Q3/9M FY2009

Investor/Analyst Conference Call Transcript

Moderator: Ladies and gentlemen good afternoon and welcome to SKNL's Q3 and 9 months FY2009 results conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. I would now like to hand the conference over to Mr. Aly Rashid of Citigate Dewe Rogerson; thank you and over to you Mr. Rashid.

Aly Rashid: Thank you. Good afternoon ladies and gentlemen and welcome to the SKNL's Q3 and 9 months FY2009 Analysts and Investors conference call. We have here with us today Mr. Nitin Kasliwal, Managing Director and Vice Chairman of SKNL. Mr. Anil Channa, Deputy Managing Director. Mr. Anees Fazalbhoy, Director Business Strategy. Mr. Jagadeesh Shetty, CFO and Mr. Salil Bawa, Senior Vice President, Business Strategy. We also have with us today Mr. Tarun Joshi, Managing Director of Brandhouse Retail Ltd. We will start this conference call with opening remarks from the management. After which, the floor will be open for an interactive question and answer session. Before we begin, I would like to point out that certain statements made during this call are forward-looking and a disclaimer to this effect is included in the investor release and the conference call invite, which has been sent to you earlier. I will now like to invite Mr. Nitin Kasliwal to give his opening remarks.

Nitin Kasliwal: Thank you Aly. Good afternoon ladies and gentlemen. Firstly, my apologies for the delay in conference call, which actually should have been held right after we announced our Q3 results. It so happened that Anil Channa and I were both traveling and we thought it would be wise to be there on the call. Therefore this call has been delayed to that extent in this quarter, which we will try at most to avoid as we go forward post results of the quarters coming forward.

Having said that I am very happy, speaking to all of you again. Basically, SKNL has had a robust performance in the quarter; our sales have been up by about 30%. Generally, the market and trading conditions, as everybody is aware, has been relatively tough in the last couple of quarters. Overall sentiments have been weak in the market, but because of our diversified product portfolio, very strong distribution network and a very strong brand portfolio, we have done reasonably well and going forward also we hope to be doing reasonably well.

Before I get into specifics and details about our performance and about our Company, I just wanted to clarify few points. This is for some people who may be new to our Company. SKNL is a professionally managed Company. As a promoter shareholder, I am the largest shareholder of the Company and to that extent it is not a family run business. The S. Kumars Group used to be a family run group few years ago but now there has been a demarcation in the family and the SKNL textile business is separated out from that family demarcation, which is now controlled by my management. It is a complete, professionally run Company, with a professionally managed board and I am very happy for that.

Generally, the market scenario has been a little low. The sentiments have been weak. Buying has been affected to some extent, though not so much in textiles in the domestic markets. The overall sentiment has been affected by the relative slowdown in the growth of the Indian Economy, which we expected to be about 6% to 6.5% in the current year. Having said that, margins do come under pressure in such a scenario, but our endeavor in our corporation is to ensure that we retain market shares and try to manage margins at a level where we do not compromise in margins substantially. We will also ensure that we do not lose market share in that process. So, we are maintaining a fine balance of ensuring market share and reasonable growth in top line. This will hold us in a top condition going forward as the markets improves and we will be one of the first players to look at a substantial increase in bottom lines as well.

We have a very unique business model in SKNL. We are the only textile Company that is vertically and horizontally integrated, and probably the only textile Company in India that operates in all product categories. We are the only textile Company operating in all fiber segments and in all socioeconomic segments of the market. Thereby qualifying us as clothiers to the nation today. We are the largest player in this industry and we have a unique position within the industry. We are probably, one of the few players that are totally branded, totally distribution led and totally distribution focused. Our products are sold through over 600 towns and cities in India through a network which encompasses over 30,000 retailers countrywide, which is a very wide and deep network. We are, in that sense not a conventional textile Company, but we are a Company that is more brand focused, more distribution focused, more retail and design focused. Thereby giving us the position of having higher margins and having a much stronger hold on the market, as we go forward. We are completely professionally run and we operate several SBUs in our Company. We have consumer textiles, luxury textiles, high value cotton fabric, middle value cotton fabric, home textiles, and ready to wear garments. Each of these SBUs is run by CEOs who are de-facto Managing Directors of the people. All of these people then report to Mr. Anil Channa who is our Deputy Managing Director and COO of the entire textile business and so to that extent, other than being professionally run, it is run by people who are very proficient in their business. We have probably the best human capital and best management talents in the industry today and that holds us in very good stage going forward. Four of our key strengths, which I call our four pillars are - our brand portfolio, our human capital, our manufacturing capabilities, and our distribution and retailing; are actually seeing us through even when markets are in a downward trajectory worldwide and of course because we are maintaining multiple product categories and dealing with multiple socioeconomic segments with the market that Augurs very well for us and that is bearing fruit as we go forward. Just to elaborate a little bit on each of our SBUs, our first SBU is consumer textiles, which is actually branded consumer textiles. Here we operate multiple brands we have the S. Kumars brand, we have Belmonte, we have Uniformity and these are brands that operate as the middle and lower ends of Indian branded markets. Of course, very large players here in institution sales, very large in corporate wear, daily wear. Belmonte itself is becoming a very major brand; with ShahRukh Khan as the brand ambassador and Belmonte I think is now becoming one of the key players in the Indian garments and fabric scenario. It is present in over 11,000 stores countrywide and going forward over the next few years, this will be one of the major brands in the middle market segment.

Of course, Uniformity is another brand that we have launched here, which is catering to specialized uniform fabrics, which is again getting very well established in the market. The S. Kumars brand of course needs no introduction and it is one of the key players in this segment. Belmonte is also operating a number of EBOs now and this is a combination of Company operated stores and franchise model, which is auguring very well in establishing Belmonte as a total product provider at the middle level, we do fabric, we do ready to wear and even within ready to wear we do all kinds of ready to wear; so will become a major brand as we go forward.

The other SBU, which is home textiles again; here we have the Carmichael House brand, which is of the mid premium and premium level. In this category, we are also launching another brand at the higher level, we have tie up with Benetton, which is being launch shortly in all the Carmichael House stores. Carmichael House was established in 2006 and it slowly and surely getting established as one of the key players in the branded home textile category in the Indian market. Typically, the home textile market has been led by unorganized players countrywide and to that extent it is a very new industry for branded players to be in, there are hardly three or four players at the national level in the branded category and we hope that over the next couple of years Carmichael House will also probably the leader in this category of product.

The High-Value Cotton Fabric business is again a segment which we have entered into recently. Currently we are setting up the state of art facility in Gujarat in near Bharuch, in a place called Jhagadia. This is 12.5 million meter complex for high-value cotton fabric probably, will be the best textile complex in the world producing products, which will cater to the top end brands worldwide. It is state of art facility employing the latest equipments. This facility will be in production, trial productions are already on, it should be in production by March '09 and over the next 3 to 4 months, we will of course build up the capacities as we go forward. In this category, you are also aware that we have acquired an Italian Company called Leggiuno S.p.A. Leggiuno is one of the top three shirting fabric suppliers worldwide, catering to the top brands of the world like Airman, Prada, Faconnable, Gucci, Christine Dior, and several Dolce & Gabbana and federal brands Kouton, Brioni, so it supplies to all the top brands and operates at an average price about $13 a meter and to that extent it has a very strong front-end for the high-value cotton fabric business that is being established in India. So, the plant in Gujarat, which is coming up now will be the back-end of high quality, low cost back-end and the Leggiuno, which will be the front-end and high design, high premium brand marketing fields led front-end and the and the telescope will be a very profitable enterprise, because the plant from Gujarat is forecast to be selling product at an average of about $5 a meter and at $5 a meter there is an EBITDA in excess of 30% and Leggiuno is selling product $50 a meter, so you can imagine that overall in the telescope there is substantial value addition and margin build up. Of course, Leggiuno would also be providing a lot of back-end support into the Indian operation in terms of design, in terms of quality, in terms of finish and of course overall because Leggiuno is doing about 5.5 million meters in Europe and the high value business will be doing about 12.5 million meters in India. So, overall we will be having about 18 million meters in our kitty which will be ranging from $5 to $13, which will be a very high value added business plan.

The other SBU, we have is ready to wear business. Here again, we have multiple brands operating, we have of course Belmonte, we have Reid & Taylor, we have Stephens Brothers, we are launching couple of more brands as we go forward in the mid-premium category in casual wear. Casual wear is a category where there is a lot of focus required because there are very few brands operating in the casual wear segment in India, both as a mid-premium and the premium levels and we are looking at going in that. You would also be happy to know that we are the first clothing and textile business in India to have fabric and garment under the same brand, we did the same thing with Reid & Taylor, we have Reid & Taylor fabrics and garments and now we have Belmonte fabrics and garments and going forward, we will be launching a few more brands that are fabric and garments in the kitty there whereby offering the consumer at the retail level, a very strong position of being able to have fabric having garments and having customer tailoring under one roof. And to that extent also as fabrics become lesser and less popular at the consumer level over the next 20 to 30 years, the brand resilience and the brand presence would remain intact because as this is internationally what would happen to the fabric brands, lose their relevance because as of organized retailing, as retailing becomes organized, garment business takes over and the fabric business becomes negligible. But as a strategy we have the same brands operating in fabric and garments, so even going forward from the business and from the Company perspective. The brand value has been retained and intact.

The luxury textile business, which operates at the upper end of the market in mainly worsted fabric and high value premium, poly-viscose, cotton, and linen fabrics operate under the Company Reid & Taylor India Ltd. As you are aware, Reid & Taylor India Ltd is a 74.6% owned subsidiary of SKNL, the balance is hold by GIC, which is the "Government of Singapore Investment Corporation". This is a direct investment by the government of Singapore into Reid & Taylor. The overall deal was valued at about Rs 3,540 crore at the time of the transaction, just a few highlights on this transaction. The total money raised in this transaction is Rs 900 crore of which Rs 790 crore has already been infused by GIC into the Company in July 2008, the remaining Rs 110 crore is awaiting drawdown from the Company, depending on its CAPEX requirements, which will be happening in the few months. Of course, the total deal is done at the same value, which I mentioned to you the value of the entire deal being that the Reid & Taylor business has been valued at Rs 3,540 crore by GIC and for Rs 900 crore they have got about 25.4% stake of the Company. Reid & Taylor of course needs no introduction; it is probably one of the best recognized brands in the textile and apparel segment in India today. It is fast becoming a leader in its segments, operating at a very high level of profitability, at a very high level of market penetration. Reid & Taylor currently sold in over 325 towns and cities in the country through a network of around 12,000 plus retailers countrywide. Reid & Taylor also sold through a very strong network of EBOs, which number over 117 in today's term about 170-180 EBOs, I am sure Tarun Joshi will be able to give us some more detail exact numbers on that.

Going forward, we plan to have a very strong position in Reid & Taylor both in fabrics and in apparel taking it forward to a level which will make it the best brand to be operating in its category.

Mr. Amitabh Bachchan continues to be a brand ambassador here and our advertising campaign over the last few months has worked wonders in terms of brand pool and market penetration. Reid & Taylor Q3 FY09 revenues have been at about Rs 164 crore, EBITDA has been at about Rs 51 crore and net profit there has been about Rs 36 crore.

Just to give emphasis on the GIC business plans, the GIC transaction. There have been a few confusions that have been created I think in the market, which I thought, I must clarify. The GIC transaction is a direct equity investment in Reid & Taylor. It is an investment with no strings attached, it is an investment that is equity at the equity value that we have nominated, which is Rs 3,540 crore for which they have paid us Rs 900 crore for 25.4% stake. There are no guaranteed returns, there are no guaranteed IRRs, the only commitment that our Company has and both, SKNL and Reid & Taylor have to GIC, is that at the end of three years that is in the fourth year of their investment, if they so require, we must make an IPO, we must make an IPO that is the only commitment we have from Reid & Taylor and from SKNL for GIC. In fact, on the other hand if they want to diverse any part of their hook, their 25.4% to any other investor, they must offer it first to us, so we have to write the first refusal and that to it would be at the market determines at valuation, which should be market determine by two independent international valuers.

And on the other hand in fact, we also have the commitment with GIC that if there would be any other equity offerings in our Company, which is Reid & Taylor or SKNL, it would be first offer to them pari passu than to anyone else. So, in fact they are very keen of being continuously connected with us going forward and to that extent we have this commitment with them. I thought I must clarify this to you because a lot of people have been for I do not know, for what reason that they have been talking about a lot of queries have been coming in, are there any strings attached! Are there any commitments! So, just to clarify again there are no strings attached, there are no commitment for fixed returns, there are no committed IRRs, it is a pure direct equity transaction, which with money already in the bank in July, the remainder amount of money has not been drawn by the Company, they are ready to disburse whenever we want the money, which is only an amount of Rs 110 crore.

On the other hand, the money that has been utilized Rs 790 crore, the money that has been raised and received Rs 790 crore of which Rs 250 crore has been used by Reid & Taylor itself to payoff its debt, which was a consequence of high work from SKNL and Reid & Taylor post this it is debt free Company from a long-term debt perspective. So, on a long-term basis Reid & Taylor is zero debt. Rs 440 crore have been pushed back into SKNL - Reid & Taylor's parent, which has been utilized by SKNL to repay debt and exit its CDR position. SKNL, as you are aware in 2004, it got into the CDR as this transaction was primarily done with GIC, which would enable SKNL to exit CDR. And I am very happy to inform you that that has been achieved and going forward SKNL will be on a completely different platform in terms of being one of the, probably being the only textile Company who have to be exiting CDR from that perspective. About Rs 100 crore has been utilized by Reid & Taylor in its growth and balance further monies will be utilized in growth and capacity expansions. Just to get it too quickly about the Leggiuno transaction, the Leggiuno transaction, the acquisition cost has been about Rs 160 crore, which has been partly funded by debt and partly through internal accruals.

Leggiuno is the Company that in the third quarter has revenues of about Rs 60 crore, with EBITDA in the region of 12.5%. Even at the net level, it is a profitable enterprise, going forward we are looking at, integrating high-value cotton fabric and though Leggiuno would continue to operate as an Italian enterprise with a very strong management team it has it own managing director, this was owned by wholly on subsidiary of SKNL India, so it is 100% own by your Company. Brandhouse Retails, which has been created out of de-merger from SKNL and this was done primarily so that there would be an independent focus on retailing. Brandhouse Retails is shortly going to be listed, we have received all approvals and hopefully within February itself it would be listed. Final dates are being worked out in the next couple of days, but every required permissions is already with us, so it is a matter of procedure and it would be listed within this month.

There are several opportunities that are coming up in Brandhouse, which includes setting up EBOs for SKNL brands. It is setting up EBOs for foreign brands at luxury level, even at mid-premium and premium level and also shortly to be entering into joint venture with one of the largest retail and apparel group in Europe. We will be talking about this joint venture next week, once it is done, but we are not able to talk about it in more detail now.

After my talk, I will request Jagadeesh Shetty to take you through the financial performance of Q3 and for the year 9 months ending FY09. I just wanted to run through few of the key balance sheet parameters. Our total debt stands at about Rs 1,300 crore, which includes long-term debt of Rs 700 crore; it includes working capital of Rs 617 crore. Our total debt to equity, a long-term debt to equity ratio is at about 0.31 where, our total net worth is about Rs 1,800 crore. Our total debt to total equity, which includes long-term debt and working capital were 0.65. Our total outside liability through our total net worth is at about 0.82. So, overall we have a very strong balance sheet position, we have a very strong business going forward, we have steady straight performance, we have reasonable growth in sales. We have a steady EBITDA, we have a very diversified product portfolio in terms of brands, in terms of products, in terms of distribution net work and to that extent it augurs very well going forward and we are looking forward to reasonable performance in the coming quarters and of course post 2010-2011 we are looking at substantial growth again from the perspective of product portfolios. I will handover to Jagadeesh Shetty to just take you through the performance numbers of Q3 and the 9 months FY09 and then of course we will through to floor open for questions and answers. Just to repeat my top management colleagues are with us in this conference call. There is Anil Channa, who is the Head of the Textile Business, Tarun Joshi – the Head of the Retail Business. Anees Fazalbhoy, our Director, Business Strategy. Jagadeesh Shetty our CFO, Mr. Avari our Director of Corporate Affair are present on this call, Jagadeesh could you just run through numbers for quarter 3.

Jagadeesh Shetty: Good evening investors and friends, for the quarter ended December 2008; we have clocked a turnover of Rs 604 crore, as against Rs 453 crore during last years corresponding quarter. This is 33% year-on-year growth on the turnover, which I think is very good, considering the prevalent market conditions. In terms of EBIDTA, we have clocked Rs 116.02 crore as compared to Rs 103 crore during the last year; this increase is about 11%. As far as PAT is concerned, we have Rs 46.28 crore during this quarter as compared to Rs 57 crore during the previous years quarter. This is mainly because there is a full tax provision base, because the Company earlier has the advantage of carrying forward CDR situations. Since we have made full tax provisions the PAT is at Rs 46 crore. This year's tax provision is Rs19.72 crore for the quarter as compared to Rs 7.48 crore during the last quarter. For the 9 months, the cumulative figures in terms of sales is Rs1698 crore as compared to Rs 1,223 crore during the last year which is a 38.9% increase over the last year's figure. EBITDA for the quarter is Rs 375 crore compared to Rs 267 crore during the last year, which is an increase of 40%. PAT for the 9 months ended is Rs 150.82 crore as compared to Rs 143 crore during the last year, these are the key numbers.

Nitin Kasliwal: Now we are here to answer your questions and queries and any other comments you may have, so the floor is open for Q&A please.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Jayesh Mehta of D.E. Shaw.

Jayesh Mehta: Congrats for the good set of numbers. Would it be accurate to assume a 100% exit from CDR debt as you do not have any CDR related debt in your balance sheet right now?

Nitin Kasliwal: The exit process is on the way. We are on the last leg of the exit process and it will be happening within the next few weeks, because there are processes and procedures to be followed from the CDR exit. Although the repayments have been made; the process takes a few weeks to happen.

Jayesh Mehta: That means you have already repaid all the CDR related debts, it is just the process that will take some time! How much time will it take tentatively?

Nitin Kasliwal: Yes except for Rs 70 crore the other debts have been paid, but even those are underpayment. When you repay a CDR debt, you have to have a proper tie up with the institution that you are repaying. So there are processes and procedures to follow because the CDR is one body but then each person operates independently as its own board, so it is a process because there were about 25 CDR lenders.

Jayesh Mehta: Could you throw some light on what was the total CDR debt amount before repayment?

Management: We had Rs 250 crore in the part which is transferred to Reid & Taylor and so Rs 440 crore was the debt situation in SKNL. We have cleared everything except Rs 70 crore, which is basically pending for approval that the lenders have to get from their respective boards.

Jayesh Mehta: So I assume that Rs 70 Crore will be repaid to them in the next 1 or 2 months?

Nitin Kasliwal: Yes absolutely, it may not go up to two months but it would be completed in the next month.

Jayesh Mehta: Going forward on the same line, you recently came out with the announcement in the exchange, that promoter shares pledged to get approximately 80% of promoters holding, that is related to CDR debt. So, I was just wondering that if we have exited from the CDR debt?

Jagadeesh Shetty: We have exited but this process is being completed. We have to pay the lenders and file reports with the CDR when all the terms and conditions are met. Now, as per the understanding these steps have to be released to us that process is yet to be completed.

Anil Channa: In any case, as far as we are concerned firstly, this was a CDR related matter. Secondly, the shares pledged are only in lieu of as an additional collateral for the funding that has been done by the Company.

Jayesh Mehta: You mean it is a secondary pledge?

Anil Channa: It is an additional collateral. The loans of the Company are charged to the current assets and fixed assets of the Company. The current assets and fixed assets of the Company are sufficiently large much more than the required norms to cover the entire debt of the Company. And because we were in the CDR, it was a mandatory requirement of the CDR that all promoter shares would be pledged to the CDR lenders. Yes, so it is not a promoter funding pledge.

Jayesh Mehta: Yes I got it; it is explicitly stated in the press released also that it is not for promoter’s loan.

Nitin Kasliwal: Even otherwise a lot of Indian institutions, though we have never done it earlier, have the habit of asking promoters to pledge their shares as additional collateral for loans. So, it is not something, which is being done by the promoters for their own funding, it is done for the Company’s funding.

Jayesh Mehta: I get it, all these pledged shares will be released once the CDR debt is repaid completely, which is about 70 Crore yet to be repaid.

Nitin Kasliwal: That is right.

Jayesh Mehta: Okay, could you give us the revenue mix for FY09 and FY10 that you are expecting especially what kind of contribution will come from the high-value cotton fabric business?

Jagadeesh Shetty: The high-value cotton fabric business on full capacity utilization should give revenue of 280 Crore and EBITDA of about 95 Crore at full capacity of utilization. Also we have guidance numbers for ’09 and ’10 for the Company, but what we are doing is putting out a revised guidance for FY09 over the next few quarters. You will be get it over the next couple of quarters we will post it on our website once you get that then you will see it.

Jayesh Mehta: Okay, so I assume that the Leggiuno brand sells around 5 million meters, right?

Nitin Kasliwal: Yes, 5.5 million meters.

Jayesh Mehta: And we have a 12.5 million capacity.

Nitin Kasliwal: That is right.

Jayesh Mehta: Okay, so will the balance be, through our own brand selling or what will utilization be like; because you said around 280 Crore will be achieved if the full capacity is utilized?

Nitin Kasliwal: That is 12.5 million meters.

Jayesh Mehta: Okay, so what kind of utilization you are expecting in FY09 and ’10?

Nitin Kasliwal: I think it will be around 65% to 70% in FY09 and move up to full capacity in FY10. Absolutely, now the thing is from the Indian high value of course, there will be two three things happening one is partly the Leggiuno sales team would be selling products into their network, partly the Leggiuno sales team would be introducing new customers in the European and the US system, other than that the Indian domestic market is also consuming a lot of high-value fabric in the ready to wear business.

Anil Channa: Yes, mostly 40% of it would be targeted towards the Indian customers.

Jayesh Mehta: Okay perfect and the 60% will be coming from international.

Anil Channa: Out of the 5.5 million meters, which they are marketing, in-house capacity is only 1.5 million, which means roughly around 3.5 to 4 million is their current outsource from India, China and little bit from Europe. The HVSC would actually become a back-end for this 4 million, which they are currently outsourcing, so that would be an immediate step so that the capacity build-up happens much quicker in the Gujarat division.

Jayesh Mehta: Yes I agree; 40% of the utilization will directly happen through outsourcing!

Anil Channa: That is right, because gestation period is very short, therefore the capacity utilization will be much quicker.

Jayesh Mehta: And coming back to the pledged shares; once the 70 Crore are repaid, we are going to repay in next two to three months right? All you require is the lenders approval right?

Anil Channa: Yes we are waiting for that Jayesh.

Nitin Kasliwal: What is your concern, please tell me your concern, I will address your concern?

Jayesh Mehta: No, I am trying to figure how we can pay the CDR debt and the kind of interest arbitrage; assuming higher interest rates, right so there will be some pressure on that?

Nitin Kasliwal: No, but that has nothing to do with the pledge of shares as the Company can do different things now.

Jayesh Mehta: I agree, just wanted to get some light on how the repayment is going to happen.

Nitin Kasliwal: The repayment is happening; it can happen today, the question however is the process that each institution follows, so it is in process,

Jayesh Mehta: We have almost paid 90% of the debt.

Nitin Kasliwal: Yes so it will happen probably in this month.

Jayesh Mehta: Yes we still have the same amount of shares pledged.

Nitin Kasliwal: But in any case the promoters of SKNL do not desire to sell even one share, in fact we add shares, well it does not matter to us all that the shares are pledge to our institution.

Jayesh Mehta: Yes, so it is not like they are proportionately shown.

Anil Channa: Well, it is a common pledge.

Jayesh Mehta: Okay, so unless we completely get rid of CDR debt?

Nitin Kasliwal: But even otherwise, as far as we are concern. It does not matter to us if the shares are in our vault, or in the vault of IDBI, it does not matter to us.

Jayesh Mehta: Yes, that is right. I just wanted to get some more color on that thanks, thanks for the information on that.

Moderator: Thank you Mr. Mehta. Our next question is from the line of Neha Jain of SBI Capital Securities, please go ahead.

Neha Jain: Yes firstly, I would like to know the organic growth numbers for the Company, you mentioned the top line growth is 30%, so on an organic basis excluding the acquisition and excluding Reid & Taylor, what would be the growth number?

Nitin Kasliwal: Two things, the acquisition of course that top line of 60 Crore in the quarter, if you take away 60 Crore from 604 Crore that is about 520. It is 20% top line growth. You cannot exclude Reid & Taylor because it has always been an integral part of SKNL, so even when you compare the quarter ended 31/12/07 it included the Reid & Taylor numbers, when you compare quarter ended 31/12/08 you have to see the Reid & Taylor numbers, you cannot exclude that because Reid & Taylor is not a new acquisition, it is an ongoing business in the Company from many years.

Neha Jain: Right, you mentioned the results are consolidated with Reid & Taylor, so could you give me your number without Reid & Taylor as well?

Nitin Kasliwal: Of course I will give you the numbers, to clarify, I can give you the numbers without Reid & Taylor in quarter ended 31/12/08, I cannot give you those numbers of 31/12/07. So, when you compare '07 quarter 3 with '08 quarter 3, December to December, you will be comparing incorrect numbers, so just be careful of that.

Neha Jain: Okay no problem. So 20% is the number, which you are telling me?

Nitin Kasliwal: Of Rs 604 crore with the sales of 31/12/08 consolidated this included Rs 60 crore of Leggiuno, included Rs 164 crore of Reid & Taylor.

Neha Jain: Okay fine could I get a breakup between value and volume for the 20% growth?

Nitin Kasliwal: I think the volume growth is about 11% or 12% and the balance will be a value growth with the better product mix.

Neha Jain: Okay and what is the major contributor to the volume growth, because 11%, 12% is pretty high, I mean in these times, to those, in the product mix itself?

Nitin Kasliwal: Oh 11%, 12% is being the value growth, so the volume growth is 7%, 8%.

Neha Jain: Yes because you mentioned volume, so I was just getting confused.

Nitin Kasliwal: No, no it is the reverse.

Neha Jain: 7%, 8% is the volume growth.

Nitin Kasliwal: That is right.

Neha Jain: Okay, even that is pretty good I mean in the current scenario.

Nitin Kasliwal: Well, like Belmonte has added capacity, Reid & Taylor itself has added capacity and we have added capacity in Reid & Taylor, which has given the volume increase.

Neha Jain: So, probably most of it could be coming in from the capacity increase that is what you are saying?

Nitin Kasliwal: That is right, absolutely, yes.

Neha Jain: On a like to like basis, if you just compare your stores, I mean generally what is the kind of growth that you are seeing that is what I want to actually get to?

Nitin Kasliwal: Yes sure, I will just ask Tarun to answer and give some ideas.

Management: I think firstly we need to clarify that this is being included to the Brandhouse not even 10%, rest of it is actually market determined and going into the normal marketing channels, which our MBOs and large formats, which have been one of the key pillars of SKNL strength, now Tarun will answer on the Brandhouse.

Tarun Joshi: On like-to-like for stores we have seen about between 17% to 20% growth across the channels for Reid & Taylor stores for the 9 months.

Neha Jain: Okay and what is the volume growth in this?

Tarun Joshi: The volume growth is about the same.

Neha Jain: Okay, so you are saying 17% to 20% volume growth?

Tarun Joshi: Yes, it is the same then if you take value or volume it will be roughly the same. The only difference is that when we talk of the Brandhouse stores, here the unit values are much higher than what they are in the trades, because what we are noticing that the kind of customer who are coming to the EBO are looking for a higher product mix.

Neha Jain: And one more thing Mr. Kasliwal mentioned that Reid & Taylor is slowly becoming the leader in its segment, so I just wanted to get a sense of what is the current market shares of Reid & Taylor, I mean just an approximate number, if you would be having?

Nitin Kasliwal: For fabric, the Reid & Taylor market share for fabric is about 18%, 19%.

Management: In fact if I may add before GIC invested apart from the financial and legal due diligence, we also bought a due diligence done on the market size and the market share of Reid & Taylor and in fact their assessment was also matching with us that our market share is around 18% to 19% and expected to grow to about 28%, 30% because of our various marketing strategies in next 3 years.

Neha Jain: Okay. So, you would not be having anything as a brand because you are selling Reid & Taylor readymade also under the same brand?

Management: That is correct.

Neha Jain: So, you would not be having something on the brand strength, what you have given me is a fabric market share.

Management: You are talking about ready to wear.

Neha Jain: Yes!

Nitin Kasliwal: In ready to wear, currently our market share is about 7% to 8%; this will also keep growing as we go forward. Now, I am only talking about the Reid & Taylor brand, Company Reid & Taylor India Ltd. also is operating other brands, Stephens Brothers and we are launching another brand, so as we go forward in the next couple of years, you will see that the Company Reid & Taylor itself has the Reid & Taylor brand plus have 3-4 other brands as well. So, this will also add that particularly in the garment side, it has segmented market.

Management: So, therefore no individual brand would actually be more than about 10% to 12% of the market share, because of the segmented market that is why, there is always a need to introduce newer brand so that you can cover a bigger part of the wardrobe.

Neha Jain: Right, but this would not be the case in the fabric side?

Management: No, not in the fabric side.

Nitin Kasliwal: There are very few players on the fabric side in this category and to that extent the players that performed better have a better market share.

Neha Jain: Right, so I mean, what has been the improvement in market share say, over the last 2 or 3 years that you are seeing?

Management: Yes it is going up steadily, our market share couple of years ago it was around 14%, 15%. They are now at about 18%, 19% and hopefully in the next 3 years like Mr. Channa said, we are looking at going to about 28%, 30% and that growth what has been forecast is essentially being driven by our strategy of opening up EBOs, which is creating a lot of consumers, I mean visibility for the consumers apart from the strong advertising and the very good product quality and design.

Neha Jain: Yes, that is what I am saying, so you are the number 2 brand?

Nitin Kasliwal: By a big margin and from a long time, but the other thing is that the Reid & Taylor product in terms of design, quality, and finish is considered absolutely number 1 in the market. You can check with consumers, you can check with people who are in the system.

Neha Jain: Okay and can I also get a like-to-like sales growth for the quarter; you gave me 17% to 20% I believe for 9 months, so can I get the same figure for the quarter as well

Nitin Kasliwal: Neha, can we have that sent to you.

Tarun Joshi: Yes, I will handle it, but like-to-like for the quarter, is much lower, because the last quarter has been pretty weak in retail. The like-to-like sale in the last quarter has been almost stagnant. But there has been a growth because we have added new stores. But even new stores are low because rents are coming down. Over the last couple of quarters, we have reduced this too, but now we will top up again because now the rents have come to a very reasonable level.

Neha Jain: So, are you also to renegotiate existing rents?

Tarun Joshi: Yes absolutely.

Nitin Kasliwal: We renegotiated existing rents and of course new rents are coming down.

Neha Jain: Okay thank you so much.

Moderator: Thank you Ms. Jain. Our next question is from the line of Jaibir Sethi of Noble Group, please go ahead.

Jaibir Sethi: The press released mentioned about 25% growth in consumer textiles, so could you provide some color on what is driving back? And secondly, how has the home base business, it is Carmichael House held up over the last quarter or so because typically things went in back line of the business tend to go pretty bad during down turns that is the trend globally

Management: Jaibir, if I may answer that, on the consumer textile the growth has come, it is driven by the increase in the medium-value cotton fabric for which we went for our expansion in capacities and also Belmonte sales is picking up and growing with a deeper penetration and a better product design. So, these are the two factors which led to about 25% growth. Now, as far as a home textile is concerned in the last quarter, where there was not much growth it was almost stagnant about the same level that is because actually first and probably which got hit in the market little bit at the retail level was home textile. And especially, in since the export markets took a terrible beating, since maybe somewhere in August or so, so therefore the whole sentiment is being terribly bad for the home textile. So, we have not lost our sales, but yes there was no growth during the last quarter.

Jaibir Sethi: That is all.

Moderator: Thank you Mr. Sethi. Our next question is from the line of Deepika P. of Capital Market, please go ahead.

Deepika P:, This is regarding the review of the fabric as well the garments on the same brand, particularly on Reid & Taylor and Belmonte; I would like to know how the realization changed on the fabric and garments because in the previous two quarters, I observed the fabric margins and the garments margins were getting down, but I would like to know how is that we managed to post better sort of numbers?

Nitin Kasliwal: They are two difference things, one is fabric in any case suppose, Belmonte fabric and Belmonte garments within the Company we operate as two different SBUs okay, it does not operate as one SBU, even within the Company Reid & Taylor, we have got two SBUs one operating cloth, which is fabric, and one operating garments, because any brand or any garment brand operates business through a model rate, it buys fabric, then it produces in its own factories and then it merchandise designs and then it sells. Now, as far as Belmonte or Reid & Taylor fabric and garments are concerned, the Reid & Taylor fabric overall enjoy an EBITDA in the region of about 35% as the Reid & Taylor garments enjoy an EBITDA is the region of about 24% to 25%. As far as Belmonte is concerned, Belmonte fabric enjoys an EBITDA of about 17%, 18% and the Belmont garments enjoy an EBITDA of about 20%. Now, there are two different things the Reid & Taylor fabrics are wholesaled at an average price in the region of about Rs 425 to Rs 430 at an average wholesale price, whereas Reid & Taylor garments are retailed at different prices, so shirts are average at about Rs.1400, trousers will be at about Rs 1,800-1,900, suits averaged about Rs 5,500 - 6,000 to that extent you cannot compare the realizations between fabric and garments from that perspective, you have to look at them independently. The advantage of having fabric and garments under the same brand is that, you are offering the consumer a wider spectrum and choice at your retail level, so that also make the retail store viability much higher and more importantly when fabric sales become redundant at the consumer level going forward, the next 20-30 years, the garment brand if it is the same brand and to that extent you have en-cashed and captured the brand building that you are doing in the fabric business today in the garment industry because worldwide as retailing is organized there is a very big shift which has already happened from fabric to garments. In India that shift will take 20-30 years if more to happen because of the very fragmented and very diverse and deep rural market that India has. So the reason of having fabric and garments is not to get necessarily better realization but is also to tap the changing market environments and the market scenarios that are prevailing and will prevail going forward and as a strategy when you have the same product in fabric and garments, when you have fabric and garments under the same brand your brand building costs also are reduced because ultimately if you had independent brand for fabric and garments at the same market levels you would have to make double the noise. Here with 1.2-1.3 x you are able to cover both the categories.

Deepika P: Okay so that's on the brand building; besides all the other things margins of brand may improve on this.

Nitin Kasliwal: The brand building is much easier and more economical. It is much more cost efficient.

Deepika P: Okay besides Reid & Taylor and Belmonte how have the medium segments like S. Kumars and economy segment, how did they fare in the quarter? What was the like-to-like sales growth? Because it was really a tough scenario for the textiles and particularly the garments and even the retail was also in the doom. Could I get information on that?

Management: In our case we are dominantly a domestic player. Our sales have not been dependent on exports barring an overall of about 3%. So therefore the meltdown in the demands in the western world did not hit us to that extent. Our growth in the consumer textile; these two categories which you mentioned just now has been around 25% which includes everything, which includes Belmonte which is medium value cotton fabric, Uniformity and the S. Kumars brand. So it's a combination of all the four brands.

Deepika P: Yes, 25% growth is a combination of the all the four brands.

Nitin Kasliwal: Yes, and also in the last quarter is one thing but overall there has been a slight slowdown but here because we have also had capacity expansion, that capacity expansion has kicked in growth to that extent.

Deepika P: Okay. Could I know the count of EBOs with the Company particularly for the quarter-ended December 2008?

Nitin Kasliwal: Yes, sure I will just ask Tarun to give you those numbers. You want for it Reid & Taylor or?

Deepika P: Can I have the breakup of both?

Management: Okay we had, by end of December we had 691 outlets out of which Reid & Taylor was 242 but this is a combination of Company owned and franchisee. We don't own any retail space. We rent out all the retail space.

Deepika P: And in the discussions you were talking about the renegotiation of rentals, can I know at what percentage we were renegotiating?

Tarun Joshi: We have already managed about a 28% renegotiation on existing stores, and we are looking at pushing this further. This is hampered by a few things like existing lock-ins, etc., but I think we have gone past that and we are getting very good deals right now.

Deepika P: Okay that's great. And do you feel we will go ahead with expansion in EBOs further in the next quarter I mean to say in Q4 FY09?

Tarun Joshi: Yes absolutely, in fact Mr. Kasliwal had just mentioned that we had slowed down a bit because the rents were falling so there was no point getting in for the heavy expansion at higher rates. But now that the rents have fallen we will see expansion in the next quarter.

Deepika P: Will these expansions be JVs; you said we had EBOs with JVs and franchisee also?

Tarun Joshi: It will be franchisee.

Deepika P: Only franchisee; and how many stores in a count can we know?

Tarun Joshi: Company operated and franchisee.

Deepika P: Could I get the expected increase in the count?

Moderator: Thank you. Our next question is from the line of Neha Jain from SBI Capital Securities, please go ahead.

Neha Jain: I wanted to know the top line EBITDA and PAT number for Brandhouse Retail.

Nitin Kasliwal: Brandhouse Retail is a Company that is getting listed now, so we are not at liberty to disclose numbers as we speak but in the next couple of weeks you will get all the numbers.

Neha Jain; Okay because it has been a long time …

Nitin Kasliwal: No, but the delay is because of approvals, we have also been exasperated on the delay. But there is an approval process, it is all done now, it is getting listed in the next few weeks within this month. So as soon as this is done we will release all the numbers, we will put them on a website so you will have these numbers like you have SKNL you will have Brandhouse as well but today we are not in liberty to do that because it is not yet in public domain.

Neha Jain: Okay thank you.

Moderator: Thank you Ms. Jain. Our next question is from the line of Kenin Jain of Voyager Capital, please go ahead.

Kenin Jain: I wanted to know what the current gross debt is and cash in the books on a consolidated level? Secondly, what is the Capex plan for the Company for next two years?

Nitin Kasliwal: The gross debt of the Company including working capital is Rs 1,312 crore.

Kenin Jain: And of the total how much would be working capital?

Nitin Kasliwal: Of this working capital is Rs 617 crore

Kenin Jain: What would be the cash?

Nitin Kasliwal: The cash and cash equivalent is Rs 130 crore.

Kenin Jain: And what is the CAPEX that we are looking at over lets next 2-3 years broadly?

Nitin Kasliwal: The CAPEX we are looking at is about Rs 200 crore per annum for the next three years.

Kenin Jain: Okay, and as I understand 50% of your debt is working capital and 50% is term loan, so are there any committed milestones in terms of debt repayment for next 2-3 years of the balance 650-700 Crore which is part of your term loan?

Nitin Kasliwal: No, in fact, the next two year repayments are almost negligible as this is a new tough loan that has been taken. That is new so we have very few repayments actually.

Kenin Jain: What would be your fully diluted equity?

Nitin Kasliwal: Our fully diluted equity will be Rs 240 crore, that's Rs 24 per share.

Kenin Jain: For the first nine months we have done Rs 150 crore PAT and I am sure you have your guidance in terms of sales for next two years and along with this economic downturn you mentioned that you will be putting up a revised guidance also, but based on your current info at least can you tell us what is the full year PAT growth guidance you are expecting for next two years broadly?

Nitin Kasliwal: I am not at liberty to disclose that now because it is not public domain information. But we will do it in the next few quarters and once we do that you will have the numbers for the next two years and we are very close to the quarter ended so I am not at liberty to talk about Q4 just now.

Kenin Jain: You mentioned that you set up a big facility in Gujarat at Jhagadia, what made you set up at Gujarat, why not in Maharashtra? Because one of the companies has claimed huge fiscal incentives and huge state government incentives and set up a plant in Maharashtra so are the same kind of benefits are available to you at Gujarat? What was the rationale?

Nitin Kasliwal: Mr. Channa will just talk about it.

Anil Channa: I will tell you the rationale. Firstly when we set up our project we don't base it on an incentive or a package. It has to be other than that. Now on the factors in favor of Gujarat; firstly it is in an industrial estate promoted by the Gujarat Industrial Development Corporation, so therefore the plots are very clearly demarcated. It's purely an industrial estate altogether so there is going to be a good work culture. Secondly the infrastructure is very good. Thirdly it's proximity to the port for the 50-60% with the unit would be doing export. Next the gas availability which is not there in Maharashtra, with the availability of gas actually it has permitted us to go for a Cogen system whereby our power cost can be minimized, cost of manufacturing would naturally get very low and apart from that generally the work culture and all has been pretty good in that region.

Nitin Kasliwal: Also the government of Gujarat is very proficient, proactive, and industry-friendly and all actions are taken are in a very….

Anil Channa: So these are the key factors, they are pure economic factors and frankly we did not want to get into any kind of incentive because those incentives are there today and can get withdrawn tomorrow; the project will become unviable. We don't want to base it on any kind of incentive. If at all the incentive is announced it will only be a bonus for the Company.

Kenin Jain: Exactly! I am looking at your nine-month numbers I don't have the Company details but your sales have grown broadly by 39% and your EBITDA grown by 40% but when you look at PAT it has just grown by 5%. So can you tell us where is the larger part being taken away either in the form of depreciation or interest.

Jagadeesh Shetty: There are two elements into this, one is the interest cost has gone up since we are out of the CDR for whatever the debts that has continued which is basically the working capitals we are paying the commercial rate of interest we were earlier entitled for a concessional rate of interest, that is one and in fact earlier part of the year the interest rate itself has gone up. Secondly the main contributor for this reduction is the tax. The tax has gone up from 18 Crore last year to 78 Crore this year. We are paying the tax fully because in the previous year we had the advantage of the carried forward restructuring losses Those things have been totally wiped off so we are now paying full tax plus there you will see a modicum increase in the depreciation as well. So, these three factors combine together maintaining the PAT about 5-6% only.

Kenin Jain: One thing on your Reid & Taylor valuation, as you mentioned in this Q3 you made a profit of say Rs 36 crore and if you broadly annualize it, would give us a PAT of say Rs 140 crore from Reid & Taylor?

Nitin Kasliwal: No, it will be higher.

Kenin Jain: Let's say Rs 200 crore; and we have reached at a valuation of Rs 3,500 crore, so on what basis has this valuation has been arrived at, on a relative basis or asset valuation or what basis broadly?

Nitin Kasliwal: No but it's not only on the current year's working. The valuation that GIC is a long term player the valuation is over next 3-4 year business plan and there is a massive brand value and Reid & Taylor is premium leading brand in the country. It's a combination of 3-4 factors.

Kenin Jain: Exactly! You mentioned that Rs 36 crore is absolute profit of Reid & Taylor of which 75% will attributable to you?

Nitin Kasliwal: That's right. It has just got consolidated in SKNL.

Kenin Jain: Okay so out of Rs 38 crore quarterly PAT, a larger part is from Reid & Taylor. When you say 36 Crore which means 75% is 28 Crore is yours so out of Rs 38 crore, Rs 28 crore is coming from Reid & Taylor.

Management: Against 46 because minority margin has been reduced

Nitin Kasliwal: That's right. Of those Rs 8 crore has been reduced.

Kenin Jain: Okay, so market cap attributable to us on account of Reid & Taylor is broadly Rs 2,600 crore, Rs 3,500 crore into 75%.

Nitin Kasliwal: Pre money.

Kenin Jain: Fine. Thanks a lot, that's it from my side.

Moderator: Thank you Mr. Jain. Our next question is from the line of Ashish Agarwal of Centrum Capital, please go ahead.

Ashish Agarwal: I wanted to know more about inventory; can you give me the breakup in terms of volume and value of the HVCS inventory?

Nitin Kasliwal: HVCS does not currently have much inventory because it is just started business as of now; we do not have those figures ready just now, Mr. Shetty will send them to you in the next couple of days.

Ashish Agarwal: Okay thanks and about the other operating expenditure that has nearly doubled or more than double as compared to last year. So can you throw some light on it?

Jagadeesh Shetty: It's basically because of the value addition that has taken place, the material cost which is 65% if I am talking about this quarter, 65% last year which has come to 61.5%, what it denotes is not that the material prices have come down but the value addition that has taken place in our business has grown up. That's why you will find an increase in the other expenditure. The other reason is that we have the accounts of Leggiuno consolidated with this. Now, Leggiuno has a huge value addition cycle. Their material cost is about 25%. There is a higher stock cost and there is a higher conversion cost. So that's how we will find that things are not very comparable. But I mean it's a very positive sign that…

Anil Channa: There is also an increase in turnover; scale of activity is also much higher.

Jagadeesh Shetty: The growth itself, we have a 33% growth on the top line.

Ashish Agarwal: Okay I think that would suffice the explanation. Just one more thing do you, have you witnessed any surge in the debtor days?

Nitin Kasliwal: We don't have a surge in the debtor days as such.

Jagadeesh Shetty: The market conditions are such yes we did experience about 7-8 days increase.

Nitin Kasliwal: That is not surge.

Jagadeesh Shetty: That is a very nominal thing as compared to what's happening in the market. So I wouldn't call it a surge but a nominal increase is what we can say.

Ashish Agarwal: Basically we have been able to beat recession?

Jagadeesh Shetty: That's right.

Moderator: Thank you Mr. Agarwal. We have no further questions from the participants. I would now like to hand the conference over to Mr. Nitin Kasliwal for the closing comments.

Nitin Kasliwal: Thank you friends for your interest in SKNL! Thank you for the questions; I hope we have been able to satisfactorily answer them. If of course during the course of the next few days or weeks if there are any further questions-queries, we would be very happy to answer them. Just to let you know of course that overall the next couple of quarters for everyone in India will be relatively tough from the point of view of the way the economy is going but generally speaking our Company is on the platform where we will be in a position to go forward in a reasonable manner. Like I said our brand portfolio, our human capital, our diversified markets all go well for us and we are of course we are tightening our belts at ensuring that our costs are at the lowest levels. We are doing a lot of cost cutting even from a point of view of getting low raw material prices, low stores and spends and all, so we are working even on that angle to ensure that our margins are maintained. And we look forward to a reasonable growth in the coming 2-3 years. We will be put up those numbers in the next quarter as I said and then we look forward to talking to you again post the next quarter results. Thank you very much for your interest. Thank you very much for your patience and look forward to talking to you all soon. Have a good evening; thank you.

Moderator: Thank you Mr. Kasliwal; thank you gentlemen of the management and Mr. Rashid! Ladies & gentlemen on behalf of SKNL that concludes this afternoon's conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

-Ends-

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