"Welspun India Limited 1Q FY 2016 Earnings Conference Call"

July 20, 2015

ANALYST: **MR. AVI MEHTA - ASST VICE PRESIDENT - IIFL CAPITAL**

MANAGEMENT: **MR. RAJESH MANDAWEWALA - MANAGING DIRECTOR – WELSPUN INDIA LIMITED**
MR. ALTAF JIWANI, DIRECTOR FINANCE & CHIEF FINANCIAL OFFICER - WELSPUN INDIA LIMITED
MR. AKHIL JINDAL - DIRECTOR - GROUP FINANCE AND STRATEGY – WELSPUN INDIA LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Welspun India Limited Conference Call, hosted by IIFL Capital. As a reminder all participants' line 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 please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta. Thank you and over to you Sir!

Avi Mehta: Thank you Aman. Hi good evening everyone, on behalf of IIFL, I would like to welcome all of you to the 1Q FY 2016 Conference Call for Welspun India. From the company we have with us the key senior management including Mr. Rajesh Ji, Managing Director, Mr. Altaf Jiwani, Director Finance & CFO and Mr. Akhil Jindal, Director, Group Finance and Strategy. I would now like to hand over the call to the management for their opening comments. Over to you Sir!

Altaf Jiwani: Thank you Avi. Good evening everybody welcome to this Earnings Conference Call for Q1 FY 2016 for Welspun India and very happy to take you through the performance the first quarter. Once again we had an excellent performance for the quarter, we had revenue of about 1389 Crores which is an 18% growth over the last year, out of this 18% about 3% is the impact of the exchange dollar rupee exchange rate and the remaining impact is actually predominantly volume growth. So we have seen a substantial volume growth in Q1 over Q1 last year.

Operating profit actually is about 360 Crores which is grown faster than the revenue which is about 32% growth over the Q1 last year; this has been on the back of vertical integration as you are aware we had commissioned it a single largest spinning facilities under single roof last year in Q2. Secondly there has been the increase in the share of revenue of the innovative product, so in Q1 we have 30% of our sales coming out of innovative product compared to 27% last quarter and thirdly it is the volume increase which has helped us in improve the EBITDA margin because the expenses have remained more or less at the single level.

The finance cost actually has come down substantially over Q1 last year on the back of Gujarat Textile incentive which we have started availing so there is an impact of about 10 to 11 Corers because of that. Depreciation has gone up compared to Q1 last year because we commissioned that new spinning facility of course compared to Q4 it has come down substantially.

The PAT impact has grown even faster at 55% over corresponding quarter last year. In terms of cash flow we continue to have a positive cash flow for momentum of generating free cash flow after meeting the entire capex continued for this quarter also. During this quarter we have incurred a capex of about 220 Crores sort of 1300 Crores capex which we have right now it is underway we have implemented 220 Crores. The most distinctive feature is actually the borrowing level even after meeting all the capex requirement the net borrowing has actually come down by 120 Crores so this is on the back of actually working capital reduction because the conversion cycle which had already come down during March which is normally a peak for us so these are at 59 days conversion cycle, that has now come down to 55 days of course on the back of lower inventory and consequently the lower creditors also. So the inventory conversion cycle is now about 63 days compared to 76 days in the Q4 last year.

Debtors have remained more or less at the same level at 32 days compared to 31 days. Payable is down to 40 days compared to 48 days. So overall we are at 55 days conversion cycle vis-à-vis 59 days. The return on capital employed has increased substantially to 27.1% in Q1 FY 2016 and return on equity continuous to be at a higher level of 43.3%. The cash and cash equivalent is about 535 Crores compared to 475 Crores in Q4. Net debt to operating EBITDA has come down very substantially to about 1.7% vis-à-vis 2.05%. This is actually based on two factors one is the operating EBITDA, which has gone up and secondly the company's effort to maintain the borrowing level at the level, which we had seen in March 2015. So while the current capex which is remaining capex is about 1100 Crores our endeavor is to maintain the borrowing level at the current level but we might see a temporary blip during this year, but it will start coming down again from next financial year.

In terms of operational highlight, just wanted to mention that we have achieved a major breakthrough during current quarter in hospitality segment and our efforts on sustainability actually got recognized by JC Penny, we have got awarded in terms of Global Inclusion and Diversity Award during Q1, in terms of long-term rating care has upgraded us from A+ to AA- during current quarter so we are now at par with the earlier previous quarter we had another rating agency who had upgraded us.

Those are the financial highlights for the quarter. I would request Mr. Mandawewala to take you through the business highlights.

Rajesh Mandawewala: Good afternoon everyone. This as you just heard that this we have had a satisfying Q1 for FY 2016 and the company continuous to make progress on its core value proposition to its clients which is let us say to offer 360 degree solution this offer us FMCG kind of an approach where we help our clients to actually improve their business and the focus on the innovation continuous and it is getting sharper and the company's patent high grow cotton is getting more, and more this widely distributed all over the world so very happy to see that the effort of the company on the innovation sides are bearing fruit.

Also on this heartening progress that we see in the domestic market as well in the first quarter we have a year-on-year growth of approximately 36% so this we are all aware it is a difficult market here in the domestic in the Indian market so despite that our domestic sales have actually grown 36% year-on-year. Our project continues to be on track. Most of the vertical integration is almost done particularly on the yarn side and there is capacity to debottlenecking and increased efforts happening now on almost all the products including towels, sheets, rugs and carpets. So we continue to monitor, our projects continue to spend their money in a calibrated manner so that we are able to maintain debt overall.

We are very encouraged with all the innovative products and the better margin business which continuous to growing the business so consequently the EBITDA margin has grown significantly by 2.5% to 2.7% of the corresponding quarter last year and even quarter-on-quarter in fact there is a 0.7% margin improvement and we believe that the current margins we should be able to be sustain over the rest of the year and so business is looking good, order position is strong, we continue to gain this additional this customers at this additional business with the same customers. So all in all we find ourselves to be where we wish to see ourselves so all in all we are very satisfied with where we stand currently.

So with this I will open the house to questions, if anybody would want to take that.

Moderator: Thank you very much. We will now begin with the question and answer session. Our first question is from the line of Sumant Kumar from Elara Securities. Please go ahead.

Sumant Kumar: My question is regarding our new policy of textile industry. So what are the expectation for Welspun and what kind of impact on the company?

Rajesh Mandawewala: We have let us say from our side through our various associations have played an active role and making recommendations on the textile policy, by and large it is an expansive policy which will allow we made our point to continue with things like the skilling centers and all the support that the government continues to offer over and above that there have been recommendations made on the cotton side longer duration for funding of the projects and things like that so we will have to wait for the policy to come but by and large it should be an expansive policy hopefully in the positive direction so but we will have to wait and see as the policy really comes out and to see and to assess the impact although this hopefully it should be turnout positively.

Sumant Kumar: Do we have expectation of interest subvention on working capital loans?

Rajesh Mandawewala: So there is very active discussion happening on that front so it is likely that interest subvention might actually happen. Now it might not this the current discussion is happening around so that it seems that there is keenness to have interest subvention but it might be whether it is going to be retrospective or prospective this one will have to wait and see but generally I think with positive dispensation this on the interest subvention side, having said that on the TUF front so that there might be some modification in the policy and things like so there are some discussions happening in the government on that front, so we will have to wait and see this how things pan out and to see this what actually works out.

Sumant Kumar: Talking about the US market terry towel and bed linen market is almost flat over FY 2013 to 2014 so how can we grow there and what is our strategy to grab market space?

Rajesh Mandawewala: Sumant, we have been in business 20 years and the market has almost consistently been flat or let us say growing 1%, 1.5% whereas the company has grown at a compound rate of more than 20% so obviously it is on the back of a different business model as we pride ourselves to have a unique business model for our clients and which is to offer a end-to-end solution to the clients so it is not about commodity selling or selling a towel or a sheet to our clients it is about managing their shelf space it is about this making recommendation to them in terms of product, doing research, doing consumer research for them, doing enormous amount of product development and innovation and also helping them manage their supply chain effectively so that they can maximize their turns on their inventory while keeping them all in stock. So it is a completely different and unique kind of business proposition that we make to our clients that is one and the second thing is perhaps we are the only company this in the space which actually covers five product categories within home which is towel, sheets, rugs, carpets, frilled products. So that makes it easier for the clients to work with us consequently they consider us to as their most strategic vendor and which obviously helps the business so which is why our business has been growing and has grown in the path is currently growing and we are confident it will continue to grow in the future.

Altaf Jiwani: Sumant, just to give some statistics, in first five months the imports by USA from India has grown from 36.5 to 37.2% for towel, for bed sheet has grown from 46.5% to 49%, so the imports by US customers continuous to grow actually.

Sumant Kumar: Thank you so much.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir you guided this quarter one operating profit is sustainable for rest of the fiscal but the end of last fiscal you said that the long-term operating margin would more sustain in 22%, 24% range so what has changed which is leading you think?

Rajesh Mandawewala: Nothing has changed Bhavin, nothing has changed so let me just clarify my position. We have been very cautious while guiding these future margins. We are aware that there are some export incentives or you might say refunds that we get which are there in the profits that we report and as a matter of abundant caution just in case is something was to happen to those incentives or this tax refunds, so we have been very, very cautious on this guiding margin for the future so for the current year all the drawback rates and hopefully these are likely to continue which is why this we do not expect changes to happen in that area which is why the current guiding but for the long-term that we have to consider this into account that there are incentives and tax refunds which could reduce going forward in the future and which is why they are being guiding consistently around by 22 – 23 mark so there is no change in the approach we can constantly maintaining about 22, 23 so that is the range in which I think that if you take the extraordinary refunds and incentives out so that is where we come from.

Bhavin Chheda: This incentives and refunds are accounted in other operating income right or it is there in the top-line number?

Rajesh Mandawewala: No, it is in topline, part of the topline so as part of the other operating income.

Bhavin Chheda: With this 140 Crores in the quarter so all incentives?

Rajesh Mandawewala: No, all is not incentives.

Bhavin Chheda: No I am not saying but they are accounted in under that head.

Rajesh Mandawewala: Correct.

Bhavin Chheda: So for this fiscal it should not be a problem because obviously there is no change in the policy in the budget or there is nothing which can…

Rajesh Mandawewala: You see, there is a 2% MEIS incentive that we get for most of our markets so which had been announced for the current year so that will continue. In fact it is not only been announced for the current year it has been announced for this up to 2017 so which is for the up to FY 2017 – 2018 but this end of the day these are supports that we get from the government so this in light of transparency so that you guys know where those extra points are coming from. So there is no discussion around them reducing at this moment but this we have to be transparent enough and that you guys know that this part of the margin is actually coming from there.

Bhavin Chheda: With the volume numbers for terry towels, bed linen and rugs during the quarter if you can update on that?

Rajesh Mandawewala: All products the volumes have grown in totality it is about 14%, 15% of this volume growth in the current quarter.

Bhavin Chheda: Rest is the pricing growth?

Rajesh Mandawewala: It is a combination of price and exchange. So the volume growth is around the 14%, 15% mark.

Bhavin Chheda: If you have the absolute numbers handy if you can give terry towels in tonnage?

Rajesh Mandawewala: I unfortunately do not have it handy with me, so this we can actually take it offline.

Bhavin Chheda: Thanks a lot.

Moderator: Thank you. Our next question is from the line of Niraj Mansingka from Edelweiss. Please go ahead.

Niraj Mansingka: Few questions on the capex side. Can you give us the guidance on the capex that 1100 Crores that you have guided can you give me breakup for us how it will pan out over the next two years and beyond that as well on the low capex model that you are talking of.

Rajesh Mandawewala: By and large the lion share of the capex will get pass this year, so more or less over the next 12 to 15 months we will be completing the current project that we have undertaken on our hand and what the current capital expenditure is actually going to improve and increase capacity in towels and sheets one it is going to automate this processes to reduce operating cost also some labor welfare and this building or the townships and housing for them and things like that. So this by and large this over the next 12 to 15 months this we will get passed the lion share of this capital expenditure Niraj.

Niraj Mansingka: Secondly when would the 20000 spindles for the towel in Anjar complete?

Rajesh Mandawewala: About not 20 this is approximately 10000 spindles remain so they should be this into operations third quarter of the current financial, so say anytime this between October and December so that is the quarter when they will come into production.

Niraj Mansingka: Status on the core spindles that you are talking off?

Rajesh Mandawewala: Core spindles the 16000 this is our the Vapi thing is the same thing so these are for cores counts only, so they are predominantly for towel so it is about 10000, 11000 spindles remain the rest are already in line.

Niraj Mansingka: And sir anything color on the next leg of growth beyond this capex?

Rajesh Mandawewala: As we have been discussing Niraj our intent is now to ancillaries go for the automobile model and this get some few spinning and weaving this vendors that we have interested to come an set up sharp for ancillarisation so that lion share of the capital expenditure then goes of our balance sheet so as you are aware there is almost 60% of capacity capex is for spinning and weaving so if we ancillarize it gives us both advantages one is let me take the capex of our balance sheet and these also that we continue to maintain this the control on the supply chain that we want to maintain so our efforts are strongly going on in that direction we have already aligned with aligned one this yarn spinning vendor so we are hoping that, that mill will get into production June of 2016 and we are in discussions with a few of our existing vendors both for weaving as well as spinning so the process is already on so that is the intent for actually bringing growth so this what we will continue to invest in it perhaps debottlenecking dyeing and finishing, cutting and sewing, R&D stuff like that but the lion share of the capital expenditure which goes for vertical integration that we would want to take it of our balance sheet.

Niraj Mansingka: And Sir which category of the products would it focus on.

Rajesh Mandawewala: The ancillarisation generally speaking it will be the yarn that we are currently also even currently sourcing and the fabrics for bed sheets so these would be the two main areas where we will focus so we had already currently sourcing a lot of yarn from outside there is also a lot of sourcing that we do on the fabric Niraj so these are the two areas that we want to establish supply chain control and which is why this effort towards ancillarisation.

Niraj Mansingka: So effectively you would be to and it is in a fully backward integrated with ancillarisation?

Rajesh Mandawewala: Correct.

Niraj Mansingka: And anything beyond that you might have product.

Rajesh Mandawewala: So see the advantage of any vendor who wants to align with us is that they will make about 3% or 4% extra margin with us because of the Gujarat Textile policy and also approximately so they will save on freight or we will be circulate the packing material they will save on the working capital they will get the Gujarat policy benefits. So all in all that it is a win, win situation so this by aligning with us they could actually end up this making 3 or 4 points extra is compared to actually selling product in the market.

Niraj Mansingka: Thank you.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Siddhesh Capital. Please go ahead.

Dhaval Shah: Sir are you. saying any sort competition from China because they have also been dumping lot of products in the other industry in India by cutting prices so any sort of behavior by them in, in our line of business.

Rajesh Mandawewala: Dhaval this the Chinese are of the table as far as our business is concerned so I think the segment in which we are operating as a company I think we are far, far this ahead and with the different business model that we have adopted so we virtually have we are seeing the last couple of years that the Chinese are actually disappear from the table as far as we are concerned so they are certainly at this movement they do not look like a factor to me.

Dhaval Shah: Sir apart from US in our last meeting in the last meeting you were mentioning about some other markets also developing for us like Japan and some other countries also mentioned so can you throw some light on which are the other markets also you are kind of filing some rare growth going forward.

Rajesh Mandawewala: So our efforts are continuing to build business in all their different markets so Japan we are making good progress South Africa this other far eastern countries Middle eastern countries and also in Europe having said that see there is a sharp depreciation of the Euro against the dollar they said that much more difficult for us to penetrate the European markets despite that we are continuing to make inroads and continuing to make efforts to grow our business or at least maintain if not grow our business significantly in Europe so again adopting the same approach 360 degrees offering solutions to the client which they are now becoming very, very open and they are welcoming us with this approach so hopefully despite the Euro we will maintain whatever that we are doing in Europe and also perhaps grow the market a little bit.

Dhaval Shah: Sir secondly in the product range what we are dealing into so one of the competitor who in a little premium product category, they are not showing the kind of growth what you are into account or they are showing so is that the US market is not that burnt in, in terms of premium bed sheets and pillow covers and home textiles vis-à-vis what category we cater to so just trying to understand what is the buying behavior in the country in US?

Rajesh Mandawewala: See principally the industry is consolidating. It has almost consolidated so which is why you will see that this the leading vendors to this large retailers continue to grow their business and the rest of them they struggle so we are in a position to discuss business with our clients in strategically and with let's a win-win kind of an approach, whereas the others perhaps are not in that position to do that so there an industry dynamics having said that I think the phase of consolidation is continuing and which is continuing to help our business help us to grow our business with the clients.

Dhaval Shah: Sir just last question, we are doing some healthy margin because of the integration what we will got into. So now if we oppose to this capex is over and if we follow this ancillarisation model that will be outsourcing some of our asset heavy business to the other people so till can we maintain that sort of margin or we will since be passing on some margin to them for putting up capex near to our factory so how will our margin profile look then?

Rajesh Mandawewala: Even today a good decent part of our raw materials are being sourced, and we are not still at the end of our capex expenditure cycle so there is still with some looms which are both for towels as well as sheets which will add also this few 10000, 11000 spindles remain to be added, there is a couple of open end machines which remain to be added so the capital expenditure that remaining to be incurred this 1100 Crores so it is still includes some integration expenditure so all in all that will help us also this maintain some level of integration having said that as we go out to ancillarize the buying will be on arms length basis so the pricing will be market based so not unlike what is happening right now and so it will be market based pricing despite the market based pricing the vendors will actually end up making 3%, 4% extra, so obviously because of the factors I just mentioned so just and also when we are giving you the guidance for the future in terms of margin we are actually taking that into account.

Dhaval Shah: Sir there was 3% benefit of Forex in the earnings right now?

Rajesh Mandawewala: Not really, 3% in the foreign exchange impact on the top-line which is not deep it is not the impact on the margin that is the impact on the top-line.

Dhaval Shah: So there was a revision of prices done in January 2015 so to the price which is offered to in Q1 FY15 and what we offered right now so what is the currency benefit passed on in the prices?

Rajesh Mandawewala: Yes, of course so as we have been maintaining this we have unsaid price variants kind of an equation with our clients so which covers major variables within our product price and cost so all that give and take happens so but as we speak we have been settle down with all that for the past and somewhat the results that you see represent what we are hoping to see in the future.

Dhaval Shah: Thank you.

Moderator: Thank you. The next question is from the line of G. Vivek from GS Securities. Please go ahead. Sir there is no response should we move onto the next question. The next question is from the line of Abhilasha Satale from First Global Securities. Please go ahead.

Abhilasha Satale: Sir I just have couple of questions, regarding this volume growth usually Q1 is considered as a weak quarter as far as volume is contain for our business so do you see further scope for improving volume on a quarter-on-quarter basis?

Rajesh Mandawewala: See again so those look at these indices quarter-on-quarter we are on annual business any quarter can be an extraordinarily bright quarter and you could see some volume dip in the other so end of the day this is our business is 85% replenishment sometimes clients want to stock more sometimes they want to destock so I would encourage that just we look at our volume numbers on an annual basis because the quarter do not generally represent even two shorter period to look at for the purpose of comparison.

Abhilasha Satale: Sir just our employee cost has increased by around 23% year-on-year so what is the reason for it and will it be sustainable and will it be constant?

Rajesh Mandawewala: So the cost increase is on account of added activities so you know we sported a 170000 spindles last year there were some weaving, substantial weaving increase on the bed sheet side and overall there was also a lot of contract workforce that we converted into company employees for better control so that all put together forms this increase in the employee cost and of course the annual increases and increments to the people as well so that actually formulates by and large the increase in the employee cost.

Abhilasha Satale: Sir you mentioned about improvement in working capital and this inventory days going down I just want to know how much is because of cotton price reduction and how much finished goods inventory days has gone down?

Rajesh Mandawewala: If you look at this cotton prices are certainly reduced when you look at it from on a quarter-on-quarter basis, so the cotton prices has also certainly helped us but actually there is a lot of destocking that has happened in this quarter and which is not unusual because normally this end of March we carry the highest amount of cotton stocks on our balance sheet, so because of the seasonality in cotton so there is generally a tendency for this cotton stocks to actually taper down after March so there is also with tighter this inventory control over and above the reduction in cotton prices.

Abhilasha Satale: Actually our finished goods inventory has also gone down in this inventory days reduction what we have seen our working capital improvement we have seen there is like apart from cotton price reduction how much is from finished goods inventory?

Rajesh Mandawewala: There is also volume reduction in inventory because in absolute number just give me a second I will ask the boys to pull out but it is actually in three figures so overall the overall inventory is actually reduced by more than 100 Crores in this quarter in absolute number. Over the previous quarter which was the Q4 of FY 2015 so that is a closer comparison as compared to the quarter-on-quarter so even as compared to the Jan to March quarter impact the absolute numbers in inventory has significantly gone down.

Abhilasha Satale: Do we see this cotton price reduction passing on to the customers in the subsequent quarters do we see that happening?

Rajesh Mandawewala: We do not see any reduction in cotton prices unfortunately going forward so I think the cotton prices are more or less where this we think we will see them over the next season as well and we do not see any potential of cotton prices actually going down from here and nor are we seeing a significant increase in the cotton prices so by and large we think the prices will remain where they are.

Altaf Jiwani: Abhilasha FTA is down by 60 Crores.

Abhilasha Satale: Thank you Sir.

Moderator: Thank you. Next question is from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

Aman Sonthalia: What is the share of innovative products in our total products?

Rajesh Mandawewala: 30%.

Aman Sonthalia: And what is the situation for the by the end of the year?

Rajesh Mandawewala: We see as I said 85% of our business is replenishment so there is a fair degree of predictability so as we get some new businesses this number can go up and down but by and large this is where we see that remaining or I think it should only improve from here but we think this will be able to maintain the current improvement that we have achieved over the last 12 months.

Aman Sonthalia: Even about the FTA agreement because few days back I had seen an article, news therefore that in others something is going to happen particularly European Indian?

Rajesh Mandawewala: Discussions continue to happen there is positivity around so in the last six months I think there is a lot of positivity that we see from our side as well as the European union not only Europe actually Aman there is a FTA discussions happening with Canada, there is a FTA discussion happening with Australia and these are all important markets so hopefully this at least we see positivity but as you are aware these kinds of things actually take a long, long time and here the measure unfortunately the measure of time is years not months so we have been tracking it this we are hopefully sit on some of the committees also which discuss this FTA so we certainly see positivity but anything we do not see any positive impact on that account at least in the current financial year so there is general hope that something might actually happen towards the end of this calendar or sometime in the early next year which means that practically it will not have any impact on the current year working of the company.

Aman Sonthalia: One more question is that what is the region when fall in depreciation in this quarter compared to this cotton and however is the reason for raise any tax in this cotton?

Rajesh Mandawewala: There is no raise in debt so debt has actually gone down so even gross.

Aman Sonthalia: No, depreciation rise in tax.

Altaf Jiwani: See depreciation because we are following written down value method so and whatever capex we have done this quarter that is all lying in capital WIP so we will see this kind of drop in the depreciation in Q1 versus Q4 but if you compare with Q1 it has gone up because of the commissioning of the spinning facilities. So since we have adopted WDV method we will see this kind of drop in the quarters where there is no capitalization.

Rajesh Mandawewala: But having said that there will be future capitalization so you are aware there is 1100 Crores of capex will remaining so as we capitalize the depreciation charge might actually increase a little bit in the future.

Altaf Jiwani: Aman, as regards your question for tax see our tax rate is about 34% so last year we used to follow on quarterly basis we used to actually change the tax rate depending on the capitalization this year based on the projected basis we have arrived at the annual tax rate and that we have applied for the quarter so we will see a uniform tax rate throughout the year.

Aman Sonthalia: Sir whether we have acquired new customer in this quarter?

Rajesh Mandawewala: Lot of new businesses have been acquired there is couple of new customers also that we have increases but with the existing customers a lot of new business has been acquired so which is the significant part has been increased with the existing customers.

Aman Sonthalia: Sir whether we are planning to be enter into any products like curtains and all things?

Rajesh Mandawewala: No, at this moment I think there are some products that we need to continue to work for them to mature so like carpets we added into our portfolio last year and the frilled product also came into our portfolio about a couple of years so this we need to allow some time for this product to mature before we actually enter into any other product category.

Aman Sonthalia: Thank you.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir you said 10000 spindles are pending to be operational by quarter three right?

Rajesh Mandawewala: Yes right.

Bhavin Chheda: So 160000 have been commissioned right?

Rajesh Mandawewala: No those 170 are all done this is over and above that. This is actually in the Vapi plant, Bhavin so the Vapi plant as you know this has been completely modernized upgraded and also expanded but here in the middle of that and there is a part of that process as a part of that process another 10000 spindles will get added.

Bhavin Chheda: So after 170 you were at 370000 right you are adding another 10000.

Rajesh Mandawewala: Not 370 we were add about we are at about 290 or so about 290 this is another 10000 spindles but over and above that this we have open and this is open end let us say 6000 rotor so which translates to about 55000 – 60000 spindles so if you consider that this overall so it is equivalent spindles would be around that.

Bhavin Chheda: Because I was at the number of original 2 lakh spindles so that has gone up to what number included?

Rajesh Mandawewala: Correct so this you convert the open ends into equivalent spindles so this is your number in that.

Bhavin Chheda: So including this 10 added we will be at a final number of 370?

Rajesh Mandawewala: Correct.

Bhavin Chheda: And terry towels in tonnage terms would be how much by the end of the year?

Rajesh Mandawewala: So our capacity will be 60000 on terry towels and we would not need to wait until the end of the year for us to get to 60000 so a part of it will be available this year itself and likewise on the sheet side we will go up to about 72.

Bhavin Chheda: And rugs is around 20000 right?

Rajesh Mandawewala: Yes.

Bhavin Chheda: What would be the mix of the sales into US, Europe and India business in the quarter?

Rajesh Mandawewala: See roughly two-thirds of our business comes from US about 67%, 68%, Europe is about 16%, 17%, India is about 6% now so which is actually a significant improvement over last year and the rest of it is coming from the rest of the world.

Bhavin Chheda: Thank you.

Moderator: Thank you. The next question is from the line of Manish Oswal from Nirmal Bang. Please go ahead.

Manish Oswal: My question on continuous improvement in the margins over the last few quarters and so what is the full year guidance in the operating margin number one? Secondly in terms of this current capacity utilization what is the current utilization and after the expanded capacity the capacity addition what should be the utilization level going ahead?

Rajesh Mandawewala: We are currently operating almost full throttle and our hope is that we will continue to operate full throttle so see this our capital expenditure approach has been to follow demand and not to actually invest before in anticipation of demand so we invest when we see demand so hopefully we will continue to utilize our capacity particularly on towels and sheets. On carpets this as I said it is a new product category it will take us a while to set up the utilization having said that I think we are making decent inroads on the carpet side as well so this all in all we hope to achieve full utilization. What was your first question?

Manish Oswal: EBITDA margin outlook because it is increasing last few quarters EBITDA margins going ahead post with the guiding sustainable margin for the business.

Rajesh Mandawewala: On a sustainable basis as I said it is 22, 23 or not the current year for the next several years but for the current year that we hope to maintain the current level of margin so the business looks strong so we hope that we will be able to sustain the current levels where we are currently sitting. So we are doing about 25, 26 right now and the reason why this difference as I explained this few minutes back yes because of the incentive so we are expecting the incentives and other drawbacks to continue this year so which is why the difference between our long-term guidance and the guidance for the current year.

Manish Oswal: So the difference currently is 400 basis points of incentives versus your long-term margin?

Rajesh Mandawewala: The 400 points also include to some integration impacts so that also includes some integration impact there.

Manish Oswal: Secondly you talked about ancillary model in textile I would like to know your comment on the because some of the textile space they have done some backward integration to take the benefit of the better pricing raw material yarn basically and if we are sourcing from the outside the cost differential will be higher or lower how will impact margin ultimately?

Rajesh Mandawewala: See at the end of the day the real measure is actually a good return on capital employed is not it and we have learnt it from you guys so this if you look at where the capital efficiency lies so the best efficiencies actually on the cutting and sewing and the dyeing and finishing and followed by this weaving and spinning so the high capital expenditure actually happens in making the yarn and the fabric so which is why we want to ancillarize it and at the same time see this we want to control the supply chain so as we ancillarize we will be able to control the supply chain at the same time actually put our capital to better efficiency so while you are absolutely right if the level of integration goes down it is likely to impact let us say the percentage margins but if you look at returns with actually this the end of the day this the capital efficiency will improve if the lower ROIC business is go on somebody else’s balance sheet.

Manish Oswal: I have got your point Sir. Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Chintan Sheth from SKS Capital. Please go ahead.

Chintan Sheth: This is related to two-fold, one is incentives you got and the one is the integration part wherein our integration will further move on a value chain like you are expanding your capacity on towel, sheets and rugs so the integration benefit will continue further for the next one year until unless, till the time we fully utilize our facilities?

Rajesh Mandawewala: Correct.

Chintan Sheth: Also our incentives as you mentioned that we mentioned that for this year there is no cut back of incentives we have heard from the government so you continue to receive those incentives for this year and maybe probably next year because basically there is no clear-cut guidance you have received as of now.

Rajesh Mandawewala: Correct and fair assessment.

Chintan Sheth: So for the quarter you mentioned the figure of 140 Crores as incentive you have gained?

Rajesh Mandawewala: No, incentives is not 140 Crores so most of it is in the nature of refunds the taxes that we pay that we get back as refund and then the sale of scrap this and stuff like that so this incentive the uncertain incentive part is between you could say this about is 2% to 3% so that is where the discretionary incentive part looks like.

Chintan Sheth: That is total 3% of things we assume.

Rajesh Mandawewala: Correct.

Chintan Sheth: That will be no many 30, 40 odd Crores of a 1300 Crores revenue.

Rajesh Mandawewala: Absolutely not even that, less than that.

Chintan Sheth: So it will continue for this year that is that will add around 80 to 100 Crores of incentive on a full year basis that we can assume in our model?

Rajesh Mandawewala: Yes, as of now we have no reason to believe that is likely to change.

Chintan Sheth: This is directly without expenses this is directly reflecting to our EBITDA numbers.

Rajesh Mandawewala: Correct, and margins this is straight margin.

Chintan Sheth: That is straight margin you do not have to spend any money on it no cost been work so that gets reflected to your EBITDA.

Rajesh Mandawewala: Yes.

Chintan Sheth: Talking about the holistic number you have given a margin guidance of 20%, 23% for the longer-term without incentive without integration so we can continue around longer-term margin profile of 22% to 23%.

Rajesh Mandawewala: Correct.

Chintan Sheth: Your assessment of how the growth after our expansion and your strategy to ancillarize and try to work out a model wherein we can directly fit into the clients site and reinvest into the capacity build process, so you would not have to fund that from your pocket or in the client will benefit out of the here the expertise on the manufacturing side.

Rajesh Mandawewala: Let me offer a slight clarification here, the spinning and weaving capex will go up whatever we are currently doing in terms of capital expenditure is good to let allow our business to grow another couple of years so this from here on no big bang capital expenditure but see the routine kind of capex will happen so maintenance some debottlenecking here and there so those kind of capital expenditures will continue in the future so the big bang capex will be over after this 1100 Crores that we spend.

Chintan Sheth: No that will be over by next year mid 2017.

Rajesh Mandawewala: Yes.

Chintan Sheth: So all the capacity will come almost by end of September next year.

Rajesh Mandawewala: Every quarter we are adding something so whether it is one product or we will see it is an ongoing thing that these are all Brownfield expansions so the little, little every quarter that we get something extra available.

Chintan Sheth: So you will be utilizing that capacity as well?

Rajesh Mandawewala: Yes, and the utilization starts happening from the next day because see this is an existing facility and since we are working under almost full throttle so we are hoping that the utilization will be almost instant.

Chintan Sheth: One last question on your margin what will be the hindrance in terms of any risk to attached to rate in terms of like say raw material prices we could not pass through but already you have mentioned that there is a pass through contracts attached to it so you are safeguarded in that sense but what kind of event which can debtor to these 22%, 23% of margin, so here is that risk you face basically?

Rajesh Mandawewala: So if there is something disruptive that happens for example the trade barriers get imposed or the currency appreciates 20% in a year or the cotton prices go up 30%, 40% in a year so those are disruptive events plus something like that happens it takes you a little time to negotiate with the clients and pass on such kind of increases but eventually this everything will get passed on so end of the day we have reached that level of maturity with our clients with at least a larger plant that we have, where eventually we will pass-through everything on but if it is disruptive in nature this will take you a little extra time to pass it on so those I would consider as perhaps the primary risk to the business.

Chintan Sheth: So by and large you do not see a temporary blip maybe it is a kind of catastrophe?

Rajesh Mandawewala: No, see because on the foreign exchange we hedge ourselves pretty decently so even if something disruptive was to happen it will give us time to settle down, we also try to manage this risk by coverage of cotton and raw materials so there is generally four month three to four month of inventory in the system so we try to manage the risks so that it does not impact us seriously but having said that if there is anything disruptive that happens so that will take its toll and although we are not seeing anything of that kind so cotton does not look like running away not this season not the next season so there is enough cotton patched this all over the world, there is enough surplus of cotton sitting there so we are not seeing and we certainly do not see the currency coming back to 50 or thereabouts, so this we do not see any disruptive and there is no discussion whatsoever on any tariff trade barriers by our key consuming markets or country so this we do not foresee anything but since you ask these are things which could actually disrupt margin for a short period of time.

Chintan Sheth: The annual revenue from the expanded capacity you can give some numbers broad numbers?

Rajesh Mandawewala: We will grow to about 60000 tonnes or thereabouts in towel 72 million meter in sheets and 20000 tonnes of rugs. So this is what we are setting ourselves of that.

Chintan Sheth: What kind of revenue potential post the capacity you can foresee basically of the expanded capacity currently annually doing say 1300?

Rajesh Mandawewala: No, last year we did about 5300 so this should safely this capital expenditure so this should safely take us to about 6500 to 7000 and we are expecting a middle teens kind of this topline growth over the next several years, and which we have been consistently maintaining and we continue to feel confident around achieving those kinds of revenue growth numbers.

Chintan Sheth: Thanks and very all the best Sir. Thank you for answering my questions.

Moderator: Thank you. Next question is from the line of Chintan Modi from Motilal Oswal. Please go ahead.

Chintan Modi: Sir I just wanted to get some sense on the domestic business if you can elaborate what were the reasons we did superior growth of 36% during the quarter?

Rajesh Mandawewala: There are a couple of parts to it. So, I think a) there is year-on-year growth from the same stores that we are doing, so a part of the growth is coming from there and last year we also embarked on creating actually a channel network of distributor so we are in the middle of that whole process so we are continuing to appoint this distributors to take us to tier two, three cities so both part of the growth is also coming from the tier two, tier three cities where the appointments and effectiveness of the distributors have already started happening. So we are across very deeply and aggressively focus on improving the penetration, and the other thing is see we ran up a very decent campaign this Parineeti is our brand ambassador so we actually to ran our campaign we continue to run to some this above the line and below the line marketing activity, so our consequence of all these factors put together is actually led to this revenue growth.

Chintan Modi: So just to further understand this we do it through shopping shops and such kind of format right?

Rajesh Mandawewala: Correct there are shopping shops and as well as we are let's say this distributors who go and sell to this MBOs the smaller outlets we cannot cater ourselves so last year we started appointing distributors and these distributors then go out cover these territories.

Chintan Modi: Sir any kind of target that we have set what kind of contribution do we see from and India contributing towards the revenue two or three year down the line?

Rajesh Mandawewala: Over the next five to six years we are saying our domestic business should start looking like 20% of our overall business. We are currently at about six so this we would like to see about 20% or thereabouts of our revenue to come from the domestic market we are focused on it, and it is actually a completely different thing of people who runs that business for us and fairly focused, very deeply focused, focusing on the brand, focusing on the consumer and with a completely different approach to our B2B business that we run so we feel this fairly confident that and certainly I think there is a lot of desire and will for us to actually continue to grow our business in the domestic market.

Chintan Modi: In terms of pricing what would be the distance between our branded products in the private label that we supply?

Rajesh Mandawewala: It is a difficult question to answer Chintan because see this with our private label business every business is actually tailor made to our customers requirement so it is a very difficult thing to actually but if you ask me to compare it with the pot so what are the margins that we make overall for our entire B2B business vis-à-vis the B2C business so obviously the margins at this moment the B2B margins are slightly higher than B2C having said that as the volumes on the B2C side continue to grow see the fixed cost will get amortized over a larger volume and then eventually it is but the branded business will start to look more profitable than the B2B business.

Chintan Modi: Sir overall how much contribution is from branded business?

Rajesh Mandawewala: About 11% of our total business is coming from our own branded product so this also includes the Crispy and Kingsly brand that we have in Europe as well as Spaces and Wellhome and Welspun brand for the institutional side here in India.

Chintan Modi: Thank you.

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

Resham Jain: Thank you Sir. Sir two questions one on the TUF side, I understand that the 1100 Crores remaining project which we have it is already approved in terms of TUF application because we have heard that recently in the last three four months lot of TUF applications are pending so what is your take on that?

Rajesh Mandawewala: You have heard correctly and I also in my opening remarks actually mentioned about this so there is discussion happening around this changing the TUFs scheme in some form so even within our current expenditure Resham, there is some expenditure that is left where we do not have the registration so while we have filed for the registration let us say several months back, but there is no registration on new registration on TUF that has happened after October of 2014, so all applications after August, September of 2014 they have not actually issued registration certificates this we do not know what is the fate of this is going to be so there is certainly some discussion happening in the government having said that this as what is the numbers that you see from us do not include any TUF benefit for which we do not have a registration so this we have used abundant caution so wherever we do not have the registration for TUF we have not actually accounted for that benefit.

Resham Jain: Just wanted to out of this 1100 Crores remaining capex how much of the capex we will not have TUF registration any number you would like to give?

Rajesh Mandawewala: I think about 700, 800 Crores or thereabouts would be this expenditure where we would not have the registrations in our hand but we have applied for everything so let me tell you this our applications have all gone in 2014 so generally the hope in the industry is that at least the pipeline cases will get covered so which is what are the representation is and the TUF is not disappeared so the TUF will continue to remain in some form or the other so this we are hoping it would not disappear and they have not talking about it disappearing, so there is some discussion that it is change the shape or form but the Gujarat benefit will continue so Resham the Gujarat registration we have already got for our this project so we have accounted for that benefit so and that has got no connection with the TUF so the Gujarat benefit is independent of the TUF benefit and the Gujarat registration we have already received.

Resham Jain: Sir my second question was actually on that only, is it like you have account you already said that it has been accounted so for a how many months the interest subsidy for Gujarat government has outstanding now?

Rajesh Mandawewala: Our claims have just been lodged so in fact the final registration eligibility actually has just come so the claim is just about getting lodged so the refunds and everything will hopefully happened in the subsequent quarter.

Resham Jain: But outstanding will be for how much.

Rajesh Mandawewala: See generally a two to three quarters wait is a reasonable I think this expectation so whether it is TUFS or anything any money that you need to get backed on the government you can safely say you are not going to see the face of that money at least for eight or nine months.

Resham Jain: Sir and finally any impact because of Trans-Pacific of the judgment, because Trans-Pacific agreement we are now hearing on a constant basis so anything which may hurt us?

Rajesh Mandawewala: Not really. There is no competition we have from the Far East and by and large all the countries that are getting covered there is no towel and sheet manufacturing there and we do not see that that happening in the future as well so it should not have any impact on our business, Resham.

Resham Jain: Thank you Sir.

Moderator: Thank you. Last question is from the line of Hiren Desai from Goldman Sachs. Please go ahead.

Hiren Desai: Sir the west side business today 6% is not really impactful in terms of margin would it be fair to assume that the margins in the domestic business today would be lower than the company average or the margins?

Rajesh Mandawewala: Yes, today they are certainly lower but if you look at the gross level the margins are actually higher in the domestic market so as I alluded to as the volumes in the domestic market go up so the fixed cost will get better amortized over a larger volume of business and as that happens I think the branded business will start looking more profitable.

Hiren Desai: Gross margins today are comparable because you are capturing part of the retail margins as well there.

Rajesh Mandawewala: Correct so just we do not retail as such so this our model by and large…

Hiren Desai: Part of brand margin let's say.

Rajesh Mandawewala: Yes part of that so this the retail margin actually goes as a commission that we offer to the retailer so it actually does not come to us.

Hiren Desai: But over five years when this business becomes if God willing 20% of the total revenues as we are expecting do you still think that it can maintain the margins of like 20% plus overall?

Rajesh Mandawewala: Undoubtedly so the gross margins are significantly higher so undoubtedly this as we achieve critical margins will start looking better.

Hiren Desai: Thank you and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for closing comments. Thank you and over to you Sir!

Rajesh Mandawewala: Thank you for all the patience and the interest all new ladies and gentlemen have shown with the company and I hope the results are going down with your forecast and hopefully the company will continue to pleasantly surprise you with positive and better than expected result so thank you very much.

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