



“Q2 & Half Yearly Results and Business Updates, FY
2016-17”

November 15, 2016

Chairman’s Speech

Dear Friends,

Good Evening to you and welcome to this Half Yearly Conference of Welspun India.

It's my pleasure to share your company's progress as a sustainable leader in the home textile space. We believe that Welspun has built the foundation for strong leadership through its products, brands, global presence, innovation and socially responsible practices.

I will share with you my thoughts on

- Traceability of Egyptian cotton
- Business strategy and progress on our initiatives
- Vision 2020

Let me come to the Egyptian cotton first. To be clear, the sole issue was regarding the traceability of the fibre. There was never any issue regarding the quality or the safety, or its fitness for use.

We took this issue seriously and we engaged all our key stakeholders, on priority to proactively address their queries and concerns. As a first step, we appointed EY as an independent external agency...to review and identify improvements to our supply chain management systems and processes, with an emphasis on enhancing traceability of each and every product.

Friends before I get into the details it is important to understand the issue in totality. The biggest factor around this issue was the supply chain complexity.

As you would know, over the years, the textile industry has become very fragmented, consisting of many small and mid-size players. This has resulted in the need to source from many suppliers for the various intermediate products. As a result, our supply chain has also become significantly more complex. We have increased the sourcing of these products, such as yarn and fabric, from various suppliers at each stage of our processes.

The outsourcing has helped us meet our growing volume requirements and ensure that quality product is delivered to the clients on time. However, the increasing complexity of the supply chain has presented a challenge to tracking and traceability of each and every product.

Another related factor is Egyptian Cotton and its sourcing. As you all would know by now Egyptian cotton is a form of long staple cotton. Today, the production of long staple cotton from Egypt is roughly 1/8th of what it was twelve years ago. To put that in perspective, production has fallen from 1.4 million bales in 2004-05 and is expected to reach as low as 0.18 million bales in 2016-17.

Today there are many sources of long staple cotton other than Egypt, including India, US, Peru, Israel and China. Due to technological advancement, all of these sources are capable of producing cotton of similar quality and staple length as cotton grown in Egypt.

Friends, during the last 2 months, we reached out to each of our key customers across the world and started engaging with them to answer all their concerns and queries. We worked with all our top customers to support their actions towards a comprehensive resolution.

Today, I can confirm to you all that we continue to do business with all our esteemed customers except one and we are grateful and thankful to them for their support.

Let me now turn to lenders and credit rating agencies. I am pleased to report that they have extended their full support during this period and I am thankful to all of them. Lenders for their operational support and to the rating agencies for understanding the full issue.

I am happy to inform that the rating agencies reaffirmed our long term rating as AA- and short term rating as PR1+.

I now come to supply chain review by EY. EY did a complete independent review over the last 2 months to identify where we could improve our internal systems and supply chain processes.

EY suggested several remedial measures. As you would see, in these slides, we have adopted several actions pertaining to their recommendations

- be it Structural
- be it Process
- People and
- Technology

We believe that these remedial measures will ensure that Welspun has a completely transparent and reliable supply chain, and internal control systems that are best in the industry.

We are also in the process of forming an independent advisory council comprising of international experts from cotton industry, retail, branding as well as supply chain.

As we are a vertically integrated plant, we are moving towards producing all Egyptian cotton products in-house....that means, from cotton to the finished product.

Friends to achieve these goals, we are taking the following steps:

- Going forward, we will not outsource intermediate products for Egyptian cotton which means cotton will enter our supply chain at a single point as raw material at the spinning stage itself
- We will deploy a dedicated resource in Egypt for sourcing of Egyptian cotton.
- We will increase additional third party assurances like CEA's Gold Seal, vendor audits and DNA tests

The processes in the textile industry are not well-developed as we see in some other industries such as pharma and auto. We are looking at other industries to adopt a technological solution for our plants in a cost-effective manner. Accordingly, we are working to introduce a cutting-edge, RFID based technology to improve traceability and tracking of materials...right from cotton to the finished product. We believe that this will significantly reduce manual interventions in our supply chain

processes. Friends, we strongly believe that after implementing this technology, we will raise the bar for the entire textile industry.

Coming to the financial impact of the traceability issue, we have taken a one-time provision of Rs. 501 crores in the 2nd quarter. We believe that this provision is sufficient to cover all likely cost. As a result of this unforeseen event, we are likely to see muted revenue growth in FY18, as against our initial guidance. However we are confident of regaining our growth momentum as we go forward.

To summarise, let me again say that, we have taken this issue very seriously. We are confident that we will emerge stronger from this whole episode and set new benchmarks for the industry.

I would also like to thank each and every stakeholder, including our employees, who have stood by us through this challenging time.

Let me now move to the next section – our business strategy and how we are trying to gain further market share.

Our future growth strategy is based on five key pillars:

1. Innovation
2. Brands
3. New markets
4. New channels
5. New products

I want to emphasise here that we have a diverse strategy for growth and we are not dependent on just one factor.

First pillar: Innovation and Patents

Our innovation engine continues to fire on all cylinders and I am happy to announce that we now have 27 global patents filed. Of these, 9 have already been granted.

- Our best-selling innovation, Hygro cotton has continued to do well.
- Another innovation, Nanocore has received Asthma and Allergy Free Certification for bedding products in US.
- Our third innovation, Drylon, has also achieved good traction with the launch of new varieties.

All the above innovations can be extended across all our product categories.

Friends, now I want to share something very exciting. We have recently entered into smart textiles.

As we know, the future is moving towards technological products, be it smart home, smart cars, smart apparel, smart appliances. We have also taken a leap into this futuristic area. A new brand, TILT, has been introduced by us for smart home textile products. TILT focuses on seamlessly integrating technology into home textiles for futuristic smart homes in the areas of

- Health and wellness

- Utility
- Entertainment

We have got the first patent under this line, which was granted to us during the quarter.

The first product under TILT is Spin Tales. It is for entertainment and is an interactive and innovative bed set and rug for kids aged three and up. It will be available on our online channel, TILTTEXTILES.com during the upcoming Christmas season.

Second pillar: Brands

As you know, we have various brands in India as well as globally like Christy, Spaces and Welhome.

Our international brand, Christy is the oldest and well-recognized brand in this space. We are revamping this brand in order to appeal more to the younger generation. We are increasing the global footprint, especially in US, China and the Middle East. The brand has been well received in the new geographies where we have entered recently. We are also working on getting more associations similar to Wimbledon and Rugby World Cup.

The third pillar for growth is the domestic market. We are very optimistic about the Indian market. India is one of the fastest-growing economies in the world, and provides a major growth area for us. On the domestic brands, under 'Spaces' – Home & Beyond and 'Welhome', are doing well and increasing share in overall sales. Spaces was recently recognised as a best performing brand in home category in Shoppers Stop. In the first half of this year, we have grown more than 20% in the domestic market, supported by strong growth in innovative products.

The fourth growth pillar is New channels

Another big growth opportunity which we are focusing is the hospitality industry. We have tied up with prominent international hotel chains, like Starwood, Hilton, Taj etc. This will help us increase our sales, not only in the US but also in the global market. Even in the Indian market, we are seeing a robust growth in this area.

Friends, we can't forget about e-commerce. E-commerce continues to be a focus area and we are seeing strong traction through this channel also.

Fifth one: New products

As you are aware, we have been growing at more than 20% CAGR over the last few years and we aim to grow at double-digits in the future as well. To achieve this growth, we also need to make the right investments. As we have announced earlier, we are working on an ancillarisation model, where many of the intermediate products will be anciliarised. We are receiving a very good response from vendors. Going forward, we will be investing only in high value added segments such as finishing and processing.

At the beginning of the year, we indicated capex of Rs. 800 crores. Nearly half of it is over and the balance will be completed in the remaining part of the year. This will take our capacity in towels to 72,000 tonnes, sheets to 90 million metres and rugs to 10 million square metres. On the completion of this, by March 2017, we will perhaps, be the largest as well as the lowest cost

producer of home textiles in the world. Beyond this, we do not envisage any significant capex in towels and sheets except for some debottlenecking..

Flooring is one area where we will be focusing on in the near future. Flooring means Rugs, carpets, area rugs, tiled carpets

If you see our rugs business, it has reached an inflection point and is close to reaching optimal utilization. Hence we decided to invest in Flooring solutions for accelerating our future growth. As we are already in rugs, this related business will benefit from synergies with our existing product line and customer base.

For this project, we have decided to invest approximately Rs. 600 crores in flooring solutions having a capacity of approx 7 million square meters. Most of this capex will be done in eighteen months starting from next year and will be one of the most modern plants in the country. The location of the plant will be next to our Anjar plant in Kutch in Gujarat.

We believe this will be a strong growth opportunity for the international market as well as the domestic market.

Now let me touch upon our Vision 2020, which we shared with you during our last interaction.

Our Vision 2020 consisted of the following targets:

- Revenue of \$2 billion
- Zero Net Debt
- 20% revenue Share from our Domestic Business
- 50% share of Revenue from Innovative products and own Brands
- Besides that, under our inclusive growth program, we want to achieve target of 20% Women Employees across the group

We are fully committed to our Vision 2020 and we are working towards achieving it. I am of the view that we are on course, in spite of the recent developments. The five growth drivers that I have elaborated, that is,

1. Innovation
2. Brands
3. New markets
4. New channels
5. New products

will lead us towards achieving our Vision. All this will be done, while continuing to maintain financial discipline.

We are determined to transform Welspun into a technology and a system-driven organization. The steps we are taking now will accelerate the journey towards institutionalizing Welspun and lead us to Welspun 2.0.