



# **“Welspun India, Second Quarter, Financial Year '13 Earnings Conference Call”**

**November 9<sup>th</sup>, 2012**



**SPEAKERS:** **Mr. Rajesh Mandawewala, Managing Director, Welspun Group**  
**Mr. Dinesh Jain, President of CFO, Welspun India Limited**  
**Mr. Akhil Jindal, the Director Group Finance & Strategy**

**Moderator:**

Good afternoon, ladies and gentlemen. I am Varkha Dawar, the moderator of this call. Thank you for standing by and welcome to Welspun India Second Quarter Financial Year '13 earnings conference call. For the duration of presentation, all participants' lines will be in a listen-only mode. We will have a Q&A session after the presentation. I would like to now hand over the conference to Mr. Abhishek Agarwal from Macquarie Capital Securities. Over to you, sir.

**Abhishek Agarwal:**

Hi, all. A warm welcome from Macquarie. I am Abhishek Agarwal. We take great pleasure in hosting the Welspun India Q2 FY13 earnings conference call. The senior management present on the call are Mr. Rajesh Mandawewala, Managing Director, Welspun Group; Mr. Dinesh Jain, President and CFO, Welspun India Limited and Mr. Akhil Jindal, the Director Group Finance & Strategy. There will be a short presentation on the results following which the participants can post the questions. So, without further ado, I would like to hand over the floor to the Welspun India management. Over to you, sir.

**Rajesh Mandawewala:**

Thank you. A very good morning to all of you. I am Rajesh Mandawewala, Group MD, Welspun Group. And I will be taking you through our second quarter performance of our home textile business. Now before I delve into the financials, I will be talking about two listed entities that we have, Welspun India Limited and Welspun Global Brands Limited, and we have actually filed a scheme now to let us say restructure the business because there is a little bit of confusion around the structure of the business; so we have actually filed a restructuring scheme which is pending with the courts, hopefully this quarter we will get the approvals. Once that happens, hopefully in the next quarter we will be talking only about one company. So all our textile businesses, home textile businesses will be finally consolidated into Welspun India. And we will report only one result on a consolidated basis hopefully from the December quarter.

So, today I am going to first discuss the consolidated results had the restructuring happened, how the results would have looked, and then I will take you through the individual companies of Welspun India and Welspun Global brands so that you will get the picture in a totality perspective. So for the quarter two, between Welspun India and Global brands the total income was in excess of 925 crores. The reported EBIDTA was 179 crores, and the PAT, Profit After Tax, was about 61 crores, Welspun India, out of this total 180 crores, Welspun India is 135 crores of EBIDTA, Welspun Global Brands is 45 crores of EBIDTA, and at the PAT level Welspun India is 47 crores, and Welspun Global Brands is 14 crores. So all in all if you look at this corresponding quarter of the last year the EBIDTA has grown by 38%, the Profit After Tax has grown by 156% and cash profit has moved by 28%. So all in all as compared to FY12 these are the improvements that we got over this quarter.

Now I also want to take you through this what have we done as an organisation. We have been missing from the communication circuit for a long, long time. So very candidly there were a lot of initiatives at the company had undertaken from let us say the year 2007 to 2010. We set up two factories in Mexico. We licensed a few brands in the US. We bought this company, Sorema, in Portugal. We proliferated our Welspun retail business here with our brands, Welhome and Spaces, and we also bought Christy. Now all these initiatives were all done between 2007 and 2010 and as you all know the slow down hit almost immediately. And these initiatives that we have taken were actually dragging us down by 120-150 crores of PBT every year, consistently over the last three to four years.

Now what we have done over the past two financial years ending March 2012 is we have exited from the Mexico business. So both the Mexico business we are out of them and we have no liabilities left on that. We have almost closed all our retail stores here. Although we are continuing with the retail business, it is in the form of wholesale business and shop-in-shop, so we are not running our own stores

except these five or six factory outlets. We exited the Sorema, the acquisition that we had in Portugal. We discontinued the licenses which were losing us money in the US on Brands. So as of now every single activity that we have in the group, which was leading to losses we have, let's say, exited. And all of that has been exited before March 2012, and all let's say, all the hits that we had to get we have already taken in the year ended March 2012.

So, in the current year, FY13, we have no legacies left from our loss leaders. And consequently, let's say, the financial performance of the company is looking significantly better, let's say, year-on-year because on a consolidated basis all these things were hurting us. So this year, now, whatever is left of retail is profitable now for us, and everything else that we are doing, so we have no loss leaders left in the group, and we are back to focus on what we do best which is to innovate, manufacture and then internationally market our own textiles which is towels, sheets, rugs and carpets. So which is why, let's say, the company... if we look at our performance Q1 was significantly better, this quarter we have only improved our performance and we are hoping to continue to improve our performance going forward in the future.

Now there are some structural changes which have happened over the last couple of years, which I think is important for me to point out, A) that we continued to have this big advantage on cotton, which is, let's say, our principal raw material. So in home textiles, India, Pakistan and China account for almost 85% of global trade, and all exports particularly to America and Europe. And if you look at India the competitive position of India, Pakistan and China, India is exporting about 25% of its crop, whereas both China and Pakistan import almost a third of their consumptions. So we have a huge advantage on cotton. The Rupee depreciation is obviously working in our favour, all our raw materials are this Rupee price, Rupee denominated 93 to 94% of our business is exports in US dollars, so, that helps us.

Chinese currency has appreciated. Their cotton prices are far higher than ours. And with that ageing population, their wage rates are rising 15-20% every year. And the economy seems to be now focused on domestic consumptions, so we do not see the Chinese companies as competitors any more. It was not the same a couple of years back, but now every passing day their competitiveness is eroding to a point where we do not see Chinese competition. And this is reflected in the fact that if you look at US imports of home textiles as an example, India now accounts for 36% of all towel imports into America. It now accounts for 46% of all sheet imports in America, so which is where, let's say, we have a level playing field. So it gives you a story, it gives you a picture that how India's dominance in the home textiles arena is growing.

We play a big part in this. We almost have a 14% market share on towels in the US now. And also on sheets we have a 7%-7.5% market share in the US. In the UK, we have a 32% market share in towels. And now we are growing our portfolio in Europe, in Africa and in Latin American continent, Australia and New Zealand in the Far East. So all in all exporting to about 30 countries. Now you must be aware India is negotiating an FTA with Europe. All of us are hopeful, at least our association tells us that this is likely to happen in six months. So this will again, let's say, put us on a level playing field in Europe. And we hope that if that happens we will perform in Europe like we performed in America today, which is the dominant position in home textiles. Other than that, the geopolitical situation in Pakistan which is helping, let's say, business move to India. And all in all, our domestic business is also growing although it is of a small base, but we will say it is significantly growing.

So, you know, all this leads us to be fairly confident in replicating our performance in the second half of the year. So with a favourable raw material situation with favourable currency with a strong order book and, let's say, with all the innovative products that we do marketing to global markets, we feel fairly confident to maintain our performance going

forward and continue to grow our business. Our costs are better, our efficiencies are better, we are selling to more markets in the world. As I said, all the loss leaders are out of the business, paid for before March 2012. So we have done and dusted with them. So, we feel very hopeful.

Now we are very, very cautious with our capital spend over the last three years. Obviously coming from the fact that we were a highly leveraged, let's say, company. And this we have not invested too much capital over the last three years. So consequently if I was to talk about the merged entity, Welspun India and Global Brands, in its final restructured shape, our net debt today would stand at 1500 crores on a net worth of 921 crores. So our net debt to Networth is 1.63. And if I look at our long-term debt, our long-term debt to equity is 1.1 and our total term debt stands at about a 1000 crores, and the rest of it is short-term debt. We have 300 crores of cash on the balance sheet. And if you look at net debt to, let's say, annualised EBIDTA, we are at about 2.1, 2.2. So in all respects, we have restored the health of the balance sheet and it is now time for us to start growing our business.

So in towel, sheets and rugs, we are operating at about 80-85% of our capacity. So we will not significantly grow capacities on the, let's say, front-end towel, sheets and rugs. But we will have some catching up to do on vertical integration, which is, let's say, grow our yarn making capacity. We are currently producing only 30% of the yarns that we consume. We are producing only 33% of the fabric for bed sheets that we consume. So we want to put in some capital expenditure on vertically integrating us to bring more stability to our business. And we believe that while spinning and weaving have not been hitherto very rewarding investment in terms of IRR, but going forward I think, you know, the IRRs will look very healthy as they are looking healthy the last few months, few quarters so. We want to bring a little more robustness in our offering to our customers. So we will be investing some capital there.

We want to improve energy cost, so we will be investing some money there. As I said, we have a decent amount of cash on the balance sheet, and we are accruing The cash accruals are almost 100 crores every quarter now. So all the growth plans that we have will be funded through the internal accruals. And some term loans from the banks. Now, that both Gujarat and Maharashtra have come out with a new textile policy. So Gujarat now offers 5 to 7% interest rebate on textile investments. You already have the TUFS scheme from the centre. So if I got to make a spinning investment in Gujarat today, we will get 7% interest rebate from Gujarat, and 4% from the centre. So, our interest, if you took average interest cost at 12.5%, we would get 11 back, so our net cost of term borrowing is only 1.5%. And, let's say, with a decent leverage right now, debt to equity, we feel comfortable raising our debt portfolio a little bit to fund our expansions. This is a finite five-year policy and this will not be there forever in Gujarat. Their goal is to bring 25,000 crores of investment.

So, it is a finite window under which we can take advantage. And so have been relatively quiet and happy so in terms of making CapEx over the last three years. So I think with this Gujarat policy, we will now kick-start some capacity balancing and expansions going forward in the future. So all in all, we feel very good about our business, about our financial results, about our balance sheet and we are also reasonably confident now of putting up good show going forward. And mind you a good part of the financial numbers reflected in the second quarter are also reflective of the cleaning up that we have done in the company. So it is a combination of better business -- and also we were losing 120-150 crores annually out of these loss leaders which are out of our way. So because of that also the financial results are significantly improving, purely from the fact that this all the loss leaders are now behind us. So that is from my side. So I will be happy to take questions with anyone of you.

**Moderator:**

Sure, sir I will just make an announcement for Q&A. Now we will start with the Q&A interactive

session. To ask a question, I would request all the participants, they may please press the “0” “1” on your telephone keypads and wait for your name to be announced. I repeat, to ask a question please press the “0” “1” on your telephone keypads and wait for your name to be announced. Once again, participants to ask a question please press the “0” “1” on your telephone keypads and wait for your name to be announced. Sir no question is coming from the participants.

**Management:**

Alright, it seems that the participants are a bit shy today.

**Jal Irani:**

Hello, can you hear me. This is Jal Irani.

**Management:**

Yeah, Jal I can hear you. It is not very clear.

**Jal Irani:**

If I may kick off a question, essentially how much of this turn around would you attribute, so if you can quantify, would be due to the restructuring and how much would it be due to, sort of, market conditions, whether the market conditions are cotton prices or the rupee depreciation. So if you can give us a sense of what the break-up is between the various components, even if you don't have an exact number.

**Rajesh Mandawewala:**

Look, Jal, what is currently reflected in the performance is pure business improvement. Now we used to be reporting only stand-alone results quarter-on-quarter until last year, until FY12 and all the consolidation hit used to be come towards the end of the year. So this 120-150 crores that we were losing was all getting accumulated in March results towards the end of the year when we were declaring this consolidated results. This year we have gone to consolidated reporting. So with this consolidated reporting, towards the end of the year there will be no surprises, so whatever is there in the business is reported on a consolidated basis. So what you are seeing quarter on quarter is actually all business improvement. What you will see year on year will be cumulative impact of both restructuring our business and business improvements. So this quarter on quarter is all business improvements, Jal.



**Jal Irani:**

And how is the benefit of lower cotton prices? I mean, the increment benefit fully... you know, pass through P&L now or do you all -- I mean, will the incremental benefit flow through? So, have you all had high cost inventory which you all still have been consuming or you all have now been consuming low-cost cotton?

**Rajesh Mandawewala:**

No, this all are high-cost inventories is through the system. And also -- see the business has got back it's pricing power that it had lost over several years. So now I think the parity is restored. So to just give you a perspective, Jal, in the last two or three years there have been four or five price revisions, three upwards and one downwards. And with most of our clients now we are on a Index based pricing basis. So with an index-based pricing formula, which of course it is a very exciting sign but customers now realised that the price needs to move up and down with major change in cost. So we are on a variable pricing formula which we discuss with them once every three to six months. So industry has got back its pricing power. So with the movement in raw materials over a period of, let's say, six months get this passed on whether it is upward or downwards to the clients.

**Jal Irani:**

And how do you see cotton prices going forward?

**Rajesh Mandawewala:**

Looks like we will have a good cotton year. The World is flush with cotton. So there is huge global surplus cotton right now. And this is the new arrival season in America, China and India. So at least for the first six months there will be abundance of cotton available. Towards the end of season maybe the prices will start moving up a little bit, Normally as a strategy we cover all our cottons, in the first four months of the season, we have been consistently doing that. So during coverage period the cotton will remain where it is, which is currently very subdued.

**Jal Irani:**

Thanks Rajesh, I appreciate it.

**Rajesh Mandawewala:**

Thanks.

- Moderator:** Sir, you wanted to do an announcement once again.
- Management:** Operator could you check for any questions?
- Moderator:** Sure, I will do it once again. Once again, I would request all the participants, to ask a question you may please press “0” “1” on your telephone keypads and wait for your name to be announced. I repeat, to ask a question please press “0” “1” on your telephone keypads and wait for your name to be announced. At this time there are no further questions from the participants. I would like to hand over the floor back to the speaker for final remarks. Over to you, Sir.
- Abhishek Agarwal:** We thank the management of Welspun. If there are any end remarks, you could please go ahead with that.
- Rajesh Mandawewala:** Yeah, thank you for having us on the call and, Jal, we will look forward to your support. We want to do this calls now every quarter to be in better touch with the market. So thank you for inviting us on the call.
- Jal Irani:** Sure, thanks.
- Moderator:** Thank you all. That thus concludes the conference call for today. Thank you, all, for your participation. You may all please disconnect your lines and have a great day to all of you. Thank you all, you may please disconnect your lines now.