"Welspun India Limited"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY13 Results Conference Call of Welspun India Limited, hosted by Espirito Santo Securities. As a reminder for the duration of the conference all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call you may signal for an operator by pressing "*" then "0" on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Toby Adcock of Espirito Santo. Thank you and over to you Sir.

Toby Adcock: Hi, everyone and thank you for joining us for the Welspun Q4 Results Call. I am joined by Mr. Mandawewala, who is the Managing Director of the Welspun Group, Mr. Jain, the President and CFO of Welspun India and Mr. Jindal, who is the Director Group Finance and Strategy of Welspun India. With that I will pass on to Welspun Group M.D. now. Thank you.

R Mandawewala: Thank you gentlemen for coming on the call. Welcome I am Rajesh Mandawewala, Group Managing Director at Welspun and in the next few minutes I will try and take you through our financial performance and the general state of affairs at Welspun India for the year FY13.

So just to continue from where we left the restructuring of the Home Textile Business of the Company was successfully completed in the last quarter. It happened in November. All the court approvals were received. So consequently this annual result update that you are seeing is actually post the restructuring so it incorporates the results of all the restructuring. Now what it does is it brings all the Home Textile business under Welspun India Limited. So this is now representing the entire business very simple this organization structure that we were able to achieve.

Coming to the financial performance of the company we ended the year FY13 with a sales of 3647 Crores on a consolidated basis with an EBITDA of 644 Crores and our profit after tax of 225 Crores and a cash profit of 418 Crores this represents 17.7% EBITDA margin. The revenue growth is about 13%. EBITDA has grown by 56% compared to last year. The profit after tax we had a loss on a consolidated basis in the last year. So consequently the company has turned around and the cash PAT is grown by 139% over what we did achieve in the last year.

Now what you see on the published results for Q4 FY 13 is actually not comparable because what you see on the published results is actually the standalone numbers of WIL last year. So the number that I am referring to, are in comparison to had this restructuring happened last year then how would have our numbers look in Q4-FY12 and this Q4-FY13 numbers are of course published as per Clause 41.

So coming back it has been a decent performance by the company and 13% annual revenue growth. This is after let us say, after restructuring which means a lesser number of retail stores in India which we closed last year. With exiting out of Sorema, which was a company that we owned in Portugal and shutting down the Mexico factory, so despite all these activities, which we had in FY12 our revenue actually has grown by 13%, and overall the EBITDA is about 644 Crores.

Coming to the balance sheet side the Company's net debt is about 1745 Crores. The net debt to equity is about 1.76. This is against 2.23 last year. The long-term debt in the company is about 1100 odd Crores and so the long-term debt to equity is 1.12. The net debt to EBITDA is 2.71. The return on capital employed is about 11.4% and the return on equity for FY13 is almost 23%. So on all indices the company has actually performed much better as compared to the previous year. So this significant part of improvement in performance is actually coming from the restructuring as I had mentioned during the previous few calls that we actually cutout all the loss making businesses from the company, which was the retail business in India, like Sorema is company that we owned in Europe and the couple of factories that we owned in Mexico. So these were all leading to 140 – 150 Crores of losses every year, which we actually cutout in FY12 and had booked let us say all the impairment, all the losses in FY12, so consequently what you see is the results for FY13 are after let us say this all these loss leaders were actually behind us.

If you look at the quarter four vis-à-vis the Q4 of FY13 against FY12, I am referring to the comparable numbers. So the sales were 757 Crores for this quarter. This is against 840 Crores last year. So there is let us say a revenue drop of about 10%; however, on the EBITDA front we were 96 Crores last year to 134 Crores this year and profit after tax last year was a negative 45 Crores against that we are 63 Crores of profit after tax in this quarter. Cash PAT was about 3 Crores last year against that we are 130 Crores, and the EBITDA margin is about 17.7% in this quarter so which is what, the EBITDA margins for the quarter more or less we have done for the year and so the margins have been maintained. There has been some reduction in the revenue of the Company and this primarily because of a) coming from some of the businesses that we closed down in the last year and b) is this quarter we saw some significant clients of ours, actually cut down on their inventory so that is actually reducing the off take so hopefully we will get back to this better topline going forward into FY14.

So this in nutshell is the financial performance of the Company. Let me share some other key developments with the Company. The Home Textile today, which is the number one Home Textile Magazine in the US actually ranked us number one in an annual survey that they did in January 2013, we were ranked two last year, so from two we were ranked one this year, which indicates that we are now the number one Home Textile Company for the US market.

During the year we also acquired 13% in Welspun Retail Ltd, so Welspun India was already owning 85% of Welspun Retail. We acquired another 13%, so this now we own almost 98% of the equity of Welspun Retail, which we consolidated now with Welspun India.

During the quarter Dipali Goenka was appointed as the Executive Director of this Welspun India Limited. Actually it did not happen during the quarter. It happened on April 1, 2013 and in FY13 the Company actually won nine customers, another important awards. We won the responsibility award from Wal-Mart, we got the Global CSR Excellence & Leadership Award from Blue Dart, we got the most Preferred Furnishing Brand Award from Magppie, we got the Gold Supplier award from Tesco in the UK, we got the Innovation Award for Eco dry towels from Golden Peacock, we got the Best Product Award from Wilkinson in the UK, we got the 5 Star Award from Macy's in the US, we got the vendor of the year award at Sears and K-mart in the US, and we got the Partner In Business Transformation Award from Sears and K-Mart. So it was with a very rewarding year in terms of let us say the recognition of efforts of the Company by our customers and some significant other global agencies.

Coming to what the Company is trying to do in the future, let us say what we are trying to do now is as the business has stabilized to actually it has increased the level of integration in our business. So as I speak the Company produces about 35% - 40% of the yarns that we consume and we produce about 40% odd of the fabric of bedsheets that we consume.

Now this is slowly started becoming a challenge for us to now source good quality yarn and fabric from outside. So we are now undertaken to significantly invest on capital and increase our level of integration both in yarn as well as fabric to 75% level. So even as the Company is looking to invest about 1000 Crores over the next 12 to 18 months to vertically integrate, now that is an absolute low risk investment that the Company will undertake and the reason why I say this is because this day one as we start the operations with these expansions we will consummate in-house so the risk on the capacity utilization going out and trying to find the market for the product, all those things are not there. So it is to consume in house into our bed sheeting and towel operations. So which is why I say very little risk.

The other thing is the Gujarat government has actually announced a very attractive policy where we will get interest of 5% for textile generally and 7% for spinning back from the state of Gujarat. Now this is over and above the 4% and 5% interest rebate we get, that we get under the TUFS from the cental Govt. So all these expansion that we are implementing will actually result into a net rupee borrowing cost of between 2% and 3% for us. So this very low on net interest burden and besides that we have some other benefits under the Gujarat policy like Re.1 reduction in the power tariff and also some VAT incentives. So all and all this I think the Company's expansion into vertical integration is I think very well timed and just to recall as a Company we actually invested very little capex, so the last four years our net block has remained at 1700 Crores and we are very consciously this are not invested capital into the business to grow the business for the simple reason that we wanted to repair the balance sheet, which looked very stressed like almost all other balance sheets in textile so this need conserved capital, we conserved cash, we actually blocked all the capital expenditure but we have come to a point where now we need to invest to vertically integrate or else in a year or two it will start hurting our business so it is absolutely vital for us to now vertically integrate, which is why this we have undertaken this capital expansion.

So that is about the project in terms of outlook. The general environment the Company's business is primarily coming from exports almost 95% of our revenue comes from exports. The environment internationally continuous to look challenging and while USA is starting to show let us say this improvement signs in terms of let us say housing prices and also the consumer spending, Europe is still hurting and we see a sharp impact of consumer behavior on their spending money at retail. So it is like last year I think this FY14 will continue to be a very challenging year. Having said that this in uncertain times the customers generally try to consolidate their vendor rate and they consolidate business with vendors who are strong, or who are capable and who are one amongst the leading companies. So fortunately I think Welspun India will actually benefit from the trend. So despite the challenging environment we are hoping to continue to grow our business may not be very handsomely at the topline, but nonetheless we will continue to grow the business. We are very sharply focusing now on protecting and actually improving margins. So we with this vertical integration we actually hope to improve margins so in terms of both absolute rupees as well as percentage to sales we are actually working very hard to improve our margins and we are extremely hopeful to improve margins in FY14.

The other important events, which will help our business is actually this FTA discussion with Europe. Should the FTA with Europe happen, it straightaway takes out 9% of import duty for all merchandize that gets exported out of India into Europe. So that will put us on a level playing fields with countries like Turkey and Egypt and that should provide a shot in the arm to our business in the Europe should the FTA happen. Pakistan continuous to be plagued with energy crises so their factories are actually not getting enough power consequently their cost of production has moved up and they have lost a lot of credibility in the international market. So business is continuing to flow from Pakistan into India, likewise there was this huge factory crash in Bangladesh so that became international news and so the retailers are, now wanting to shy away from Bangladesh in terms of sourcing. So all these are favorable wins for Indian textiles in general and we being one of the leading Home Textile Companies in the world would hope to benefit out of these major events that have happened internationally. So these are some things, which will go a long way in helping the business.

With our capacity utilizations at the current levels this FY13, I would say were about 85% mark in general so between towels, sheets, and rugs all product categories put together we would have operated at about 85% of our capacity, so there is potential for us to grow our business even without investing any capital. So this is why we choose are not to grow any capacity in towels, sheets, and rugs for the foreseeable future and instead as I said, will continue to now invest capital to vertically integrate our business.

So that is all from my hand this will be happy to take questions from anyone of you. Please go ahead and ask any questions if you feel like.

Moderator: Thank you very much Sir. Participants we will begin the question and answer session. We have our first question is from the line of Santosh Hiredesai from Edelweiss Securities. Please go ahead.

Santosh Hiredesai: Thanks for taking my question. You mentioned about the FTA will it has a timeline so what the expectation on the FTA?

R Mandawewala: Your line is not very clear I could not actually hear you.

Santosh Hiredesai: Sir you have mentioned about the FTA thing, can you put some timeline to it as and when we are expecting it and an update on that?

R Mandawewala: These things normally you cannot put a timeline to this, but the general indications, which the government agencies give us is about September so with having said that actually we were expecting it to happen last year itself towards this close of 2012. So these are bilateral, so we never know when these will actually take shape. The government of India is very serious. Europe is very serous about this and there are I think two or three areas that have to now sort out. So It looks like while they say September but hopefully December 2013, we should see the light of the day.

Santosh Hiredesai: Fair enough Sir. Sir I had one more question on your tax rate, it seems to be a little on the lower side this year even because of some last set of the year any particular reason for that?

R Mandawewala: Your line is not clear somewhere I would not able to hear you clearly.

Santosh Hiredesai: I was referring to the tax rate being a little lower, so is it because of some hiccups, which we have got that it is much lower or any particular reason that it looks a little lower?

R Mandawewala: Are you referring to tax rates?

Santosh Hiredesai: Yes, tax rate.

R Mandawewala: So you would recall that we actually shutdown the factory in Mexico and consequently there was a huge loss that we have taken. Now with the winding up order for those companies in Mexico were received in this year consequently the losses that we made we got a tax rebate so it is actually reducing the overall rate of taxes for us in the current year.

Santosh Hiredesai: Thanks a lot if I have more I will come back in the queue. Thank you so much.

Moderator: Thank you. Our next question is from the line of Mr. Deepak Agarwal from Impetus Advisors. Please go ahead.

Deepak Agarwal: Good evening. You have mentioned that your clients reduced off take to cut down inventory, so is this across the home textile or it is particular to Welspun?

R Mandawewala: No I think it should generally be representative for the entire sector and see normally again some times you can get the receiving end of these kinds of attritions. If let us say on our particular line if client sees that they are overstocked or sometimes we are also take this promotional discount decision to defer it from one period to another. So this off and on we have experiences in the past as well but on and overall basis, on an annual basis that actually levels up.

Deepak Agarwal: Okay, so in the last 1.5 months also have we seen this kind of slowdown?

R Mandawewala: No not really actually April this expected levels of sales is better than the last quarter,

Deepak Agarwal: Have we grown YoY in April?

R Mandawewala: What I was suggesting is that April the top-line is already better as compared to the January to March quarter so the recovery has already started.

Deepak Agarwal: Okay, and the margin drop in the last quarter is that because of the reduced sales or is there anything else to that?

R Mandawewala: No actually there is no margin drop in the last quarter we are at 17.7% in EBITDA.

Deepak Agarwal: Vis-à-vis in the Q3 there is a drop in the margin?

R Mandawewala: Q3 is about again I think thereabout. It is not a very significant difference.

Deepak Agarwal: I think, the way, we can calculating margins we are including the other income also.

R Mandawewala: Yes, see for us almost all of the other income is actually this finance charges so if you look at the reported EBITDA, we are almost the same. In the FY12 if you look at the published numbers, the published numbers are actually not comparable numbers and the reason why they are not comparable is that the third quarter because the court restructuring happened in the third quarter, so the cumulative effect of the first and second quarter also actually got added to the results of the third quarter so it is actually.

Deepak Agarwal: Just looking at the numbers, as numbers that you presented, both Q3 and Q4?

R Mandawewala: Is it the one that we circulated to you this yesterday and today?

Deepak Agarwal: Yes.

R Mandawewala: So where are you exactly on the third quarter we were actually 17.9% in EBITDA margins against that we are at 17.7% in this quarter.

Deepak Agarwal: Including 19 Crores of other income that 19 Crores in fact operational income, how much is operational and how much is interest income?

R Mandawewala: See almost all of it is with the operational income only, which is out of in both quarters in fact there is the other income so there is about 8 or 10 Crores of income. It comes from let say this finance income there is cash on the balance sheet of the Company so it comes from there and the rest of it is actually a charge, which was there on one of the subsidiaries. So it is actually a contra which is reflecting as other income and one the one hand but the cost on that about 9 Crores we have taken it to the business side. So for all practical purposes you could look at the reported EBITDA numbers.

Deepak Agarwal: How much is the interest income in the other income this 19 Crores this quarter?

R Mandawewala: It is about between 8 and 9 Crores. For the year it is about 30 odd Crores.

Deepak Agarwal: Okay and have we done any kind of a capitalization during the quarter, the depreciation has gone up by some 3.2 Crores during the quarter?

R Mandawewala: Yes, let us say the company invested about this say about 100 Crores of capex in the last year, so some kind of capitalization I presume must have happened in this quarter.

Deepak Agarwal: The working capital has gone up significantly and that has led to the increase in the debt as well?

R Mandawewala: Yes, now that is a good observation. Unfortunately this all the good work that we did in the first three quarters was actually gritted away in this last quarter for the simple reason that, we just did not get a penny refund from the government so all our drawbacks, all our duty drawbacks, all our licensees all our VAT that all the refunds that we were to get so the impact of this government receivable from the government itself that has gone up by 110 Crores in this quarter. Also, we saw an opportunity on the cotton side so we actually increased our cotton stock by about 89 Crores or 90 Crores so essentially these are the two reasons why the working capital has gone up. Now if you look at the working capital in number of days despite this cotton on inventory in terms of number of days we were almost similar to where we were in FY12. Receivables were 31 days last year; we are 31 days this year. So the only impact on this the cycle is actually the government receivable that was the big part, which actually dented our overall working capital turned.

Deepak Agarwal: Trade payables have also gone down substantially?

R Mandawewala: Yes. Trade payables have gone down . Company has the policy of taking hedges against its foreign exchange exposure and while we do not take the up and down to the P&L we use accounting standard-11 so that all those changes are actually routed through the balance sheet. Now last year this was adverse say about 35 – 40 Crores this year it is actually favorable. So which is why you see a big difference on the creditor line.

Deepak Agarwal: This cotton you said you have stocked the cotton so was that in the month of January or after that?

R Mandawewala: Jan, Feb, March in fact we bought this almost 70% of our requirement so generally this is the timeline the cotton arrivals are at their best and also the prices tend to give the best.

Deepak Agarwal: Prices were very high during January, February and March?

R Mandawewala: Yes, January, February, and March generally are high. So our average cotton procurement price is about Rs.35,000 a candy. The current market is at about Rs. 38,000 per candy so this in hindsight I think it turned out to be the right thing to do for our business.

Deepak Agarwal: But do not you buy of our requirement during November, December?

R Mandawewala: What we do is we start this bulk buying of cotton from middle of December because November normally you still get this wet cotton and the quality is not where it needs to be. So generally we start banking up only after middle of December and middle of December to let us say middle of March is the time when we actually buy a bulk of our cotton.

Deepak Agarwal: 200 Crores of other current liability how much is the debt in accrued interest portion in that?

R Mandawewala: It is about 110 Crores.

Deepak Agarwal: Is that part of the net debt that you have mentioned about 1745 Crores?

R Mandawewala: Yes we consider that also at the part of debt.

Deepak Agarwal: Okay and one data point that I want is the billed discounted figure at the end of the year?

R Mandawewala: It is a very small number I think it should be about 100 Crores. You are talking about the purchase bill discounting is it?

Deepak Agarwal: Receivables.

R Mandawewala: Receivable bill discount is about 100 Crores.

Deepak Agarwal: Okay, you have mentioned about the improvement in the margin, but the entire backward integration benefit will kick in from the FY15. So what will cause improvement in margin in FY14?

R Mandawewala: There are a few things that hopefully should improve margins a) we are announced we own 63% as of April 1, 2013. We own 63% of the group captive SPV for power generation. This is 80-megawatt thermal power plant that the group has set up in Anjar so we will consume 63% of the power and consequently we own 63% of the equity. So this will help us bring down our cost of power in Anjar. In Vapi, in December quarter towards the latter half of the December quarter we actually moved away from gas both to generate our steam as well as power and we moved to thermal coal to generate steel. So the annualized effect of the improvement of cost on that will also get reflected. Over and above that I think also the other improvement initiatives in terms of there are many more initiatives that we have launched. So this itself will give us let us say improvement on one hand and two is now that we own 63% of the capital of the captive power plant, which is a separate company so as we consolidate the results of that will also add to the EBITDA and also the what this PAT line of Welspun India as we consolidate the results so we will actually double we will get double benefit a) our power cost will go down and b) as we consolidate is then our share in the profit will also get consolidated. So this will hopefully improve our results. So that is one. Two the expansion will actually get commissioned in phases so we are hoping that at least in the Jan to March quarter we should be able to see some favorable results, favorable earning push coming from some of the capital expenditure that we are incurring in the current year.

Deepak Agarwal: Thanks a lot sir. That is it from my side.

Moderator: Thank you.

Nitin Mathur: Nitin Mathur here from Espirito Santo Securities. Most of my questions have already been answered. I just have a couple of quick questions. One is what are you seeing in the demand scenario in the US specifically?

R Mandawewala: See the demand scenario continues to remain the way it is. As I said that all of FY13 there was sluggishness in the demand and it continues to remain that way. Having said that there worst is behind us so we generally the customers are a little more positive in terms of taking some risks on products and things like that. So generally I think it is we do feel that the worst is behind us. So hopefully things should get better from here. Europe continues to flounder and honestly we are not hoping any miracles to happen there and the whole of FY14 I think Europe will continue to struggle, which is why this year is not a year of big topline growth for us. Our focus consequently in the Company is actually to improve the bottomline.

Nitin Mathur: Second what are you think in India because the core power economy does not doing very well either so how is your relationship with your customers being like are they asking for lot of discounts from you or are they sort of asking you a lot of promotions what has been the relationship like?

R Mandawewala: See as far as our business in India is concerned almost all the business that we do Nitin is under our two brand names which is Spaces and WelHome and where we determine what will be the retail prices and what will be the structure in terms of promotions and things like that. So we generally do not allow our customers to dictate how business is going to get done, because almost 90% of our domestic business is under our own brands. Having said that this if you see sometimes we partner up with them to have a promotion here, or have a discount there. So generally we reserve the final call on making those decisions in terms of discounting. With none of our customers here locally any terms have changed so we continue to work with them on the same terms on which we worked in the past with them.

Nitin Mathur: That is it from me. Thanks and all the very best.

Moderator: Thank you. Our next question is from the line of Resham Jain from B&K Securities. Please go ahead.

Resham Jain: Sir Congratulations for the good set of numbers. Actually I just wanted to understand on the cotton side like you have you are currently long on cotton and on the other side you will be having an order let us say one month or two months you still will be having a cotton of, which you do not have a commensurate order book and the cotton scenario currently what we have hearing is that the China is sitting up with lot of cotton inventory and it is possible that they might release the cotton inventory and if they do so international cotton prices may go down and correspondingly Indian prices may also go down. So what kind of risk you see in having that the cotton inventory and also want to understand that how much of the inventory does not have a commensurate order book on the other side?

R Mandawewala: That is a good question. Having said that let say 80% of our businesses are actually of a repeat nature. So we do not for us it is not we are not an order-to-order kind of a business. So this we get into let us say our business is actually more program-oriented so this we get into a program with the customer and normally the life cycle of that program is between two and three years so we continue to shift that product to the customer over a period of two to three years and 80% of our top-line is actually business, which is program oriented so there is a fair degree of certainty around our business. That is the first one. The second one is now for some reason if the cost goes beyond if there is a dramatic change in the cost of let us say the product that we manufacture either ways so whether it is a negative cost push or a positive cost push if it is a major thing then we start a dialogue with our customers to pass that on so sometimes we increase prices, sometimes we reduce prices this is a two quarter process so normally if an even takes place today we will start the dialogue in two or three months and this takes about two months to close. So for everything that we have covered every inventory that we own let us say this we have a consequent commitment from the clients so the business as I said 80% of our business is replenishment so it is always a continuous business.

Resham Jain: Okay, so that means if cotton prices goes up and down there will not be a major fluctuation in the gross margins. Can we understand it like that?

R Mandawewala: There will be over a period, there will not be much fluctuation, but on a quarter-on-quarter basis there will be.

Resham Jain: There will be some lack. That is it. Thank you.

Moderator: Thank you Sir. We have a follow up question from the line of Mr. Deepak Agarwal. Please go ahead.

Deepak Agarwal: How much of the 700 Crores backward integration capex has already been done till March?

R Mandawewala: Not much actually it is just began so it is very little so almost all of it will go into FY14.

Deepak Agarwal: What is this 3 Crores of exceptional item this quarter?

R Mandawewala: This is again related to the winding up of the Mexico subsidiary. As we wound up operations there, there were some cost associated with that so all that is related to that.

Deepak Agarwal: Thank you.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Nitin Mathur for closing comments.

Nitin Mathur: I would like to thank the management team and all the participants for this call. Thanks a lot for your time on behalf of Espirito Santo Securities.

Moderator: Thank you Sir. Ladies and gentlemen with that we conclude the conference. Thank you for your participation. You may now disconnect your lines. Thank you.