Raymond Limited Q1 FY 2017 Post Results - Conference Call

22nd July 2016

Management -

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Moderator - MR. SREEKANTH PVS – ANTIQUE STOCK BROKING LIMITED

Presentation Session

Moderator: Good evening ladies and gentlemen. I am Moumita, moderator for the conference call. Welcome to the 1Q FY17 post results conference call of Raymond Limited, hosted by Antique Stock Broking. At this moment, all participant lines are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Sreekanth PVS from Antique Stock Broking. Over to you sir.

Sreekanth: Thank you. Good evening ladies and gentlemen. On behalf of Antique Stock Broking, I welcome you all for 1Q FY17 post results conference call for Raymond Limited. I take this opportunity to thank the management of Raymond. I now hand over the call to Mr. Vishal from Raymond. Over to you sir.

Vishal: Thank you Sreekanth. Good afternoon everyone and thank you for joining our Q1 FY17 earnings conference call. I hope all of you would have received a copy of our results penetration. I would urge you to go through this along with the disclaimer slides. We have with us Mr. Sanjay Bahl, our Group CFO and Mr. Sanjay Behl, CEO of our Lifestyle Business. I will now hand over to the Group CFO, before we open up for the Q&A. Over to you Sanjay.

Sanjay Bahl: Thank you Vishal. And good afternoon to all of you. What I will do is, I will first give you the backdrop of the prevailing market conditions during the quarter and then we will get into the results. The current quarter witnessed a very subdued consumer demand with early onset of the end of season sales period, in addition to a volatile global economic environment. Now, despite these challenging times, we have been able to register growth at the top line and EBITDA at the consolidated level, which speaks well of the of our brand and the distribution and channel network.

Our consolidated revenue grew by 4% to Rs.1089 crores and consolidated EBITDA increased by 5% to Rs.63 crores. However, underlying revenue and EBITDA for the quarter one grew by 5% and 32% respectively, after excluding a one off income of Rs.12 crores in the previous quarter of last year (Rs.8 crores of this was towards the onetime power subsidy refund and Rs.4 crores was towards the gain on sale of immovable assets within the apparel business). So, after the account for these 12 crores, the underlying EBITDA growth in the current quarter was 32%. The remaining growth is driven primarily by B2C shirting business, a branded apparel business, garmenting and the B2B shirting business. Our export sales grew by 7% year on year to Rs.266 crores, driven by garmenting and auto business.

Historically quarter one is a subdued quarter due to seasonality in the suiting sales, resulting in losses at the PBT and the PAT level. This quarter we have been able to bring down the losses. Consolidated losses before PAT for the quarter were lower at Rs.19 crores on a consolidated basis, compared to Rs.23 crores in the last year. And if we account for the Rs.12 crores onetime loss against the previous year, then the difference is much sharper.

Net working capital improved by a day to 146 days as on June 2016. We have been able to manage working capital levels, despite a tight liquidity conditions in the market. The Capex for the quarter stood at Rs.27 crores, comprising of the stores rollout, besides the regular maintenance Capex. The gross debt as on the 30th June stood at 2140 crores, whereas the net debt was Rs.1725 crores. Our net debt to equity stood at 1.04.

Now, coming to the individual businesses during the quarter. Our branded textile business de-grew marginally, in spite of the challenging conditions by just 1% during the quarter, due to sluggish domestic market, with lower secondary off take. This quarter witnessed substantially lesser marriage days compared to the previous period. Newly launched fabric TechnoSmart clocked sale of Rs.7 crores in quarter one. Now, this is a very heartening sign, because this is the product innovation which we launched in the last quarter and has received a very encouraging response, both from the market, trade channels as well as from the consumers. Our B2C shirting business continues to perform well and grew by 26% in quarter one, led by 40% volume growth. Our EBITDA remains same year on year, eliminating the onetime income of Rs.8 crores towards power subsidy refund as I mentioned earlier. In the branded apparel business, we have seen the top line growth of 17%. During the quarter Park Avenue brand grew by 17% to Rs.106 crores. Our Raymond apparel brand by 29% to 36 crores and Parx by 33% to Rs.28 crores. Out MTM sales has been gaining good traction and grew by 19%. Our blended sales across EBOs and LFS during the quarter grew by 17% year on year. Like for like growth for EBOs stood at 4%, an unprecedented level of discounting, preponing of end of season sales, coupled with the full impact of the excise duty, CVD, higher cotton prices and investments in ecommerce have impacted our margins. Also variance in the reported EBITDA is lower by 4 crores, due to a onetime gain as I mentioned earlier, towards the sale of assets in the previous year.

Now, coming to the retail channel, I am happy to inform you that we have launched the Raymond Rewards program, a unified and digitally enabled customer loyalty program in June 2016 across all 1051 stores, as of June 2016. During the quarter we opened twenty stores and closed twenty non-performing stores. We will continue with our plan to renovate fifty stores during the financial year 2017. Eight stores renovations were completed in quarter one. And a total of ninety three stores have been renovated till date. Eighteen stores were under renovation as of June 2016. The average same stores sales growth for renovated stores has been very encouraging at 11%.

In the garmenting business, sales grew by 21%, despite its post market conditions being unfavorable. EBITDA more than doubled to 13 crores, due to better realizations coupled with higher volume. Our garmenting capacity addition in Ethiopia is on track and we expect it to begin commercial production in early 2017. Our B2B cotton shirting business grew by 15% to Rs.115 crores, led by a strong growth in the domestic market. EBTIDA margin has declined marginally by 100 basis points to 9.4%. Commercial production has commenced from the new capacity addition of 5 million meters and is expected to get stabilized in the quarter two.

With respect to the tools and hardware business performance was impacted due to the slowdown in the industrial activities in key markets, especially Latin America and the currency devaluation of the African countries. Our export market is showing signs of recovery in the subsequent quarters. Portfolio mix rationalization in the domestic and export market and lower commodity prices led to gross margin improvement by 200 basis points. EBITDA margins were impacted largely due to the lower volumes. The auto component segment performance is not comparable due to the forging business, which was disposed off in the last year. This has been a very good quarter for the auto business. And we have seen an increased demand in the commercial vehicle, domestic market and export market. On a like for like basis, sales were up 14% and EBITDA doubled to Rs.6 crores, led by a higher off take in the exports market and better operating efficiencies and plant utilization.

Given the challenging market conditions, performance in this quarter has improved across all the profit metrics. This augments well for the forthcoming quarters. We are optimistic of our demand scenario improving in the coming months due to favorable monsoon, a festive season which will lead to positive growth in the suiting business and continuity of the growth momentum in other businesses. We are confident of the strategic direction of our business in terms of brand, retail, consumer focus and we will continue to invest in these areas. Thank you for your attention and we are now open to questions.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have any questions, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request you may do so by pressing * and 1 again.

Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Sir, our first question comes from Mr. Anand Krishnan from Infina Finance. Please go ahead sir.

Anand Krishnan: Hi sir. Good afternoon. Sir, I just wanted to understand with respect to the EOSS that you have actually spoken about. Actually in your investor presentation, you have said that there has been a shift in the EOSS because of which the margins have actually gone down. So, I just wanted to understand the period. Last year when the EOSS was prevalent and what was it this year around?

Sanjay Behl: Last year EOSS started in the first week of July, it was around 3rd and 4th of July, that is when the weekend was that's when we had started the EOSS and the preview of EOSS in some markets have started on 30th June. This year the EOSS has formally started on 17th of June. So, it has been a two weeks of preponement in a net, on a quarter which had an understandable impact in terms of margins getting impacted because of two weeks, out of the twelve weeks.

Anand Krishnan: Okay. Sir, with respect to the cotton prices actually going up and also affecting your margins, I just wanted to understand whether your entire branded apparel is actually backward integrated with your textiles unit or it is not?

Sanjay Behl: No, it is a part of that. In fact we worked at a very differential units there and arms length pricing. So, part of the cotton is really taken from our in house captive manufacturing base and the rest is both in terms of other domestic supply and imported. So, it is not entirely dependent on the in house consumption.

Anand Krishnan: Okay. So, all your SKUs are actually not manufactured by the textile division of yours?

Sanjay Behl: No, no, not at all. Absolutely no.

Anand Krishnan: Okay. So, what percentage of your total sales is constituted by cotton price?

Sanjay Behl: In different segments, it is different. In suiting segment it is under 2% to 3%. In shirting segment, it is going to be higher, as a part of apparel again, because there are other product categories like trousers, suits and jackets which will become a part, then cotton will become less. You want to know what is the impact on the company results that is right.

Anand Krishnan: Right. On apparel basically, I just want to understand on the apparel business.

Sanjay Behl: On the apparel, on a full mature situation of a full year impact of all the price increases, it is likely to impact the margins by up to 1%, if it is an annualized impact on the full portfolio.

Sanjay Behl: Cotton prices if it goes up by 35%, which it is currently the trend, and the mix of apparel that we have to the extent of the cotton price on the quality which has just gone up that on a basis by 1%. So, it is little difficult to understand, because if it doesn't go by 34%, it will be less and if it doesn't go on this quality, it will be different. Lots of variables are playing here.

Anand Krishnan: Got it. Sir, one last question was, with respect to your, which of your brands are actually licensed and which is the ones that you pay royalty for in the apparel business?

Sanjay Behl: Which are the brands are licensed?

Anand Krishnan: Licensed?

Sanjay Behl: Licensed, all the four brands are Raymond brands. There are no licensed brands,

Anand Krishnan: You don't pay any royalty?

Sanjay Behl: No, we don't. All the four brands are owned by Raymond Limited.

Anand Krishnan: Alright sir. Thank you so much. Good luck.

Sanjay Behl: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Danesh Mistry from TATA Mutual Fund. Please go ahead.

Danesh Mistry: Hi, good evening sir. And thank you for taking the time out to talk to us. Just taking the point forward from the last caller on branded apparel, just one question here is that, what was the kind of blended discount that we took in the EOSS?

Sanjay Behl: Okay. So Danesh, the blended discounts at our level is about 30% of the merchandize, which is about seasonal.

Danesh Mistry: Okay, fair enough. So, is it safe to assume that the volume growth would have been much higher here across Park Avenue and Parx?

Sanjay Behl: That's right. So, typically in the industry if you see, about a third to about 40%, 35% to 40% of the portfolio is normally segmented and bucketed under the discounted sales. So, to that extent it does, you are right.

Danesh Mistry: Fair enough sir. And do we see and this is the only EOSS season for us during the year, correct?

Sanjay Behl: That is right. So, this is continuing right now. This current month it will be continuing. It will continue till early August. So, we expect that it will get over somewhere a little earlier in the middle of August. And then there is no EOSS and then the next EOSS will happen in January. And if the current trend continues, if it gets preponed, it could be last week of December seeing the one set of EOSS and the next impact really happens in the end of quarter three or preferably quarter four. That is how we see it.

Danesh Mistry: Fair enough sir. And on the cotton part, do we maintain an inventory? How is it that we try to, in your experience try to basically mitigate these price increases?

Sanjay Behl: We go back to our vendors and then decide. We are not a tactical transactional buyer as Raymond Limited. We are one of the largest consumers or consumption companies for cotton. So, a slight volatility or uncertainty is unlikely to have any significant impact on our results, because we have vendors that we stay invested in. That is to top up with our own in house captive consumption of capacity that we have up to, which is at Kolhapur, which does its own cotton fabric. So, that is about 25 million meters of shirting we will get there, of which we are also one significant buyer. So, I think combination of backward integration for the company in addition to strategic supplier base, which is traded well and growing scale, all three of them really come into helping us to have or probably mitigate part of the impact of the increase that we are seeing in import pricing. But, there is going to be some impact which gets passed on and we have to really evaluate if it is a sustainable increase in the commodity pricing. Then the other lever that we have is taking an industry wide price increase and passing on part of the impact to the consumer prices.

Danesh Mistry: Okay, got it sir. And one question is on the branded textiles. If you could just run us through in terms of the top line over here, it was down about 1%. So, what do you think drove that?

Sanjay Behl: What do you think?

Danesh Mistry: What do you think, so this year's been flattish, about 1% down what's helping that?

Sanjay Behl: Okay. So, you wanted to understand the nature of that?

Danesh Mistry: Yes sir.

Sanjay Behl: Okay. So, I think the first thing we need to look at in a textile business, especially suiting fabric and little more matured and highly penetrated business is, it is really not just the quarterly thing, because the real trends span out to six months trend to a one year trend. Data, which we just extrapolate this quarter four and combine it with quarter one and let's take January to June trend. In the branded textile, there is a growth of 4% in the top line in the net sales and there is a growth of close to 15% in EBITDA. Now, why does it get quarter wise so skewed typically is, because of the occasions, I think Sanjay's speech also said that there is a lesser number of occasions for suiting consumption in the first quarter than the quarter one of last year. So, I think some of these occasions have very, very significant impact on when the product really reaches the trade channel in order to realize revenue. So, all the weddings in the first fortnight of April, we had already planned our stock in March. And hence you found a very, to that extent a little more skewed quarter four upwards and the impact of that is really showing into quarter one. So, if you see the first half to first half, we have 4% growth. In the first half to first half, shirting has grown extremely aggressively, so over 30% growth with last quarter registering 26% growth on shirting. In first half to first half, suiting is flattish to marginal growth. However, in the first quarter it has declined, because of occasions not being there. And in terms of the first half to first half, EBITDA has grown by 15%. And in quarter one to quarter one, EBITDA has remained flat, if you account for the 8 crores of power subsidy refund that Sanjay mentioned in his speech. So, underlying EBITDA has continued to grow, because of you really take quarter one numbers of 13.8% operating margin coming down to 12.2% and if you account for the 8 crores, then it is almost at the same level as the last year, then we have to really build in the impact of the input prices and some of the other bonus provisions, which were not there in the balance sheet last year. So, quarter one has provided for 3 crores of bonus, which is not there in the base. And if you start looking at some of those onetime exceptions, there is a positive trending in operating margins in both suiting business, shirting business and our apparel business, all those businesses.

Danesh Mistry: Got it sir. Thank you very much sir and wish you a very best of luck.

Sanjay Behl: Thank you so much.

Moderator: Thank you sir. The next question comes from Mr. Nihal Jham from Edelweiss.

Nihal: Good evening. I wanted to ask you, again on the cotton price movement, which has impacted your performance, so how is exactly cotton price cycle? Because, I assume that you must be buying most of the cotton in the first half, so the movement in prices which has happened, usually it should not ideally impact us too much, right?

Sanjay Bahl: Yeah, because cotton will, as Sanjay explained, we have strategic relationships with the vendors that we work with. So, we are not just a tactical buyer. So, the buying strength is there in the scale that we have with the vendors. Secondly, we also are in the B2B business, where we have got a lot cotton procurement which is negotiated with the vendors on contract. So, overall as Sanjay said, the impact on branded apparel has been upto 35% hike in cotton prices could be 1% in margins. The other business, it will be really timing issue and then the cost will get factored in into the pricing.

Nihal: Fair enough. So, we end up buying most of the cotton post six months, I am guessing from October to March itself?

Sanjay Behl: That is right; we forecast that there will be some softening there, but that time will only have to say. But, currently this will have impact, you are right, in a three to six months ahead of timeframe. And this is the kind of trend continues and not from the immediate perspective.

Nihal: Definitely. Fair enough. Sir, one more thing, when exactly the governing facility in Ethiopia is expected to start, I missed that, sorry?

Sanjay Behl: Early next year. We are looking at the quarter four of this fiscal or the quarter one of the next financial year.

Nihal: Sure. And last question, if you can just take us through the IND AS impact on your results. We have the slide, but if you could give it in little more detail, how exactly have the numbers changed?

Sanjay Bahl: The IND AS impact if you see has been marginal. So, we have had revenue classification, essentially revenue and cost classifications changing, with respect to the IND AS reporting. But, overall the impact at the profit level has been just about a crore, negative. So, that is the overall impact of all the pluses and the minuses.

Nihal: PAT impact was 1 crores you are saying?

Sanjay Bahl: Yeah, that is it. And revenue is mainly that excise has been included, if I am understanding right? But, still our revenues have dropped, if I look at the Q1 FY16 number. So, is that because of netting of commissions and discounting?

Sanjay Bahl: The commissions have been there, but other than that it is a like for like to comparison, because we would look at quarter one adjustments on a similar basis.

Nihal: Okay, I was just comparing Q1 FY16.

Sanjay Bahl: The only other change that I can highlight to you is that the JV that we had, which was the Denim business, which was a 50:50 JV is now getting reported. It is not getting into the consolidation, but it is getting reported only at the PAT level.

Nihal: Okay, sure. Fair enough sir. That will be all from my side. Thank you so much.

Moderator: Thank you sir. The next question comes from Ms. Kirti Dalvi from ENAM AMC. Please go ahead.

Kirti Dalvi: Just a couple of questions. How much would be the shirting fabric sales out of the branded textile segment, out of the 504 crores?

Vishal Jain: It will be around 100 crores.

Kirti Dalvi: 100 odd, is it? It is B2C.

Vishal Jain: Yes.

Kirti Dalvi: Okay. And would it be possible to share the JV details, Denim JV, 50:50, how much sales we did?

Vishal Jain: So, on a 50% basis it had an impact on the revenue of close to around 120 crores and an EBITDA level at around 12 crores and at the PAT level of approximately 2½ crores.

Kirti Dalvi: This is our share of 50:50.

Vishal Jain: Yes, our share.

Kirti Dalvi: Okay. And what could be our planned CAPEX for the current year, fiscal?

Sanjay Bahl: It is around 250 crores to 300 crores. So, this is in line with the indications that we had given earlier and in the last quarter as well. So, we will remain within that.

Kirti Dalvi: Okay. If you could throw a little bit more light on the reduction of the working capital, which you elaborated in the last analyst meet. What is the status today and your progress on that front?

Sanjay Behl: Working capital, as Sanjay had mentioned that it has come down at a consolidated level by one day, one working day. This is what it is. And I think this is the current direction in the quarter where there has been general sluggishness in terms of the consumer demand and it also impacts the cash and liquidity situation at the channel. We would be, we are fairly gratified with holding our working capital to the levels that we have as last quarter, despite it being a tougher quarter. But, going forward we can expect further improvement close to about 5% to 10% on an annualized basis.

Kirti Dalvi: And so would this lead to our gross debt going down by the year end or since you did mention that we will be in an investment phase in our branded apparel segment as well. So by the year end do we see our gross debt going down from the current level of 2140?

Sanjay Bahl: With the increase in CAPEX that we are also seeing 250 crores being maintained and the investments that we are going to do, continue to invest in brands. So, at the overall gross debt level, we will be maintaining it at similar levels or we will increase marginally, based on current trends, because the working capital will see a reduction in the forthcoming quarters. However, the spend in CAPEX will be much higher as well, because our investment in Ethiopia will come in and will fructify. We will have, it will be commissioned in the first quarter of next year. So, CAPEX will be higher in the next few quarters. Working capital will give us a benefit. But, overall we expect to be maintaining our gross debt levels.

Kirti Dalvi: Okay. Thank you very much sir and wish you good luck.

Moderator: Thank you. The next question comes from Ms. Dimple Kotak from SKS Capital. Please go ahead.

Dimple Kotak: Just one question. I missed out the gross debt amount, could you please tell me again.

Sanjay Bahl: Gross debt was 2140 crores and our net debt was 1725.

Dimple Kotak: Okay, 2140 crores.

Moderator: Thank you. The next question comes from Mr. Prasad Pabala from Investec . Please go ahead sir.

Prasad Pabala: Hello. I am sorry to repeat the question, but on the IND AS impact and the Q1 FY16 revenue, out of that 98 crores, how much is it, can you please explain that number?

Vishal Jain: So, of the 98 crores impact that you see, if you look at the Denim business that had an impact of around 110 odd crores. And the balance impact is on account of the cash discounts and the excise duty getting grossed up.

Prasad Pabala: Okay, fine sir. Alright, that is it. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Sir, our next question comes from Mr. Mahantesh Marilinga from Finquest Capital. Please go ahead sir.

Mahantesh Marilinga: Good afternoon sir. Just wanted to know the CAPEX break up for this year, how much will we spend and where all and just the current progress in the plant in Nagpur, in Maharashtra, linen plant I think, right?

Sanjay Behl: So, broadly the ratio of CAPEX guidance will be in ballpark of about 40% of our CAPEX going in retail expansion, about 40% going in manufacturing and the rest of 20% going in maintenance. So, you can do the math, around 250 crores to 300 crores guidance that is going to be the ballpark that we are looking at spending in the next, including this quarter and the next three quarter projections. Coming to your question about Nagpur, what is the progress in that? We have done the commercial transaction in terms of owning the land from the Maharashtra State Government; 500 acre land has been taken over. In this 500 acre land, the phase one of the project is in a about 35 acres land, which is to do with the linen manufacturing, linen fabric manufacturing, of which we are putting about 4 million meters of capacity. This capacity is going to coming up in the first half of next year. We are looking at the first fiscal quarter of the next year, just to start commercial production. So, the project has already been signed off. The bhoomi puja was done in April itself. The Chief Minister himself was there. And we are looking at twelve months from acquiring the land to starting commercial production.

Mahantesh Marilinga: Okay. And sir, coming to this Denim JV being considered at the PAT level, is it due to the accounting standard or Indian AS?

Sanjay Behl: IND AS 110.

Mahantesh Marilinga: Hello?

Sanjay Bahl: IND AS 110.

Mahantesh Marilinga: Sir, is it mainly because of that?

Sanjay Behl: Yes, because of that. Yes.

Mahantesh Marilinga: Sir, now going ahead the reporting will be excluding Denim, segmental reporting?

Sanjay Bahl: 50:50 JV will get reported will not get consolidated to across the P&L now. It will be reported at the PAT level.

Mahantesh Marilinga: Okay. And what is the current billing growth that you are witnessing?

Sanjay Behl: Which growth?

Mahantesh Marilinga: Billing growth, billing growth in the next season?

Sanjay Behl: Next season, I think it is little difficult to give a guidance on that at this point of time. We expect the demand to really move up, in the next two or three quarters. On the back of both the macros and the micros are looking good. The macros in terms of monsoon, there is some increased discretionary power being given in hands of customers, through this whole salary, wage bill which happened recently. There is more festivity coming up ahead of us. So, I think combination of decent consumer sentiment on the back of these three or four macros, combined and coupled with good fundamentals on business which we have talked about, continuing from quarter four into quarter one, we expect that overall impact is going to be a favorable impact on our top line.

Mahantesh Marilinga: Okay. Does it reverse impact the textile business or it will be spilling over to the next quarter maybe?

Sanjay Behl: Yeah, that's right. It totally depends on how the marriage will get bunched up. Eventually it is broadly the same percentage of population gets married within same time. So, eventually it will get bunched up depending on the way the Hindu calendar dates gets spreads out in terms of the number of weddings in India. As we know that quarter one had lesser numbers and quarter three, quarter two and quarter three onwards there is a reasonable occasions on wedding.

Mahantesh Marilinga: Okay. That is all. Thank you.

Sanjay Behl: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Amit Kumar from Investec Capital. Please go ahead sir.

Amit Kumar: Yeah, thank you so much for the opportunity sir. Just two questions of mine, one is in the branded textile as well as the apparel business, the overall sales growth as we have seen, is it possible to sort of break it down between price growth and volume growth?

Sanjay Behl: I think in April, business volume is 19% and the value is 17%, broadly that is what it is. It is the mix which is there. So, that is the branded apparel side. In terms of shirting, branded shirting business, there is volume growth of 40% and 26% is the value.

Amit Kumar: Then just coming to your MTM business, what I am seeing 19% YoY growth in revenue terms. But, when we look at the number of stores, as of this particular quarter, you had an average of about 54-55 stores and the number was about 35 stores last year. So, about 55% growth in terms of the number of stores, but driving only 19% YoY growth in sales. So, I think you had indicated the average sale per new store is actually declining, so just wanted your commentary on that.

Sanjay Behl: In fact the MTM sale has gone up by about 3%. And it is really the 35 stores, within a year don't become base. And the real maturity of the store can take anywhere between not just four quarters, but it could take to six to eight quarters there. So, a pure number to number comparison is very difficult comparison, because there could be larger size stores earlier, smaller size stores now, different market store earlier, different market stores now. It will be a completely different kind of a product portfolio. In terms of if you are saying what have these 35 stores grown by this year in quarter one, they have grown by 3% like to like.

Amit Kumar: Okay. So, it is just 3%.

Sanjay Behl: Yeah.

Amit Kumar: Okay, great. Thank you. That is it from my side. All the very best. Thank you.

Sanjay Behl: Thank you.

Moderator: Thank you sir. Sir, the next question comes from Mr. Saurabh Patwa from HDFC. Please go ahead sir.

Saurabh Patwa: Thank you so much for taking my question. Sir, I just wanted to understand how much was our blended SSSG growth in the apparel business?

Sanjay Behl: Branded?

Saurabh Patwa: Same stores sales growth?

Sanjay Bahl: 4%.

Saurabh Patwa: 4%, okay. And last quarter it was 5%, right? Is it the number is, hello?

Sanjay Behl: Just give me a second. Is the L2L growth you are referring to, like to like store growth?

Saurabh Patwa: Right.

Sanjay Behl: Like to like store growth this quarter is 4%. This quarter was 4% and last quarter was I think about 6% to 7% that would be quarter four.

Saurabh Patwa: Okay, thanks a lot sir. That is all the question which I had.

Sanjay Behl: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Atul Mehra from Motilal Oswal Securities. Please go ahead sir.

Atul Mehra: Thanks for the opportunity. Sir, just one question in terms of the branded apparel business. So, last three to four years all of you have grown in terms of the stores as well as in terms of the revenues. The margin and profitability of the business has been lack luster in a way. So, what is the roadmap here in terms of path to profitability and how do you guys really look at this business three-five years out?

Sanjay Behl: Yeah, the margins are, I think the right expectation that with the growing scale, the margins will strengthen at a certain point of time. I think that is your question. That question, at every investor call we have been saying that this business would need a sustained investment for about, at this juncture, I am sitting there about next one to two years before we start seeing real margins at the industry best levels. However, with this growth that you have seen of over 50% to 60% that we had over the last six to eight quarters on our branded apparel portfolio across the four brands of Raymond, Park Avenue, ColorPlus and Parx, we have continued to consolidate margin. Quarter one was an exceptional hit on account of multiple reasons. And the reasons largely, I think some of them I found mentioned in Sanjay's initial opening remarks about excise duty for example, took away 1% to 2% straight margin off, because we have preprinted stock for a season and then you can pass down or change the contracts either back end or front end with the customer in terms of the pricing. So, if you take out the impact of excise duty or take out the onetime impact of ColorPlus sales or the building that immovable asset that Sanjay talked about, which is one building sale in the last quarter, actually in this quarter the margins have strengthened a little more than they were on a comparable basis. Even if we take first half to first half and if we don't account for these onetime exceptions, the margins are strengthened. So, it is a spring summer 2017 versus the spring summer 2016. We have looked at close to about 16% volume growth first half to first half. We have looked at strengthening of margin, operating margins there. And we have looked at moving towards the positive EBITDA trajectory. So, I think we are at that scale where our operating margins are strengthening, our EBITDAs are positive and our growth continues to be about 1½ to 2 times the market growth rates. So, we are getting into a favorable zone now. How far are we out to start seeing industry best in class margins? Possibly this investment, as again was part of the opening remarks, we continue to invest in our brand and retail space and we see some more time, at least four to six quarters that this retail expansion investment, the brand investments and product investments will continue, which will give us further joy in terms of scale and of course, with scale will come economies and strengthening of margins.

Atul Mehra: Right. But, what is the number that you guys will have targeted or maybe as your longer term business objective? What kind of margins would you be targeting maybe three years, five years down the line?

Sanjay Behl: We would be targeting to be the best in class in the industry. And you can take any of the top four or five industry players or brands and there is no reason why Raymond is not going to be, in three years and not even five years be comparable with the best in class in the industry, which is a double digit margin, operating margin or pretty much.

Atul Mehra: Alright. And given the cumulative investments that we have done for so many years in this business, so what would be the number in terms of the aggregate amount we would have deployed in this business over these years?

Sanjay Behl: We are sitting on thousand stores. It has been built up over the last thirty years. And at that point of time it is very difficult to say a number, how much of real investments we have done. But year after year for example, if you see, in the last two or three years, where there has been a positive growth curve, we have been investing close to about 15% to 20% of our margins, purely in terms of building scale. So, if it is 1000 odd crores business and if we start putting numbers, we will get a sense of….., a very large part of really the retail expansion, which is going in and there are product investments being made and then there is time. I think these are the three fundamental, apart from talent, obviously which are also putting in terms of what defines the kind of quality, leadership team and everything. So, overall I would say there is 10% to 15% margin, which is discretionary, as a discretionary management level is getting investment, invested to build scale and strategic competitive advantage for our brands.

Atul Mehra: And in terms of something like ecommerce, now that the industry has become larger and more mature in terms of, especially maybe last two-three years as foreign countries or foreign ecommerce. So, how do you see that impact now at the retail level, given that ecommerce is now quite large and still growing quite a bit? So, how do you see that impact on the offline retail and for stores for various brands of yours?

Sanjay Behl: So, I think ecommerce is a very significant part of our lives already and contributed to the overall sale. Apparel is one of the top categories in ecommerce and will continue to be so. What we have seen is the ecommerce maturing with time. The level of aggressive discounting has gotten moderated in the last about two or three quarters, it has got shrunken a little bit, to that extent. The numbers, I think the basic metrics which we were driving, a lot of the ecommerce players have moved away from the customer traffic to unit economics, which is also driving a little more softening of the overall level of discounting that ecommerce industry is seeing. However, it still continues to be a very high growth curve for reasons far beyond just price discounting. Ecommerce is a convenient channel. It does give a level of customer service through offline or some convenience proposition that an online channel will not be able to offer. And hence the way we feel is that the entire space is going to develop. It is going to be a seamless play of customer behavior between offline and online channels, which eventually is going to converge. So, there is this convergence which is very rapidly being absorbed and we think that it is only going to accelerate going forward. And we also will see a restoration of price and discounts between the two channels getting converged fairly rapidly over time. So, these are the two fundamental things that we see that will define more or less the direction that digital commerce and physical retail is going to take.

Atul Mehra: Right. Great. Thanks for answering my questions. Wish you all the best.

Sanjay Behl: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Shiraj Pandya from Allstate. Please go ahead sir.

Shiraj Pandya: Hello?

Moderator: Mr. Pandya?

Shiraj Pandya: Can you hear me?

Sanjay Behl: Yes.

Shiraj Pandya: Hi there. A quick question for you, quite a few players in the Indian market that company operated, company owned stores are not a conducive way for business in the retail sector. From London broad based, it is the normal. Could you guide if all your apparel business on the COCO basis or a different setup and what is your view on potential profitability of the same?

Sanjay Behl: In a base of about 1050 outlets that we have, close to about 200 of them are company owned and company operated and 800 would be franchisee outlets today. So, that is the kind of mix is what we are running our current portfolio with. And you are right in saying that the profitability and the dynamics of both these channels are completely different. In company owned and company operating outlets, the reason that we have really invested in, in some of them, there are two kinds, one is that at times there are space and locational reasons why we invest in a company owned and company outlet, company operated kind of a model. But, the bigger driver for a COCO model for us has been new businesses, nascent business or high experiential customer inter-phase business, like made to measure, where we would like to have extremely tight control in terms of the overall service and quality of the eventual product to be delivered to the consumer. So, of these two hundred outlets if you see, our Raymond shops we have, just seventy of these are Raymond shops, which are the traditional or the conventional format of the Raymond running in the COCO format, almost they are entire made to measure, where we would like to control the eventual end product and the experience of the customer are company owned and company operated outlets. And a few of our Park Avenue and few of our ColorPlus outlets are also company owned and company operated. So, the business strategy really drives the format more than economics only. Though economics eventually for the matured and large business become a big driver for franchisee to happen. So, 80% of the outlet, 800 out of the 1050 stores are running on the COCO model, of which about, if you take over two years of its existence and starting look at profitability, about 90% of those outlets are currently working on a profitable economics model.

Shiraj Pandya: Thank you for that. Just a follow on question on a different note, is there any movement on the asset sale or monetizing of land or even existing businesses that is not core businesses, ongoing from an analyst perspective, personally we are very keen to see that side of things to help the ROC grow. Thank you.

Sanjay Bahl: Yeah, you are absolutely right and we have also reiterated in the past that as part of the strategy is to look at unlocking value in the businesses that we consider are not very strategic and where we are not making strategic investments. So, that is a process which is an ongoing process. Last year we had divested a forging business, which was a loss making business. We are looking at opportunities, but it is a question of the right valuations, the right partners and so on. On the, our focus clearly is in the current year, it is clearly to improve the profitability, is that the number one priority, is to improve the return on capital employed in the businesses, both in the engineering business as well as the auto business. The auto business, as I had mentioned earlier has turned around admirably in the current quarter and the momentum is likely to continue in the forthcoming quarters as well, with good demand coming in from our export markets and which is facilitating high capacity utilization. So, the focus is on getting the portfolio right, improving the margins, rationalizing cost and improving the ROC on an ongoing basis. When the opportunity comes on a strategic play, we will certainly evaluate that. On the asset, real estate monetization, we mentioned this before that we have now a management team in place, which is looking at development options for the land that we own and that is available for development in different models that we are looking at. However, real estate is a business which is dependent on lot of permissions, approvals and the process takes time. So, we are focused on this. And when exactly we will be on execution of the project? It is something that we will not be able to forecast at this stage. But, what I can leave you with is that there is a management team, which is focused on this objective.

Moderator: Sir, our next question comes from Ms. Sangeeta Tripathi from Sharekhan. Please go ahead ma'am.

Sangeeta Tripathi: Good evening. Thanks for taking my question.

Sanjay Behl: Yeah, good evening.

Sangeeta Tripathi: Just wanted to understand, in the branded apparel front we have grown at 17%. So, has the industry grown at around 7% to 8% or 10%? What will be the industry kind of growth, if you can help me on that?

Sanjay Behl: That is a forecast kind of a guidance that I think it will be very difficult for us to give in lack of real factual data. But, our estimate is that April and May were very low retail off take and June that was the reason why the EOSS got preponed. And the second fortnight of June saw some good growth. Now, if you look at the last two to four years kind of growth for apparel industry, in the segments that we operate in has been growing anywhere between 10% to 12% on an annualized basis. So, to stretch that, I would presume that would be broadly the benchmark that one would work in the larger branded apparel space.

Sangeeta Tripathi: Okay. So, you have still managed to grow at around 1.5 times what the industry is growing, that is what you are presuming, right?

Sanjay Behl: Yes. That's right. Our growth is 17%, which is factual. Industry growth numbers are yet to be assimilated and we will have to see whether we have done better than the industry.

Sangeeta Tripathi: Okay. And you said that EBITDA margin has been impacted by lot of reasons that you gave like EOSS as well as high cotton prices, along with investment in ecommerce. So, for this particular quarter, what kind of investment we have done in ecommerce?

Sanjay Behl: Ecommerce we invested over 2 crores in terms of creating the digital content and other platform abilities. So, that would be a straight incremental (not sure) on a quarter to quarter basis, on a comparable basis.

Sangeeta Tripathi: Okay. And also, if you can tell me the advertisement spend what you have done this quarter versus the same quarter last year, because I think we have gone pretty aggressive as far as the advertisements are also concerned, advertisements and promotions?

Sanjay Behl: Yeah, in terms of branded apparel it was 7.1% of revenue this year. It was 9.3% of revenue last year.

Sangeeta Tripathi: 7.3 this year versus 9.3 last year.

Sanjay Behl: 7.1% of branded apparel revenue on branded apparel segment this year versus 9.3% of revenue last year, same quarter.

Sangeeta Tripathi: Okay. In fact we have gone down there. And what is the size of our made to measure business? We have thirty five stores, what is the annual size what we did last year in FY16?

Sanjay Behl: It is close to about 70 crores last year.

Sangeeta Tripathi: 70 crores. And typically what kind of margin this churns out, because you were talking about this business as a marquee business, right?

Sanjay Behl: There is no specific guidance that we can give you, because it is also a value chain margin, with a lot of input mix really coming from Raymond suiting and Raymond shirting fabric there. And we don't have a convergence split, itemized split that we give even to the customers. So, that would be difficult. But, it is the margin which is the higher margin. It is a high end product with average selling price of our products in MTM being one a half times of branded apparels.

Sangeeta Tripathi: Okay. And you wish to scale this? You have some guidance on the made to measure over a long term timeframe from let's say three to five years, this 70 crores?

Sanjay Behl: Yeah, this has to be scaled up. And that is the reason why we have been investing consistently; ensure expansion and advertising and our product portfolio and our customer experience. In fact across every single value chain element at the backend and customer interface, we have been investing aggressively in this business. So, this will scale up and exponentially we have been growing on this business year on year. And I expect this growth curve to continue for the next two to three years.

Sangeeta Tripathi: Sir, do we have any guidance, as in like the next three years this should be around 200 crores business, 300 crores business, any internal?

Sanjay Behl: It is going to be difficult to really give a specific guidance on how many rupees crores it is going to be. But, it an ocean of opportunity we see and it is going to be sitting on our top of our overall portfolio and we expect that it will be a sizable contribution both in terms of revenue and profits, in three to five years.

Sangeeta Tripathi: Okay. Thanks.

Moderator: Thank you sir. And the last question for this session comes from Mr. Kshitiz Kagi from Edelweiss. Please go ahead sir.

Kshitiz Kagi: Good evening sir. Thank you for taking my question. Sir, I just wanted to know what is the impact of GST .

Sanjay Behl: GST?

Kshitiz Kagi: Yeah.

Bibek Agarwala: So, if you see that, for the GST, everybody is eagerly waiting for what is the law of GST going to come. As we operate in a multiple channel of business, one is in fabrics, where in the current scenario also, we are exempted under the excise. We are operating in the apparel segment. So, it in fact depends on how GST rates will come over a period. However, what we see that, at the end of the day when the rates come, we need to work very closely and understand that what will be the potential future financial metrics for the company. And we will see that. Unless and until we are very sure that what is the rate and what is actually percentage is going to come, if it is impacting us. Obviously there has to be, along with the industry we need to look for passing on to the customer. Or, if it is not impacting, then accordingly the organization will take a call.

Kshitiz Kagi: Okay sir. But, what is the current blended tax rate for fabrics and apparel, if you can bifurcate both?

Bibek Agarwala: There are like, if you see, because there are lot of places which are tax included. However, in the apparel segment, it is around 8% to 9% in the apparel segment.

Kshitiz Kagi: And fabrics you were saying is depends…..?

Bibek Agarwala: So, it is exempted as of now. So, it is very marginally tax.

Kshitiz Kagi: Okay sir. That is all from my side. Thank you.

Moderator: Thank you sir.

Sanjay Bahl: Thank you.

Moderator: Ladies and gentlemen this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good evening every one.