

Transcript

Dollar Industries 3QFY20 Earnings Conference Call

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Presentation Session

Pavitra: Good day ladies and gentlemen. I am Pavitra, moderator for the conference call. Welcome to Dollar Industries Q3FY2020 Earnings Conference Call hosted by SBICAP Securities Limited. As a reminder all participants' lines will be in listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr Prashant Tiwari from SBICAP Securities Limited. Thank you and over to you sir.

Prashant Tiwari: Good afternoon ladies and gentlemen. I am responsible for the mid-cap coverage at SBICAP securities. We are pleased to host this call and thank the management for this opportunity. We have with us the senior leadership of Dollar Industries Mr Vinod Kumar Gupta, managing director and Ms Shashi Agarwal, senior vice president corporate strategy and investor relation. I will now handover the call to Mr Gupta for his opening remarks. Over to you Mr Gupta.

Vinod Kumar Gupta: Good afternoon. A warm welcome to everyone on the earnings call for quarter 3 of 19-20 of Dollar Industries Ltd. Honorable finance minister, Nirmala Sitharaman presented this second union budget on 1st February. The budget focused on aspirational India indicating that the government is committed to support growth and increase the purchasing power in the hands of the people thus increasing the demand and the consumption. Addressing one of the major economic issues of slowdown in the consumption, the budget proposed a simplified tax regime boosting increased disposable income in the hands of the common people. We are hopeful that with the effort of the government we will see the retail consumer sentiments strengthen over the period of time. I am happy to share that the company has gained the momentum in sales, which was subdued in the second quarter. Overall the growth in sales for nine months basis was flat, however, on quarterly basis there is a growth of 4% in the sales in quarter 3. The company has also ensured that the momentum gain is actually related in the current quarter and we made good the losses in sales which occurred in the second quarter. The company is posed to take on the challenge followed by the current market and the current economic conditions. After the successful pilot and learning from the pilot state in Karnataka and Rajasthan, the company is planning to start the replenishment model in Maharashtra, Gujarat, Telangana and Andhra Pradesh. This model requires a lot of structural and operational changes in their working system and also needs implementation of information technology and automation. The company has already taken up the task of taking help of automated system to ensure a smooth flow of information all across the [inaudible 00:03:18]. We are also in the process of further strengthening supply chain system to

ensure timely delivery and availability of the products both at the distributor and the retailers' level at all times. This structure would also require additional manpower, which means building a stronger sales team at state levels. These changes require time and energy and only start reflecting in numbers in next fiscal. Now moving onto the joint venture company Pepe Jeans Inner Fashion Private Limited, the JJ company continues, is focused on placing it for PAN India. Currently the JV has appointed 26 distributors in north India and 34 distributors in southern part of India. In alternate channel partners the product is also available in 142 EBO stores of Pepe Jeans and 44 stores in LFS and five platforms of e-commerce. The product is selected to be placed in eastern and western part of the country in the coming fiscal. This is all from my side and now I shall handover it to Shashi to talk to you about the financial performance of the company in this quarter. Thank you.

Shashi Agarwal: Thank you sir. Good afternoon everyone. I shall speak about the financial performances of the company. The company achieved the total revenue of 255 crores for third quarter financial year 19-20 whereas the year to date numbers were rupees 733.13 crores as compared to 245.62 crores in Q3 FY19 and 732.46 crores for nine months ended FY19. The growths numbers were respectively 3.98 and 0.09. The EBITDA for the company for the same period stood at 33.94 crores that is 13.29% and 85.07% for the year to date numbers, which was 11.6% as compared to 37.9 crores for the last quarter and 2.76 crores for the nine months ended FY19. The EBITDA percentage for those respective numbers was 15.43% and 14.03%. The PBT for third quarter 20 stood at 26.62 crores that is 10.42% and year to date numbers for FY19-20 was 52.95 crores that is 8.59% As compared to Q3-19, 30.92 crores that is 12.59% and 83.549% that is 11.4%. The PAT was stood at 18.82 crores that is 7.37% and 45.6 crores that is 6.22 percent for this fiscal whereas the number for the last fiscal was 19.02% that 7.74% and year to date numbers were 52.07 crores that is 7.11%. From the joint venture the company has booked a loss of 0.75 crores this quarter whereas the year to date loss was 0.97 crores for this particular fiscal year. Now moving onto the nine-month revenue breakup. Big boss stood at 42%, Champion Brand stood at 0.5%, Force Go Wear contributed 3%, Force NXT 2.5%, Missy 9%, Thermal 11.5%, socks was 2% and the economy range of products stood at 29%. This is a small update from my side. Now I will open the forum for question and answers.

Pavitra: Thank you ma'am. Ladies and gentlemen, we will now begin the question and answer session. If you have a question please press star and one 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 star and one again. I repeat, ladies and gentlemen if you have a question please press star and one on your telephone keypad. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. We have first question from Shiva Kumar from Unifi capital. Please go ahead.

Shiva Kumar: Yeah, thank you for the opportunity. Shashi can you repeat the breakup of the sales across segments?

Shashi Agarwal: Okay. Big boss is 42%, Force NXT 2.5%, Force Go Wear 3%, Missy 9%, economy range of products 29%, thermal 11.5%, dollar socks category we just previously used to club it with economy range of products, now we have started giving the number separately that is 2% and Champion kids...

Shiva Kumar: Sorry what is this?

Shashi Agarwal: Dollar socks...

Shiva Kumar: Socks okay 2%, right.

Shashi Agarwal: Previously socks was clubbed into the economy range of products, but now we have started giving it separately.

Shiva Kumar: Right.

Shashi Agarwal: So that's 2% and Champion Kids for, you know, kids' segment is 0.5%.

Shiva Kumar: Got it. And in the opening remarks some comments were made as to, on the pilot project which will now be scaled up across four states if I am not wrong. Can you give more colour on that as to what will be the size of this project now and what is the timeline you are looking at and how much percentage of sales are these four states contributing currently and what do you expect and what is the timeframe in which we can see results and what is the further course of action.

Shashi Agarwal: Shiva, so this is in continuation with what we have been discussing over the last calls as well and we have been highlighting that we have engaged with [inaudible 00:10:16] over the theory of constraints implementation or theory of constraints which is basically replenishment model which we talked about to increase the reach and range. The pilot was initiated by the company last year in Karnataka and in Rajasthan to test, you know, one of the best-selling area and one of the weak selling area for us we started these pilots and we found the results satisfactory and we were happy with the results. So, once we have tested now, we want to definitely [inaudible 00:10:45] PAN India. Now the next is, so definitely the next step for us is to accelerate the roll out in Karnataka and Rajasthan and, you know, carpet the entire two states. Along with that what is to expedite these entire processes what we have also thought that we should start parallel states together and the objective to start parallel state is to, you know, shorten the time period, time frame as much as possible, but we do understand that this is little complicated and we cannot touch all the states in one go, but nonetheless we have targeted four states that Maharashtra, Gujarat, AP and Telangana so that we can take this forward in these four areas along with Karnataka and Rajasthan. To your query that, you know, what is the sale which we are drawing now and how it would, what is the future outlook and outcome. So I think we just also mentioned last time as well that currently the number of [inaudible 00:11:47] which we have been enrolled into this particular program and the results which are there is too miniscule for us to, you know, give you the numbers right now or publish the number. We will be more comfortable talking about the numbers once we have completed or carpeted the entire state. So that we have a sample, you know, better sample size to talk about. So yes the growth opportunity is the main because what we are doing out here in the process is we are trying to reach the retailers directly through our set of system and we are trying to work on the replenishment model, which says that we will supply only what sells at the retail and the distributor level. So, this is something, this is the way forward the future in which we need to work because just focusing on the primary sales will not help you to get into the secondary. The company has understood the importance of secondary and is going with that particular way and methodology. So,

sharing any kind of numbers as of now is too early. Timelines definitely it will take some time. We are talking about it for two years is what we are having in our kind of in time frame that we need to cover up PAN India in two years' timeframe. Probably that's the reason we are having parallel state run together.

Shiva Kumar: Right, but Shashi what is the percentage of sales contributed by these six states now?

Shashi Agarwal: These six states put together in the current fiscal?

Shiva Kumar: Yeah.

Shashi Agarwal: It would be somewhere on about, just give me a sec, let me... around 200 crores all these states put together so around 20% to 25%.

Shiva Kumar: Right. And currently the implementation would be statewide right, it's not pilot anymore?

Shashi Agarwal: No, no it would not be a pilot, it would be a statewide.

Shiva Kumar: Okay and what is the timeframe, timeline you are looking at to actually do that in a particular state, how much time will it take to actually implement at the state level? Because you have been doing pilots all this while, so how much time would a state level implementation take?

Shashi Agarwal: One state covering up, you know, the idea would be that at least we have some percentages of the state covered before we move onto the next state again. So, I would say another three months to say to start to have a 20-25% coverage of the state post which we would leave it to the respective state head who will have to ensure that the entire state coverage happens and then we will jump up to the next stage. So this is basically it would be a phase wise implementation and we will not wait for the entire state to get over before we move onto the next state because you know, covering the entire state also would take a lot of time because here we are talking about the reach and range with doing a mapping at the Taluka and a Gaon level so it's a kind of a bigger task here. And if you really wait for the entire coverage to happen and then move to next state then it would really take a longer than two years. Probably our target is to see that, you know, by the time 25% of the state is covered say around about two to three months' time we move onto the next state.

Shiva Kumar: Got it. And what are the takeaways from the pilot project in Rajasthan were they as encouraging as the results which we got to see in Karnataka?

Shashi Agarwal: So, I would, say Shiva that, you know, Bangalore was very very encouraging for us.

Shiva Kumar: Right.

Shashi Agarwal: So, one thing [inaudible 00:15:40] to south that they are much more organized than the Northern part of the country. They understand systems, they understand the importance of system and to be following the, working within the framework is something which you do not have to harp upon them again and again

whether it be the distributors or the retailers. So once into the system we are more or less to liking to follow them, but yes, the technicalities of north are completely [inaudible 00:16:05] and the nuances are quite different in north. Number 1, Rajasthan being again a state where you have a lot of wholesaling happening, price cut, price war is there, this is again one of the, for us it would be the highest selling area. So, we have certain challenges definitely, you know, the challenges and the nuances which we faced here is completely different than what we would have, what we faced in south. Probably one of the reasons that the pilot took such a longer time was that we ensure that we had all kind of learnings here so that implementation PAN India becomes easier for us. So yes, number 1 was pricing wholesaling part of it that's there. Keeping the distributors within the framework is another challenge, some of them understand, some don't. That is one of the another challenge which we are facing here, but probably when they see the benefit and they understand they also agree that this is the way forward for them as well because carrying a high inventory also increases their cost of, you know, cost of carrying inventory which in turn impact the ROI etc. So those concepts we need to sit down and talk to them and makes sense to everybody, any businessman would understand those concepts. So yes, it is a little more difficult to get it implemented in Rajasthan than south, but nothing which cannot be overcome.

Shiva Kumar: Right. Thank you. I will join the queue. Thank you.

Shashi Agarwal: Thank you.

Pavitra: Thank you Sir. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. Ladies and gentlemen if you have a question please press star and one on your telephone keypad. We have next question from Manan Jain from Manan Capital. Please go ahead.

Manan Jain: Hello.

Shashi Agarwal: Hi!

Pavitra: Please go-ahead sir.

Manan Jain: Yeah. Hi ma'am. Very good set of numbers so quickly wanted to check a few things. What was the volume growth this quarter?

Shashi Agarwal: May I check sir? The volume growth I would say...

Manan Jain: Hello...

Shashi Agarwal: for the quarter on quarter numbers was kind of quite flattish. There was not much of a jump there. The ASP definitely has increased for us for the nine months ended last year it was 54.85, well the quarterly was 58.12 which has moved onto 60.96 for the nine-month ended ASP, overall ASP level and for the quarter the number has moved to 64 rupees. So, the major jump comes in from price tool...

Manan Jain: Hmm, hmm

Shashi Agarwal: Flattish...

Manan Jain: Okay so we are flattish. And in terms of market share would you say we have retained shares or is there any share loss that we are estimating or expecting?

Shashi Agarwal: No, I don't think so. Because if you really look again the number, overall, I am sure when all the results are out there will be a very much similar kind of numbers which will be reported. There has not been any kind of a loss in market shares.

Manan Jain: Understood. And the last question ma'am, what was the advertisement spend, have we cut back on that or are we still spending the same levels as we used to do?

Shashi Agarwal: Same levels, similar at 9% I would say. There has been cut, there has not been major cut I would say that would be reflecting in advertisement expenses, but definitely I would also want to take this opportunity to address that one of the issues, you know, you might see in the next quarter that is in the next fiscal. The first quarter of the fiscal, a little increase in the advertisement spend and precisely one of the reasons to see that is that we have been working around the brand architecture and you know, revamping our entire look and feel of the dollar logo. This had been, you know, quite in start where we would be getting, we had, we would be working with the plethora sub-brand. You are aware like it was Big Boss and we had Missy and we have Lehar, Commando, Comfort. So, there were a huge number of brands that we were carrying under the mother umbrella brand dollar. So, as a strategy we are trying to rationalise these brand and what we are going to do is now you will see these as kind of verticals. So, the brands would, the sub-brands will become more of a collection and you will have verticals as dollar men, dollar women, dollar children, dollar thermals. These verticals would be there now. This entire restructuring, redesigning, introduction of new concepts here so that, you know, you can move up the value chain. These things are being worked upon and we will take this up, we have to advertise that what we were and what we have become. So, this change has to be comminuted to the consumer. So, when we start communicating these changes to the consumers what would happen is this would require a lot of attention, a lot of [inaudible 00:21:42]. So probably the first quarter of the next fiscal we might see some jump in the advertisement expenses. Otherwise for this particular quarter, this particular fiscal I think so we should be well within the range.

Pavitra: Thank you ma'am. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. We have next question from Prashant Tiwari from SBICAP Securities. Please go ahead.

Prashant Tiwari: Yeah, hi. Shashi, what percentage of our overall revenues can be attributed to the distributors where the PUC is being implemented, like overall sales coming through the distributor channel and what is through the wholesale and direct?

Shashi Agarwal: Prashant, as a company, Dollar Industries, you know, first of all I would talk about my existing structure. My existing structure contributes around about 97% coming from my distribution channel methodology and only 3% is coming from organised channels. Now when we want to further drill down and say that in my existing channels where the conventional method of working was followed, there what is the percentage of contribution coming from my TOC. So currently Prashant we have

more than 900 distributors on board and out of that I have implemented TOC across only 15 to 20 distributors and that's a very small percentage that is not even count somewhere into my total revenue, not even a percent so too early to comment on the numbers there Prashant.

Prashant Tiwari: Okay. And is my understanding correct when I think that the PUC model can help where the distributors are involved and not on the wholesaler side of the business, if the business is driven by purely the wholesaler things?

Shashi Agarwal: So, let me put it this way Prashant, so first of all I would again want to go back to method of working which dollar adapts. So before, you know, dollar is not into whole, into kind of a wholesaling channel directly. What we do is, we sell it to our distributors and then it is the responsibility of a distributor to place it to the retailers. Yeah, it might so happen that when they are placing it to the retailers in the process, they might also get in touch with the wholesaler channel, which we just talked about a little while ago, the difference between the south and the northern working style. So, in Rajasthan what happens is these distributors at times go ahead and sell in bulk to the wholesaler. That is one of the challenges which we face there in that you know we don't want to supply them because to have a stab onto the retailer landing price becomes difficult when we get the wholesalers into between. In case they are ready follow the retail landing price for us, we do not differentiate between the retailer and the wholesaler then, but the only criteria for us is that they have to follow the retailer landing price declared by the company there. So, it starts a little bit of nuances there, but as such we do not have any wholesale middle level into the entire distribution channel. For us it is the company, distributors and the retailers. At times distributors engage with the wholesalers to sell.

Prashant Tiwari: Okay. And the next question is about cotton prices, is there a margin kicker available for the company because of the higher production of cotton this season like 13% is being projected.

Shashi Agarwal: Prashant you are too low, I cannot hear you, if you can be a bit louder.

Prashant Tiwari: Yeah, so I wanted to ask whether there is a margin kicker available for the company in terms of driven by the lower prices of cotton? It has been at the low and the production of cotton in this season is also projected to be 10-12% or 13% higher than the last year, so can we expect a margin kicker in terms of that?

Shashi Agarwal: Nothing has changed due to the lower cotton prices and the yarn prices, which was there only the, you know, the last quarter that Q3 till December. Going ahead now the prices have again started rising so the price is on the rise now. So, we are not passing out any margin kicker to the distributors or the retail channels as of now. That's not something which we have...

Prashant Tiwari: You are saying yarn prices are on the rise

Shashi Agarwal: Yeah, not the cotton prices have started rising.

Prashant Tiwari: Okay. Okay. Okay that's it from my side. Thanks.

Pavitra: Thank you Sir. We have next question from Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Thanks for taking my question. My question pertains to the growth as such so if you see this year has been pretty flattish, I mean particularly the quarter we have reported 4% growth, but overall the growth has been on limited side so how do you see that trend going to be when we are entering in the next year?. And second question is on the season as such this Q3 is a winter season so how the summers have performed in the season if you can comment on that ma'am.

Shashi Agarwal: Yeah, so I would see that, you know, this particular season I would start with the winter season which we just gone by. Winter was okay, good. We have seen that growth is there, 4% growth was there for this particular quarter on yearly basis, the quarter has, numbers have risen by 4%, but overall the numbers are down because of the reason that we know that the second quarter was quite a dent for us. So that's the reason we are flattish and going forward we have put in all our energies and efforts to ensure that the fourth quarter we can cover up as much as losses as we want as we have incurred in the second quarter in terms of the growth numbers. So, we don't promise any numbers as such, but the company has put in all the efforts and has ensured that the numbers are not flattish for the fiscal ending. This is what for the current fiscal we are taking about. We might not be able to touch or give that growth numbers, which we have been delivering, but at least we should want to be at lowest single digit or you know, higher single digit and lower double digit is the kind of growth is what we are targeting now and we are very very hopeful for that as well because there is a lot of preparation going on within the company in terms of the way it has to be taken up with the distributors and the retailers. So, we just conducted and we got over with our annual conference, we took the distributors into for the cruise in Singapore. It was a five-day trip for them and it was business cum pleasure trip with them and the response which came across when we discussed the entire replenishment model with them and when we talked about the [inaudible 00:29:15] and the other advantages which the company was parting onto them, the response and the advance booking which we have got from them was really very encouraging and we are very hopeful that the numbers we should be able to do a lot make up in terms of what we lost in the second quarter. So, we really look forward.

Pankaj Kumar: Okay.

Shashi Agarwal: Going ahead for the next fiscal, we are very prepared and we are like in taking it heads on that the replenishment model implementation in these four states going ahead. So it would have its own challenges, every state and every region has its own nuances and challenges so we have done with south and north, west would have a little of more nuances, but as Mr Gupta says that if you have done Rajasthan you have taken and tested everything that's there in PAN India basis so probably implementation would be much faster in these states now. So, the numbers for vector would start reflecting more towards the second quarter of the fiscal. That's when I can may be come out and talk about bigger numbers, state wise numbers that what we were, what we achieve and I would be in a better position to share numbers at that point.

Pankaj Kumar: Okay, okay. And ma'am regarding these distributors we have to [inaudible 30:32] also, is that cost is attributed before or Q3?

Shashi Agarwal: Sorry, sorry Pankaj I missed your question.

Pankaj Kumar: No, no, to ensure which you talked about in Singapore...

Shashi Agarwal: Yeah, yeah. Yeah...

Pankaj Kumar: So that we did in Q4 in December.

Shashi Agarwal: Yeah, yeah. Yeah... So that's an advance booking for Q4 actually. We generally as a practice this is an annual conference which we conduct every January where we make our introduction of new launches, we do soft launches of the new products or any kind of a changes of designs, brands etc. So whatever there has been discussed we talk to them, we take their feedback and more so ever we also take the production planning for the next six months and probably again, you know, since the fiscal is closing for the achievement of what was budgeted in the starting of the year that is something which we also talk about.

Pankaj Kumar: Okay. And ma'am any comments on the margin front because, you know, with the gross margin that has on a YOY basis that has declined and if you look at sub-contracting that has, that expenses has come down so any shift between the [inaudible 00:31:51] prices and sub-contracting that is witnessed in this quarter?

Shashi Agarwal: Sub-contracting has come down for us in this particular quarter because of the main reason is that, you know, for Ludhiana what we have done this time is that the premium product, the ultras products of thermals which we secure we have this time got it in kind of FOB basis rather than putting it into the stages of production. So that's where we have actually come down on terms of sub-contracting charges and overall basis as well I would say that there has been a little increase in my [inaudible 00:32:28] of sub-contracting charges which was just 20 paise that's not much of an impact there, but overall the reason of it coming down is more for my some of the purchase in FOB basis rather than in kind of in stages of production.

Pankaj Kumar: Okay. And any comment on this working capital side, was it then [inaudible 00:32:54]?

Shashi Agarwal: Pankaj there has not been a major changes yet so nothing which to talk about. It's kind of, in the similar lines and ranges what we see in the last quarter, six month I will get balance sheet and kind of a similar.

Pankaj Kumar: Okay so you still see the liquidity pressure.

Shashi Agarwal: A liquidity pressure is there I would say. So, it's, hopefully let's see this budget helps out and [inaudible 00:331:21] the sentiments at the consumer level and the disposable income goes up and people come out of that crises and crunch and we are hopeful to see that going down. That's what we are banking on. Apart from that what the regular start can associate with the companies conducting at its own level that's also something we are taking it up on a regular basis at a war footing level, but that I would having said that it is more kind of an economic scenario which we are going through rather than company driven policies.

Pankaj Kumar: Okay ma'am thank you.

Pavitra: Thank you Sir. We have next question from Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: Thank you my questions are answered.

Pavitra: Thank you Sir. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. Next, we have a follow up question from Mr Shiva Kumar from Unifi Capital. Please go ahead.

Shiva Kumar: Yeah. Thanks for the opportunity. I just wanted to know what is the share of modern retail and e-commerce in the current sales numbers?

Shashi Agarwal: It's 3% Shiv.

Shiva Kumar: Sorry Shashi, can you repeat that?

Shashi Agarwal: 3%, 3%.

Shiva Kumar: 3%, both put together, right?

Shashi Agarwal: Both together. Before when we talk about it we take e-commerce platform where we are actually present in all the platforms and when we talk about large format stores we are there mostly in all these, we are like Brand Factory, More, DMart, VMart and so like we have, we have more than 900 outlets which we are present all put together and what is on in terms of increasing those numbers in the presence across these large format stores are concerned. So that...

Shiva Kumar: Because 3% looks on the lower side, right given the potential in the distribution that you have got across the large format stores, right?

Shashi Agarwal: Yeah, absolutely, I do agree, but see again this is more kind of an, you know, you have to renew the spaces every time, every six months so those activities are also there, number 1. Number 2, most of these bigger brand stores, you know, like retail, Reliance store or may be when you are talking about like Westside etc, they started keeping their own brand, Shoppers Stop they started, you know, getting into their own brands of their innerwears or the [inaudible 00:35:55] kind of a product. So that is posing as a challenge to get an introduction into those [inaudible 00:36:01]. Like even the fashion Bazaar and the FB, they are getting into more kind of their own space, like having their own manufacturing and their own brands. So, it's a little challenging there. Yes, the scope is there in terms of increasing that number in the percentage, but what we can see is from the revenues which we have that again people may be still prefer to buy innerwear from the stores where they can actually physically pick it up rather than going on the e-commerce platform. That again number 1 thing which we have experienced. E-com platform doesn't work that good in terms of the innerwears are concerned, but yes large format again the challenges these brand stores having their own brands coming up. We are taking it up in a slight, but that's a little space where we need to pull us off, I would say.

Shiva Kumar: Right. And how was the sales in Pepe because it was 9 crores in the first half, right? What is it in nine months now?

Shashi Agarwal: It's around 12 crores. We had a target of 18 crores, but I think we have touched 12 crores Pepe.

Shiva Kumar: And what's the bottom line?

Shashi Agarwal: Bottom line, we have posted loss of 75 lakh this particular quarter, in totality it is 97 lakh for us so just into 1.5 crore for this quarter. And in totality it's a 2-crore loss to be nine months ended.

Shiva Kumar: Okay, 2 crore loss. Okay. And Shashi what is the progress in that supply chain financing arrangement which you have got into with SBI, are the distributors taking it up, is there any resistance from their side, how are you tackling it from your side?

Shashi Agarwal: That is very slow, you know, the momentum and the pick speed is very very slow as of now the sales with the distributors. As I told you, as we discussed last time as well that we are, they are getting pushed to the wall and they have no other option left. So yes, we are hearing the murmurs coming from them that they need to do get into this particular channel, organize themselves so those initiation have started. I have people ring rolling, but is that number quite enough for giving me the push in terms of changing that balance sheet numbers, as of yet no. The numbers are quite small for us. Nothing very great to share right now at the moment.

Shiva Kumar: Okay, but are you in a good position to make good use of the potential that you will get from this pilot project which you are scaling up? Because if the supply chain then shambles how would you actually get to the full potential of that new pilot which you are scaling up?

Shashi Agarwal: So **Siddharth** to be very honest and I have been telling everybody when I actually meet them as well as that, I am very excited with those numbers when I am also the part of that particular project when we are putting it across so this gets attention of one of our very key directors Mr Vinay Gupta who heading it out from Singapore and when we see the numbers its like very very exciting, I feel like sharing those numbers, but again I understand that they get extrapolated immediately and the excel work starts happening. So, I don't want to share the numbers now because it is again too smaller sample size, but the potential is immense and huge probably may be once you have recovered one of these states completely and we have some good numbers there. Good numbers in terms of that the entire state is covered so when we talk numbers today that what was the state before we did particular model, rolled out the particular model and what is the pre and post kind of comparisons can be done that would be the time when I would come out with the numbers and talk about that. And then you will see the change, what kind of a change this can actually get to the company at an overall PAN India level.

Shiva Kumar: But would that also make a difference to your working capital situation? In the sense would you get more leaner?

Shashi Agarwal: It would improve my working capital situation tremendously.

Shiva Kumar: Okay. Any numbers you can share as to what extent you expect improvement in working capital once that pilot goes ...

Shashi Agarwal: Just want to hold those numbers. It's like the extrapolation would not be justified out here because see as I told you they are two different states altogether which we did. The south where you did not have much of an exposure, Bangalore, Karnataka whereas in viz a viz Ajmer Rajasthan here the exposure was very very high in terms of again the penetration, we monthly sales, then monthly primary sales, the monthly secondary sales, there are all two different, two to three different parameters and the numbers which we build across and the responses have been different there. So, I can see that yes when the extreme good case and extreme case where we need a lot of attention and focus, so there are these two different parameters which we are working on across now. Sharing those numbers would actually, you know, distort the entire picture. So, I would have to complete a state and then come back to you with numbers, but yes overall, I would say that the numbers are quite encouraging and it would also impact and improve my working capital cycle.

Shiva Kumar: Got it. One last question on the Chinese disruption which is happening currently, are you seeing any increase in queries for more exports because of the disruption of the Chinese supply chain?

Shashi Agarwal: Exports is being constant at 6-7 %, but any spike I would not say, but I cannot see the imports are disrupted because of the China for sure, but as of now is there any spike coming up in terms of the orders and in terms of the export queries, as of now we have not seen any spike there. The gulf countries impact, you know, maybe we have to evaluate in terms of how the import work happening at the gulf countries from China. Probably that's when you will see an impact, but I would say that majorly gulf countries take innerwear from India itself because of the size, the shape, the demand and the need and the make of the innerwear. They are kind of quite similar to what Indian needs as their. So, you will see most of the countries in India exporting to the gulf for the similar reason because you don't need to alter them. When we export to other countries the entire specification changes, so probably I would say as of now we have not received any spike in terms of the export orders are concerned.

Shiva Kumar: Got it. And what explains the rise in the cotton prices instead of the slowdown in China? Because that would affect your margins going forward and I was just wondering as to what extent this rise because their imports will be down right?

Vinod Kumar Gupta: Yeah, right now these cotton prices are stagnant, but there were a quite rise in the prices of the cotton two months back because there were huge orders from China, but after this outbreak of this viral disease, say in last two weeks the demand from China has been almost I mean nil. Right at the moment there is no further query because they are busy handling that particular virus problem. Now the prices are stagnant. There is not much of a movement, but we understand that in the, may be may be once this particular problem is settled again you will see that there is a rise in the prices of cotton and cotton yarn.

Shiva Kumar: Okay, but will you be able to hold this gross margin of about 39-40% for Q4?

- Vinod Kumar Gupta:** Yeah, absolutely.
- Shiva Kumar:** You will be able to hold it. Okay thank you.
- Vinod Kumar Gupta:** Yeah. Thank you.
- Pavitra:** Thank you Sir. Ladies and gentleman if you have a question please press star and one on your telephone keypad. Next, we have a follow up question from Manan Jain from Manan Capital. Please go ahead.
- Manan Jain:** Ma'am what was the [inaudible 00:44:21] business you mentioned?
- Shashi Agarwal:** Anand, you are not audible. If you could be little near the phone.
- Manan Jain:** Hello, what is the revenue topline in joint venture business?
- Shashi Agarwal:** Sorry, Anand, but I could not get the question.
- Manan Jain:** Hello...
- Shashi Agarwal:** Yeah, please go-ahead Anand.
- Manan Jain:** Yeah, so what is the revenue topline in joint venture business Pepe?
- Shashi Agarwal:** 12 crore
- Manan Jain:** 12 crore.
- Shashi Agarwal:** Okay, so maybe I am just rephrasing my answer. So, in joint venture company this is basically a 50-50 JV which we have. So, we do not have any addition of my topline. What we do is we just get the bottom line impact which is there, which gets added to my bottom line that's a positive or the negative figure come into my, flows into my net PNL, but there is no addition of sale being added in my topline, but as such the JV company posted in total revenue of 12 crores for nine months ended.
- Manan Jain:** Okay, nine-month revenue is 12 crores, understood and what would be the monthly [inaudible 00:45:33] ma'am?
- Shashi Agarwal:** What would be the monthly?
- Manan Jain:** What would be the monthly revenue [inaudible 00:45:40] that we are seeing?
- Shashi Agarwal:** Okay, so monthly run rate is as of now for the nine-month is, you know, since its 12, but we would want to close this number around about 15 crores for fiscal 19-20. So, we are...

- Manan Jain:** Understand...
- Shashi Agarwal:** So, we expect other 3 to 4 crores this quarter.
- Manan Jain:** And it has become profitable or we expect the losses to widen?
- Shashi Agarwal:** So still now we have posted 2 crores loss for in totality for the nine-month ended. Probably that would be a little more there for this particular fiscal. Next fiscal onwards we would be, we would break even and post that you should have some profit coming in.
- Manan Jain:** Okay. Thank you, ma'am.
- Pavitra:** Thank you Sir. We have next question from Dheeraj Sachdev from Roha Asset Managers. Please go ahead.
- Dheeraj Sachdev:** I am extremely sorry I must have joined the late and the issue on working capital cycle, how is the incremental working capital progressing for us?
- Shashi Agarwal:** Dheeraj, unfortunately there has not been much progress in the working capital side is concerned. The numbers are quite similar to what we had in six months ended balance sheet plus minus 5% here and there, so there's not much of a change though the company continues and endeavors to address the question of, the problem of the working capital, you know, issues and actually that, when I say working capital is more focused on to the debtors. Inventory, we are very well within the limit, that's ninety to ninety five days currently, but coming at debtors, that's something which definitely needs to be taken care of, and to answer the question, it is more, kind of an economic driven scenario rather than a company policy matter, which is impacting the working capital.
- Dheeraj Sachdev:** So how much is the working capital for now [inaudible 47:43]?
- Shashi Agarwal:** Total cycle would be similar, you know, roundabout 100 days there and 50 [inaudible 00:47:53] we have increased, 150, 160 days approximately.
- Dheeraj Sachdev:** Okay and we also see the observation across [inaudible 00:48:02] operating out of east region. I think their balance sheet says that the working capital cycles are lower. So, what is the relative difference for us vis-à-vis then in terms of putting in...
- Shashi Agarwal:** You are talking about which company, Dheeraj?
- Dheeraj Sachdev:** It could be Rupa and Company, it could be other [inaudible 00:48:23]
- Shashi Agarwal:** [inaudible 00:48:24] Okay, let me put it this way. So, for Rupa and Company if it was around about their trade of the term was roundabout 30 days, they had jumped into 90 days, for us, it was 60 days, we moved to kind of 100

days. So, there has been shift for each one of us. To what we were and what we are, so if you see the jump in percentage terms, it would be a similar kind of a scenario. But in overall, absolute numbers, yes, there would be a difference, so it is basically, you know, even before these kind of [inaudible 00:49:05] the numbers were different and it continues to be different.

Dheeraj Sachdev: Are we seeing some financial improving at the channel, are we seeing some indications of...

Shashi Agarwal: The financing is we have [inaudible 00:49:21] for channel financing, with the bankers and we have that MoU done, so we have certain distributors taking those, availing those facilities, they have started working on that as well, but unfortunately, the momentum that we were expecting that you know, that it would spread with the mouth of word and people would understand the benefits and come into it completely, we don't see that happening in the very very bigger level. Having said that, we still continue with the endeavors to educate our distributors and see whatever number of distributors that can be enrolled under the channel financing scheme, but there has not been a major movement in terms of the enrollments are concerned, which could impact my balance sheet.

Dheeraj Sachdev: And this last question from my side. How has the distribution franchise changed for us and how expanded across channel partners?

Shashi Agarwal: So, is it in terms of the numbers which you are asking here?

Dheeraj Sachdev: Yes, yes. I think the numbers, that should be fine.

Shashi Agarwal: So, it's roundabout 950 distributors approximately, which we have. This number would increase tremendously now because with this particular implementation of increasing the reach and range, we would need to appoint distributors in the areas where, so we have restricted the area, kind of an, cut short in terms of the spread in which they can operate, each distributor can operate, so this would definitely want, this would require more enrollment of distributors and we have already started working on this side, so like Rajasthan, Karnataka, we need, we have added approximately ten new distributors across in those areas where we were previously being served by different distributors or not being served. So, these additions of distributors would keep on happening and we will see a good growth in numbers there as well.

Dheeraj Sachdev: Thank you so much.

Pavitra: Thank you sir. We have next question from Tanvi Shetty from Axiz Securities. Please go ahead.

Tanvi Shetty: Thanks for taking my question, ma'am. I wanted to understand, what is the reason for the rise in prices of cotton? Like you mentioned that they has been increasing. So, I wanted to know the fundamental reason towards it as much as I know India has been producing a surplus of cotton.

Shashi Agarwal: Tanvi, to take your question to till December quarter, till the end of December, the prices reduced at a reduced level for cotton. January mid, first to

second week the prices started moving up, but they just got [inaudible 00:52:11] two weeks back because of the decrease in demand from China or no demand from China following the coronavirus, the outbreak. See, it's basically a demand-supply, definitely everybody knows, we don't need to talk there, but it is also about the kind of an export we make and the demands coming from some country. So as of now, the prices are stagnant, but as we again expect the prices to rise because there would be a bigger demand coming in from China once everything is stabilized there. Then you will see again the rise and the hike in the prices of cotton.

Tanvi Shetty: Okay, okay. And my next question was, ma'am, how much is the exports as a part of revenue? How much does it contribute?

Shashi Agarwal: Its round about 8 to 9%.

Tanvi Shetty: And how has that been doing ma'am for the nine-month?

Shashi Agarwal: Similar level. They are 8-9% itself so we have been serving the gulf countries majorly so that we want to expand into other parts of the countries of the globe as well, but as of now it's majorly focused, the major demand and the export happen under our label itself because we do not do a third party label for the exports as also. So that's round about 8-9% majorly focused to the gulf country, middle east.

Tanvi Shetty: Okay, okay. That's all from my side. Thank you and all the best ma'am.

Pavitra: Thank you ma'am. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. There are no further questions so I handover the floor to management team for closing comments. Over to you.

Shashi Agarwal: Thank you all for joining in for our earning call the third quarter financial year 19-20. It was a pleasure answering and addressing your questions. In case you have any further questions or queries, you can always reach me. Thank you so much. Have a good day.

Pavitra: Thank you ma'am. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha Conference Call Service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.