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WELSPUN INDIA LTD.

"Welspun India Limited"

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CHORUS CALL®

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Moderator: Ladies and gentlemen, good day and welcome to the Welspun India Limited, Q3 FY14 Earnings Conference Call, hosted by Espirito Santo Securities. As a reminder all participants' 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 this conference is being recorded. I now like to hand the conference over to Mr. Nitin Mathur. Thank you and over to you Sir!

Nitin Mathur: Thanks. On behalf of Espirito Santos Securities, I welcome you all for the Welspun India Q3 FY14 Results Conference Call. Without wasting any further time, I will hand over this call to Mr. Rajesh Mandawewala, who is the Managing Director of Welspun Group. Over to you Sir!

R Mandawewala: Very good afternoon everybody. Rajesh Mandawewala here, MD., Welspun India Limited, welcome you to this Q3 results conference call. I am pleased to announce that we have had a decent quarter and I will first go through the financial numbers for the sake of clarity. This you would recall that the Company had undergone a restructuring so the results for the corresponding quarter of the last year was the first quarter when the restructuring effect has taken place, so there were some prior quarter numbers, which are also reported in the December 2012 quarter results, so on a comparable basis this quarter our sales have been, our topline has been Rs. 1147 Crores against Rs. 922 Crores for the corresponding quarter last year.

EBITDA came in at 275 Crores. This is compared to 165 Crores last year, so a 66% increase. Finance cost of 57 Crores against 48 Crores an increase of 18%, depreciation of 50 Crores against 36 Crores, an increase of 40% and profit before tax of 168 Crores against 81 Crores more than double and profit after tax of 109 Crores this quarter versus 52 Crores in the corresponding quarter last year, an increase of 112%. Within these results, we have 34 Crores of other income, which is let us say 10 Crores of interest and financial income from the cash that the Company holds in this quarter and over and above that there are about 24 Crores worth of income, which have come in, which is a onetime benefit, which has come in by virtue of this SHIS (Status Holder Incentive scheme) licence that this benefit that we have got in the execution of the project. So, this 275 Crores of EBITDA actually includes 34 Crores of other income as well.

Exports accounted for more than 95% of the revenues in the current quarter and foreign exchange dollar average realization came in at 58.70. This we continue to hedge our forward position, one year forward to the extent of an estimate 60% of our sales, so our current hedge position is at $333 million at an average realization of Rs. 63.45/$, so this is as of end of December. The net debt to equity is at 2.6 times and gross debt to equity is close to 2.9 times. Mind you this we have charged 475 Crores roughly of additional depreciation this year. So, had this additional depreciation not been provided, our debt equity would have been around the two mark or thereabouts, but because of the higher change in the method of depreciation that we adopted in Q2 FY14 the debt equity ratio has gone up to about 2.6 times on a net debt basis, and 2.9 times on a gross debt basis.

The net debt to EBITDA is about 2.4 and this is which is let us say better than where we were last year, last year we were about 2.6, so the debt in relation to the EBITDA this ratio is slightly better at 2.4. The inventory that we carried at the end of the quarter was 72 days, receivables of 38 days and payables 52 days. All in all the cash conversion cycle was about 58 days and the return on equity leaving aside the one time additional depreciation charge is about 34% for YTD and return on capital employed about 18.3% on a YTD basis.

We utilized about 90% plus of our towel capacities in this quarter, about 85% of our sheet capacities were about 60%-odd of our rugs capacity and this also going forward this order position continues to remain decent and this hopefully this we should be in the same capacity utilization levels as we go forward. The net debt of the company is about 2400 Crores, and all in all this broadly defines the financial numbers.

The new cotton season has begun. This cotton prices started off at 39,000 per candy, which was a little lower than the average cotton prices of the last cotton season, but over the last month, a month and a half, the cotton prices have moved up to about Rs.43,000 a candy from Rs.39,000, which is where they are likely to remain in our opinion going forward for the rest of the season. So, in line with the company policy, we will be covering 75% of our whole season requirement by the end of March. We are about 35% covered, 35% to 40% and the rest would be covered in the January to March quarter.

The businesses continue to be stable as I said with the continued business, the replenishment business is continuing. Now the replenishment business forms about 80% of our business so, this hopefully this business should continue the way it has happened in the last three quarters.

Coming to the capital expansion projects, as I had informed the current year, this year we had budgeted to invest about 1000-odd Crores, we have spent about 700 Crores already this into let us say this setting up a new spinning mill of 170,000 spindles and new open end yarn capacity of 20 tonnes a day and also upgrade one of our existing spinning mills from about 12 tonnes a day to about 25 tonnes a day. Over and above this we have added 140 looms for bedsheets and all this is to vertically integrate better, vertically integrate our operations. So before this capital expansion, we were down to about 35% of our yarn consumption, making in-house and the fabric for bedsheets was about 40%. So hopefully with this investment we will move up to about 75% of our yarn requirement and on the fabric side about 75% odd of the fabric that we will need with this current year expenditures that we are incurring.

Now the looms have already started production. The spinning upgrade will happen in this quarter. So, by March, we will finish that. The open end mill has started in January and 170,000 spindles, which is a big investment that we are making we will start commissioning of the machines by April of this year and we are hoping to complete the expansion by end of June this year. So, this is what we have undertaken in the current year. In the next year we wish to modernize our Vapi factory, which is let us say about 20 years now with average equipment age of between 15 and 20 years. So we want to modernize that facility, which will undertake an investment of about 300 Crores in FY15 to modernize our Vapi facility, and over, and above that we are also looking to promote industrial textile park with the intent of let us bringing in some investors who would then setup spinning mills and weaving mills and some trends and packing material so this we are right now is getting some regulatory clearances on that. So, this is actually to prepare a base for a robust supply chain going forward in the future. So, while the current round of capacity expansion will continue, just to clarify, overall our capital expenditure program is of about 2400 Crores of which 1100 Crores will be invested in this year and the next year we have firmed our plans for about 300odd Crores to modernize Vapi and the rest of it will be over a period of the next couple of years as and when let us say we will need and there is demand. So, anything beyond that the spinning and weaving growth in capacity will hopefully happen in the textile park where the company will not need to invest let us say big capital expenditures. So, as I said we are currently with the regulatory authorities to get clearances on the textile park project.

The India story continues and this will continue to enjoy cotton advantage over the rest of the world. The prices and availability of cotton in India is today, let us say the best with competing cotton textile supplying countries like China, Pakistan and Bangladesh. So, this is continuing to drive advantage for India as a country with the customers looking to source more out of India and also with a fair supply of yarn with 4 million tonnes of yarn production here in India of which about 30% is currently or more than 30% is getting exported. So we enjoy a huge advantage over our competing countries and this coupled with the escalating cost of production in China, the geopolitical challenges in Pakistan and the safety security concerns in Bangladesh, really puts India in a very advantageous position vis-à-vis the other cotton textile supplying countries. So hopefully this business will continue to move from these countries to India over the next several years.

India is now as I had mentioned in the last call that we are engaged with the EU although the elections have actually held back the process of negotiation of the FTA but it seems a lot of this challenges this negotiating issues on this FTA have been put to bed and hopefully with the new government coming in this negotiation process should restart. So, if that happens that should also provide a very, very favorable tailwind to the cotton textile business out of India. So, by and large these are some of the important things, which I thought I would share with you. The Company is continuing to grow its market share in Europe, so from 12% in FY 2012 this FY 2013 we were about mid teens. FY 2014 we will be close to between 18% and 20% of our revenues in Europe and we will be budgeting to go up to about 24% to 25% of our overall revenues for FY 2015 in Europe, so despite let us say not have any duty advantages there and competing with countries like Bangladesh, Pakistan and Turkey who have duty free access into Europe, our share is continuing to grow in Europe as those customers in European countries are now clearly seeing the advantage of working with companies like where we bring in an end-to-end solution to them and come out with innovative products and we are hoping to continue to do a larger share of business in Europe. Over and above that we are focusing attention on Middle East, in South Africa, in the Latin American countries also now in the Far East wherein Japan we are almost a duty free access and these are the few markets that we are focusing attention to geographically diversify our business.

One more thing we have just about commissioned our carpet project. So, although with a small investment of about 55 to 60 Crores but the company is now capable of producing carpets. Until now we were doing only rugs, which were small rugs which are generally placed outside the bathroom with this carpet facility now this we will be able to produce the larger carpets, which go under the living room, under the tables and things like that. So that is another product that we have added to our portfolio in the December quarter, so in FY 2015 we will see some revenues coming from our carpet operation as well. So by and large these are some of the important points which I thought I will make and now I would like to open the floor for questions to all the investors.

Moderator: Thank you very. We will begin the question and answer session. The first question is from the line of Niraj Mansingka from Edelweiss. Please go ahead.

Niraj Mansingka: Very good afternoon. Congrats for the good numbers that you have reported. I have a few questions. One, what would be the bed linen capacity? I understand it was around 52 million meters some time back. So, I think you have also started the looms. So, what would be the current capacity for the bed linen?

R Mandawewala: We will go up to about 60 million in FY 2015 and this we hope to go to about 72 million in FY 2016. So this is our plan for bed linen. Now the looms are actually vertically integrating us, Niraj, but due to some debottlenecking in our dye house and cutting and sewing facilities with very small investments, we will actually grow our dyeing and finishing, and cutting, and sewing capacity also, which will help us grow our overall volume in the bedsheet space.

Niraj Mansingka: Sir, about the Terry Towels and rugs if you can also share some thoughts on that?

R Mandawewala: Towels we are at 45000 MT now. The next year we will go up to 50000 MT and FY 2016 our plan is to go to 60,000 MT. The 50,000 to 60,000 jump the bulk of it will actually happen when we modernize Vapi. So let us say when we upgrade Vapi, there will also be a capacity increase of almost 6500 to 7000 tonnes annual in Vapi and this we are doing some debottlenecking in Anjar which will take us to 50000 tonnes, so for all practical purposes in FY 2015 this 50000 tonnes of towels will be available to us for the whole year likewise on the bedsheet side also the 60 million meters will actually be available in FY 2015 and the FY 2016 numbers also that I mentioned should be available to us through the year FY 2016. So, 60,000 tonnes of towels will be available in FY 2015 and 72 million meters of bedsheet capacity will be available in FY 2016. For the carpets and rugs we are at 12 million right now. We will be 15 million for FY 2015 and we will be 20 million for FY 2016.

Niraj Mansingka: That is definitely interesting. Just to put the numbers complete on the cotton yarn, like you are adding 170,000 spindles. Would the cotton in yarn capacity is close to 33,000 tonnes, which would go to some 85,000 or so, if I try to sum it?

R Mandawewala: Not 85,000 tonnes, it will go up to about 50,000 tonnes with this 170,000 spindles plus open end. So we will be about 150 tonnes a day so that should take us to about 50,000 tonnes. So for the future there is another 60,000 spindles of course count that we propose to add, so that would be about 24,000 tonnes of production, but we are not in a hurry to commit that, so we will absorb whatever expenditure that we are currently incurring and modernization of our Vapi Plant will take one thing at a time and postpone that as much as we can.

Niraj Mansingka: This 60,000 spindles is it included in that 2400 Crores of capex?

R Mandawewala: Yes, in 2400 crores all this is included and the yarn capacity will move to 75,000 tonnes apart from this 60,000 tonnes of towels and 72 million meters of bedsheets, 20 million pieces of rugs and carpet. It also includes about 100 Crores spend on improving let us say the employer facilities, staff quarters, worker quarters, worker facilities, so all this will actually help us bring down our work force by about 6% to 8% and the goal is despite the increase in the output that we have promised ourselves that we will not increase one single headcount so this upgrade worker facilities and get them to perform, stay first thing is stick around more with the company and get them to perform at better efficiencies. There is another 100 Crores that we have committed on automation. So again with the goal of over the next couple of year where we will bring better workforce efficiency and accuracy apart from actually producing a better product. So, all this is included in the 2400 Crores of capex that I am proposing. Having said that, as I told you that as of now we are committed to invest about 1400 to 1500 so the rest of it we will take it one at a time as and when there is a need and when we will try and postpone it as much as we can and invest the money as we need it, and where there is a pressing need felt to spend that money.

Niraj Mansingka: Sir, last question. How is the cotton yarn margins currently compared to last quarter?

R Mandawewala: I think everybody is exhausted now with old cotton, which was bought in the 2012-13 season, so everybody will in the January to March quarter, I think, we will be on the new crop cotton, so the margins in my opinion should be slightly less although it would not be a major difference, but I think they will be slightly less going forward although I am seeing Niraj, that at least on the fine count, the yarn prices are actually increasing beyond the cotton price increase but it could be possible that the margins could actually shrink by a point or two.

Niraj Mansingka: Thank you, very much Sir.

Moderator: Thank you. The next question is from the line of Mr. Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Good evening Sir. Sir, just wanted some more details into this proposed capex. You said around 1,000 Crores is on the ongoing spindle capacity expansion that you are undertaking and 300 Crores is on the Vapi modernization. So incremental 1000 Crores what is the kind of expansion you plan to do in the next two to three years?

R Mandawewala: You mean the earning expansion?

Dikshit Mittal: This capex. You have said that of this 2,400 Crores, 1,000 Crores is on the spindle capacity and 300 Crores is on the Vapi modernization. So, rest around 1000 Crores what is the kind of facilities –you plan to add Sir?

R Mandawewala: The 60,000 new spindles on course count will cost about 300 Crores, which again we have not committed, so we will commit as and when we need it. There is another 140 looms that will get added, so that will be roughly about 150 Crores. I highlighted 200 Crores of investment on this worker facilities and automation and the rest of it will actually go and increasing the towel capacities, the bedsheet capacities, the rug capacities and carpet capacities. So, all this put together slowly and gradually but the big ticket investments are actually 300 Crores on the course count spinning, 150 Crores on the bedsheet, looms so those would be the two big things. Also we are planning to actually set up a new cutting and sewing unit of fully automated cutting and sewing unit so that should bring down our labor costs apart from let us say improving supply chain efficiency. So, that is also something that we are contemplating so that is another 150 Crores of investment.

Dikshit Mittal: This expansion of around linen of 72 million that is before that 1000 Crores expansion?

R Mandawewala: That is all included in the 1000 Crores, but as I said, it will not take much capex for us to grow the finished product capacity, so the big investment actually happens in spinning, weaving and those are the areas where you spend big money.

Dikshit Mittal: Sir, in terms of reported numbers, you have reported around 24% YOY growth in topline. Sir, can you give a breakup in terms of what is the price increase and what is the volume increase year-on-year?

R Mandawewala: We did about 12,000 tonnes of towels against 9,000 odd in the last quarter. On bed linen we were at about 12.5 million versus almost the same last year and rugs we were 2.2 million units against 1.6 million units last year. The realization was 10% higher in towels, about 7% higher in sheets and almost 7% higher in rugs all in all.

Dikshit Mittal: Sir any benefit of the rupee can we include in the realization? Is it all rupee depreciation?

R Mandawewala: By and large it is coming from that. So as I had mentioned previously that we are with most of our large clients now, we are on a price variance formula, so virtually the increase has actually happened on account of the rupee depreciation, also the rupee cost of raw materials have consequently gone up, so while dollar cost may not have gone up, but the rupee cost has significantly gone up because of the devaluation. So, the increase in prices is more or less reflection of the current year depreciation.

Dikshit Mittal: In terms of your agreement with consumers do you pass on this rupee depreciation benefit?

R Mandawewala: It is a part of our formula, Mr. Mittal. This is also a part of the variable that we use for the formula, but just not to over blow the importance of the currency that 60% of our cost is actually or the selling price is actually dollar denominated cost. So, when the rupee depreciation our rupee cost of

60% of our sales price in that rupee cost already goes up, and then there is let us say inflationary cost on the other parts of your costs like wages and manpower cost and things like that, so all in all this is a 0.3% kind of an impact on the PBT, when you really look at the change either way, for 1% depreciation or appreciation of the currency. When we discuss the price variance we actually include all these things while our rupee realization goes up, so does our rupee cost and so does the inflation cost. So all these thing do get factored in when we renegotiate prices with our clients.

Dikshit Mittal: Sir, if I exclude other income from your reported margin, so it is around 21%, so do you like are these margins sustainable or do you see some decline?

R Mandawewala: I think so they are sustainable. If you look at our performance of the continuing business over the last three or four years we have actually earned between let us say a mean of 18% and in a good year they went up to 20% and in a bad year they went down to 16%, so this on a mean basis we have earned about 18% margin and with a better integration obviously the margins will go up. These are reasonable margin levels also going forward.

Dikshit Mittal: Sir, next year when you are backward integrated will you see any improvements in margins?

R Mandawewala: The integrations will certainly improve the margins but there will be a cost impact, which could impact our margins a point here and there, but the integration will certainly help our margins.

Dikshit Mittal: Sir, can you quantify any improvement?

R Mandawewala: On an average we are looking at 18% return on capital on the investments that we make. So that is a threshold barring, 150 to 200 Crores of investment, which will not bring us those kinds of returns, but otherwise by and large everything else we will spend will actually bring us an 18% kind of a return.

Dikshit Mittal: Last question, in terms of your cash flow, because I think you have generated around 500 Crores kind of a cash profit in first nine months and your net debt at the end of last year was around 1,800 Crores. So, currently up to nine months net debt has increased by around 600 Crores. So what is the balance because if I see your capex is around 700 Crores only and net debt increase is still 600 Crores so out of the incremental cash profit, what is the incremental cash flows?

R Mandawewala: Let me just recall that we also acquired the 80 MW captive power plant in Anjar, which was let us say a group power plant, so Welspun India now holds 68% of this power plant and consequently the 80 MW power plant is getting consolidated with our results. Now this itself was 290 Crores of borrowings. So, if we look at last year the 1,800 would have gone up to 2,100 or close to 2,100 so against 2,100 we are at about 2,450 right now.

Dikshit Mittal: So, the balance 300 Crores capex you will be finishing in this quarter?

R Mandawewala: Let us say it will get on the balance sheet in one form or other in this quarter. I think, about 350 Crores will get added in this quarter on the balance sheet.

Dikshit Mittal: The Vapi modernization will happen next year?

R Mandawewala: Yes, we will undertake after we finish this. So, we will first go through what we are doing right now. So, we will finish this and then kick off the Vapi project.

Dikshit Mittal: So, next year at the maximum capex will be around 300 Crores?

R Mandawewala: 300 plus there is another 100 Crores of balancing to improve the towels and bedsheet capacities. So as of now we are committed about 400 odd Crores.

Dikshit Mittal: Thank you Sir.

Moderator: Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Congratulations for good set of numbers. You mentioned that this year capex is 1,050 Crores if I understand correctly?

R Mandawewala: Yes, it will be between 1,000 and 1,100 roughly.

Maulik Patel: That includes this power investment or not?

R Mandawewala: That is just consolidating the numbers. So, this is actually organic growth. This we have actually invested that much capital.

Maulik Patel: What kind of capacity number we give for the next year?

R Mandawewala: As I said, if you take 1,100 Crores for this year the overall capital expansion plan is for 2,400 Crores. So assuming 1,100 gets spent in this year, we have committed about 400 odd Crores for the next year, so there is another 800 to 900 Crores left, which we will commit as and when we need it. So, very clearly, Maulik, we are not looking to invest capital in anticipation of demand, so when we spend money in nine to 10 months time from the day we start spending, we should start seeing the expenditures that we make.

Maulik Patel: Whatever capacity expansion we have done that should commission over the next two to three months, whatever we have done for FY 2014? What kind of volume we are looking for the next year?

R Mandawewala: The towel capacity will move up to 50,000 tonnes. The bed linen capacity will move up to 60 million and this will be available from April 1 and carpets will move up to 15 million units from 12 million units. So whatever we are doing will also take our capacities to these kind of levels in FY 2015.

Maulik Patel: So, we expect a significant growth in volume for next year because whatever capacities we are putting up, that should be available from April 1, 2014?

R Mandawewala: Yes.

Maulik Patel: The additional capacities will give us a better margin, or we will be around the similar margin?

R Mandawewala: It will be similar margins. The only advantage we will get is we will better amortize the overheads that we have. By and large generally with these equipments, no new dimension is going to get added, so by and large we should expect similar kind of margins.

Maulik Patel: So, at the end of this year our net debt is close to around, the last quarter was Rs.2500 Crores?

R Mandawewala: 2,450 Crores roughly.

Maulik Patel: I think which should move further to about 3,000 Crores in the next few months?

R Mandawewala: Nor really. I think we should end the year between 2,700 and 2,800 and that also because of we also cover a lot of cotton, and this year we want to cover a lot of cotton by the end of the year. So that also adds about 100 to 150 Crores of this additional inventories as well as borrowings to our balance sheet, so we should expect about 2,800 or thereabouts at the end of the year.

Maulik Patel: Is that going to be what was the capex on a consideration you have it, is that going to be peak debt for you?

R Mandawewala: We are almost there. So, let me tell you that we will never cross 3,000 Crores in net debt but we will almost peak at the end of this year. Let me just add further that we will also not go beyond 2.6 times on net debt to EBITDA so that is an internal guideline that we have made for ourselves. So we will calibrate the capital investment in a way that our net debt to EBITDA does not go beyond 2.6 times and we will never go beyond 3,000 Crores in net debt. So these are two red lines drawn in the sand, so we will calibrate all investments to do these two indices on our balance sheet and P&L.

Maulik Patel: Sir, what is the outlook on cotton price? How do you see the cotton price behaving for the next seven to eight months?

R Mandawewala: I think the 43,000 a candy levels that we are seeing today should be the average for the year. So, between October and December the prices were lesser. Right now they are at 43,000/candy towards the end of the season they might actually go higher. So we will average about 43,000/candy, so virtually the prices which are prevailing currently in January.

Maulik Patel: I think the arrival is as per the expectations, because the market…?

R Mandawewala: No, Maulik. It is not and which is kind of this is one of the biggest reasons why prices have moved up 10 points. The arrival surprisingly is just one-third of the crop and we are almost end of January, so by this time we should have been somewhere about 42% to 45%, at least between 40% and 45% crop should have arrived, now there were two reasons for the slower. a) The delayed monsoon. So the monsoons carried on until late. b) We have had very severe cold and not so much of sun in a big part of the country. So when you do not get sun, the crop and the plant balls do not open up. So, the harvesting gets delayed. So that is the principal reasons why let us say the arrivals are low and also because they were low the prices start moving up, so when they start moving up, let us say the players in the supply chains and start holding this cotton, so as we speak, ginners are holding cotton, the farmers are holding cotton, the merchants are holding cotton, except the mills everybody has got cotton, but the mills are actually on a month or two level of stocks unfortunately.

Maulik Patel: I think that should eventually come back to the market, right? Whatever they are holding it in anticipation of a higher price?

R Mandawewala: I am not so sure Maulik, because we are in an election year. So, there is still continuing demand for exports. 65 lakhs bales have been contracted already. 55 lakh bales have already gone out the country out of 135 lakhs bales that have arrived and the government is talking about allowing more exports on cotton. So, I would not thump the table and say that the worst is over.

Maulik Patel: Nice to hear your views. Thank you and wish you all the best.

Moderator: Thank you. The next question is from the line of Saurabh Jain from HSBC Securities. Please go ahead.

Saurabh Jain: Thanks for taking my question. You mentioned that the markets in Europe is somewhere close to mid teens in FY 2013 and 18% to 20% is expected in FY 2014. So is this the share of the total Indian exports to Europe?

R Mandawewala: This is the percentage of our business into Europe.

Saurabh Jain: How much is the share of Indian exports also on rising trend?

R Mandawewala: In America, it is certainly yes. So the towels is about 45% of all imports in America is out of India, which used to be let us say about 30% to 35% until a year and a year and a half back. Sheets has crossed 50% now from India in America, which used to be about 25% to 30% about two years back, two and a half years back. So, we are growing in market share where we have a level playing field. In Europe, we have started gaining market share now. So I think the whole of 2013 which we saw more business coming into India from Europe as well, so hopefully I think this trend will continue for the next several years, and if the FTA with EU happen, I can tell you the whole world, this hell will break loose and it will be enormous gain of market share there.

Saurabh Jain: Great Sir. Thanks.

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

Niraj Mansingka: Sir, I just wanted to know off the total debt that you have how much has been expensed or basically how much quantum of debt has the income statement been expensed for the quarter is what I wanted to know?

R Mandawewala: This should be about a little north of 300 Crores, Niraj.

Niraj Mansingka: You are telling 300 Crores of the total capex of 700 Crores is capitalized in one way?

R Mandawewala: That is in business now. So we are producing and making income from that and also expensing the interest.

Niraj Mansingka: Which will come in the Q4 number, am I right Sir?

R Mandawewala: Correct. Part of it is also in the December numbers Niraj. The looms started, we began commissioning of the looms from August 2013 and this continued up to December 2013 so a part of the looms 140 looms and sheeting that we added the results, a part of the results are already include in December.

Niraj Mansingka: I just wanted to repeat this question again. Off the 700 Crores of capex that you did in FY 2014 till date, how much was funded through the new debt?

R Mandawewala: I think about 400 Crores, about 70:30 would be the right.

Niraj Mansingka: 70:30. That is all. Thank you.

Moderator: Thank you. The next question is from the line of Nitin Mathur from Espirito Santo. Please go ahead.

Nitin Mathur: Congratulations on a great set of numbers. I was just wondering taking a few steps back and thinking where we started on last year and how we have delivered in the last four or five quarters in a row. So, I am just trying to understand whether you are happy with the progress, which the group has made or do you still think that you can do better from these levels or there are still some low hanging fruits, which you think you can achieve very quickly in the coming two to three years of time?

R Mandawewala: The day I am happy, it will be time for me to hang my boots, Nitin. So I think there is an enormous potential for business to go forward. Honestly, I think, in the lifecycle of the Company, I have never been as optimistic as I am right now, and it is not only because what we are doing as a Company, I think, this India advantage is clearly playing out in cotton textiles and we see customers telling us that they want to source more out of India that they need this better quality vendors and things like that. So that makes me very, very optimistic and also there are some good things, some changes that have happened in the industry and also we are a part of that. So, the recklessness in the capital expenditure is now gone. I think, companies including ourselves we had been reckless for a good period of six to seven years between 2004 and 2009 investing capital and thereafter we started conserving that so the companies have become much more rational in terms of investing money. I think there is a good eye to margins. I think demand supply parity has been restored. Consequently, the pricing power has returned to the industry. So, all this is alluding to the fact that this business can get better in the future and certainly this is the market share for India it is an opportunity, which I think should remain with us for the next several years.

Nitin Mathur: I think you and your team have done very well job in this field particularly especially tracking it very closely for a while and the way that we actually envisaged it about a year back it has actually played out exactly as per the game plan. So congratulations again to you and your team and wish you all the very best. That is all from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Deepak Agrawal from Impetus Advisors. Please go ahead.

Deepak Agrawal: Just want to understand what kind of a spare capacity all the tier I vendors who want to have been to India or even abroad?

R Mandawewala: Tier I honestly, Deepak would be right now all of them would be in their comfort zones. So, when I say comfort zone it will be between 85% and 90%. Anything beyond that also puts enormous amount of pressure and end of the day it is a delivery game. It is a reliability factor that you need to provide to your clients. So almost all tier I vendors would be in their comfort zones right now.

Deepak Agrawal: Would all of them be in the expansion mode, most of them?

R Mandawewala: Not really. As I said that all companies are all very cautious in terms of investing capital. So, by and large we are not seeing anything reckless happen in the industry. So their capacities are growing, they are growing incrementally, so nothing which will let us shake the needle to the red nothing like that is happening.

Deepak Agrawal: Second question how much cotton requirement have you already brought and when do we want to finish it?

R Mandawewala: We are about let us say 25% of our requirement is covered now, and we will get to 75% covered by March and the rest of it will be over a period of next four or five months.

Deepak Agrawal: Thanks. That is all from my side. Thank you.

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

Dikshit Mittal: Sir, just wanted your thoughts on the dividend policy. Do you have any stated policy like how much percentage of profits you will be paying?

R Mandawewala: Very, very good question and I think it will make my friend Niraj also very happy now that you have asked this. Actually we would have delivered a dividend policy this year itself the reason why we were unable to do it is because of this change in the method of depreciation. So, that will takeaway a big chunk of the profit out of the P&L this year so although it will deliver long-term benefits, which means now that this will have to declare let us say formally announce a dividend policy in the next year. So we have all intentions of actually coming out and state what is our view on dividend and how is it that what will be our distribution policy in the future, but that will happen in FY 2015.

Dikshit Mittal: This year it will be kind of last year kind of a thing?

R Mandawewala: We will try and do our best. So we will need to wait for this January to March quarter. We will need to understand how much this headroom our P&L will allow us to distribute. So, the more the merrier, the intent is there, but we will have to check later to do that. So the cash flow is there, the intent is there, but how much would we be allowed I think that would be determined by the annual P&L number that we generate.

Dikshit Mittal: This year also I think depreciation and all that is non-cash. So I think the cash flow this year itself…?

R Mandawewala: That is what I am saying. If it had not been for the depreciation we have enough cash flows. The first nine months, which the Company has generated 500 Crores of cash profit, so you know the cash is there, the cash is with us and everything, but as I said, the standalone results of the Company will determine how much can be distributed. So there are regulatory limits to it. So, we will try and optimize that and so that will determine and that will put a ceiling to what we can do this year.

Dikshit Mittal: Thank you Sir.

Moderator: Thank you. The next question is a followup from the line of Deepak Agrawal from Impetus. Please go ahead.

Deepak Agrawal: Can you give me the figure of non-subsidized debt?

R Mandawewala: On the expansion?

Deepak Agrawal: Of the total debt, how much? The debt which is not subsidized?

R Mandawewala: Everything that we have is under TUF. All the term debts, so this 1,400 Crores out of the total debt is term debt and that is all TUF debt. On the new expansions, all 2,400 Crores that we are envisaging we will not only get TUF benefits, but we will also get the benefit of the Gujarat policy. So almost all the term debt and there is not only that our dollar debt is about 5 million. So that is about all. So there is not much of foreign currency borrowing also, and almost all of term debt is subsidized.

Deepak Agrawal: The working capital basically is a normal debt?

R Mandawewala: It is normal debt. Working capital, we get the interest rates subvention of 3%.

Deepak Agrawal: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to the management for closing comments.

R Mandawewala: Thank you so much for being patient and hearing me out. I hope this will continue to see our interest going forward in the future. From our side, we will continue to perform to your expectations. Thank you very much ladies and gentlemen.

Moderator: Thank you Sir. On behalf of Espirito Santos Securities that concludes this conference. Thank you for your participation. You may now disconnect your lines.