"Welspun India Limited 2Q FY 2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Welspun India Q2 FY 2016 Results conference call hosted by IIFL Capital. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta from IIFL Capital. Thank you and over to you Mr. Mehta!

Avi Mehta: Thank you Margaret. Good evening everyone. On behalf of IIFL, I would like to welcome all of you to the 2Q FY 2016 conference call for Welspun India. From the company, we have with us the key senior management including Mr. Rajesh Mandawewala, Managing Director, Mrs. Dipali Goenka, Joint Managing Director, Mr. Altaf Jiwani, Director Finance and CFO and Mr. Akhil Jindal, Director Group Finance and Strategy. I would now like to hand over the call to the management for their opening comments. Over to you Sir!

Altaf Jiwani: Thank you Avi. Good evening everybody. On behalf of Welspun India, I would like to welcome you to this Q2 investor conference call. We have had the highest ever quarterly profit in Q2 FY 2016. Our profit has been 172 Crores which is 33% higher year on year last year we were at 130 Crores.

Operational EBITDA margin is 300 basis points higher compared to the last year, which is 25.4% now, we were 22.4%. There are two reasons for this. one is of course the vertical integration the spinning mill which we commissioned last year, the impact of that has come in the full quarter. And second, is our on going strategy of innovation and branding which is helping us to improve the margin and also the product mix which we are having impact.

The third actually highlight is about the net debt to operating EBITDA has been consistently improving and currently we were at 1.65 compared to 2.05 in March 2015 and net debt to equity also have improved to 1.41 compared to 1.82.

I am pleased to actually announce that the Board has actually approved interim dividend of 65% that is Rs.6.50 paise per share of face value Rs.10. This is based on the dividend policy which the Board had announced last financial year. So 25% is the payout ratio based on the half-yearly profit for the standalone WIL.

Just to take you through the financial actually in terms of revenue we have had 1472 Crores compared to 1413 Crores last year which is the growth of 4.2 Crores. This of course is a muted growth. There are two reasons for this one is the base effect we had a very higher revenue last year. Second is we are constrained by the capacity which we have and we are currently working on this in Vapi we will have about 10% of capacity coming up in this quarter and another 10% will come up in the next quarter for towels. Similarly for bed sheet we will have a capacity coming up in Q4 in Anjar, so we are good to go with the guidance which we have been maintaining that the annual guidance of about mid teens revenue growth so between 13% and 17% that is what we will continue to maintain. So in coming quarters, we will see Q3 and Q4 substantially higher growth compared to Q2.

Having said that our revenue sales growth has been about 6%, which had about exchange impact of 1% favourable, there was a volume impact of about 5% and 2% the export incentive has been down because of the MEIS Scheme which has been brought down to half.

As far as operating margin is concerned it is about 25.4%, so the contribution has gone up by about 6%. There has been other expense which has gone up by 3% so the net impact on the EBITDA is about 300 basis points.

Finance cost is another highlight actually which has come down substantially compared to the corresponding quarter last year. We are down by almost 30%. This is mainly because the Gujarat benefit has started kicking in. The other reason is the base rate of course has come down and lastly we have also started issuing commercial paper which is at a substantially lower rate than the base rate, which was being applicable earlier for the working capital.

The depreciation has gone up by about 20 Crores that is mainly because of the capex which we have done in Q1 that was about 220 Crores of capex in Q1. In Q2 we have done further 230 Crores capex so we have almost spent about 450 Crores during the first half and despite these expenditure of 450 Crores our borrowing level has actually come down by 180 Crores. So we have been able to judiciously do this capex without incurring extra borrowing.

The profit after tax is about 172 Crores which is 32%-33% higher than the last year and compared to the last quarter it is about 5.6% higher. The EPS growth has been about 32.7% for the quarter YoY and for the half year EPS growth has been about 43%.

As far as balance sheet is concerned, as I mentioned earlier the borrowing level has come down by about 180 Crores so we are net borrowing level of about 2427 Crores compared to 2609 Crores in the month of March. We have maintained positive free cash flow in the first half so we are at about 182 Crores of positive free cash flow.

As far as growth in the domestic sector is concerned, we have had 35% year-on-year growth in the retail segment in the domestic market. The return on capital employed continuous to steadily keep going up so we are now at 25.2% ROCE, pre -tax compared to 22.8% in March and return on equity is 42.5%.

The capex I mentioned is about 450 Crores and the balance Rs.8.5 billion will be spent over next 12 months and which will give us the additional capacity of almost 10% in Vapi for towel and another 10% which will come in Q4 and Anjar we will have another 10% increase in the bed sheet capacity.

So with this I would request Mr. Mandawewala to give his view on the overall market.

Rajesh Mandawewala: First let me just clarify the point that Altaf made on the project side. So there is a 20% improvement in capacity that will happen in Vapi over the next two quarters. 10% is right now available so which will be available to us in Q3 and another 10% will come into play and that will be available to us in Q4 and also on the sheet side we are almost there and so for Q3 this entire 72 million will be available to us and there is something beyond 72 million that we are contemplating so with small debottlenecking, we are working to actually take it beyond the 72 million. Hopefully by the next call we will clarify that so not too much of spending money but how do we get our capacity beyond the 72 million. So this is by and large some clarification on the project side.

The cotton crop estimates have come in at about 37 million bales so which is kind of sufficient considering that let us say the Chinese demand is muted and Ms. Dipali will talk to you more about it in a couple of minutes.

Just a couple of more things from our side, let us say our projects are on schedule. There has been some talk about discontinuance of TUF so all our investments whatever that this entire 2500 Crores– that we have invested or are continuing to invest is actually covered under the TUF so as well as the Gujarat policy, so there is no uncertainty as far as we are concerned around let us say little bit here and there but by and large we are covered this even if TUF was to discontinue we should be okay with that. I will get Dipali to speak to you about how the business is shaping up and what are our views about the business going forward. Over to you Dipali!

Dipali Goenka: First of all I think we will talk about cotton and the perspective of cotton this year and the next year that we are looking at. This year actually if we look at it India had the highest crop in the world and we would say that India's position here is strengthening but it has also seen a challenge here where the imports to China have reduced. So today if I look at it, its actually for domestic consumption that we are looking at and as we see the next year coming forward we will see the cotton prices quite stable and that is what we see the cotton trend going forward and India's position here is strengthening globally. If I talk about India as a market as well for home textile, I think definitely we see this position getting stronger as we go forward in the terms of even we countries around India and I think that is where we also maintain. If I look at our business at Welspun India how do we look at a business at Welspun India I think I just give you a different perspective on that.

If I talk about United States today the GDP growth that we are envisaging there is around 3.6% and if I talk about our demand it has been quite consistent and sustainable here. We actually basically if I talk about our product portfolio which actually constitutes of around 80% of replenishment program so that actually make us quite strong there. We have also launched our e-commerce here which at a global footprint and which actually is not the market place but it is an omni channel strategy so that we also see as a mode of distribution not only for our e-tailers as well as retailers but also for our Welspun innovative products that constitute around 30% of a product portfolio.

If we talk about Europe and Rest of the World, we definitely see that coming into a portfolio quite stronger. Today if I look at the complete pie mix that we have, USA is around 65%, UK, Europe and the rest of the World is getting to 35%.

As we go forward today this quarter we had a contribution of the brand to the extent of around 11% and our innovative products to the extent of around 30% and as we go forward to the vision of around 2020 we see that retail will take on around a sale of around 25% of the revenues of Welspun India.

I would request if there is any question from your side, I would like to take that on.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Neeraj Mansingka from Edelweiss. Please go ahead.

Neeraj Mansingka: Thank you for the opportunity and congratulations for the highest profits. I had two questions. One is on the other expenses. Why has the other expenses seen slightly a bump on a quarter on quarter scale?

Rajesh Mandawewala: I am just opening up the slide here. The one reason of course could be that anything which related to foreign exchange goes into the other expenses. This quarter we had almost a 10 Crores hit on account of foreign exchange, which goes into the other expenditure and rest of it is directly related to business, dyes and chemicals, transportation. So those would be all related to the business so let us say from an extraordinary perspective it is about 10-odd Crores additional cost on account of FX.

Neeraj Mansingka: So with the Rupee deprecation do you see that impact also continue in Q3 and Q4?

Rajesh Mandawewala: As of now we are neutral so at the current exchange rates these are hedged, let us say this more or less cover us so we are kind of neutral. So even at the end of September all in all the impact was within 10-15 Crores so I think the hedging is actually working well for us.

Neeraj Mansingka: On the Gujarat benefit what is the cash flow situation of the subsidy?

Rajesh Mandawewala: Fortunately in the last month now we have, the eligibility certificates and let us say this we are one of the first few ones to actually make the claims so the process is currently under formulation and we are helping with the process as well. So honestly there is nothing; we have not received anything so far, but the process is underway and hopefully in the next quarter we should start seeing some colour or some money from there.

Neeraj Mansingka: Sir how much would be the receivables from Gujarat government on this account?

Rajesh Mandawewala: 100 Crores, Neeraj.

Neeraj Mansingka: So is it right to say that your debt would go down correspondingly by the same amount once you receive this?

Rajesh Mandawewala: With the government receivables, Neeraj, some amount is likely to stay so there is a lag after which the money comes in, so what you see currently as a receivable from the government I think on best estimate basis I think will continue.

Neeraj Mansingka: Last question is to Dipali, I just wanted to understand two things. How do you see the brand revenues, I am just said about 11% of revenue is being contributed brands. Can you share more light on that and secondly what is the domestic share of the sale and how much do you see gradually increasing of a period of two to three years?

Dipali Goenka: I think they both are intermixed. Today I think with our domestic where we are we have actually are growing at a rate of around 35% quarter-on-quarter and which actually will maintain that strength as we go forward and when we talk about the brand revenue we have a brand mix of brand, brands like Christy and Kingsley, we have Spaces and Welhome. We have licenses like Wimbledon and Rugby and also our Welspun Innovative Products. If I talk about a global footprint that we are seeing like with Christy we actually are completely going global, not only in UK but in United States of America, Middle East we have seen a growth of around 25% here and China also I think it is going very strongly there. So as we go forward today it is 11% and as I said by 2020 we definitely see that going to 25% of Welspun India's revenue.

Neeraj Mansingka: You said 35% QoQ growth and what would be the absolute share of revenues right now in the domestic?

Dipali Goenka: That actually if I talk about from the Welspun India's revenue 5%.

Neeraj Mansingka: The YOY growth would be how much if the QOQ is 35%?

Dipali Goenka: Same only it will maintain at 35%.

Neeraj Mansingka: Thank you very much.

Moderator: The next question is from the line of Rahul Bhangadiya from Lucky Investment Managers. Please go ahead.

Rahul Bhangdiya: Thank you for taking my question Sir. First question Sir, if you could just help us with your capacity numbers on the bedsheet side and the production numbers what was it FY 2015 and what is it expected FY 2016?

Rajesh Mandwewala: First, we will address the capacity question. Last quarter, we had an available capacity of around 50,000 tonnes which as of now is at about 55 tonnes and this Q4 will be let say about 60,000 so this is let say achievable capacity that we will have for Q3 and Q4 on the towel side. On the bed linen side we were about 13-13.5 million for the quarter, which as of now we are already 72 million so it is available to us as we speak. This will be available to us for Q3 and Q4. Of course there is when I say this, this is available so let us say this dyeing and finishing and cutting and sewing side is done, the looms there will be some additions of the looms which will happen in the future but for practical purposes from a sales perspective that is now available to us. This is where our capacities are currently looking.

Rahul Bhangdiya: The second question was that your production number FY 2015 and FY 2016 only on the bedsheet side?

Rajesh Mandawewala: This quarter we were about 15.5-16 million running meters roughly and which is where we were approximately the same numbers last year so there is 2%-3% increase. So having said that let me tell you that last year this was the biggest quarter that we had on sheet side and there was some accumulation that happened from the first quarter into the second one last year so from there this we have actually beaten that in this quarter so this by and large about 16 million or so in terms of meterage.

Rahul Bhangdiya: Sir beyond the existing expansion plan that are ongoing which you have already mentioned earlier in the call any plan to increase the bed linin or terry towel capacity beyond what you have already mentioned?

Rajesh Mandawewala: As I have been maintaining this in the past, so the base is now set, so with very little debottlenecking we can get whatever increase in the capacities that we need without spending this too much in terms of capex. So we were actually building the base for the future growth and as we have been highlighting we have been looking for mid teen kind of a growth and so we will just calibrate our capacities to demand. So as we see our sales rising our demand rising we will keep growing capacity but now the future rise in capacity will not cost us a bomb in terms of capex and we have guided that this with a 300-odd kind of or let us say within depreciation we should be able to cater to whatever our growth in capacities required for the future.

Rahul Bhangdiya: This for example say the bedsheet is 72 million meters right now do we see this going up to say 90 or 100 million meters over the next two three years?

Rajesh Mandawewala: Certainly not two three years in fact even in the next year we hope to see a higher capacity than the 72 million.

Rahul Bhangdiya: Just a final question given that you also plan to expand capacities and there are other players in the industry who do not have a very different plans who have very similar plans, how does the kind of the industry kind of shape up because the volumes terms is the growth enough in the international markets to kind of?

Rajesh Mandawewala: First Rahul let me just come to my defence, I do not agree that this we are doing what the others are doing. So we are chasing capacity means we are not investing money in hope that we are going to sell in the future so that is the big difference. If you look at our numbers for the last let say 8 or 10 quarters ever since we put this capex in place we have been around 100% utilization mark and so there is no other competitor who can claim to do that I think this all rest of them have actually put capacity ahead of demand so our utilization is actually at a very high level and this will continue to remain at that level. To answer your question on how does competition impact us, so the competition has been around for a while now so this on the towel side which are obvious competitor has got this colossal capacity built up are almost four to six quarters so you can see this that as far as our results are concerned we are unaffected, we continue to grow our business our margins are continued to remain intact or in fact have grown if you look at this what where we were four quarters back. So this I think Dipali you should take this up that what is it that you guys are doing to really differentiate so that, so we are not into this capacity gain, so there is lot more happening in the company on innovation and brands which is actually helping us continue grow our business and sustain margin.

Dipali Goenka: When we talk about our differentiation that Welspun gets on the table, I think the most important aspect is innovation. We have actually launched our own patent in United States of America that is Hygro and actually that has really got the differentiation and if I talk about a product mix that we have today 30% of that revenue is constituted by innovative products. So that really makes us different. One of the global retailers who basically have a strategy of capping up their vendor matrix opened that up for our Hygro and we have seen that growth going stronger. We have had Hygro revenue of around 111 million this year, which will even grow to a growth of around 15% next year.

Rahul Bhangdiya: One question if you may allow. What is the US bedsheet market size in terms of million meters your rough strength of the market and how much does India supply in volume terms not in value terms?

Rajesh Mandawewala: So our share in the US market for 2015, Dipali is 11% right?

Dipali Goenka: Yes, 11% and India sales around 47% into United States of America.

Altaf Jiwani: So your obvious question is how do you grow right?

Rahul Bhangdiya: Volume terms, this is value I believe because India supplies a lot of high end stuff the volumes?

Rajesh Mandawewala: 7%-8% in terms of volume but we will reconfirm that and get back to you, so for us it should be about 7%-8% and in terms of country we should be had about 33% roughly around a third of the market on a best estimate, as these numbers are available we will get back to you on that.

Rahul Bhangdiya: How much did you supply to US in million meter terms if it was 7% to 8%?

Rajesh Mandawewala: The two-thirds of our revenues.

Rahul Bhangdiya: If the market in the US is growing at say volume growth of 2% or 3% how do we kind of you know the capacities might growing at 15% - 20% so how does this work out now?

Dipali Goenka: Actually here, I think the product mix is actually that is the key here Rahul, because when they talk about ourselves we just do not talk about commodity here. We actually are looking at various innovative products which will actually have a definite different retail channel, because today as we are talking about we are talking about a traditional retail channel we are looking at the e-tailers like wayfair.com that is actually growing at a rate of 40% to 50% year-on-year, we have our retailers market places as well and apart from that we are actually looking at a very innovative different channel because we also are talking about hospitality which actually is a very big market for us as well and also smart textiles that is also something we are looking at growing our revenue from. And a basic bedding is again becoming a very important aspect for us which actually usually in United States is very domestic vendor driven so that again will contribute to our revenues and also area rugs that again has got traction because if I look at a Welspun's portfolio it does not just consist of towel and sheets it also consists of basic bedding, top of the bedding and bath rugs and area rugs as well.

Sachin Kasera: This is Sachin Kasera here. Just a follow up to that, while we understand your strategy on terms of your what you mentioned on customization and certain niche products if we do arithematically if we have to gain market share the question that we are having is that are we looking in terms of as a country gaining further market share or are we looking both in terms of you know our share from in India going up and also the India's market share is overall growing up how will is that play out?

Rajesh Mandawewala: See first thing is the bedding is a much larger space than only sheets so right now we were focused on sheet so the sheet side of the business yes, India has garnered about 47% market share in the US and so there is a lot to go from here because so this the next thing that you do apart from sheets is also basic bedding so this is the quilt, the comforters, the mattress pads and pillows and things like that.

Sachin Kasera: How big is this, the bearing market any sense on, can you give us any sense in terms of either value or volume? How big is it?

Rajesh Mandawewala Sheets would comprise one-third of the bedding market so we are actually playing in a third of that area so the market is much about larger so this we have begun our foray in the basic bedding and the fashion bedding which we did this in the last year and so it is a small business for us right now so we are just wetting our feet there, about 10-15-20 million so this the market size is colossal and we are just about begun in that area so there is a lot of synergy there and so the market size is not a constraint Sachin, but we have to approach it one by one so this we did retail first in sheets, now our team is working on the hospitality side so which itself is a one billion dollar market so there we are only 30-35 million next year we are looking like 60-70 so we are penetrating that as Dipali said we are penetrating the e-com channel and then this we have already opened the doors for both basic bedding as well as the fashion bedding products so the market potential, if you size the market we are actually operating in a one-third of the market size as far as the entire bedding areas. Does that answer your question?

Sachin Kasera: Yes.

Moderator: Thank you. We will move to next question, this is from the line of Sonali Salgonkar from Yes Securities. Please go ahead.

Sonali Salgonkar: Thank you for taking my question. Congratulations on a great set of numbers. My first question is with reference to the business perspective, now in your presentation on one slide you have given your strategic partnership with global retail giants, if I were to understand basically on the client concentration approximately how much would the top five clients be contribution to your overall revenue?

Dipali Goenka: Our top five clients actually contribute around 50% of our revenues actually.

Sonali Salgonkar: So my second question with reference to my first is the competition, so did the competition shaping up in US and Europe do you think that this percentage would go down?

Dipali Goenka: Actually we have these programs that are locked for two to three years and these are replenishment programs that we do here actually. So that actually basically takes care of that and apart from that I think our portfolio mix is quite different so we are very confident that we will be able to take that on.

Sonali Salgonkar: Okay fair enough, but going ahead says in the next two three years do you expect this percentage to go up?

Rajesh Mandawewala: Yes the plant concentration will go down if that is what we are looking for, so even now this if we look at are 50% is pretty evenly spread within our top four or five customers so there is really speaking there is no disruptive in the business and its very each one of our top five are very very close to each other and this will further improve.

Dipali Goenka: And one more thing I must add on here, it is not just about supplying a product we actually have a partnership with these customers. Actually it is a strategic partnership, actually we have moved on from just being a mere vendor so we actually have these strategic partnerships where we not only do the vendor manage inventories, we are drop shipping for retailers like Bed Mart and beyond. We are also holding inventories for them at our warehouse in Ohio and also the west coast in Tacoma so actually that goes beyond just supplying of products.

Sonali Salgonkar: So my second question is with reference to your interest rates now I understand that you know you mentioned a point about their talks of the TUF scheme going and also right now you are getting benefit from the Gujarat policy so currently what would be the effective rate of interest for your company?

Altaf Jiwani: We are just below 7% right now.

Sonali Salgonkar: In case if in eventuality if the TUF scheme does go off what would these interest rate percentage go to?

Altaf Jiwani: The current borrowing which we have these are all entitled for TUFs and they will continue till this borrowings are repaid.

Sonali Salgonkar: So this 7% or less than 7% would sustain?

Altaf Jiwani: We have only 20% of our borrowing which is non TUFs which is actually in the power plant.

Sonali Salgonkar: Sir with reference to my third question is your debt situation now I do understand that your net debt to equity has come down this quarter as compared to the last quarter but with the capex that we are planning say Rs.8.5 billion over the next 12 months expected over the next one year where do you see the current debt scenario going to, do you expect the borrowings to increase or the net debt equity to come down over the next one year?

Altaf Jiwani: We expect that this borrowing level will peak during the current year so idea it is to keep it at the same level, you might see a temporary blip maybe a couple of 100 Crores at the end of the year but this is the peak, it is going to come down from here on.

Sonali Salgonkar: Sir and my last question, what could we expect the normalized tax rate for your company going ahead?

Altaf Jiwani: We are full tax paying about 24%.

Sonali Salgonkar: Thanks. If I have any questions I will come back.

Moderator: Thank you. The next question is from the line of Anand Krishnan from Infina Finance. Please go ahead.

Anand Krishnan: Good afternoon. Thank you for taking my question. Sir I had this question with respect to the rate of currency which was actually prevailing year-on-year the similar quarter which was at around 60 and currently which is around 65 for this quarter so why is that despite an 8% depreciation which was actually seen in the currency our topline has grown only by 4.2% as such?

Altaf Jiwani: We actually have a forex policy which has been approved by the board, where we actually sell 12 months in forward market on rolling basis. 50% to 60% of our receivables are sold in that forward market, so the current depreciation of 8% which you are referring to this will start, the impact of that we will see subsequently. Our average realization for the current quarter has been 64.35 and in the last year same quarter it is 63.6.

Anand Krishnan: 63.6 last year. The second question with respect to your other expenses the new capacities which have actually been commissioned in the month of August what portion of expenses and other expenses would be included from that capacity?

Altaf Jiwani: The other expense would include actually dyes and chemicals, transportation, those are the kind of expenses which are all linked to the volume.

Anand Krishnan: Sir that is not the question. I am saying that with respect to the incremental capacity has been put up what would be the portion of other expenses that were with respect to the incremental capacities?

Rajesh Mandawewala: Those fine tune your information we cannot publish. It is one plant and it is all within one location. So but let me tell me you there is nothing extraordinary about the expenses here. So what you see is all in the normal course of the business except let us say there is a 10 Crores charge to the current quarter P&L which is on account of forex adjustment so barring that this everything is in the normal course.

Anand Krishnan: Thank you so much. That is from my side. Thanks.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Elara Securities. Please go ahead.

Sumant Kumar: My question is regarding order book. So what is the current order book now?

Dipali Goenka: Actually capacity if I talk about our order book we practically run on an 80% of replenishment program. So we are completely packed, if I talk about optimization of capacities our towel is around 105%, our sheets are at around 96% and rugs & others are at 70%. So we have a quite strong order book that we see.

Sumant Kumar: Could you please bifurcate the revenue growth in volume and value this quarter?

Altaf Jiwani: Sumant, our price relation has almost been flat. So there is about 5% of volume growth and there is 1% of exchange.

Sumant Kumar: Thank you so much.

Moderator: Thank you. The next question is from the line of Girisha Saraf from Ambit Capital. Please go ahead.

Girisha Saraf: Thank you so much for taking my question. Now that you have grown so much and have also increased capacity do you see that this is the time to invest more on front end capabilities first say for example brand acquisition and licensing single big brand in the lines of Himatsingka?

Rajesh Mandawewala: This you like that results better than ours. So you are absolutely right. So we have been investing into the front end not now but for several years. See this Hygro cotton is itself turning into a branded franchise for us and we have actually put a large advertising campaign behind, not only in India but also in the international market including USA, in fact as we speak we have gone live on the television with an advertising campaign in the US. So this objective is to get stag onto the product. So it actually gets us that identity of the brand. So much on the Hygro and then this Dipali this why not you tell them about your Spaces and Welhome stuff that you are doing here.

Dipali Goenka: Actually there is a whole lot of things that we are doing even in the diversity of portfolio. We basically have our own home grown brands, Spaces and Welhome and they are actually leading in the market place in India. If we talk about Christy, it is the largest in the terms of the towels in the United Kingdom. So as we go forward we will be investing in a brands to take them forward. So if we are talking about Christy that is going to go global. We are talking about SPACES that are going to go into the SAARC countries and also the Middle East and we also see e-commerce becomes a very important and integral channel for us for distribution of these brands as we take on actually.

Girisha Saraf: Thank you so much. So basically you are not looking into brand licensing. You are rather looking into expanding the portfolio brand that you currently hold?

Dipali Goenka: There are two aspects to it. We have two important brand licenses Wimbledon as you know of and also Rugby. So that is what we are looking at and actually we have a portfolio of strong brands which and apart from that if I talk about patent Hygro that is something as I pointed out will become a very important franchise and we have other 12 patents in pipeline. So we actually have a rich portfolio mix of our innovative products, own brands and licenses as well.

Girisha Saraf: Thank you.

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dixit Mittal: Good evening Sir. You mentioned that one of the reasons behind the single digit growth is the capacity constraint. So can I conclude that you have to receive some of the orders for lack of capacity during last quarter?

Rajesh Mandawewala: No it is not unfortunately we do not have the luxury of refusing orders. So you calibrate and you do not go out and commit or overcommit yourself to your clients so which is what you do. So fortunately we have been up to speed and as I said this we would rather chase demand then put capacity ahead of demand. So as the sales are growing as the demand is growing our capacity is catching up so that is how we go out and manage our capacity. So in the next quarter, or in Q3 let us say this we have capacity available. So that additional capacity has come on stream. So hopefully it should get reflected in the financial performance on the topline. So we are aware there were going to be questions on the topline growth for this quarter but if you look at the quarter one and two put together we have grown about 10.5% and this is with very little additional capacity available. So whatever was available we fully used it and likewise now in the Q3 and Q4 more capacity will be available. So our intent always has been to use the capacity are not to spend the money and then look at the equipment lying idle there. So we do not like that philosophically which we do not like it. So as we put the capacity in we have demand in hand and from day one we put it to full use that so that is what we will do in quarter three and that is what we will do in quarter four. So we have actually gone out and committed the additional capacity that will on stream in quarter three and quarter four. So this I hope that explains what you are trying to ask me.

Dixit Mittal: So basically at this point in time you are in a visibility to grow in mid teens even during this year?

Rajesh Mandawewala: Yes the most definitely.

Dixit Mittal: Secondly you mentioned earlier that capex equivalent to depreciation is sufficient for you to grow in mid teens. So if I project that we will be getting around 1000 Crores per annum kind of. No I am saying its sales. You will need around 1000 Crores incremental sales every year to grow by in mid teen. So 400 is enough for that I mean asset turnover.

Rajesh Mandawewala: It is more than adequate. As I said the current we are actually building the structure for future growth. So this we will very easily manage our future growth for the next few years in the depreciation that will be available.

Dixit Mittal: So incremental capex will be around 2.5 to 3 times turnover, asset turnover on incremental capex?

Rajesh Mandawewala: We will comeback to you on that as of now I related it to the depreciation numbers. So we are very comfortable let us say to restrict our capex within the depreciation number. For your purposes I think that should help you.

Dixit Mittal: On competition like as you mentioned earlier like our domestic competitors are putting capacity ahead of the demand. So how is it for them to sacrifice some of the margins and try to gain the market share from the existing players?

Rajesh Mandawewala: I will tell you what we are doing, what is our philosophy and so if you are asking our views I think its going to be very difficult for large capacities all which have happened very, very quickly. So this is not a market which is let us say it is not a new market. It is a matured market that is not easy to display existing incumbent vendor. So you win with innovation, with a 360 degree approach to the customer doing that extra bit for the customer walking that extra mile. That is how you win market share and if the customers were looking for the cheapest product then India is not the place my friend they would have gone to Pakistan and perhaps even this further down so where product could be available much more cheaper than what it is available in India. So unfortunately this is a touch and feel and look product. It stays in your room for a long period of time and the client who walks in the women who walks in is does not want to save those couple of bucks and then they sit with the product which is substandard or not meeting our this quality expectations. So it is a bigger thing so which is while exercise our team has taken this 360 degree approach go out and actually improve clients business and which is why let us say if we look at our growth so we have been consistently growing and that is why in the future we do not want to bombastic and say this will continue to grow at 25, 30. We want to grow in mid teens I think that is we are capable of doing that and we have not in a hurry to grow. We do not want to do something with the pressure that we have to grow beyond our capacity to grow and go out and commit mistakes which will destroy margins or let us say our positioning as a company in the market place. so we do not succumb to those temptations and which is why clearly gets reflected in the better margins that our business is able to generate and we are actually, we take a holistic approach and which is why we feel comfortable and I just want to put out a word of an advice caution or whatever you guys might want to call it. So do not measure us by a quarter-on-quarter basis. Look at what we have done over the last two or three years and what we will do over the next several years. So we feel very comfortable to grow in the mid teens as we said over the next several years. So please do not look at it from a quarter-on-quarter basis. This one quarter there could be a reason why you do not but year-on-year this you would have seen that we have consistently grown around the 20 mark and so we are actually being cautious and so we feel pretty good about growing our business in that range over the next several years. This is not about the quarter or two here.

Dixit Mittal: Lastly from my side what is your view on this TPP agreement. So will it impact Indian textile player going forward?

Rajesh Mandawewala: Dipali has been spending sleepless nights on this explaining the people. She is not worried about this with the business but Dipali why do not you go ahead and take this one?

Dipali Goenka: Actually when we talk about TPP I in fact spoke to a couple of big outsourcing agencies from China as well. The basic aspect when we talk about TPP definitely Vietnam comes onto your mind and the important aspect when we talk about TPP is actually about apparel. When I asked this question to this outsourcing body they basically said that it could be possible for apparel but then we talk about home textile they would like to be closer to the sourcing and where the whole manufacturing is done. So that is what we are looking at. So India will be least impacted as we go forward India will maintain this position for the next coming or five years as we see forward.

Rajesh Mandawewala: So going one step beyond that so this end of the day see in Vietnam there is actually no home textiles. Vietnam is about synthetics, there is no capacity sitting there and this give us credit for what we have done this, it is not easy for the other to come inside our business, and two is that unlike apparel where there is a 15% to 32% incurring duty into the US. Our product attracts between a 5% and 9% import duty. So that much cost will be payable only for the cotton just to move it from here to there, so even from a apples-to-apples cost basis I think this we are far more competitive particularly in towels and sheets despite this TPP has particularly in home textile so this is the zero cost for worry for us. This will have zero impact on our business. For all it might this happens it might actually improving our ability to source yarn from the outside perhaps more cotton yarn will be available to us at better prices. So it is actually so our expectation is virtually no impact on our business as far as the TPP is concerned.

Dixit Mittal: Thank you Sir.

Moderator: Thank you. The next question is from the line of Aniket Pandey from Karvy Stock Broking. Please go ahead.

Aniket Pandey: Sir I want to understand as you are going to expand your capacity. So what is the demand scenario in coming years and how you are going to increase your market share in US and UK?

Rajesh Mandawewala: There are enough revenues for us to grow. As I said there is a product growth. So we have towels and sheets and now let us say rugs and carpets which is growing. We have gotton ourselves with basic bedding, fashion bedding. So there is a product this expansion that helps us to grow the business. Then we have let us say channels expanding. So bulk of our sales is actually with the retailers. We have hospitality where we made a beginning about three years back. This year we will end up doing let us say this 3%, 4% of our revenue but we will hopefully double our business in the next year. We were doing it exceedingly well there and then this e-commerce so our team is I would say this right at the forefront actually we are very well set up in our key markets to deliver drop shift, take advantage of this e-commerce proliferation so that is another channel for us to grow and then there is geographical growth. So two thirds of our sales is coming from the US. Europe is about 17%, 18% whereas market size of both Europe and US is the same and then there is let us say India do not forget this is the huge biggest opportunity that we have. So we have let us say this product growth we have channel growth, we have geography growth and then we have our own brands. So let us say which is let us say only 10% to 11% of our revenue currently and so this highly focusing on let us say all are brands, which Dipali spoke about and so that is fourth avenue for us to grow our businesses. So we feel very feel pretty comfortable and with all these possibilities for us to as I said grow our business in the teens, middle teens as I would say.

Aniket Pandey: Sir please can you throw some light on the raw material scenario and how the declining cotton prices are going to affect the EBITDA margin of your product.

Rajesh Mandawewala: Whatever decline had to be there, it is all covered in the last year. So there is no news on cotton, which is good news for us. Cotton was trading at between Rs.33000 and Rs.34000 a candy last year in India and we are more or less around the same mark and it looks like we have a decent crop I think this we still have let us say a 4 to 5 million, 6 million bale surplus and the China not in the market to buy I think will be comfortable with cotton situation. So we are forecasting a flat outlook on cotton. So that is a good situation to be in so there is no variability in your basic raw material. So this business goes on unusual so hopefully it is we will stay where we are and it's the best situation for us. So we do not like too much increase or reduction that gets us into discussion with clients on prices, which is last thing that want to be investing energy on so this we are happy with the current situation.

Aniket Pandey: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Congratulations on good set of number and my question is related to your 2020 target of 2.5 billion, which implies 25% CAGR revenue growth. So can you throw some light on this how we can reach there and how much investment we need to make for that?

Rajesh Mandawewala: Let some be with us also.

Sunil Jain: That is quite attracting point 25% and that too for next five years.

Rajesh Mandawewala: Right now I think you guys should do your math on a mid teen kind of a growth. There are a lot of exciting things happening in the company, but they are work-in-process. So these are all internal things that that we are discussing inside the company but when we go out and make a commitment we have to feel very, very good about what the commitments we are making. So I will encourage you guys to stay on this guidance that have been giving for this growth and which is let us say the middle teen growth for the next 4 or 5 years and as we have something that fructifies we will come and share with you we do not want to be sharing half cooked business plans. As I said there is a huge amount of exciting stuff going on in the company but they are work-in-process. So we want give a final touches before we actually come out and share it.

Sunil Jain: All the best, thank you very much.

Moderator: Thank you. Ladies and gentlemen due to the time constraints that was last question. I would not like to on the floor over to the management for closing comments.

Rajesh Mandawewala: Thank you very much ladies and gentlemen for being patient and listening to this one hour investor call and Altaf, Harish and their team are all the time available, if we have not been able to address any of your questions or concerns, feel free to contact us offline and we will be happy to answer your queries and questions. Thank you very much.

Moderator: Thank you. On behalf of IIFL Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.