down a little bit and liquidity has also slowed down. So there is a bit of those impacted.

Govindlal Gilada: I understood. Last question we have done our major CAPEX in real estate and from here onwards whatever we will get that will be the free cash flow from real estate?

Sanjay Behl: That is the expectation clearly. That is what I had also mentioned that is the expectation. Whatever investments had we had to make we have done.

Govindlal Gilada: No, that cash flow we will be using for debt reduction or any other plans are there on the real estate further investments, further developments immediately?

Sanjay Behl: I think only thing is that we can't look at these positive cash flows coming from real estate on quarter-on-quarter basis. The project is over a 4 to 5 years period so really the bulk of the cash flows will come in through this period but as and when it comes in, we will certainly evaluate. One of the first task that we have to do is to look at reduction of debt in terms of priority and reduce our interest cost so that remains number 1 priority.

Govindlal Gilada: Yeah that's what only I wanted to understand. I know it is back-ended cash flow we will get so that time at least we should have clarity that it will be going for debt reduction not for further land developments all that. That's what I was asking.

Sanjay Bahl: As of now there is really no other plan on the data. The first focus is to achieve our targets on de-leveraging, reducing interest cost etc. and all that remains the priority number 1.

Govindlal Gilada: That's what as a shareholder I request that convey to management, board of directors all that, that debt reduction all that these parameters has to be top priority ours first now.

Sanjay Bahl: Right, absolutely agree with you.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management team for closing comments.

J. Mukund: Thank you. I would like to thank all participants for taking their time out and participating in the earnings call. In case of any further queries you can reach out to us on phone or email me. Thank you again.

Moderator: Thank you very much. On behalf of Antique Stock Broking that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.