



# “Welspun India Limited Q2 FY2021 Earnings Conference Call”

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*Welspun India*  
*October 30, 2020*

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q2 FY2021 Earnings Conference Call of Welspun India hosted by Systematix Institutional Equities. As a reminder, all participant lines 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 the 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. Ankit Gor from Systematix Institutional Equities. Thank you and over to you Sir!

**Ankit Gor:** Over to you Dipali for opening remarks. Thank you very much.

**Dipali Goenka:** Thank you Ankit. A very warm welcome to all of you to Welspun India Q2 H1 FY2021 investor call. I hope that you and your family are keeping well and safe. I will cover the key business updates for the quarter and later Sanjeev will take you through the financial highlights.

After this steep decline in Q1, global economic activity appears to have rebounded sequentially in quarter gone by owing to lockdown relaxation and policy support from government across all major global economies. However, we need to keep a close watch on the tenability of the revival process till this pandemic is brought under complete control.

Consumer behaviours are settling into new normal as people globally are learning to live with COVID-19. Hygiene and wellness have become integral part of existence. Consumers are spending more on essentials and hygiene products and cutting back on discretionary category. They are still reluctant to resume their normal out of home activity and a spending more time at home. This change in underlying behaviour and rise of home economy have resulted in reallocation spending which is driving the overall demand for our home textile products.

For big-box retailers and department store chains, the growth of home goods has outpaced that of other categories. Big-box retailers continue to be a destination for all kind of shoppers for various consumer goods. As our sales are skewed towards such retailers; since June we have witnessed buoyancy in demand for our Home Textile products. Consumer shopping online has increased significantly and is here to stay. With the growth of Omni-channel, retailers have also adapted to the next normal in consumer experience and engagement. During Q2 we have witnessed a sharp jump in

*Welspun India*  
*October 30, 2020*

volumes, and as we speak today, our plants are running at full capacity. The projections for the rest of the year also looks robust.\

With the customer demand continuing to be buoyant, the company is exploring further ways and means to enhance its capacity by de-bottlenecking its manufacturing processes and rebalancing the facilities. This has potential to increase present plant capacities by around 20%.

Our new Welspun Flooring facility at Telangana is fully integrated with advanced capabilities and infrastructure. It can complement the strengths of our existing rugs and carpets manufacturing unit at Vapi. The synergies will help us to further develop innovative solutions and enhance customer serviceability. We have planned to utilize the flooring division to produce Rugs and Carpets for our Home Textile customers, as our Rugs and Carpets facility at Vapi is running at full capacity. This will not only help in meeting the increased demand for export of Rugs and Carpets; but will also increase utilization of the soft flooring plant at Hyderabad.

This quarter we also launched “Industry First” virtual 3D showroom and Omni-channel experience at New York September market week which was very well received by our customers. As COVID has restricted travel, by using innovative digital technologies we are virtually engaging with our customers to showcase our latest innovations, product assortments, conduct virtual inspection and factory visits.

While our Home & Innovation portfolio grows from strength to strength, we continue to build and strengthen our global licensed and owned brand portfolio to cater to changing consumer preferences across geographies. US consumer reach is getting stronger with brand like Martha and Scott in our portfolio, UK/Europe getting stronger with the Christy Brand and India consumer reach is getting enhanced with Spaces and Welspun. Addition of brands give us additional shelf space, opens up new channels and creates incremental volumes, both online and offline, hitherto not available to us.

Our Martha Stewart brand licensed products are witnessing strong growth across both online and offline channels. I am excited to share that we have further strengthened our brand portfolio by expanding our brand licensing partnership with Scott Living. Scott Brothers are well known designers and twin TV hosts in North America with millions of followers. The Scott Brothers launched the Scott Living collection in 2014 and today the brand is extremely popular with products available in major retail outlets across the U.S. and Canada. Through the expanded partnership for home furnishing, Scott Living and Welspun plan to reach wider consumer base with innovative Home Textile

*Welspun India*  
*October 30, 2020*

products. The licensed brand portfolio is expected to cross \$20 mn in the current financial year.

Many consumers plan to continue shopping online even though brick-and-mortar stores have reopened. Our E-commerce and Omni channel initiatives have seen strong tailwinds resulting in giving us higher touch points. During the quarter, our global E-Commerce business grew by more than 4X YoY, while “Christy” branded e-comm business grew by more than 2X YoY. Our domestic Home Textile E-Commerce business, which includes brands Spaces and Welspun, grew by more than 75% YoY & 50% QoQ.

From predominantly being a B2B textile home products supplier to global retailers, we are also evolving into a strong B2C home textile player with direct connect to end consumer. Apart from the encouraging growth we see in our own global and domestic brands, we see a huge growth opportunity, through our licensed brand and E-Comm business, wherein we expect to cross \$100 mn, each, over the next 2 to 3 years’ time.

Coming to our domestic business, Q2 has seen strong tailwinds and consolidated the consumer confidence in our brands – Spaces and Welspun. With the onset of festive season, we expect an improvement in the demand for our products in the second half of this fiscal. With our innovative festive campaigns #DonoTaraKhusiyan and #ChaloPaltai and our festive collection “Rangana” we are getting great engagement with the trade and end consumers. Our B2C business has grown by more than 200% since last quarter, backed by unlocking of the economy, coupled with our initiatives and campaigns to bring our products closer to the consumers. With an aim to be “Har Ghar Welspun” we have increased our nationwide footprint to 3075 outlets and 52 distributors with brand Welspun and 2005 outlets and 25 distributors with brand Spaces.

Hospitality has been one of the worst-hit sectors during the pandemic. Hotel occupancy in United States is down by 30% YoY and is currently around 50% occupancy. We are hopeful normal demand will return by next year. However, this is based on covid recovery without another severe round of lockdown.

During the quarter, our hard flooring business received positive response from US, UK, Europe & Middle East regions. We are in process of on-boarding B2B distributors across these geographies. The existing capacity is largely tied up and we are adding downstream equipment to augment hard flooring capacity. We have started receiving & servicing sizeable volume orders from US & Middle East regions. Overall, our target

*Welspun India*  
*October 30, 2020*

geographies are getting positive business traction and we expect sizable revenues coming from this business vertical going forward.

In domestic market, we see flooring demand returning back gradually. Sales have now returned to almost pre COVID levels driven mainly by Click n Lock tiles. Welspun Flooring launched industry first anti-viral range of flooring solutions certified by the Resinnova Labs, USA. In flooring solutions, we would be the only brand in the market, offering safety & convenience of one day installation (COVID safe installation) to the consumers. Considering the present scenario this would continue to be the key consumer consideration. Our relentless focus on channel expansion has yielded promising results with signing of 50 + new Plazas. Our digital strategy of customer acquisition has also done well. Our Webinar series 'Masters of Design' in conversation with leading architects has received excellent feedback and will strengthen our brand image with the specifier community.

Demand for wipes has grown substantially in the developed markets, as there is an increased preference and proclivity for using aids for hygiene by individuals and for personal spaces. We are witnessing heightened demand for our spunlace products which are running at full capacity. Hence, as planned and updated in the last earnings call, we have begun the capacity enhancement projects for spunlace and wetwipes. We will invest around Rs. 300 crs in the above facilities over the next 2 years and expect to generate additional potential turnover of Rs. 400 crores at optimum capacity utilization.

Health & Hygiene is a strategic extension of Advanced Textiles business, where we are capitalizing on our core strengths in nonwoven. We are offering Health & Wellness solutions with clear focus on ready to use products branded under Welspun Health. This will bring more end to end solutions to the market as we convert more of our roll goods into finished products through value additions. Disinfectant wipes, disposable bed & bath products are some of the immediate offerings in this direction.

On our "Health & Hygiene" vertical, Welspun products continue to receive good feedback. All of our products, namely, 3-layer disposable masks, FFP2 face masks and coveralls are now certified by BIS. Our masks are #MadeToProtect and are manufactured in a complete cleanroom environment. We have received the ISO 13485 QMS certification for our Health & Hygiene manufacturing facility, which is critical for medical device industry. With ease of export prohibition, we also see demand coming from overseas markets.

*Welspun India*  
*October 30, 2020*

The pandemic economic recovery will continue to have sustainability at its core. We have already made proactive shift both in our business strategy and operating model that fulfill the SDG & ESG principles, with well-defined roadmap and targets.

I am extremely proud of Team Welspun for their resilience, collaboration and outstanding response to support customers and all stakeholders during current challenging times. We were recognized by Home Textile Today, US as 'Supplier Titan' for our swift response to COVID-19 pandemic at the prestigious HTT Trailblazers and Titans Awards.

Now, I would like to handover the call to Sanjeev to provide updates on financial numbers. Thank you.

**Sanjeev Sancheti:**

Thank you Dipali. Good morning, ladies and gentlemen. Many thanks for joining the Q2 FY2021 Welspun India investors con call. I will give a brief overview of the financial numbers for the quarter before we open for Q&A.

Before I come on the numbers, I would like to give you the update on the corporate realignment plan of the flooring business which we announced during our Q4 investor call. After due deliberation, the committee of independent directors has opined that WFL should continue to be a part of WIL in its formative years. Hence, in line with the recommendation of the committee, the company has decided not to pursue the realignment plan.

During the quarter, the company fully recovered from the lockdown impact and the plants worked at full capacities. Revenue grew by more than 8% from 1,837 Crore to 1,993 Crores and EBITDA remains flat at 405 Crores versus 403 Crores in the same quarter last year. EBITDA margin came down to 20.3% from 22% while the core business EBITDA was at 21.9%. Growth in total income was largely led by growth in volume.

It is also heartening to note that revenue and EBITDA had grown significantly over the previous quarter by 64% and 70% respectively. In home product portfolio, bath linen volume grew by 13% year-on-year and 51% Q-o-Q while bed linen volume grew by 13% Y-o-Y and 145% Q-o-Q. I am happy to share that we have achieved highest ever bed sheet volume in this quarter.

Q2 FY2021 home textile revenue stood at 1,924 Crores versus 1,812 Crores during the same period last year. EBITDA margin stood at 21.9% versus 23.1% in the previous

*Welspun India*  
*October 30, 2020*

quarter of the same year. Average exchange realization for this quarter was Rs. 73.81 as against Rs. 75.49 in the corresponding quarter last year, this impacted our margins. During the quarter, the company entered into promotional program which impacted revenue and margin of core business by 1.8%. Benefit of these programs will accrue in the coming quarter and this will help the company to augment margins in the rest of the year.

Even while the impact of pandemic is to fully settle, we have been able to generate revenue and EBITDA similar to what we had achieved during the same period last year. Profit after tax stood at 180 Crores versus 199 Crores in Q2 FY2020. TPM EPS stood at 3.86 versus 3.15 in the same period last year.

While revenue from flooring business increased to Rs.77 Crores during Q2 FY2021 from 13 Crores in Q2 FY2020. EBITDA loss stood at 30 Crores during the quarter. Revenue for the previous quarter was Rs.25 Crores while EBITDA loss was 27 Crores. We have started dispatches this quarter for orders of hard flooring from US. While we have invested into the project with domestic focus looking at the present scenario, export business is looking promising and we expect large part of the business in the near future to come from exports.

The emerging business which includes flooring, retail and home textile contributed 10% to the top line during Q2 FY2021. Net debt of the company stood at 2,380 Crores, reduction of Rs. 582 Crores over March 2020. In fact net debt of the core business has reduced by Rs. 1,041 Crores since March 2019. We have been able to continuously reduce our net debt even though we have added capacity in various businesses, which will yield significant cash flows in future.

We continue to allocate capital judiciously in order to enhance shareholder value and our strategy on capital allocation is; to calibrate our capex based on cash flows available and keep it around total depreciation charge, to maintain a steady dividend distribution of at least 25% of standalone profit and to continue to investing a brand across geographies and channels.

Till date we have spent Rs.190 Crores in capex, capex for the full year is expected to be around 500 Crores to 600 Crores which will be calibrated based on cash flows. In spite capex for growth business, net debt is expected to remain around 2400 Crores as on March 21.

*Welspun India*  
*October 30, 2020*

China has hitherto been the major supplier for flooring products into US and customers are looking at de-risking dependence on the Chinese vendors. This should increase demand for flooring products from countries like India. Welspun being one of the only player in its segment; it stands to gain from this development.

Large global businesses are recalibrating their supply chain strategies and this may bring in great opportunities for companies like ours who have deep relationship with some of the largest retailers in the world. Being an integrated textile house, with excellent supply chain logistics and strong brand image, we stand to gain significantly from this.

While we were aided by higher volume and lower raw material prices in the current quarter; raw material prices have since hardened significantly and rupee has come stronger. However, with our drive towards cost optimization, use of technology and improved efficiency, aided further by strong business prospects and robust outlook, we believe we should be able to maintain overall EBITDA margin between 19% - 21% on an overall topline of about Rs 7,000 crs.

Let us assure you that we are well equipped and ready to take advantage of the improved business prospect as we continue to focus on long term goal of sustainable growth and deleveraging our balance sheet. With this, I will leave the floor open for Q&A. Thank you.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

**Nihal Jha:**

Thank you so much and congratulations to the management for the good performance. Sir, I had three questions from my side, the first one was obviously on the industry and the current demand in home textiles. As you mentioned obviously because of the increased time spent in home, it is driving the higher consumption of home related products which is very much visible in the pickup in US retail sales also. I think the critical question where even we are trying to check is that is there any sense of any market shift happening from China or is that current buoyancy purely driven by the increased domestic demand and potentially re-stocking. So, first just your thoughts on that?

**Dipali Goenka:**

Hi! Good morning. The fact is yes, you are absolutely right the consumer behaviours are changed and definitely the majority is coming in for the kind of consumer behaviour shift i.e. focussing on essentials and not on the discretionary spends. That is something

*Welspun India*  
*October 30, 2020*

we see definitely happening, China is something that all the global retailers are looking at an opportunity to have kind of a backup country and a plan-B in the product mix. So, that is not just because of the China backing but I think that is something that we see as a kind of opportunity there. But I think in principally I will just comment that people have started staying at home more and the home textiles buying is a prime focus. Because the home body economies have resulted in the re-allocation of spending and driving the overall demands of a home textile products.

**Nihal Jham:**

Sure, but in home textiles anyways we are the largest exporter so, there is a possibility may be some other country may become a backup and over the last three year-four years the share has stayed stagnant while some of the other export categories is peak of it and it reflecting in the data also. This specifically for cotton home textiles I wanted to have a sense back the increased demand is just re-stocking and higher consumption from US, or you actually expect going forward there could be actually some of the market shift from China specifically in our bed and mask category?

**Dipali Goenka:**

So, I mean to say that cotton is our forte as a country and definitely that could be an advantage for India. China could be an opportunity, but I would just put it as China plus one as India as something going forward. But going forward India is in definitely gain in the cotton category because that is the forte for us here.

**Nihal Jham:**

Sure, the second question is on the margin side, is that 500 bips reduction that has happened on the gross margin side from last quarter, is purely experienced by currency or is there a component of mix also in that?

**Sanjeev Sancheti:**

I think part of it is obviously currency as I had explained in my opening remark, a part of it also the mix, what happens is in the second quarter there are certain significant program which are run for some large retailers the benefit of which actually accrues largely over the second half of the year. So, what will happen is some of these promotions will now continue over the next two quarters and it will then augment the margin in the next two quarters. So, really speaking this is a one quarter phenomenon, and I have already said that it is almost about 1.8% impact because of that as well. Then we see this quarter we had some COVID related expenses and we have also restored salaries of employees with retrospective effect so these also have impacted the margins which are not something which would be expected to continue over the next two quarters.

**Nihal Jha:**

Sure. Last question from my side, we have seen an increase in lot brand licensing as we are acquiring. I just wanted your thought that on that specifically is there a change in

*Welspun India*  
*October 30, 2020*

thoughts and is it that is expected to drive our domestic capacity also. What is the thought in terms of taking up the brand licenses and on an average how much are we spending on acquiring each of these licenses?

**Dipali Goenka:**

I think I will just put forward in a multipronged way this question. When I take United States of America for us at Welspun as you know we have been a B2B player and we do majorly replenished programmes. With the help of Martha Stewart and with Scott Livings, this opens up more shelf space with the existing retailers as well as online retailers as well and also different channels like, grocery channels as well. So, that is a very big opportunity that we see going forward. As we see and we all know that in these current times digitization has accelerated more and more buying will happen online. So, brands play a very important role there, for us I would just say for both our brands we are absolutely on goal and targets with our number and margins and with the focus of growing our share on the shelf space and online presence will be completely strengthened here. When I talk about Christy, which is our brand, which we are looking at growing completely digitally, we have a very strong presence in UK and as you saw we had a strong growth. We are looking at growing that across the world and we had recently got listed on one of the mega online DIY even in United States of America.

Coming to India, India will be a play where Spaces and Welspun will have a very big presence. Our goal is to get into every household and every shop, so one is the Shop-in-Short that we have organized play but the NBO's with vision of Har Ghar Welspun is going to be very important. The e-commerce play in India is not going to be a pure play in India, it is going to be a mix play. So, along with the presence at the e-market places we will also be looking at play of omni channel in this country because we see a growth happening majorly also in the tier-2 and the tier-3 towns. That is something that you see as the going forward as well. So, in short principally our focus towards brand is going to be very important and as we spoke e-commerce will also be a very important play. So, I could actually put it forward that in the next coming years brands could contribute \$100 million on to that portfolio and \$100 million of e-commerce play will be also very strong.

**Nihal Jha:**

Fair enough I will come back in the queue. Thank you.

**Moderator:**

Thank you. The next question is from the line of Tarang Agarwal from Old Bridge Capital Private Limited. Please go ahead.

*Welspun India*  
*October 30, 2020*

**Tarang Agarwal:** Hello! Good morning. Just wanted to check what is your terry towel and bedsheet capacity and what have your volume spend for H1 FY2021 and how do you see these volumes for H2 panning out?

**Rajesh Mandawewala:** Our capacity for towels is about 80,000 tons on an annual basis and as Dipali mentioned that we are looking now to debottleneck it and grow it by about 20%. So, the plans are being currently worked upon and we are looking to debottleneck it. Likewise, on the bed linen side our current capacity is about 90 million meters on an annual basis and that also we are looking to debottleneck it and grow it to about a 110 million meters. So, we are looking to grow it by about 20% on both sides of the business. Also, on the rug side we are about 10 million square meters in capacity and which we are in synergy with the Telangana flooring plant, we are now looking to double that to about 20 million so this we already have most of the capability already built in our flooring plant and with a little bit of balancing and shuffling some equipment between the two plants we will double our capacity for the next year. This is how our capacities are looking. Right now the home textile business is full throttle so, we are virtually working full throttle and Nihal also raised the point in terms of, are we seeing this demand to re-stock, so the answer is no, today the retailer shelves in America are going empty so, it is not about re-stocking it is just that the consumers are actually buying more. So, Tarang I hope that answers your question.

**Tarang Agarwal:** Volumes for H1 and how do you see the volumes for H2?

**Rajesh Mandawewala:** I gave you the capacity where we are working at full throttle and this quarter between towels and bed sheets we have double digit growth on volumes between 13% and 15% on both the products and that are just slightly better than that. We will continue that run rate and we hope to utilize home textile side all our capacities fully for the balance part of the year.

**Dipali Goenka:** I will just step in for a minute to this answer as well, is also our brands will also play a very important part in the contribution of volumes and we also look at doing global outsourcing for our brand specifically. Because certain products are not what we make that will also add on some contribution to what we do.

**Tarang Agarwal:** Okay, but you do not disclose specific numbers is it for your volumes?

**Sanjeev Sancheti:** No, we have not been doing that and what we have alluded this time is the year-on-year growth of both products and so it is 13% on the bath side and 15% on the bed side.

*Welspun India*  
*October 30, 2020*

**Tarang Agarwal:** Okay, can you give us some broad split of your net capital employed of Rs.6800 Crores between textiles, flooring and advanced textiles?

**Sanjeev Sancheti:** Yes, from capital employed point of view in the overall capital employed for the flooring business is about Rs.1100 Crores and the balance is for the core business.

**Tarang Agarwal:** Okay, and within advanced textiles is there any manufacturing that you all do or is there some proportion just specifically allocated to that business?

**Sanjeev Sancheti:** Yes, of course everything that we do is manufactured inhouse and the product that we are currently doing are for the hygiene industry so we make raw material that go into products like wipes, disinfectant wipes, baby wipes, diapers and so on and so forth. We are also converting part of those raw materials into wipes, it is pretty much everything manufactured inhouse and to complete the capital employed answer, the advanced textile business is currently we have deployed about Rs.350 Crores odd of capital for that business.

**Tarang Agarwal:** Sure, and Madam in your opening comments you mentioned that your flooring capacities are being largely tied up. If I look at your H1 FY2021 revenue you are in the ballpark of Rs.100 Crores. So, I was not quite sure of what you meant there?

**Rajesh Mandawewala:** Tarang, we are embarking on a plan now to do that and this will involve shifting of some equipment from one plant to the other and also balancing some of the output. The impact of that will be seen in the next year it will take us until February-March to accomplish this and some balancing new equipment which will not be expensive will need to be bought, we are working on that. So, the whole impact of that will actually be felt from April and the financial impact will be seen in the next year.

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

**Bhavin Chheda:** Congrats on excellent performance to the entire management team. Couple of questions again on the capacity what you announced the debottlenecking which would happen what would be the amount spent on that and when would that debottleneck capacity would be ready?

**Rajesh Mandawewala:** Bhavin we are working on it and it will take us a few weeks to work that out. But everything is ground field so it is about debottlenecking, just allow us a few more weeks to zero in on the numbers and what the availability time will be let us say some time in

*Welspun India*  
*October 30, 2020*

the second quarter of the next year. Part by part it will start coming but by and far most of it between the second and third quarter of next year.

**Bhavin Chheda:**

Okay, again second question is the positive surprise your results also and all your competitors, all home textile companies from India doing very well and almost four companies have declared results and almost all are operating at 100% utilization. So, basically just wanted to understand on the demand perspective obviously because of the health and the hygiene reason the demand is good and there would be some impact of pent up demand. But what is your call on six months to 12 months perspective, how much demand would actually sustained, how many small shops are actually closed down and big box retailers have gained market share permanently. So, just a call on a long-term demand if you are getting something from the clients you can share with us?

**Dipali Goenka:**

Yes, right now you are absolutely right we see this as kind of peak happening. But I must say that health and wellness and hygiene are here to stay, and home plays a very important role. Lot of companies and big corporates and global giants have already asked their people to work from home till June-2021 that is something that we are definitely seeing. But having said that, today the shelves of the retailers are practically empty so, that is what we are gunning to fill. But it is going to be a change of behaviour that lot of studies have already spoken about. So, maybe it is not being to that extent but definitely we will see a kind of an upside of at least overall 15% to 20% kind of an upsize definitely in the demand for home goods.

**Bhavin Chheda:**

That is good to hear thanks and just a continuation of that question since the data is not yet available so, last three months or last two months we are seeing almost like 100% utilization and big demand. So, is it that the industry demand has gone up as there is some portion of India taking away market share from China, are the Chinese and the other countries home textile growing by a similar amount?

**Dipali Goenka:**

It is an Indian opportunity and I think India being at where it is long overdue for us. Cotton being are forte now, one of the biggest producers of cotton, cotton textiles, vertically integrated plants in this country definitely it is an India advantage. China is there, but I think India is coming into trying about in most I would just say that.

**Bhavin Chheda:**

Okay, and the last one what was the growth of advanced textiles in the current quarter and first half?

**Rajesh Mandawewala:**

Bhavin, we are already by and large maxed out on the core part of the advanced textile business, so the line is actually working full throttle and the wet pipe we are about 60%

*Welspun India*  
*October 30, 2020*

we have added some capacity there. So, there our utilization level is about 60% which hopefully by the end of the year we will fully utilize. On the needle punch side there is some area to growth year-on-year because of the first month that we lost we are just about flat that the back half of the year we should double digit growth in the advance textile business and with the addition of the new line mentioned with the Rs.300 Crores capex that should more than double our revenue over the next couple of years.

**Bhavin Chheda:** Yes, thanks a lot and best of luck.

**Moderator:** Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

**Prerna J:** Thank you. Congratulations on excellent set of numbers the demand is seeing a very good movement as told by you and visible in other companies result as well. Being a leader is an excellent performance. Sir, I wanted to understand the flooring part of the business, could you help us understand what kind of revenue we can see in FY2021, FY2022, FY2023 based on the conversations with the clients and the kind of tie ups. Just wanted to understand the traction that can be seen in that business going forward since there is an improvement on the competition with clients.

**Rajesh Mandawewala:** Good question. So, we are seeing a lot of international traction to the flooring business and this primarily on the hard flooring side and see what happens is hard floor that can actually replace the floor in a days' time and in this COVID period so it is actually you do not want people hanging around in your house if you have to paint your floor so there is an uptake on the flooring side on the international side. Also, by and large most supplies actually have been coming from China so there has been very little exports happening from other parts of the world so that kind of opens up doors for us which is China plus one thinking, so it opens up a lot of doors for us. Our business is growing. The hard-flooring part is already looking very good. The current quarter the flooring business has done our top line about Rs.75 Crores plus I think this will cross the three figure mark in the coming quarter and each quarter will continue to keep improving and hopefully there are ten odd discussions which very large plants that are currently underway and while we get a better handle over the next two years to three years, but you know to say that we could do Rs. 700 Crores to Rs. 800 Crores of revenue in FY2022 will not be out of order right now with the traction that we are seeing in the business. Also in the domestic market we are seeing a lot of traction again so our value proposition is to change the floor in a day and which we have been very diligently doing going into clients homes and in COVID times with people spending more and more time at home so you know to get a floor changed in a day is appealing to the consumers and

*Welspun India*  
*October 30, 2020*

through digital marketing campaigns we are trying to reach as many consumers as possible and so we have built a good system of tying up digital marketing, getting leads from there, putting it into our call centres, tying up with our sales force so the digital direct to consumer sales is growing significantly, so all in all we are seeing good traction on the domestic side as well on the residential side of the business but very candidly the hospitality business is struggling which is our top flooring business also the commercial part of the business the floors which go into offices so the activity is a bit slow there. We believe it take another quarter or two for us to get there but a good estimate for the coming year FY2022 would be Rs. 700 Crores to Rs.800 Crores of revenue but we will get a better handle of it as we get on this for the next two months but all in all our confidence is pretty good.

**Prerna J:** Okay. So, what will be the China's export size to US in the categories for flooring business that you are targeting?

**Rajesh Mandawewala:** It is about \$3 billion by and large in the range of three billion and this corresponding exports out of India is not even 10% of that so there is a very wide scope for us to grow there.

**Prerna J:** So, do we compete with the tiles segment in this or is it an independent category that people look at in the US or globally?

**Rajesh Mandawewala:** It is fairly established, each of the products that we do is fairly established category so it is not between tile or this, there is a separate market for carpet tile, there is a separate market for wall to wall, there is a separate market for the hard flooring side, so it is a pretty mature market. In India the market is maturing, but internationally it is pretty figured out matured market.

**Prerna J:** Thank you for this flooring clarity. Wanted to understand the brand and licence part of the business also. Since you are focussing more on brand and licences could you please help us understand whether it is largely for revenue built up or profitability in this segment are also better and will give better return ratios, how are we looking at this B2C component of our company as a whole?

**Dipali Goenka:** Hi Prerna. So, between the brand and the licences as you know the licenses as I said early in the call that they give us additional shelf space at the retailers. It opens new channels for us and definitely being plan, you have a better margin play as well. So, having said that we also have our own brand portfolio like Christy where we are going completely digitally aggressive and of course India will also play a very big role with

*Welspun India*  
*October 30, 2020*

Spaces and Welspun that we see as India a very big opportunity. So, I hope I have answered your question, but if there is anything just let me know.

**Purna J:** Just wanted to understand, suppose if we get 10% incremental contribution from brands in licences businesses, when we translate into may be 50 bips or 100 bips improvement in our margins something that I am trying to understand, how do we look at this business from profitability if it gives us better margins?

**Dipali Goenka:** It definitely will give us better margin Purna. I will just say that and definitely also a growth of the business you know that primarily we do the replenished program, it just gives an opportunity to grow here. Definitely gives us a margin upside as well and also an opportunity to grow in online, offline all the channels as well. Definitely there will be an impact but having said that our private label and the core business is around 60% - 70% so you know the brand play is smaller in that bit. So, the dents will not be that big compared to but yes definitely it is going to add on lot of diversity on a shelf space.

**Purna J:** Okay and my last question is on debt, we were planning to become debt free by FY2022-23 is that still possible or there could be a delay in that?

**Sanjeev Sancheti:** So, as we have in our guidance said that end of this year in spite of the capacity expansion we are doing and the capex plan we will be a 2400 so for the core business debt is already significantly down so I would rather say that in core business debt should continue to go down while we are investing in a couple of growth businesses like flooring and advanced textile. So, I think 2022-23 guidance is little difficult to give now because we are also calibrating on how we can expand the capacity through brownfield, debottlenecking etc., so I think this is more accurate guidance probably a better sense would come in towards the end of the financial year; however, the endeavour is to continue to calibrate our capex in a very conservative manner and look at investments if at all which can give us a very quick payback.

**Purna J:** Okay. That is very helpful. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.

**Manish Bhandari:** Thank you for the opportunity. I have two questions. I wanted to know at what revenue level which we should see a positive EBITDA in the flooring?

*Welspun India*  
*October 30, 2020*

**Rajesh Mandawewala:** So, we should be EBITDA positive around Rs.800 Crore to Rs.1000 Crore mark and there is work that we need to do to let us say to get operating efficiencies out of the business so on Rs.800 Crore to Rs.1000 Crore this operating level is we should hit EBITDA breakeven so we are looking in fact this entire team is working towards EBITDA breakeven for FY2022 and we are on course with that and there is a work to be done of course but everybody is working towards that goal.

**Manish Bhandari:** Thank you. My second question is during the conversation on the conference call there was a comment made on the change in the roofing movement which has led to some impact on the margins, so I wanted to know the forex hedging policy of our company?

**Sanjeev Sancheti:** We have a policy to hedge above 60% of our top line to be hedged that is a stated policy and that is what we follow, we tend to be between 55% to 60% and the rest we keep it open that is the stated policy.

**Manish Bhandari:** Sir, if you keep a 60% hedge and if you would have hedged a year back or may be six months back, I am still finding it hard to believe that how there can be a loss on the forex side, if you could explain a little on that?

**Sanjeev Sancheti:** Yes. So, what has happened is there are two or three things, which impacts the forex revenue. One is that we do not cover the full amount, part of it is covered so some of the hedges which we did, we do 12 months rolling hedging so what happens is what we had hedged in last year the impact of it comes in the current year so that is the dynamic situation so the actual net impact of forex was almost about Rs.75 for the last year same quarter and this year it was Rs.73.8. Going forward what we have hedged will give us headroom because 60% is already hedged at good prices so that will give us a headroom over the next four quarters. At every point in time we always cover the next 12 months, we keep rolling 12 months, 55% to 60% covered.

**Rajesh Mandawewala:** Manish, we have been fairly consistent with this over the last five years and there is no trading here so this week-on-week it is religiously followed and week-on-week these are estimated 60% sales is hedged so there is a fair bit of discipline that we follow with this policy.

**Manish Bhandari:** Sure, and you mentioned about Rs.500 Crore capex in this financial year FY 2021 I am right on this number?

**Sanjeev Sancheti:** Yes, you are right out of which close to Rs.200 Crore we have already spend in the first half.

*Welspun India*  
*October 30, 2020*

- Manish Bhandari:** What is the distribution of 500 Crores?
- Sanjeev Sancheti:** So, this is largely into the flooring and advanced textile capex which is already announced last quarter.
- Manish Bhandari:** Sure. What is your estimate, how should be the increase or decrease in the cotton prices, raw material prices for you in FY 2021 versus FY 2020?
- Dipali Goenka:** So, we definitely are seeing cotton prices go up and the MSP also up by 3% to 5%. Pakistan has also reported around 40% decline in the cotton produce so we definitely see that kind of forming in the coming months but you know looking at the overall scenario and the cotton yet to come in, we expect prices to stabilize at around Rs.38000 a candy compared to Rs.40000 last year.
- Manish Bhandari:** So relatively cost should be lower than the last year am I right?
- Dipali Goenka:** Yes, the cost will be lower than the last year definitely.
- Rajesh Mandawewala:** On an average basis.
- Manish Bhandari:** I have last question and observation, this is regarding the rearrangement of the business which was spoken on various levels so I wanted to read the mind that what kind of rearrangement we are looking at, are we looking at demerging this company and what is that the deliberation in the board and if true then my observation will be that shareholder we are in the pain of going through the losses of this flooring business so I would be glad as a shareholder the flooring business to remain in this company, so I just wanted to read your mind and what kind of rearrangement you have spoken about or you discussed about?
- Rajesh Mandawewala:** So, earlier if you remember that we had calibrated that we may look at the demerging or any other way of looking at the flooring business, we had a lot of discussions with the board and lot of other experts I think the view that came out is that at these formative year when we already borne the initial period of the flooring business and as the business is expected to improve it would not be prudent to demerge this business and it should continue to be a part of WIL, so the decision has been that we continue and maintain status quo.
- Manish Bhandari:** So, does it mean for next one or two years for permanently there will be a status quo or is there a final thing which for us to get?

*Welspun India*  
*October 30, 2020*

**Rajesh Mandawewala:** See, this company is in formative years so I think this whole question of whether we need to do demerge it or do something else is something which we have decided that we are not going to do at this point in time, after two years what can happen is something which is very difficult for us to predict now but as of now definitely we are not looking at demerger or any other corporate restructuring as far as the flooring business is concerned and will continue to remain part of WIL.

**Manish Bhandari:** Thank you all for your insights.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question for today. I now hand the conference over to Mr. Ankit Gor for closing comments.

**Ankit Gor:** Thank you. Thank you, guys, at Welspun India Team. I would like to hand over the floor to the management for closing remarks.

**Dipali Goenka:** So, thank you everyone for your participation.

**Sanjeev Sancheti:** Thanks a lot. Thanks for coming to call. If you have any more questions, please reach out to Vipul or me. I want to also extend my season's greetings to you and to your families, stay safe and stay happy.

**Moderator:** Thank you. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.