



## “Welspun India Limited Q3 Financial year 2015 Conference Call”

January 30, 2015



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**Moderator:** Ladies and gentlemen, welcome to the Welspun India Q3 FY 2015 earnings Conference Call hosted by Reliance Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, you may signal an operator by pressing “\*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nitesh Sharma. Thank you and over to you, Sir!

**Nitesh Sharma:** Thank you. Good afternoon Ladies and gentlemen. Welcome to the post results conference call of Welspun India. We have from the management team we have with us Mr. Rajesh Mandawewala, the Managing Director of Welspun Group, Mr. Dinesh Jain, President Finance of Welspun India, and Akhil Jindal, Director, Group Finance and Strategy. Good evening and a big thank you to the management team for coming on the call. I would now like to hand over the call Mr. Mandawewala for initial remarks post which we can start the Q&A session. Over to you Sir.

**Rajesh Mandawewala:** Very, very good afternoon to all of you. This is Rajesh Mandawewala, Group Managing Director. I will take you through the financial results for the Q3 FY 2015 for Welspun India consolidated.

I am very happy to report let us say a 22% jump in the topline in this quarter over the corresponding quarter of last year, so the sales have come in at 1,346 Crores i. e. total revenues, which is a 22% improvement and the operating EBITDA is 340 Crores, which is a 42% improvement over Q3 of FY 2014. The reported EBITDA is at 355 Crores. This is a 29% jump over the last year and the difference between operating and reported EBITDA primarily is on account of treasury income which is about 8 to 9 Crores and there is this another 4 or 5 Crores which is in the nature of a one-time income, so that is the primary difference between the operating and reported EBITDA.

The profit after tax is 144 Crores, which is a 31% improvement over FY 2014 and this is despite a 44% jump in the finance cost at 82 Crores and 83% jump in the depreciation compared to the corresponding quarter of the last year. So the operating margins have come in at 25.3%. This is compared to 21.8% in the corresponding quarter of the last year. So, a good 3.5% improvement in the operating margins of the company. So this has been the easily the best quarter for the business, all the strategic initiatives that we took are finally manifesting in better margins.

So, I would attribute the margin improvement to two important reasons. The first one being you will recall the company commissioned a 170,000 spindles spinning mill this towards the end of September 2014 and the mill is producing at 70-odd percent now. So we got some benefit because of that, so instead of buying cotton yarns, we brought cotton and consequently this helped our operating margins EBITDA. Also there is some impact also of the reduced cotton prices, which favorably impacted the margins in the current quarter.

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Now, the jump in the interest cost is on account of two reasons. Number one is for FY 2014 we had this 3% interest subvention, which was discontinued for FY 2015, so the quarterly impact is about 9 Crores on account of that, a little more than 9 Crores and the other part is that we have actually not accounted for the Gujarat interest benefit, which has started accruing to us as we still do not have let us say, we have applied for the benefit, but we still do not have a document from the state, which is why this as an abundant caution, this we have not accounted for the Gujarat state interest benefit of almost 9 to 10 Crores. So these are two big reasons for the interest cost to jump in the current quarter. We are very sure of getting the Gujarat benefit, but as a conservative accounting policy this we will account for it hopefully this in the next quarter when we receive our eligibility from the state. So these are the two big reasons for the increase in finance cost.

Depreciation of course, the major impact is on account of let us say, the capitalization of almost a 1000 Crores over the last 12 months, so because of this that this higher depreciation charge and you would recall, that we had also changed our method of depreciation now from Straight Line to Written Down value and then to the useful life of the assets. So there is consequently it is higher charge of depreciation which of course is a non-cash charge.

Coming back to the profits, the cash profit in the company for the quarter is about 228 Crores which is a 37% improvement over last year and the profit after tax of 144 Crores is actually a 10.7% PAT margins. So all in all, very happy to report that the company has done very favorably in the current quarter. The order position continues to look good. The US economy is resilient and we feel very confident, there is a feel good factor in the market. The oil prices are down, so on a rough estimate back of the envelope calculation this puts about \$600 of additional disposable income in the hands of every American family. So hopefully a part of this should flow to home textiles, which leads us to be optimistic on the business scenario in the US and also we have just come back from a very, very productive textile fair which is the HEIMTEX fair in Europe and this we had a very productive week and met a lot of customers. So there is a lot of hope that we have also that our business in the European markets will also continue.

The Company's thrust on the domestic market is now continuing. So we launched our advertising campaigns, television campaign in the last quarter which we continued in the current quarter and so the business is on budget. We hope to breakeven on the business in the domestic market that we have. So we are very happy with that business is also flowing.

Also there is a huge thrust now in the Company on the e-commerce side of the business. So while the business is very, very small, but it is off to a glorious start and hopefully we will do about three or four Crores not more in the current quarter which is off our own website, but the business is looking promising so there is a lot of energy and efforts are being put, to let say develop e-commerce as a channel of distribution.

Coming to some balance sheet numbers, our total gross debt is at about 3,000 Crores for the current quarter, so this is almost as much as it was towards the end of FY 2014 where we were

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3,030 Crores, so we had about 30 Crores lesser debt as compared to that and our cash position has improved from 365 Crores to 425 Crores. Consequently the net debt has actually come down by 90 Crores in the nine months from 2,663 Crores to about 2,573 Crores and this is after payment of 70-odd Crores of dividend. One is the dividend which is coming from the last year and then we had declared an interim dividend after the second quarter results, so 70+ Crores of cash has been distributed against dividends. So the net debt of the company has come in at about 2,573 Crores and if you look at the gross debt of 3,000 Crores almost 1,940 Crores is in long-term loans and about 1,060 is short-term loans, which is in the nature of the working capital. Barring 375 to 380 Crores the rest of the long-term loans are all under TUF, so the interest rates are about 7% to 7.5% and out of the balance 1,550 Crores of TUF loans this about 700-odd Crores is actually also under the Gujarat Policy about 800 Crores is under the Gujarat policy for which we will get additional interest benefit as we go forward and we get the eligibility.

The Net Debt to operational EBITDA is 2.1 times , so very happy to report that we have travelled a journey, so on leverage we are currently, if you annualize the results we are 2.1 times net debt to operational EBITDA. This EBIT to interest is 3.38 times and this debt to equity is about 2.2 times but if you take cash out, net debt to equity is about 1.9 times. This would have been better just to recall that we had actually written off 500 Crores of additional depreciation last year with change in the method. So that consequently reduced our networth significantly in the last year, otherwise, we would have been around the 1.7 -1.75 mark, but we are fairly comfortable with the level of the debt and the company's ability to manage this debt as we look forward.

In terms of some other pertinent ratios, fixed asset turnover ratio is 1.9, total assets turn is 0.98 and our inventory in terms of our number of days is 73 days, which is down from about 80-odd days at the end of the year FY 2014. Receivables at about 33 days, payables are 46 days and our cash conversion cycle of 60 days which considering the nature of our business we are very happy to say that it is perhaps the best of at par with the best in the industry.

The return on capital employed post that is about 16.8% annualized and the return on equity is 40% plus. So, these are some significant balance sheet ratios. The important thing coming back to the results of the Company, so a) this we are looking very favorably to two major markets or three major markets I would say which is America, Europe and India. So all the markets we think are going to be improving, the cost situation is under control. So we have got crude prices dropping. Having said that at the time, I must add a rider to this that we are in negotiations with our clients for passing on some of the cost benefit to our clients. We have to be reasonable. We have to be fair to our clients. So we are in the middle of some negotiations. So having said, that I think it will not adversely impact margins going forward in the future, but we will continue to be fair to our clients. We are continuing with our policy of coverage of cotton. So, by the end of March 2015, we would have covered about 80% of our annual requirement of cotton. We are currently at about 50-odd percent and we will continue to cover.

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We are hoping that this budget round the corner and also let us say the foreign trade policy is round the corner so there is a deep sense of understanding within the Government, of let us say continuing to incentivize the export industries. So it might just be possible that we might get back the interest rates subvention that we lost for the current year, so it might actually come back to the next year so we are very hopeful that that benefit would come. The Company's thrust on its innovative product is continuing. So these is good between 25% and 30% has been our strike rate. So we are thereabouts on sales of our innovative product, which obviously deliver better margins and the focus on innovating, the focus on developing new products in the company is getting more and more stronger and it is continuing to improve.

Likewise, let us say our focus on our brands is also continuing. So we continue to take our Christy brand international. So there is a lot of work that Christy is doing. So I am happy to report that this we are now seven or eight shops, basically concession shops in the Middle East. We are there in Robinson's now in Singapore. We have opened up in Hong Kong. So Christy is making good progress internationally, so as a Company we decided this will take the brand international, which we did. We re-launched the brand in America, launched it on the website in the US as well. So we are off to a decent start there. I think we will end the year on the brands also within the US at about \$0.5 million but this is looking very good. This is significantly improving, Our website sales of Christy directly from our side, we will exceed \$1.5 million this year. This also includes all customer website from there let us say we sell products. That is good in double-digits about 10%. So we are happy with the way that the brand is growing.

Spaces and Welhome the two brands that we promote in India have grown in excess of 30% year-on-year and will continue to grow hopefully with all the effort that we are taking as a Company. Coming to the expansion that the Company is currently undertaking so we are half way through, the big lumpy capital expenditure in terms of commissioning the 1,70,000 spindles is done. This is from a technology standpoint we are happy with the way the mill is behaving. We are happy with the quality but it will take us another quarter to get to the optimum level of our production. This is a large mill and there is also a cycle that we need to follow so, we are gradually ramping up operating efficiencies and speeds within the mill, so we are hoping end of March 15 this we should be at the levels where we expect to be and there is 1200 to 1300 Crores of capex left, which we are calibrating, which we will continue to calibrate in a way that we take 18 to 24 months to actually spend the balance part of the capital expenditure. Now the balance part, just to remind all of you is by and large to increase capacities gradually in terms of towels, sheets and all products, but we are taking a very, very conservative approach and this investing money as we see demand so there is not much capital expenditure that we are incurring where this is all in anticipation of demand. So this we hope that as we will bring about the capacity as we need it and we hope to put all the additional capacities that we are investing into business as we spend the money. So all moneys that we have spent on capex until now is being fully utilized and is at full throttle so there is no under utilization of resources and the philosophy of the company will continue to remain the same and so we will judiciously allocate capital. I am very

happy to report that we are free cash flow positive in the current year. Hopefully we will end the year there and/or thereabouts despite let us say the large capital expenditure that we have undertaken so we spent about 417 Crores of capex in the current year and this in a calibrated manner, we are continuing to spend money so that we do not load our balance sheet with too much debt.

So, these would be a few highlights on our business and as I said all of us feel very good about our business going forward. So with this I have finished my presentation. Now I will open the house to questions.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. At this time if you would like to ask a question, you may press “\*” and then “1” on your touchtone telephone. Please use only handsets while asking a question. The first question comes from the line of Pritesh Chedda from Emkay Global. Please go ahead.

**Pritesh Chedda:** Some idea if you could give us one the order backlog side and the visibility as of now you see your business?

**Rajesh Mandawewala:** Pritesh, we do not measure our order position in terms of a backlog because our businesses are generally long-term with our clients and generally we measure them in terms of programs. Most of our business is actually on a replenishment cycle, which means we are either shipping to our clients on a weekly basis, biweekly basis or a monthly basis on the same SKUs over and over again, so by and large this in excess of 80% of our business actually comes from replenishment programs so there is a fair degree of predictability about the topline that we have. So all in all as I said 80% of our business is of a repeat nature, which will continue to happen and it is only about 20% of our business, which is in the nature of one-time, so that is the business that we keep looking for all the time. So in the company as I said very, very optimistic with the way the markets are, our key markets are looking up and we are hoping that it will look up which is oil bonanza and with this additional disposable income in the hands of an average American or an average European citizen and also with the positive knowing in India these markets together account for almost 80% of our business so, hopefully the positive growth in the company should continue in the future.

**Pritesh Chedda:** In your opening remarks you mentioned about new products, new design, typically new products as a percentage of annual revenue how much is it?

**Rajesh Mandawewala:** We do not really measure new products, Pritesh, but we do measure this product that we develop as a Company and what is the percentage of sales of those products in terms of our total revenue. So we are at about 30% of products that we have developed as a company, which we are selling. Now having said that, this is not the only value added part of our business, so this is also the rest of the 70% business, a big part of that business is also actually this higher value product so they are general in nature, there are many, many companies doing them and so the 30% is about

product that that we have developed as a company and the rest of them, the rest 70% a good part within that also is high value added but the ones that we have developed is 30% and there is a strong pipeline which we are currently working on. So we are very happy with the progress we are making on new product developments and in fact our plans really look to us to really see new products and they do give us credit for being an innovative company.

**Pritesh Chedda:** The next question is on the revenue growth side. We have seen about 22% for the quarter and for nine months. Could you break it up into volume growth?

**Rajesh Mandawewala:** Almost 15% is volume growth, so the rest of it is let us say the currency gain or other reasons, but by and large the growth is about in the mid teens I would say.

**Pritesh Chedda:** Thank you. I will come back for the question if I have.

**Moderator:** Thank you. Our next question is from the line of Bhautik Chauhan from Span Capital. Please go ahead.

**Bhautik Chauhan:** Congratulations for good set of numbers. Couple of questions from my side. If you can give us the product wise sales mix between bedsheet, towels and carpet flooring products?

**Rajesh Mandawewala:** Generally we do not give out these numbers, Bhautik. So we actually track total volumes and total sales. In terms of total sales as I said we are 22% up and the volume growth is between 14% and 15%.

**Bhautik Chauhan:** If you can split up between US, Europe and India?

**Rajesh Mandawewala:** US would be about 60%-odd, Europe is about 17% of our revenue, India is 4% and the balance comes from the rest of the world.

**Bhautik Chauhan:** What is the capex plan for FY 2016?

**Rajesh Mandawewala:** As I said the balance is about 1200 to 1300 Crores and this will be invested over a period of 18 to 24 months. So we are not committed to the entire part of it right now as we speak the committed capital expenditure is about 500 out of this 1300 crores. So as I said our goal is to deliver not to grow or increase our debt, so we are looking at our cash flows as we spend the money, so we will calibrate this capital expenditure and with the overall objective of delivering free cash flows is for the current year as well as years going forward.

**Bhautik Chauhan:** Sir, what is your assessment of your cotton & yarn prices going forward?

**Rajesh Mandawewala:** I think the market is and this is again a view, so nobody can predict this, so our view really is that the cotton prices are low and will continue to remain low. I think in my opinion, they are perhaps

at the lowest point that we are going to see, so not only the current year but also couple of years going forward, so this currently actually the cotton prices are way below the minimum support price. Now this cannot continue for long, having said that there is enormous supply pressure in the market and the exports are not there, so cotton is under tremendous pressure, it will continue to remain under pressure. So the current prices are between Rs.30,000 to Rs.31,000 a candy, support prices are around Rs.33,000. So I think I would put, if I were to give you a range my view is the year should average between let us say Rs.31000 and Rs.33000.

- Bhautik Chauhan:** That is all from my side. Thank you. All the best.
- Moderator:** Thank you. Our next question is from the line of Aman Sonthalia from Suvidhi Capital. Please go ahead.
- Aman Sonthalia:** Congratulations for the fantastic results. Just wanted to know as you have said you are going to pass the cotton prices to the customers in the coming quarters, so whether it will impact the margin or will remain the same?
- Rajesh Mandawewala:** **No**, This is not about passing on out cotton prices. This is about readjusting prices where clients looking at the way our total cost has moved. So there are costs which are going up. We all understand manpower cost goes up, wage rates go up, salaries and wages go up, there are many parts, the dyes and chemical costs have gone up, so there are many costs, which have also gone up, so if you take a reasonable view and then sit and have a discussion with our clients, all in all that we do not expect any negative impact on our margins on account of price.
- Aman Sonthalia:** Sir, in this quarter as compared to the previous quarter, the tax liability has come down, the tax charges have come down. So whether it is going to maintain in the same level or will it go up again?
- Rajesh Mandawewala:** All practical purposes we are under MAT. So the cash tax outgo is only MAT, which is about whatever that 20% and the rest of it is actually the deferred tax. It is a non-cash charge that we put on our balance sheet. So all in all we will be 33% or thereabouts of total charging of tax in the P&L but the cash out will be only the MAT, which is 20%.
- Aman Sonthalia:** But it is shown the profit and loss account, that is why I am just asking?
- Rajesh Mandawewala:** So if you look at nine months.
- Dinesh Jain:** It is lower in nine months because of investment, allowance etc, which is on capitalization and the finalization of the tax returns of this last year this WDV adjustment and all these things done in this quarter so this quarter tax liabilities were lower compared to the last year.
- Aman Sonthalia:** Sir, when you will take this interest tax relayed from Gujarat government?



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**Rajesh Mandawewala:** We are eligible for the benefit from October 1. So, our application is dated October 1, so because this is the first large application that has been filed in the state so the bureaucracy is going through this and it will take a little time for them to settle down the processes and things like that, but for all, practical purposes the benefit will accrue to us from October 1.

**Aman Sonthalia:** Whether we have begun this benefit in this quarter or you will take the benefit?

**Rajesh Mandawewala:** Whatever is conformed to us, we have taken, whatever is not conformed like the ones that we have not taken as the interest benefit. So, the interest benefit is due to us from October 1 which is let us say almost 9 or 10 Crores for the current quarter but we have not booked the benefit of that 9 or 10 Crores in the current quarter which hopefully should happen in the next quarter. So for the next quarter we not only book the benefit for the next quarter but we will also book the benefit for the Q3 as they get cleared. So there is no uncertainty around this, but as a matter of abundant caution, we have been cautious around this but there is no uncertainty around this. So we see that the departments have issued us a letter stating that this benefit is due to us and that we need to wait for the process to get accomplished. So, we have a letter from the concerned government authorities telling us, that we will be entitled to the benefits base as per the policy, but we would rather wait for the final certificates to come before we actually book the benefit.

**Aman Sonthalia:** Sir, about this spinning plants, whether it is giving you any returns to the company at present?

**Rajesh Mandawewala:** Yes, Which is why you see a little margin improvement as compared to the previous quarters, so of **this** , there is a lot of value that we add, so our raw material price goes down and consequently let us say the margins look up a little better. Having said, the current year this is a year where if you look at spinning as a business on a standalone basis, so this year is going to be under pressure for obvious reasons. China is not buying as much cotton yarn as it use to from India, there is a margin compression on the spinning side of the business. So that will also impact us. Having said that we get a 3% to 4% benefit on account of captive consumption. So all that we produce is consumed in-house, we save freight, we save taxes, we save packing costs, we save working capital interest so that puts another three or four additional points of margins as compared to our standalone spinning mills. So with that in mind it is contributing positively to our margins.

**Aman Sonthalia:** At what rate and what capacity it is running?

**Rajesh Mandawewala:** 100%, Right now from speed perspective we have not reached the peak level of feeds in our spinning mill and as I said that is the process so that is running in process, so you gradually increase the pace, set the mill at a given pace and you take it higher gradually, so by March 15 end we believe this we should be at the optimum level. So right now we are about 70% or thereabouts in terms of delivered kilograms let us say as compared to revenue.

**Aman Sonthalia:** Again, if we did 100% capacity utilization on this, then it will again positively impact the margins?

**Rajesh Mandawewala:** Obviously, because the costs will increase very little so the additional contribution will all drop to the EBITDA line.

**Aman Sonthalia:** In the next quarter can we expect some positive sales growth compared to the December quarter and September quarter?

**Rajesh Mandawewala:** We do not compare our results quarter-on-quarter. So a good measure is actually annual results and as best we compare our results with the corresponding quarter of the previous year, so we are hopeful of gaining with additional volumes and to grow our business is very positively in the fourth quarter as well.

**Aman Sonthalia:** In the next year how much we can expect volume growth, around 7% to 15%?

**Rajesh Mandawewala:** We have guided this, so it will be say double-digit and mid teens is pretty doable so that is why our guidance is. It is not only our guidance for one year, in fact last year we had made this guidance for the next five years. This year we have actually beaten until now what we had guided. So I would rather stick to what we have discussed in the last year and which is a mid teen kind of a growth, so certainly in the other digits in the middle teens where our comfort is and this is our comfort for the next several years not only the next year.

**Aman Sonthalia:** One more question, what is the present loss in the domestic market?

**Rajesh Mandawewala:** There is no loss. Our business is breaking even. So despite let us say of a low base but the business is paying for all its expenses and including let us say the loading the corporate loads that we allocate to the business so there is no loss and we do not intend incurring loss, and blowing money away. So our intent is to run the business profitably.

**Aman Sonthalia:** Thank you.

**Moderator:** Thank you. Our next question is from the line of Dikshit Mittal. Please go ahead.

**Dikshit Mittal:** Good evening Sir. Sir, as you mentioned earlier in the call that your negotiations with the customers are on, so after renegotiations do you see any impact on the 25% margin that you had declared or these are sustainable or we may see some impact?

**Rajesh Mandawewala:** Dikshit this is the best quarter that we have ever had, so there is nothing that is happening to our business which is currently telling us that it will impact our margins negatively. Having said that look we have to account for a few things in the future, so a) there is some right now that the raw material prices are perhaps at the lowest, b) there are government incentives on exports that we

get which could get phased out. So there is no indication as such, that they will get phased out but we have to provide for that when we guide so we have been consistently guiding 22% margins on a sustainable basis over several years going forward. So we can take a five-year and we feel confident that the company is good to deliver 22%. This when we say 22, we take into account all these even tomorrow if these things were to happen in our business we feel our business is good to deliver that kind of margins. So if there is no headwind then the margins will be higher obviously, if there is a headwind, so on a sustainable basis I would encourage you guys to value our business at 22 points so that you guys do not go wrong and at whatever levels you look at us a company you look at it at from that perspective so I would rather under promise or over promise and create an illusion on something.. So those two or three points we always reserve for let us say these unforeseeable contingencies in the future. Having said that, as I said that there is nothing happening today which is alluding to a margin drop so there is nothing which we are doing or which we are seeing which will lead to a drop in the margins. So the only thing, which can reduce margins as I said, is reduction in the government incentives, like this year we lost the interest rebate, so that impacted 30-odd Crores on our PBT. So we want to reserve that. We want to create a contingency buffer for the margin which is why we want to be conservative with our guidance in that regard.

- Dikshit Mittal:** Sir, this 30 Crores impact that you mentioned, that is for the quarter or for the full year?
- Rajesh Mandawewala:** That is for the full year.
- Dikshit Mittal:** Secondly, what is our realized exchange rate during this quarter and at what rates are we hedged for the rest of the year?
- Rajesh Mandawewala:** It is about Rs.64 or thereabouts and hedging is just about the same. So, with our current level of hedging we are at almost the same level.
- Dikshit Mittal:** Sir, quarterly interest and depreciation rate will remain at the Q3 levels or they may increase further?
- Rajesh Mandawewala:** They will reduce actually. Depreciation will go past slightly but the interest will actually reduce. The moment we start claiming the Gujarat benefit on the interest and it should actually reduce from here.
- Dikshit Mittal:** Sir, you said that 22% is the long-term sustainable margins. So in case these benefits sustained for at least for the near term, so next two to three quarters are you comfortable with 25% margins?
- Rajesh Mandawewala:** I will reserve my comments on that. As I told you I do not want to lead you guys the wrong way on the wrong path, and we will commit only something, which we are able to support for not this

one quarter, two quarter, three quarters but for several years. So I will reserve my comments on that one.

**Dikshit Mittal:** Sir, the realized exchange rate of 64 was supposed to be average realization was around 61 for a dollar for the last quarter. So this exchange gain has you booked somewhere?

**Rajesh Mandawewala:** No, this last quarter was also at a similar level. So we were hedged. So we have a very consistent hedging policy. So across the year we have been around the same levels and we will continue to be around the same level as we see things right now.

**Dikshit Mittal:** In terms of debt current is the peak debt, so will we see any reduction in the gross debt levels or they will remain at the same level?

**Rajesh Mandawewala:** If you look at our current debt, we are actually 30 Crores less of gross debt as compared to last year. If you look at net debt we are about 90 Crores less than end of FY 2014. This was after 70 Crores of dividend payout. So actually if you look at our net debt position before dividend payout it is actually 160 Crores less, so you can expect that we will run our business and we will run our capital expenditure cycle in a way that it delivers, some free cash flow, it will not be a large free cash flow, but some free cash flow so that we will not increase our debt from where it is. So this barring one, if some shipment of some lumpy machine comes in some any quarter or so, that is a separate thing, but year-on-year we are very conscious that we do not want to increase our debt. Despite the capital expenditure and despite the payout, distribution on dividend that we are making, so that is for the moment that is our goal.

**Dikshit Mittal:** Last question, any thoughts on dividend policy Sir?

**Rajesh Mandawewala:** Wait one more year my friend. We want to get past another 700 to 800 Crores of capital expenditure. Once we do that we will formulate the policy, but look our actions are already indicating there was a 30% interim dividend after the second quarter, so we feel very confident about our business which is why we declared this dividend and we are mindful of this, investor expectations and we have to also remember that we are the largest shareholders in the company so this any distribution first as promoter. So we are mindful of this and the intent is to be liberal on this as the things stabilize with the capital expenditure this you will see that the payout will continue to increase and improve and we will come out with the policy over the next twelve months.

**Dikshit Mittal:** Thank you Sir.

**Moderator:** Thank you. Our next question is from the line of Dhiman Shah from Principal India. Please go ahead.

**Dhimant Shah:** Good afternoon Mr. Mandawewala. Just a quick question, just wanted to check whether given the benign raw material scenario at least in the foreseeable future or for next few quarters, would we alter the kind of holding raw material inventory holding from a couple of months or would we calibrate it downwards, what would our policy be there number one? Number two can you also help us in the volume growth in each category.

**Rajesh Mandawewala:** It is a good question here. We want to be consistent with our raw material procurement policy so it is not only about pricing there is also a quality factor which comes into play and a big part of the cotton that we consume is actually now going into producing fine count where we really need good quality of cotton. So beyond February, March it becomes difficult to find good cotton and so which is why we will tank up on good quality cotton that we need, so there is not much change that we are looking in terms of our cotton procurement policy, so it is more driven by this quality considerations than economic considerations, so we need to be consistent with our plans which expect a consistent and good quality from us so that is a gate opener for us, so we will continue to invest in cotton. Coming to the volume growth, as I said we are about 14% this volume growth for the nine months so I am not talking taking quarter references here, which could be misleading so we are at about 14% of volume growths for all our products put together.

**Dhimant Shah:** But you are not sharing the broad categories?

**Rajesh Mandawewala:** No, not at this stage, this we are not sharing that information and when we are ready to share it we will share it with you.

**Dhimant Shah:** There has been a substantial jump in the gross margin, would the gross margins also be around the vicinity that it has been in the reported quarter?

**Rajesh Mandawewala:** Absolutely so obviously we are buying lesser yarn and buying more cotton so the margins have improved and so they will continue to remain robust as we go forward.

**Dhimant Shah:** But is there tacit arrangement with the customer. As you earlier pointed out that we take into account our costs and then pass on there is a mechanics to pass on some benefits both owing to forex and both owing to possibly the expansion in the gross margins?

**Rajesh Mandawewala:** Of course, it works both ways though if you look at the last two, three years so this we were actually witnessing an adverse spend on cost and our clients were good enough to give us the price increases whenever we were hit with the cost increase. So in all fairness we have to return it back but it will be on a margin neutral basis so the intent is this is going to be on a margin neutral basis not it would not hurt margins.

**Dhimant Shah:** One last question if you may permit, can you enumerate whether the margins are better in bedsheets or better in the rugs or they are more or less same?

**Rajesh Mandawewala:** Look the margins are in line with the maturity of each product that we have, towel is a 20 year old business in the group. We are the number one company in the world on that and this by far the largest exporter of towels in the world and so that is a very, very matured product categories for us, so the highest margin actually comes from that and almost 55% of our revenues actually come from that and our sheets is it is about eight nine year old business now for us. We are fairly matured in that category so the next best margins actually come from there, rugs is a four five year old business so we are just about getting there now, where this we have been treated seriously by our clients in this category and we find ourselves someone in the top four or five players in the world in that category. So the net in line margins is on the floor product so it is all clearly this on the maturity of the product.

**Dhimant Shah:** No essentially as more mature the products the more profitable it would be?

**Rajesh Mandawewala:** Yes, that is generally speaking so you do better value product, you get better on innovating so the margins tend to improve as you mature in the product category.

**Dhimant Shah:** One last question Sir I mean it is a combination sorry for this being super last, the peak capital employed in the business would be roughly around 5200 Crores, 5300 Crores, I do not know what that figure would be, the current capital employed is around 3900 Crores odd and we are yet to capitalize about 1300 Crores, is that correct?

**Rajesh Mandawewala:** Yes this is including the capital WIP, Dhimant so the capital employed includes the capital WIP.

**Dhimant Shah:** Which is 700 Crores and you have to spend another 700?

**Rajesh Mandawewala:** No so there is 1300 Crores of additional gross block that we will add from here.

**Dhimant Shah:** But what about the working capital owing to that new gross block?

**Rajesh Mandawewala:** There will be some working capital investment that will go as the volumes increase. Having said that, look the more we have integrated vertically so it will actually enable us to manage our working capital a little more effectively, So the company is doing a lot of work to tighten its working capital cycle, so I think there is room for us to further improve our inventory returns which we are working on and we are hoping that we are there will be slight additional investment in the working capital but not much so the increase in working capital on account of volume growth where we will try and partially offset it through better management of working capital.

**Dhimant Shah:** Correct, so the peak capital employed will become what Sir in your opinion this 3900 Crores will become roughly about what 5000 odd Crores?

**Rajesh Mandawewala:** See about 1000 Crores beyond this so I think.

- Dhimant Shah:** Close to 5000 Crores.
- Rajesh Mandawewala:** Yes that would be the peak because see if we keep charging depreciation also so that continues to reduce capital employed so I am going from the top of my head here this will do the math and send it back to Dhimant, but it would not add 1000 Crores. I doubt it will add 1000 Corers because that my first guess would be about 500, 600 but we will do some maths and get back to you on this.
- Dhimant Shah:** As a related question the sales tax and the other benefits that the state have given you, how do we normally account for?
- Rajesh Mandawewala:** These are all on accrual basis so this which we have been doing consistently over several years. So our philosophy is very simple if you know you are going to get the benefit you account for it, if you are not or if you do not have a document which tells you that you can take this benefit if you do not account for it. So there has to be a document from the government, which tells us that look you are entitled to this benefit only then we take that credit. So there is no uncertainty whatever we have reported there is any uncertainty around this, whatever benefits that we have received.
- Dhimant Shah:** Fair enough. Thank you so much for answering everything. Thanks.
- Moderator:** Thank you. Our next question is from the line of Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** Congratulations on the wonderful set of numbers. I have two questions; the first question is could you share with us the geography wise growth across different geographies?
- Rajesh Mandawewala:** By and large we are 20% plus in US, Europe and India and little lesser in the rest of the world.
- Nihal Jham:** That is year-on-year right?
- Rajesh Mandawewala:** Yes, this is a nine month thing that I am giving you so over the first three quarters we have grown this 20% plus in US, Europe and India which are our three largest markets and the rest of the world is around 15%.
- Nihal Jham:** The other question is could you share with us the capacity utilization across the different products?
- Rajesh Mandawewala:** We are 100% plus on towels my friend, we are 94% on sheets and we are 57% on rugs and carpets.
- Nihal Jham:** That should be it from my side.

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

**Sumant Kumar:** My question is regarding the volume and realization data for sheets, and towels, it is possible to give the data on that?

**Rajesh Mandawewala:** The volume numbers we do not give out my friends and see the realizations are not important so as I said our prices will go up and down with our cost so what is the important is we measure the business in terms of margin and our margins we are comfortable at the current level of margin but from a futuristic we would reserve our comment saying our margins are likely to be if we feel very confident on 22% even if let us say some of the benefits on exports were to be faced out or let us say the cotton prices were to react a little bit on the negative side but despite that this we have good to go for 22% so that is the floor that we are working on and till such time we have this favorable tailwind we are enjoying higher margins and hopefully will continue to enjoy them.

**Sumant Kumar:** Can I assume that the margin for this quarter in towel and sheet will be in the range of 22%?

**Rajesh Mandawewala:** You are taking actually you are putting words in my mouth, they will be higher honestly but this I would advice you my friend to measure our companies again at a ongoing margin of 22% you will not go wrong if you did that.

**Sumant Kumar:** So can I say that there is an improvement on YoY in the market?

**Rajesh Mandawewala:** There is because see this quarter we have increase 3.5% in margin and there is a reason because we are vertically integrated with this large spinning mill so there is a reason for the margin growth. So this jump has come on account of let us say this higher vertical integration and if nothing changes it will continue.

**Sumant Kumar:** Could you please guide us the demand scenario for the sheets and towel in US and Europe going forward?

**Rajesh Mandawewala:** We are very, very positive. We are very, very optimistic on the current scenario and it is manifesting itself in the capacity utilization. So America is very robust as I said both Europe and America average family now have \$600 additional of disposable income to spend on account of this oil price reduction and now with this huge \$65 billion per month stimulus in the European market this will put a lot of cash in the economies these countries, so all these boards very well or us and also their Indian economy so all of us are hoping we are virtually at this on a takeoff stage here and these three markets put together account for an excess of 80% of our business so in all major markets where we operate, I think there is all good reason to be optimistic on business going forward.



**Sumant Kumar:** Last question in towel segment we are at the 100% capacity utilization, do we have plan for any capacity expansion in this segment?

**Rajesh Mandawewala:** Yes, so the rest of the capital expenditure that we are going to incur and also this past capital expenditure that we have incurred also has increased our capacity to some extent so almost all of the further capital expenditure is to increase capacity. So our towel capacity will go up by say about 10%, to 12% for the next year and also our sheet capacities will go up about 15% in the next year so every product as our utilization touch is 90% we grow capacity in a very calibrated manner in line with our expected sales, so we will continue to keep pay so that 1300 Crores of remaining capital expenditure that I am alluding to all this is about increasing this our capacity, increasing our efficiency, our energy cost, our manpower cost so this will all go to enable us to earn more revenue and this deliver a better volume.

**Sumant Kumar:** My question, we are doing Brownfield expansion so we have any plans for Greenfield expansion or major expansion in towel segment?

**Rajesh Mandawewala:** There is no need for us to do that. So in both we have two plants one in Anjar and one in Vapi and we have a massive infrastructure sitting there so we have no need or intent going out of these two sites. There is enough capacity for us to grow and at least we are not forcing anything for the next at least four or five years.

**Sumant Kumar:** Because we are increasing our capacity by 10% to 12% only so do we have plan a major expansion?

**Rajesh Mandawewala:** As I said, we grow capacity, because we are Brownfield, we do not need to go big bang on increasing the capacity. So why should we invest money on capital equipment which is going to be invested and then stay idle so we do not want to do that. We increase capacity as we see demand and we will continue to increase that capacity. Our mills are capable of increasing with the two sites put together we can actually this increased capacity by 60% to 70% if we wanted in each of our product categories, but why should we even we cannot grow our sales by that percentage where is the hurry for us to increase the capacity so which is why, our capacity expansion a part of it happened in FY 2014 a part of it is happening in FY 2015, part will happen in FY 2016, part will happen in FY 2017 so we will grow the capacity as we needed where is the hurry for us to blow the money and reduce our capacity utilizations.

**Sumant Kumar:** So you are adding capacity as per the demand?

**Rajesh Mandawewala:** Absolutely, our minds are very clear on that so this we would not, do not want to invest your money and keep it idle without generating a return.

**Sumant Kumar:** Thank you so much. That is it from my side.

- Moderator:** Thank you. Our next question is from the line of Riken Gopani from Infina finance. Please go ahead.
- Riken Gopani:** Congrats for a great set of numbers. Sir first thing I would like to understand some color on the improvement in margin that is happened this quarter, what proportion of that would be on account of the spinning capacity that has got added and what because of the raw material?
- Rajesh Mandawewala:** Almost all of it is on account of the two reasons that you mentioned and by and large it is on account of the vertical integration and so this as we said the favorable cost this we intent to passing it onto our clients so this you can consider that to be neutral.
- Riken Gopani:** Follow up to that would be so now what proportion of our yarn requirement is in sourced given the 70% utilization of the capacity?
- Rajesh Mandawewala:** We are about 75% now Riken.
- Riken Gopani:** 75% is in sourced?
- Rajesh Mandawewala:** Yes.
- Riken Gopani:** As you speed up the spinning capacity to reach a 100% utilization there is still some more room of I understand your range and your comfort levels but I am just understanding from the perspective of where you are today is there further scope to improve margin just as you reach that 100% in source?
- Rajesh Mandawewala:** There is a slight impact. There is no question on that. So we are currently at about 70%, 75% so a slight improvement should be there. So from 75% we will move up let us say to almost 90%, 95% of where we intent to be so to that extent but there will be a slight change this 75% that I mentioned is operating at peak capacity of the new spinning mill. So currently we would be about around 71% - 72% mark.
- Riken Gopani:** This in sourcing which is at this quarter it is about 75% because of the new capacity the Q3 of last year what was that proportion would you have it handy?
- Rajesh Mandawewala:** Q3 we would have been about this 40% or thereabouts.
- Riken Gopani:** 40%.
- Rajesh Mandawewala:** Yes, so see this after in the last 12 months not only this 1,70,000 spindles but we added some open-end machines for 25 tonnes a day, we modernized one of our 25,000 spindles mill to make it coarse count for that added about this about 4000 tonnes of annual capacity to our system. So in the last one year on the yarn side in fact a lot of increase in this capacity has happened.

- Riken Gopani:** One question on the carpets and rug side of the business though you said segment wise you are given the revenue growth but you had mentioned last quarter you got some breakthrough orders in the carpet side and you are starting supplies there, any color that you would like to share, what is your view to shaping this?
- Rajesh Mandawewala:** I am very happy to report that now we are in business as far as carpets is concerned so this quarter as we will start shipping when I say this quarter it is a January to March 15 quarter so the January to March quarter so we were actually under trials and sampling in the October, December quarter so now we will finally start shipping in the January to March quarter to our clients. So you can expect this significant volume growth coming from there going forward in the future.
- Riken Gopani:** In the next one year what proportion of you business can carpets become?
- Rajesh Mandawewala:** So the rugs and carpet we measure it together so that should account for about anything between 7% and 9% of our business.
- Riken Gopani:** From the current would be 5%?
- Rajesh Mandawewala:** Yes, we are between 5% and 7% quarter-on-quarter so 2% this overall improvement as we go forward.
- Riken Gopani:** Another question was on the India part of the business what was the growth, you said 30% is the growth there is that correct or was it high?
- Rajesh Mandawewala:** Actually this I was wrong the branded side of the sales was actually 52%. Overall growth is about 30% but our branded sale has actually grown 52% in the nine months.
- Riken Gopani:** If you could share what proportion of this is coming through not just your but overall e-commerce website that you are selling through?
- Rajesh Mandawewala:** E-commerce is a small part of the overall thing although it is growing very, very rapidly but right now it is a small part of the whole thing almost insignificant so I would say 5% of the domestic business is coming from e-commerce or there about and the rest of it is actually all coming from the stores.
- Riken Gopani:** Just one last point any even whatever is happening through the reduction that RBI has done do you expect any rate reduction for yourself and are there any rating improvement related other reactions which can happen during the overall cost of interest?

- Rajesh Mandawewala:** So our loan agreements provide for a resetting of the interest rate as the banks reduce their prime lending rates, so but none of them has done anything so far, so if they reduce their prime lending rates it will start impacting our interest rates as well.
- Riken Gopani:** Thanks a lot. All the best Sir.
- Moderator:** Thank you. Ladies and gentlemen, we will take our last question now which is from the line of Sangita Tripathi from Sharekhan. Please go ahead.
- Sangita Tripathi:** Good evening Sir. Congratulations for this brilliant set of numbers. Basically all my questions have been answered. A final understanding on the incorporating the Gujarat benefit once we incorporate that what would be your average cost of debt?
- Rajesh Mandawewala:** So the new debt that we are acquiring Sangita will come to us at about 3% because it is about 10% or less than 3% or all the TUF that will come under 3% because we will get 5% back from the TUF and this almost a similar thing from the Gujarat state so the new debt will cost us say about 3%.
- Sangita Tripathi:** New debt that means on these 1200 Crores?
- Rajesh Mandawewala:** Right now for example that we have drawn 790 Crores of debt under the Gujarat policy so all the 790 Crores that we have drawn we will get this benefit so that will cost us 3%. having said that right now we are not accounting for the Gujarat benefit we will hopefully account for in the next quarter.
- Sangita Tripathi:** Sure that I understand, so on 790 it is 3%.
- Dinesh Jain:** Even for the new loan.
- Sangita Tripathi:** Even for the additional new loan which we will take.
- Dinesh Jain:** Yes, all the loans that we will draw term loans that we will draw from here on including the 790 will be at 3%.
- Sangita Tripathi:** So they effectively the interest rate would be somewhere around 5%, 5.5%?
- Rajesh Mandawewala:** The term loan should be about 3%, 3.5%. There are still some old term debt that are remaining which most of it will get cleared in FY 2016 so after FY 2016 I think most of the debt that will remain will actually be at let us say 3% or thereabouts. Except this we have 300 odd Crores of debt which is at full cost which is the debt taken against our captive power plant so almost 300 odd Crores of debt is actually at full interest rate of 12% or there about so.

- Sangita Tripathi:** Which is the part of term loan, okay?
- Rajesh Mandawewala:** Yes.
- Sangita Tripathi:** That is it. Thank you so much for very positive commentary.
- Moderator:** Thank you. Ladies and gentlemen that was our last question due to time constrains I now hand the conference over to Mr. Sharma for closing comments over to you Sir. Please go ahead.
- Nitesh Sharma:** Thanks everyone for participating in the call. Rajesh Ji any closing comments from your side?
- Rajesh Mandawewala:** I have to thank all our analysts and investors for being patient with us and I hope the company's results have been to their expectations. As I said our team is fully poised to continue to do the good work and make rapid inroads into all the markets that we operate in and continue to positively deliver results going forward in the future. So with that I thank you all very much. Thank you for the phenomenal participation. Thank you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Reliance Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.