



“Welspun India Limited Q3 FY18 Earnings Conference Call”

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MODERATOR: **MR. AVI MEHTA – IIFL CAPITAL LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Welspun India Limited Q3 FY18 Earnings Conference Call hosted by IIFL Capital Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. 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 sir.

Avi Mehta: Thank you Inba. Good evening everyone, on behalf of IIFL, I would like to welcome all of you to the 3Q FY18 conference call for Welspun India. From the company, we have with us the key senior management including Mr. Rajesh Mandawewala-Managing Director, Mr. Altaf Jiwani- Director (Finance) & CFO. I would now like to hand over the call to the management for their comments. Over to you Sir!

Altaf Jiwani: Thank you Avi. Good evening ladies and gentlemen thank you for joining us on this call. In Q3 we have actually achieved a turnover of Rs. 1,414 crores which is down around 7% on year-on-year, half of it is the volume and half of it is actually the government incentive impact. EBITDA margin is at 19% in Q3 compared to 24.1% YoY, major impact is because of the raw material cost, the cotton, the energy cost which is gone up and finance cost is actually Rs. 34.5 crores which is substantially lower than the corresponding quarter last year, though it is sequentially higher because there is the blockage of working capital due to GST. Profit after tax after minority is Rs. 77.4 crores compared to Rs. 149 crores last year. The net debt is almost Rs. 150 crores lower than the figure in the March 2017 year end.

During the quarter actually, we are almost now ready to enter the next trajectory with our various building blocks which we have put in place. So, US which is the largest market for us customers are looking at products which have inbuilt the sustainability solution, they are looking at innovative products, they are looking at a strong brand and also the convenience. So it's a matter of great pride for the country and the company that Welspun India is the only Indian company ranked among Top-3 in Product-Wise Sustainability scores by ‘Walmart’. The other highlight is actually the partnership, so Wel-Track which we had launched earlier, now we have tied up with Oritan which gives a complete solution which is going to be a kind of industry defining and the benchmark for the industry going forward.

In terms of branding, during this quarter we have spent substantial amount in branding in India. Our focus continues to be in ‘Spaces’ as well as ‘Christy’. ‘Christy’ we have about 36 stores in China compared to 24, last quarter. In terms of online channel we have seen substantial growth continues is particularly in the ‘Christy’ which also indicates the power brand which we have achieved in UK market.

Our relentless focus on innovation ‘Hygro’ continues to be one of our mainstays and there are other products which are in pipeline. So, with this almost all the building blocks which are

there sustainability, innovation, convenience as well as the branded products we are ready to take the company into the next trajectory.

I would like to give this floor open for the question and answers.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: The first question is on our margins for this quarter. I understand last quarter, we had the impact of some of the government incentives been reduced which led to a reduction in margins. Was there an expectation that the margin improvement would be much higher compared to last quarter considering that we had that in the base?

Altaf Jiwani: In Q3 we got clarity on the incentives, so it is more or less now settled with all, the drawback rate MEIS as well as ROSL rate. If we now compare the margin, we are almost same as the pre GST regime. So, with the revised rate of MEIS, duty drawback and ROSL where we are allowed to claim the input tax credit are almost at par with the pre-GST regime. Now of course MEIS rate is there still 30th June 2018 as you are aware.

Nihal Jham: But if I were to just look at excluding other income I was looking at 21% sort of a margin for Q1 and that was a similar number before that also. Just that this quarter calculating that number comes to only 18%, maybe the expectation was that would it come ahead of 20% and that is what even you had guided for also in the last quarter that you're looking at that kind of margin for the entire of FY18. Would we still expect that kind of margin?

Altaf Jiwani: We don't give quarterly guidance, we give annual guidance. So, 20% guidance which we had actually given is for the annual margin and we had also mentioned that it will have a plus minus 1% to 2% of tolerance. So we continue to maintain that guidance of 20% EBITDA margin for the full year.

Nihal Jham: Looking ahead what would be the growth trigger going forward, would we expect that the home textile is something that will pick up or just wanted your comments on technical textile also as well as the acquisition we made this quarter in the US, who are we looking at the growth or the revenues going forward for Welspun?

Rajesh Mandawewala: First thing is this why the sluggishness on the top line, so it's important for us to let you know that, there has been a consistent—this year we are seeing a marked level of de-stocking—that this particularly all our American customers are doing and this is on the back of the shift that is happening from offline to online and so this process was significantly accelerated this year. So a part of market share which has moved from offline to the online space and consequently there have been inventory adjustments which all our customers have had to make. Our view is that the online percentage of the total sales is now between 25% and 30% of the key products that we work with and which is where we would tend to believe that things will settle down.

So give or take a quarter from here and hopefully, so FY19 we believe this will be get back to our normal kind of business where this top-line growth should start becoming visible. So, we see pain one more quarter and hopefully FY19 the top-line growth should start coming back into the business. In the meanwhile, as a company, so we are not just bystanders to this movement of the online space, this we are taking all initiatives that are required to be taken so that we start playing a meaningful role on online sales as well. So we are of course set up with all the online sales of our existing retail customers, so are we with most of the important marketplaces in most parts of the world. That is also a private-label play there so we are actually firing on all cylinders so that we can gain some extra market share on the online side. This by and large I think it should start manifesting itself sometime in the next-next FY, so all corrective progress actions are being taken in those fronts. Coming to your other part of the question what happened to the stake that we acquired in this company in the US? It's very early days into this acquisition; it's a very-very small startup. So the needle is not going to move immediately on this over the next year or two, so it's very-very small company. So the purpose is to align ourselves and learn this accelerates our learning curve and grow our business in the online space. So that has been the purpose of investing this money, so within first few weeks of this happening, so this I guess some kind of traction will start happening in the next year. Although it won't materially impact over top line as I said because their sales are very meager. But interactions have been started and this we will learn from there in terms of how we can better manage our online business.

Nihal Jham: Are we looking at maybe launching our own brand in the US sometime in case something like this materializes better?

Rajesh Mandawewala: Yes. this is clearly the direction that we want to take, now this you will appreciate that the brands cannot be created overnight, so all actions are being taken, required quality of skill sets are being hired. Our goal is to be go B2C, online particularly with our innovative products and we are already taking all the necessary action in that area. It's important that not only we gain market share on the online side but we have to make money, so end of the day the margins have to come and the margins will come through innovative products and through some kind of branding efforts that we make. Otherwise just remaining on marketplaces where one supplier is undercutting the other one there are millions of vendors trying to sell their, so it's a zero sum game. There are very little margin on that business so that's not what is driving our appetite. So market share which doesn't get you margins is meaningless in our opinion. So we are not running after anything like that, so the Business that we want to build is with margins.

Moderator: Our next question is from the line of Kaustav from SKS Capital & Research. Please go ahead.

Kaustav Bubna: Just wanted to know how much percentage of your total sales in the US is currently online?

Rajesh Mandawewala: It's very insignificant, we are 2% or thereabouts and most of this is actually from the websites of our existing customers only and very little is currently being done through these marketplaces as I said but we are not getting, we have to buy the sales on the marketplaces and

when you start doing that it erodes margins. So we are not keenly pursuing that part, we are following the right way where whatever share that we have or we are likely to gain in the future is with margin.

Kaustav Bubna:

I just wanted to go into this destocking phenomenon like what makes you all say that online sales of total sales in the segment that you all are and will cap at 25% to 30%. Also where are the end customers actually buying these like what websites are the end customers actually buying these products so let's say if I am the end customer I used to go bed-bath etc. I don't go there anymore now, where am I going, am I going to an Amazon, am I going to Walmart online, what is the main site and so depending on what those main sites are where they are actually buying these towels and bed sheets from? How do you create presence in your new online supply chain?

Rajesh Mandawewala:

It's a mix of everything, so if they go to the marketplaces as well they go to our customer websites. So when they go to our customer websites generally we wouldn't lose anything because we are anyways there, present with our existing customers. So the loss of business actually happens when business starts moving from our customers into the marketplaces and which is where the challenge lies. And within that if you see as I said you go out, try and buying your business, it doesn't make any sense because you lose every dollar that of sales that you gain, you are losing margin. So that doesn't make any purpose so we are not very aggressively pursuing that. But there are other areas as I said brands, the private-label business with the marketplaces, so we are pursuing that. Coming to your other question of why do we believe that it should be 25% to 30%, so this is a touch and feel product and there is always this early stage where 5%-7%-10% goes online then there is that acceleration thing that happens and then if it goes the other way so the pendulum swings the other way and then the correction happens and it gets settle down somewhere which is reasonable. We believe our products are touch and feel, the apparel products are showing similar kind of percentages and they are settling down at those levels. So we believe our product should also settle down there because end of the day it's a touch and feel thing, so it's not a cell-phone or it's not electronic product which can be understood purely online. So there is a touch and feel aspect to this product so we believe that should be the level and then we are also watching what is happening in other parts of the world. So generally we are seeing this in parts of Europe where this process began a little earlier so things are settling down around those levels. But this is not a science, so end of the day it's a view that we are taking, so we believe it's a reasonable percentage to expect between 25% and 30%. So the market is around 25 right now, maybe another 4%-5% and that's when things should start settling down. So also from an experienced perspective when you have millions of suppliers if you look at the offline space in retail, there are 10-15-20 meaningful suppliers globally. But when you go online there are millions of suppliers, so end of the day the sanctity on quality, the customer experience, so somewhere that goes for a spin. I think that is why I say it's a pendulum; it goes the other way when it starts swinging. But as disappointments with product happens so again part of the online sales will start getting converted to offline and which is why we believe it should settle somewhere between 25% and 30%.

Kaustav Bubna: But how about this other line of thought where I see as a customer that ‘look your product does not have to be tried on’, an apparel has to be try it on and you have to see if it fits me wherein bed-sheets, pillow covers, towels I don’t really need to try them on, I have its size. I have a king size, have a small size, have a large size. I just have to order that size and do you think that is one reason why we could see higher shift to online in your type of segment compared to clothing?

Rajesh Mandawewala: I don't think so because A. it can hold true for lower end of the market, so let's say this one thing is similar to the other and the only differentiator is the price. Now we are not in that business. So that kind of business is being supplied by countries like Pakistan, Bangladesh and we are not in that game at all, so it doesn't impact us. So where our business is, it does matter in terms of what the product is, what are the thread counts, what are the features that the consumers get on the product, what are the other benefits that products give to the final customer, so our business is all around that. There is a touch and feel and there is differentiation in the product, so which is why we believe that thing should settle down where it is. The other thing at the end of the day there is also an economic math, there is an arithmetic that comes into play so for example let’s say if you can't bring efficiency shipping a \$5-\$10 towel, can you because the shipping cost itself will outweigh let’s say this retail margin. So end of the day there is an economic compulsion, so there are products like towels you bunch them together still it’s a \$20-\$25-\$30 packet and cost of delivering the product, the last mile cost itself is so high. So from a competitive standpoint retail becomes competitive in products like this. So somewhere which is the reason why we believe that there will be an appropriate balance and also the other part is see this online is divided into two parts. A) the marketplaces, B) also our customers are taking significant initiatives to further promote their online business. So as long as they continue to promote their business and their business they gain more market share online, our business doesn't get impacted because we are very beautifully set up with all our customers online.

Kaustav Bubna: For example like Walmart.

Rajesh Mandawewala: Absolutely. Everyone is taking major initiatives and in fact some of them are doing a really good job, re-gaining some of the online space that they lost in the past and is even that balance will happen which is why we believe that perhaps we have seen the worst or we are close to seeing the worst in a quarter or two and this was the year of acceleration. So 2017 was the year of acceleration in our categories and I think it should—this plateau in the next few months.

Kaustav Bubna: How much of your is total sales is ‘Spaces’ and ‘Christy’?

Altaf Jiwani: We don't disclose quarterly numbers but our own branded products is about 16%.

Kaustav Bubna: So branded includes?

Altaf Jiwani: It includes ‘Spaces’, ‘Christy’ and some of the ingredient brands like ‘Hygro’.

- Kaustav Bubna:** Which is at 16% of total sales?
- Altaf Jiwani:** Yes.
- Moderator:** Our next question is from the line of Madhav Marda from Fidelity. Please go ahead.
- Madhav Marda:** My question was on the margin, so basically we saw margins were reaching the 24%-25% level a few quarters back, can we see our margins moving towards that level again because in my understanding at least that was driven by lower cotton prices, currency depreciation all those things working in our favor or should we think that the sustainable margin is 19%-20% for the company more like 2 to 3 years perspective what's the right way to think about that?
- Rajesh Mandawewala:** That is where we think the main margin for the business, so I think our sustainable level of margin is around the 20% mark and year-on-year that can be a point here and there. But these are the levels which are sustainable, so while cotton prices will definitely improve, help margins going forward. But then the currency effect will start playing out, so one will neutralize the other and so consequently we believe that going forward good level and we have been maintaining. So we started at 20%, raise the guidance to about 22% even when we were doing a higher we guided around the same levels and so we believe our business steady-state is good at 20%. If you look at last 5-6-7 years that we are in this business, so they have been around this margin barring these couple of years when the margins really shot up. We have been for all the continuing business that we have today, we have been around 20% mark, some years it has been 18%, some years 22%, some years a little more but on an average this is a business good enough to deliver 20% margins.
- Moderator:** We will take a next question from the line of Ashutosh Sumani from JM Financial. Please go ahead.
- Ashutosh Sumani:** I have two questions, one on government incentives, so is it correct that the subsidy on working capital interest is about to expire in March this year? Directionally, where are we headed in terms of incentives as a percentage of top-line, we have already seen good amount of pressure in the last 12 months. So going forward we make quite a few representations I believe as industry to the ministry, so how does the government really perceive it? Directionally where are we headed, do we see more pressure here I know it's not possible to be objective about it but just wanted your sense on the perception by the government in terms of incentives given to this space? And the second question I had is in terms of the sources of funding for the sector at large currently, so how difficult it is to get funds debt under the amended TUF and what will it do to our cost of borrowing in the next 24 months? Are we seeing a structural change in the way project should be funded going down 24 months?
- Rajesh Mandawewala:** Fair questions and let me take one at a time, you put three questions together and I will try to remember all three of them. So the first thing I think directionally the government sees this is a high employment industry and the government has been very quick to react to the industry representations that have been made and we have to give credit to the way they have reacted.

So all and all despite all these the GST disruption and everything, the order has been restored. The general intent in the government is actually to grow the textile business because of this is high employment orientation in the industry. So they are in active consultation with industry associations in terms of where do we stand, where is it hurting and what is the best way to support the industry and things like that. So our belief is that I think we have hit equilibrium and the names in terms of how the money comes might change a little bit here and there but all in all this looks like a sustainable level of the government support if I might say so. I think there is nothing that is likely to get discontinued permanently if one thing reduces the other will come back and it might get restored. So at least that's clearly the intent that we are seeing from the government and then the interests benefits mentioned are continuing. So there is not much that we expect that things are going to change and even if they change there is a difference between bank rates and CPs today so this as a company one good move to CPs if things change. It would not make such a substantial impact but as of now everything is continuing. Coming to your third question on how is the funding going to happen in the future? So I think central government the interest rebates are now substituted by the states, so every textile state has got a policy. So everything that we do this we don't expect our interest rates to substantially differentiate or be different as compared to where they have been in the past. So our long-term debt at an average is at about 1.5% and it's likely to remain in that zone. So the only major capital expenditure that remains in the company is actually on the carpet project so where we will get state incentives and our average borrowing costs are unlikely to be higher than where they have been in the past. So for us on the finance cost side we don't expect any changes.

Ashutosh Sumani:

With the implementation of the amended TUF, we don't see any pressure on the funding side? Even with the implementation of the amended TUF, is that understanding correct?

Rajesh Mandawewala:

So in fact if at all there are concerns, the concerns are actually getting refunds and money out of the government. So after the GST rollout because of some glitches in the system and for some other reasons I think money is going and getting locked up. These refunds are increasing and when you export you are actually paying all taxes on inputs and when you export there is no tax that is levied and so consequently there are lot of refunds that gets accumulated and that money is going and getting stuck and in fact when you look at a free cash flows for the current year, on the working capital in fact 100-150 crores the negative this money that is blocked in the working capital is all just to claims for refunds from the government. If at all there is a concern it is how quickly this money is going to come back and it's not a Welspun thing so it's generally industry agnostic, company agnostic so refunds are getting delayed. Now normally they to get delayed in the last 3-4 months of the year and things accelerate from April onwards but this time we are seeing actually a worst effect on more extra money getting going and getting locked up with the government.

Moderator:

We will take a next question from the line of Deepanjan Basuthakur from Stewart & Makertich. Please go ahead.

Deepanjan Basuthakur: I have two questions basically, so the first one will be on this CAPEX that you are incurring this year and on the projects status. So I would like you to talk a bit more on the projects details, so when will these be operational, what will be the first year revenue expectation and what's the corresponding demand scenario there? And my second question will be on your view on the future raw material cost trend, where we do we look it from here on?

Rajesh Mandawewala: In the current year for the first nine months I think our CAPEX is around Rs. 230 crores. We have guided about Rs. 450 crores; I don't think we are going to hit 450 in the current year, so it will be slightly less than that. The major as far as our home textile business is concerned I think a major part of the CAPEX is over. So the bigger CAPEX that will come in the future is actually for the carpet projects and which is likely to be around Rs. 700 crores or thereabout, so flooring solutions business will take about Rs. 700 crores of capital expenditure and this will happen over the next 15 to 18 months. Although our operational guidance was to get into business sometime in the October to December quarter of calendar year 2018 but we have delayed the project by six months and the reason being that we are actually looking at other states and negotiating incentive packages with various state governments. We are very close to finalizing and it makes a substantial difference to the returns that you make on the project. So we thought it prudent that we must explore other states as well. So we are very close to signing off with the state now. So hopefully by March '19 is when we will begin production on the carpet project, we are extremely bullish, we are extremely buoyant with the opportunities in this area and a lot of market research and everything has been done. We are hopeful that this project we should be able to ramp up capacity over 3 to 5 years period and this hopefully should deliver decent returns to us as well.

Deepanjan Basuthakur: Next question regarding the raw material cost trend going forward.

Rajesh Mandawewala: Raw material around standard cotton which we see Shankar-6 is about Rs. 40,000-41,000 a candy. Last year it was around 43-44, so there is 8%-9% average reduction as compared to last year which translates to 3% to 4% on margins on an integrated supply chain. As I said and that will get taken away by the currency appreciation, so all in all from a margin perspective it's likely to remain on and around two that 20% mark.

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

Dikshit Mittal: Just wanted to understand a bit more on this destocking. When these off-line players are losing market share to online from which country are these online players sourcing because we are seeing all the Indian players getting impacted, who is getting the market share in that segment?

Rajesh Mandawewala: It's coming from anywhere and everywhere. But overall I think for the online players it's actually easier to source product from close to the markets where they are selling. So generally most of the smaller players actually tend to bring product from Turkey, Portugal, some of them actually buy within the US. So it's not about making profits what it is about is gaining market share and getting the top-line going, so they prefer shorter lead times, smaller runs, smaller

quantities and things like that. So in the early stages it is likely to come from closer to their market but as individual players grow and become sizable they will start sourcing from their traditional sourcing hubs like India, Pakistan and China and Bangladesh and things like that. As of now as they start they source closer to where they are selling and as they start growing they will start dialogue with people like us.

Moderator: We will take a next question is from the line of Prashant Poddar from ADIA. Please go ahead.

Prashant Poddar: On the aspirations to be a two billion-dollar turnover company and in that context if you can please explain how and going thereabout, so not a hard \$2 billion number but going thereabouts, what's the role the new businesses are going to play; new channels as well as new products are going to play? And a bit on the e-commerce space itself if you can help me understand you sounded a little more bearish about the opportunities in the online space given that it's just another channel of selling like bed and bath and other retailers it is also just another retailer where you are right the difference between the two brands is lesser at this point of time but eventually all kinds of customers are going to come there, so what's the role of this as well as the other channels before the new products that you talked about all of going to play in terms of getting closer to a \$2 billion turnover?

Rajesh Mandawewala: Our view is I think the worst is behind us so this will get back to our growth ways in starting FY19, so the existing home textile business the way it is happening with some adjustments on the channels and all should continue to grow double-digit and the rest of it from the flooring business we are expecting over a five-year period revenues in the \$250-\$300 million range. So that should take us if not to 2 billion but it should take us to USD 1.7-1.8 billion and we have to find of the rest of those should come from the newer products that we might introduce. So top of the bed is one of them, domestic market is a huge opportunity for us and also hospitality, healthcare, e-commerce all this put together we still need to quantify a couple of hundred million which is work in process and this is again budgeting time for us and strategic review time, so there will be a lot of discussion on that happening in the company over the next couple of months. To answer your question we need to find some answers for a couple of hundred million but the rest of it we believe with the initiatives that we have already taken and are currently taking I think it should get us to the 1.7-1.8 mark.

Prashant Poddar: And margins in the new products should be similar?

Rajesh Mandawewala: Absolutely, there is nothing that as of now the way of the things stands is we believe it's as good a margin business as our current business.

Prashant Poddar: And I don't have the numbers of how domestic branded business has done for the nine months, is it that I don't have it or you don't share that?

Altaf Jiwani: We don't share the quarterly numbers Prashant.

Prashant Poddar: The growth in general in the domestic branded business?

- Altat Jiwani:** It's a double-digit growth actually and the campaign which we had launched actually we are seeing lot of traction and recent brand health study shows a strong recall value as well. We are seeing a substantial traction been achieved in the domestic market. We have the entire team in place now for the domestic business.
- Prashant Poddar:** In China, the 'Christy' brand you have been increasing the direct branded retail presents obviously through franchises. What is the potential number of stores you can open in China?
- Rajesh Mandawewala:** Our goal is to be around 35-40 stores, we have reached there. With 'Christy' our aspiration is to go aggressive in the international markets particularly in America and online 'Christy' is doing extremely well, so the brand is pretty well-recognized in the UK and the model is absolutely right and it is delivering us decent margins and it's actually growing very rapidly. The 'Christy' will be the future focus is going to be on the American market and how do we grow the online business.
- Prashant Poddar:** One last question on the CAPEX side, I couldn't fully get it. A part of what you were saying earlier if I remember right from the earlier discussion with Altat is that you guys are trying to ancillarize the production and is it therefore that you're talking about peak CAPEX is done?
- Rajesh Mandawewala:** Yes, all major capital expenditure as far as the home textile business is concerned is already done. So there will be just maintenance CAPEX in a Rs. 50-100 crores range, so the big CAPEX for the future is going to be the carpet project which we are saying they should be about Rs. 700 crores odd of investment over 15 to 18 months' period. But the textile business and there is enough capacity that is available to us to keep growing our business over the next at least 2-3 years if not more. So the home textile business should not consume too much CAPEX for us in the future.
- Moderator:** Our next question is from the line of Arjun Sehgal from Reliance Mutual Fund. Please go ahead.
- Arjun Sehgal:** Regarding the number that you gave us earlier 25% to 30% of the market is currently online; two years back what would that number be?
- Rajesh Mandawewala:** It was just beginning; it was in single digits back then. The journey was just very nascent at that time so it was not even getting noticed. In fact the last two years there has been acceleration and particularly in the last one year it has got pretty pronounced.
- Arjun Sehgal:** Just to clarify, the reason why countries like Turkey and Portugal are catering to the sales is because the e-commerce retailers are numerous and very fragmented.
- Rajesh Mandawewala:** Absolutely. If you are doing 1 million or 2 million online in a year they cannot possibly source and they won't get the economies of scales, so which is why they try to source closer to the selling market but as they grow in size they start connecting with people like us.

- Arjun Sehgal:** Over the course of the last two years how come this is not reflected in the market share data of countries?
- Rajesh Mandawewala:** If you look at it there is some shift. So the countries like Turkey and Portugal have actually gained couple of points in market share over the last year or two which is significant considering it is coming at the middle to the upper-end of the market and its pretty significant and then the rest of them is actually bringing stuff like odd-lots and things like that. Overall it actually gets lost in the process, so inventory hidden here and inventory there and things like that. But there is a couple of points shift which is in favor of Turkey and Portugal over the last year or two.
- Arjun Sehgal:** Like you said FY19 onwards you are expecting us to return to growth.
- Rajesh Mandawewala:** Yes.
- Arjun Sehgal:** What kind of growth are we talking about, are we saying double digits?
- Rajesh Mandawewala:** We are talking double digit and we are saying that our margin should be 20% or thereabouts. We believe that our guidance in the past should hold true for FY19 onwards.
- Moderator:** We will take a next question from the line of Mike Miller from Martin Currie. Please go ahead.
- Martin Currie:** I just have one question in relation to 'Target', I am just wondering with Wel-Trak now in place and maybe once you had all the class action done so whether you can go back and re-engage with or maybe you've already been kind of engaging with them so could you just comment on this?
- Rajesh Mandawewala:** Mike I would have loved to answer this question but the class action is still in place. We are making progress there, so the case is progressing but nonetheless, it is still there. So it will not be appropriate for me to comment on this. But the 'Target' was always a good client to us and not withstanding what happened, we are sincerely desirous of rebuilding our business with them so sooner than later we will have the opportunity to get engagement there.
- Moderator:** We will take a next question from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.
- Ritesh Gandhi:** Given the increase in capacity across the industry from whole of the Indian players, are you seeing an increase in the competitive intensity and therefore actually pressure on the prices or the inability to increase prices with your customer?
- Rajesh Mandawewala:** Of course, with competitive intensity you do tend to lose a part of your pricing power and we are also no exception to that. But having said that, 35% of our business is actually coming from innovated products that the company does, about 15%-16% of revenue is from the brands. Those give you some leverage in terms of pricing with your clients and you cannot

deny competitive intensity virtually in every single product. So in fact we strongly believe that there will be a shake-out in the affairs where the weak players will get out of the market and we believe that we will see that it is not too distant future. We are a part of the cycle and we definitely are seeing more competitive intensity.

Ritesh Gandhi: And in the inventory destocking I was just seeing additional pressure across products or is it incrementally on the towels or the bed-sheets?

Rajesh Mandawewala: We see a little more pronounced on the bath products than the bed one. But overall I would tend to say it's a general phenomenon across most products category.

Ritesh Gandhi: Is it actually a reduction of new entry held at the store level or is it effectively closing down of stores?

Rajesh Mandawewala: Yes.

Ritesh Gandhi: Do you see this as a one-time reduction in the total quantity that they stock at the stores or you see this potentially extending on?

Rajesh Mandawewala: No, it's a mix of everything, with automation the supply chain themselves become more efficient. If you had 28-30 weeks of inventory in the system now you can run the business with let's say 26, so the four weeks of inventory gone from the system now that's permanently gone, it's never going to come back because the system has become that much more efficient. The other impact is when you sell a little less it's a mix bag, so it's a mix of everything all put together. So when businesses are under pressure you tend to become more efficient, you tend to take cost out of the business. I think it's a mixed impact of everything put together. Having said that a lot of fine tuning has happened on the supply chain also in this whole process and our clients are alongside are collaborating with us, are able to manage their businesses with lesser amount of inventory without actually impacting the top-line and yes there are some store closures as well with retailers as well. But generally those stores which close the sales get picked up by neighboring stores by the other stores which are in that vicinity. So it gets made up by somebody else, some other stores which are in the vicinity. So overall I would think it's actually a mixed bag.

Ritesh Gandhi: But in the event that this is actually effectively reducing inventory from 28 weeks to 24 weeks. So after the initial pain where there would be a degree of inventory destocking then ultimately speaking it would move at the pace of the end consumers growth, so you should see that sort of stabilizing, right and you should not see continuous pressure?

Rajesh Mandawewala: Absolutely.

Moderator: Thank you. Ladies and gentlemen due to time constraint we will take a last question from the line of Sumant Kumar from Motilal Oswal Securities. Please go ahead.

- Sumant Kumar:** My question is regarding how is the growth in other geographies like ex-US and how we are positioning ourselves to acquire the customer there?
- Rajesh Mandawewala:** All efforts are on, all the markets we are focusing very sharply. So our business is growing in Europe year-on-year I think we have grown our business in Europe. Rest of the world also there is growth, so the only market where we are actually seeing some de-growth is in the US. Otherwise we are making proportionate efforts in all the other markets, so there we are managing to grow our business.
- Sumant Kumar:** Growth could be in the range of 15% to 20% in these geographies?
- Rajesh Mandawewala:** Not really, we are in single-digit both in Europe and rest of the world. But nonetheless it's actually growing and you are seeing the same online tendencies in other parts of the world also, so let's not forget that. So the growth is there, it is in single-digit.
- Sumant Kumar:** Which are the key markets for you in the rest of world?
- Rajesh Mandawewala:** Europe is the main market, considering it's one third of the world's consumption, US being one third, Europe being one third, obviously that is the next market.
- Sumant Kumar:** I'm asking the rest of world ex-Europe and ex-US.
- Rajesh Mandawewala:** Every major market we are there, so its Japan, Far East, Middle East, Latin America. The efforts are being made in all the markets.
- Sumant Kumar:** So Japan is one of the biggest markets in rest of world?
- Rajesh Mandawewala:** Correct.
- Sumant Kumar:** And the number #2 could be Australia and others?
- Rajesh Mandawewala:** Yes absolutely. In Australia, New Zealand we are decently penetrated already, so our current focus is actually Far East, Latin America and South Africa of course. So these are the markets that we are trying to improve or increase our share.
- Sumant Kumar:** In Africa actually we are at the lower level?
- Rajesh Mandawewala:** Yes absolutely.
- Sumant Kumar:** And lot of potential is there?
- Rajesh Mandawewala:** Yes. The markets are small but since we have almost a very little business, so for us everything that we gain is actually a gain.

Moderator: Thank you. I now hand the floor back to the management for closing comments. Over to you sir.

Altaf Jiwani: Thank you ladies and gentlemen. If you have any other questions we can take it off-line. You may contact Harish from our investor relations team. Thank you very much.

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