“Welspun India Limited Q3 FY 2016 Results Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Welspun India Q3 FY 2016 Results Conference Call, hosted by IIFL Capital. 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. Avi Mehta from IIFL Capital. Thank you and over to you Sir!

Avi Mehta: Thank you Zaid. Hi, good evening everyone on behalf of IIFL I would like to welcome all of you to the Q3 FY 2016 conference call for Welspun India. From the company we have with us the key senior management including Mr. Rajesh Mandawewala, Managing Director, Ms. Dipali Goenka, Joint MD and Mr. Altaf Jiwani, Director (Finance) and CFO I would now like to hand over the call to the management for their comments. Over to you sir!

Altaf Jiwani: Thank you Avi. Good evening ladies and gentlemen on behalf of Welspun India I would like to welcome all of you to this Q3 FY 2016 con call. I would like to begin with announcement which we received this morning from USA. Welspun India has been the number one home textile supplier in the US market which is the world's largest market for the fourth consecutive year. It is a matter of great pride for the country to continue to maintain this coveted position.

Coming to the quarterly highlights we have achieved a milestone of actually Rs. 4 billion operating EBITDA profit during Q3 FY16. The operating margin has been highest ever which is 26.9% and the profit after tax and EPS obviously is 21% higher in Q3. Another highlight of this quarter has been actually the launch of 'Hygro' campaign which has achieved a significant traction in the US market and the Hygro business is almost now $90 million for us.

Coming to the financials actually on the revenue side for the quarterly numbers our revenue has been Rs.14.9 billion which is a 10.7% growth over corresponding quarter last year. Within this actually the domestic retail business had a fabulous run we had in fact 90% growth in the revenue in Q3 FY16, of course the base has been smaller compared to Q3 last year and the YTD growth for this business has been 52%. Operating EBITDA is about Rs. 4 billion as I mentioned earlier which is 17.8% higher than the corresponding quarter last year. This has been on the back of the optimum mix which we are working on, so the revenue from the innovative sale has now gone up to about 34% in Q3 and on branded sales we are almost at 12% of our revenue. The operating EBITDA margin is 26.9% which is 161 basis points higher than the corresponding quarter last year. Finance cost has come down substantially to 59 Crores which is 27% down, on the back of the Gujarat Textile benefit which we have started getting and also the interest equalization scheme which has been announced by the Government of India during last quarter with retrospective effect from April 2015. Depreciation has gone up to about almost 100 Crores. As we mentioned earlier in the last call we have been able to get the advantage of higher capacity so today we already are operating at 55000 metric tonnes for towels and about 72 million meters for bedsheets. So with the capitalization our depreciation has gone up. PBT is Rs 2.5 billion which is 42.8% higher than the corresponding quarter last year, profit after tax is Rs. 1.74 billion and EPS is Rs.17.3 which is 21% higher than the corresponding quarter last year.

Coming to the YTD numbers our nine-month revenue has been Rs.43.5 billion which is again 10.5% higher than the corresponding period last year. Operating EBTIDA is Rs. 11.3 billion which is 22.1% higher than last year.

Just to give you a little perspective about the growth in the Revenue and EBITDA, that our nine-month revenue for this year is equal to the twelve months revenue for FY14 when our EBITDA was about Rs. 9 billion so against Rs. 9 billion now we are at Rs. 11 billion EBITDA at the same revenue level. On the finance cost overall we are at about 24% lower that is Rs.1.7 billion depreciation is Rs. 2.7 bn because of the capitalization and the YTD profit after tax and the EPS is almost 35% higher than the corresponding period last year.

Coming to balance sheet our net worth is now Rs. 18.3 billion compared to Rs. 14.3 billion at the beginning of the year. The gross debt and the net debt is practically almost at the same level as the beginning of the year, which shows the company's continuous focus on achieving growth and simultaneously containing the borrowing levels. So we have incurred a capex of about Rs. 6.4 billion in the first nine-month but we will see that our borrowing level is almost same as at the beginning of the year. Net debt to operating EBITDA is about 1.75x against 2.05x the beginning of the year and net debt to equity has further improved to 1.44 against 1.82.

Return on capital employed continues to be on a stronger growth trajectory and we are at now 24.7% compared to 22.8% at the beginning of the year. Return on equity is now 41.6% which is because we have been funding our growth through internal accruals.

The other highlights for the quarter actually have been to be on continuous path of the free cash flow after meeting the Capex requirements. On the capital expenditure we have incurred about Rs.1.9 billion during the quarter and the nine-months figure is about Rs. 6.4 billion with this we have a capacity of 55000 tons for towels and 72 million meters for bed sheet. The remaining capex of Rs. 7 billion we will be incurring during the nine-months. Lastly on the awards and recognitions with all humility we would like to inform you that we have received the 'Exemplary Supply Chain and Speed Award' by Kohl's. We have received the best innovation award by Wilkinson we were the only vendor from the country to be invited as gold supplier by Carrefour in the general merchandise category. We are the only company from the country to receive total transparency certificate from the Egyptian Cotton Association and lastly Ms. Dipali has been appointed as a Board of Director on the Social Accountability Accreditation Services which is recognition of her deep insight on sustainability initiatives which Welspun has been implementing for a decade now.

With this I would like to hand over to Avi and we will be happy to answer your questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Abhijeet Dey from BNP Paribas Mutual Fund. Please proceed.

Abhijeet Dey: Two questions from my side, can you just highlight what is the volume growth in Q3 and it is for the first nine-months in the US market for you both in bed sheets as well as in towels.

Altaf Jiwani: And what is your next question Abhijeet?

Abhijeet Dey: Next question is basically post this 700 Crores of the remaining Capex to be done what would be your capacity in both the sides.

Altaf Jiwani: Abhijeet our volume growth in the Q3 we have achieved almost about 7% volume growth overall, so out of 10.7%, 3% is the exchange impact and balance is actually volume growth. For the capacity with the remaining Rs. 7 billion which will be spent we will be touching 60000 tons for towels and bed sheet will remain at the current level which is 72 million meters. Our carpets will increase to 20,000 tons from current 15,000 tons, which will happen by next September 2017.

Abhijeet Dey: And sir for the nine-month the volume growth would be at similar level or it will be lesser or higher.

Altaf Jiwani: Nine-month volume growth will be almost same.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from Value Quest. Please proceed.

Chirag Lodaya: First question is on the revenue side as earlier we have mentioned 13% to 15% kind of growth in the revenue if I see nine-year number we have grew by 10.5% so in order to achieve a 13% growth which is a lower side of our guidance, our asking rate is for 16% in last quarter do we think is it achievable.

Altaf Jiwani: Good question Chirag. We are confident that we will be able to achieve the 13% target which we have indicated so have no reason for revising the guidance in fact let me take this opportunity to say that we would like to revise our guidance for EBITDA margin upwards, so because with the traction which we are seeing on the 'Hygro' we are able to now give you a guidance that till now we have been talking about 22%, 23% guidance we are now confident that we will be able to achieve 23%, 24% EBITDA margins over a long-term. We are confident that we will be able to demonstrate the kind of revenue growth which we are guiding in past.

Chirag Lodaya: And secondly on the additional capacity which will be commission till September 2016 post that the capacity which are coming in next nine-month we will be able to utilize that in FY17 itself, but what is the plan post FY17 what will be the revenue guidance for that, post FY17 we do not have capacity as such.

Altaf Jiwani: Chirag the revenue guidance which we have been saying between 13% and 17% two, three years so that take care of the volume, the exchange as well as the realization and we are working on last time we had mentioned we are working on the ancillary model so the two of our major activities which we are trying to ancillarise that is the spinning and viewing which account for a 60% of Capex and fortunately in India there is a strong ecosystem for the entire home textile business, so there are good vendors available where we can also outsource in case such eventuality arises. So we are confident that we will be able to achieve the growth.

Chirag Lodaya: So basically if you think in next year we will be able to finalize on that model.

Altaf Jiwani: Yes, and we have enough headroom for say the subsequent stages of like processing and the cut and sew.

Chirag Lodaya: And lastly on sir margins, we have seen this quarter gross margins are highest we have ever reported which are around 58.2% vis-à-vis 53% last quarter same year so do we think this kind of gross margins are sustainable and on the cost side if you see over first nine-months or within this quarter our overall employee cost and other expense have gone up by like 18% to 20% Y-o-Y so what do you think on this margin front.

Altaf Jiwani: See Chirag while we would like to maintain the guidance which we have been giving all these so while it is easy to start inferring based on these numbers but we would like to maintain that guidance which we have been saying so we are now talking about the revised guidance of 23%, 24% EBITDA margin.

Chirag Lodaya: And sir lastly on can you just quantify what is the impact of Gujarat textile policy and interest equalization scheme.

Altaf Jiwani: See interest equalization in the for the nine-months figure has been insignificant right now but on a quarterly basis it should be about Rs. 4 Crores in the quarter.

Chirag Lodaya: And what is the benefit of Gujarat textile policy if you can just explain qualitatively.

Altaf Jiwani: There are two benefits one is the interest subsidy which is about 5% and there is another benefit which is VAT which is 3% which is subject to the sealing of investment in plant and machinery.

Chirag Lodaya: So this started from this quarter itself.

Altaf Jiwani: Both these benefit we started actually from Q4 of last financial year.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please proceed.

Nihal Jham: I think all of my questions are already answered with the margin guidance improve the other question is related to when do we expect the remaining 5000 tons in towels to be commission.

Altaf Jiwani: That is by March current quarter.

Nihal Jham: And do we have any timeline right now for the ancillary units by when do we expect to set up?

Altaf Jiwani: This is something new which we are trying we have picked up this idea from the auto industry so we are the first in the textile industry to implement this so it is difficult to put a timeline but we hope to see a significant progress in this in the next financial year.

Nihal Jham: My last question is on the retail side you mentioned we have seen 88% growth this quarter in the brand segment can we attribute most of it to the website launch that happened at the end of last quarter, was the major portion of the growth driven by that?

Dipali Goenka: We actually are growing consistently in retail, it is also because of the markets that we see and plus the position that SPACES have taken in leadership. Our market share in contribution to the shop-in-shop model and the dealer distribution network has grown by 50% here and also our institution and hospitality is growing at the rate of around 25% to 30% year-on-year. So that actually contributes to the growth that you are seeing in retail there and we will consistently be seeing this growth.

Nihal Jham: And what would be the share of e-commerce right now for you.

Dipali Goenka: E-commerce basically works as an omni channel for us.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please proceed.

Vikram Suryavanshi: Can you give the breakup of capex spending how much you spent on towel and carpets?

Rajesh Mandawewala: We have this balance capex to move from this 55,000 to 60000 tonnes of towels, part of it is already commissioned, every week there is some capacity that is getting added, then there is still some integration that is pending on the bed linen side so which will also get done to this quarter and the next one. So there are some looms which are pending which we need to add so they will get added in the next two quarters and then there is a lot of automation in this investment that we are making as we have been consistently saying this that just we want to keep our head counts in check so there is a lot of automation that we are investing in and there is a part of this automation which still remains so these are the three key pillars over and above this there is almost 100 Crores investment that will be made for sustainability for more effective treatment of the effluents both in Vapi and Anjar plant and also we are investing into about increase of 8 or 10 megawatts of power in Vapi to provide a little more security of power to our Vapi unit so that will cost another 80 to 100 Crores so this by and large this is what remains and we think this will get past most of these expenses in the next two quarters.

Vikram Suryavanshi: If you remove this 100 Corers and 80 Crores out of that Carpet would be taking capacity from 15000 to 20000 will that be 200, 300 Crores capex?

Rajesh Mandawewala: No, carpet is very limited capital expenditure of 50 Crores or thereabouts, so this bulk of the capex has already been done so big part of the capex is actually the 5000 ton increase on the towel side and the vertical integration on the sheet side so and then of course the 200 Crores that I mentioned is about 100 odd Crores for automation so all put together this will make up for rest of the growth.

Vikram Suryavanshi: And Carpet you said that will be ready by September basically.

Rajesh Mandawewala: Yes.

Vikram Suryavanshi: What would be the revenue from domestic business this quarter and if possible nine month?

Altaf Jiwani: The retail domestic revenue was about 42 Crores for the quarter and nine-months is 107 Crores.

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

Bhavin Chheda: If you can give the absolute numbers on how many towels and how many bed sheets you have sold in quarter and nine months?

Altaf Jiwani: Actually we do not disclose the numbers product wise separately so while we understand your requirement for this.

Bhavin Chheda: If you can briefly give utilization levels.

Altaf Jiwani: Yes, it is practically 100% for towel and bed sheet is almost 95%.

Bhavin Chheda: And rugs would be.

Altaf Jiwani: That will be about 70%.

Bhavin Chheda: And what would be the geographical sales mix?

Altaf Jiwani: About two third almost 70% will be from US; Europe will be about 17%, 18%.

Bhavin Chheda: Rest is India right.

Altaf Jiwani: Yes.

Bhavin Chheda: So basically next year the majority growth would come from bed sheet utilization reaching 100% and the incremental 5000 tonnes of towel which will come by March right.

Altaf Jiwani: Yes, and carpets.

Rajesh Mandawewala: We have actually set the stage now for this incremental growth of capacity consistently as we meet the capacity in the future. So all the infrastructure when we talk about this capital expenditure all the infrastructure this has been invested into so whatever capacity increase that we need we will be able to bring it into play in a quarter or two, we have been guiding that we will be looking to invest about 300 Crores every year and it is a rough estimate so if we invest 300 Crores on an annual basis this has been give us the required growth in capacity in all the three products towel, sheets and rugs as well as some maintenance capital expenditure, this we know we are going to need more than 60000 tonnes of towel next year, our business velocity is indicating that and we will also need more than 72 million meters of sheet, so there is work going on, we will be better prepared in a month's time to give specific timelines but be rest assured that our growth guidance remains which will be in double digits and the capacity as and when it will be required we will bring whatever little balancing equipment that we need and all this as I said over the next few years will not consume more than 300 Crores per annum, do not take capacity as a constraint, our business will continue to grow at our existing rate of growth and this we will find the capacity with very little capital expenditure from here on.

Bhavin Chheda: You are saying you are looking at 13% to 15% top line growth in value terms.

Rajesh Manadawewala: Yes, you can say that anything between 10% and 15% so we are continuing to maintain that and we will continue to grow at that rate and as I said it is only buying a few balancing equipment to increase 5%, 10%, 15% capacity and this we could actually bring it about in a one or two quarter period so we will invest as and when so our philosophy is very clear that we will not put in money till we know we are going to use it on day one so as we are seeing our business growing we are continuing to take those actions so do not take capacity as a constraint and for your value and debt calculations and cash flow calculations you can add 300 Crores of Capex on an annual basis for us to achieve that.

Bhavin Chheda: So roughly we can say 300 Crores can just keep debottlenecking capacity we can achieve 4%, 5% easy volume growth.

Rajesh Mandawewala: Yes, so very easily in fact more than that so we can achieve that so we are covered for this FY17, FY18 in at least these two years as it is clear that we will not need to invest anything beyond this and thereafter the ancilarization benefit will come into play where we will not need to again invest too much capital and yet grow the capacity with very little capital expenditure on our balance sheet, so just to elaborate on the ancilarization, we are being a little cautious in guiding you guys but see this spinning investment is already committed which will start producing this end of March so that is a 250-300 Crores investment which will come into play. There are about 12, 13 smaller packaging, trims kind of ancillaries they have already signed up with us and we are in discussions with a couple of weaving units also. We feel pretty confident that we will be able to provide some traction over the next year or two but for the next two years say FY 2017 and 2018, you can say 300 Crores will bring us whatever this capacity growth that we need to bring about to bring about this 10% to 15% business growth that we need.

Bhavin Chheda: And out of this remaining 700 Crores Capex you said nine-months so next three months how much your spending on it?

Rajesh Mandawewala: It is not exactly but we should be between 300 and 400 Crores in this quarter.

Bhavin Chheda: And other 300 which was so remaining would be 300, 400 plus another 300 so next year fiscal FY17 Capex would be 700 right?

Rajesh Mandawewala: You can say that.

Bhavin Chheda: And what is the spindleage capacity now.

Rajesh Mandawewala: We have 328,000 spindles.

Bhavin Chheda: So this is the expanded number or this is going up.

Rajesh Mandawewala : No this is where it is going to be now so we are done with almost done with so there is just around TFO and all that investment that is remaining but this the spindlage investment is already done and finished.

Bhavin Chheda: And this innovative turnover and the brand turnover how what will be the target in next two three years.

Dipali Goenka: We consistently work on innovation and our endeavor would be to increase the portfolio for Hygro which is actually at 34% innovative products and around 12% is the brand contribution that we see this quarter and that actually grow year-on-year as well. I must say that I should share something with you interesting is that a 'Hygro' this till nine-months has grown by around 90 million and we see that growing quite aggressively next year as well.

Bhavin Chheda: So the innovative sales which are at 34% can that part of the business become 45% to 50% of the turnover in two to three years time.

Dipali Goenka: Yes, that could be an endeavor but we cannot talk about it but as we grow because our core focus would be on innovation and we are more than just being a basic commodity product actually, we are basically focusing on innovation and when we say, when we are talking about our growth just coming in from the production is not just about the production we talk about value here and that is where we are focusing on innovations and the brands and also diversity in our portfolio that we have in the rugs and the towels and also hospitality as well and we have 16 patents in the pipeline at the moment.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Elara Securities. Please proceed.

Sumant Kumar: My question is regarding EBITDA margin expansion. Could you please elaborate what is the mix of margin expansion due to RM benefit, product mix changes and the currency benefit?

Altaf Jiwani: The impact of the foreign currency is about 3% on the revenue and we do not share the figures for innovative product margin separately but there is a benefit of the higher innovative product and branded products which has come in, the third is also the vertical integration impact which is there in Q3 because last year we commissioned in Q3 it was still in the stabilization stage the major portion of the benefit will come in the Q4 so there is this benefit of vertical integration so all three put together you see the impact on the margins.

Sumant Kumar: So the backward integration change in product mix and currency benefit. So assuming three factors for margin expansion which factor has higher weightage for margin expansion.

Altaf Jiwani: Sumant you are trying to ask the same question, unfortunately I would not be able to give you that answer.

Sumant Kumar: And sir you have talked about the VAT benefit in Gujarat textile policy what is that.

Rajesh Mandawewala: This is the benefit that is available for domestic sales when you sell in the domestic market so whatever VAT that you pay you get it back so that is the benefit this I think benefit will come as the sales in the domestic market grows.

Sumant Kumar: And the last question is regarding the market share gain what we are continuously gaining the India is gaining in bed sheets 47% and towel 37% so what is the outlook for that and can we have further room for market share gain for India and for Welspun.

Dipali Goenka: This is going to be constantly growing, we have been growing at a rate of 50% that we see and as we maintain as a growth because India is a market that has a great potential and with our brands like Spaces and Wellhome which targets the mid segment and the lower segment as well and in institution hospitality we see a consistent growth coming in for the coming year.

Sumant Kumar: I am talking about the market share in US so we have around India has 47% in bed sheets and towel has 37% so what kind of room we have from here to grow further?

Altaf Jiwani: Just to add actually, you have seen in the presentation we have put it has gone to 38% now India's share the total export to US in the YTD November is at 38.3% and bed sheet is 48.3% and we are actually, if you see the data there are certain categories where there are 60%, 65% of the procurement export is happening from one country so whenever the retailers have to take advantage of cotton home textile they have to necessarily source it from India because that is the advantage they can derive when they buy from India so in our view it is a advantage as long as the country has this advantage of cotton labor currency we will continue to see this kind of growth.

Rajesh Mandawewala: Just to add here, end of the day India has been so far concentrating on this retail side of the US market, there is a huge market on the hospitality side, there is a huge market on the healthcare side where we have just about started to begin, let us say opening doors there, our business is very modest in those areas, so we see huge amount of growth actually expected to come from that area and the 47%, 48% share that you see on the sheet side is only sheets so there is also a filled product which is a bigger part of the market so that opens up a completely new category so comforters, basic bedding and products like these so these will offer billions of dollars of additional opportunity where India's share is only 7%, 8% and China is at about 60%, 65% so that is going to be the next area of growth, so there are channels and within these categories there are products which will continue to drive growth of India and as far as Welspun is concerned we are still far away so out of 37%, 38% on towels we represent half of it and on the sheet side we do not even represent half of the exports out of India and so our business is throttling with our plants, our plants want to continue to buy more. As you would have observed over the last eight or ten quarters we have been consistently around the 100% utilization mark despite growing this capacity and as I previously said that we are continuing to guide that we will continue to grow our business at 10%, 15% on an annual basis despite India's high market share simply because a) we do not think the India story is fully played out yet and within that this as a company I think we will also gain market share so I hope that answers your question.

Moderator: Thank you. The next question is from the line of Srijan Sinha from GAM. Please proceed.

Srijan Sinha: Sir my question is related to the macro environment how do you see the impact of trans specific fact and the Chinese currency depreciation playing out both at the industry level and as well as on the Welspun level do you see any risk in that.

Rajesh Mandawewala: We have our views on this. The Chinese currency as you would have observed has depreciated about 4%, 5% and India's currency actually followed and depreciated to the same extent, so we share that view and we believe that if the Chinese currency depreciates India's currency will follow within a close percentage of where they depreciate. Having said that I think clearly we are drawing up anything between 5% and 10% cost advantage over China today, so relatively speaking unless the differential between the depreciation is more than in double digits, I do not see that impacting our business because the Chinese have virtually disappeared from the table as far as our business is concerned so we do not see them competing with us over the last two three years. It is not easy in our business to regain market share this once you have lost it so we are not losing sleep over it. Coming to the TPP, this is essentially is about more about garments and also within garments it is more about synthetics so Vietnam is known for its garments and we have carefully gone through the text of TPP so this is first thing it is a ten year process so in first phase only 10% of the duties will go away so assuming that let's say the duty rate is this 15% so only 1.5% reduction will happen upfront, the rest of it another 35%, 40% on an average will be taken out in the next 10 years and thereafter this the entire duty will be taken off. So on the cotton products this risk is not as much, on home textiles there is no risk because there is no home textile player there so they are not in the frame as of now and we do not see them coming and this impacting business at least over the next five, seven, eight years. In the home textile area they are not a factor, so I would suspect that on the apparel side particularly on the synthetic side they could increase their share but India is not playing in that arena any which ways so it is actually going to be at the cost of China rather than at the cost of India so that is our assessment of TPP so I do not think from India we should be overtly worried for this in fact my view is that this more than the duty advantage that they will drive from Vietnam I think we will continue to grow our cost competitiveness cost advantage on account of cotton on account of this higher availability of cotton yarn and also see the moment something like this happens end of the day it is 70 million population country so the wage rates will actually get ahead of them and something like apparels wages are this 35%, 40% of your product cost so I think what they will gain by way of duty benefit gradually this will fairly get compensated with higher wage rates so the wage rates in other words is outstrip let's say this the rate of increase of wages in Vietnam will outstrip what it is the rate of growth in India so all in all I think we should not be overly worried in home textiles we are not concerned as I told you there are no competitors there and also in the apparel side I do not think the heavens are going to break so I think this India should continue to do well as long as there are world-class companies on the apparel side here and they continue to do a good servicing job for their clients.

Srijan Sinha: And you said that the Chinese have disappeared from the market so is it only because of the cost competitiveness or more on the quality side since Welspun will compete more on the quality product.

Rajesh Mandawewala: See there are good quality producers in China and so this is purely this a function of the cost the differential between the two countries one and two is of course this as far as we are concerned so this our business is growing disproportionately on account of this 360 degree offer and this innovative products and working very closely with the customers to improve their performance so as a company that is the extra bit that we offer to our clients.

Srijan Sinha: One more question is on the could you please breakup the revenue guidance for me in terms of the annual price increments in terms of the volume growth and the Forex impact.

Rajesh Mandawewala: This we would refrain from making those comments so this as far as this guidance for the future is concerned 10% to 15% growth and in this today's call which we are revising upwards the guidance on margins so we have been guiding about 22 % previously so we are taking it this 100 bps up to 23 or slightly above that so that should cover this all of it is broadly speaking this we have said that we are almost on a price variant kind of a metrics with our clients so the reason why I do not wish to answer your question is that you will derive different meaning the end of the day this any cost increase or cost reduction will have to be passed on to the clients over a couple of quarters, so it is an indifferent which is why this I would refrain from answering this question so importantly, we are saying we have grow our business in double digits and this we are guiding slightly upwards our margin guidance from 22% to 23% so at the bottom end of our guidance so that I think should be good enough for you to make your projections..

Srijan Sinha: Just one more follow up question on this I will try and ask you this in a different way. What has been the realization growth over past two years and if you could share some color on the demand outlook in US.

Rajesh Mandawewala: No look there is no realization growth if you are asking me if there has been a price increase there has been no price increase, but there has been a realization improvement on account of better product mix so because of the higher percentage of innovative products, so obviously the cost shall actually which have helped us or this currency depreciation and things like that has actually helped us overcome the increase in cost like wages and things like that so there was no reason for us to go back to our clients to ask for a price increase.

Srijan Sinha: And if you could share some color on the demand outlook in US.

Rajesh Mandawewala: Look there is if you look at our business over the last four or five years so irrespective of where the market has been where the economy has been with our business has been growing so we continue to maintain the same status I think with our model to such this very closely into that with our customers and where they really relive on us to improve their business so this all that we are seeing is positive although this I must say that this holiday season was slightly slower at retail but more than this what the retailer is the disappointment at retail what made up on the e-commerce side and as a company we are very well set up also on the e-commerce this size so and we have built this capability both in Europe and US to actually service the e-commerce websites as well so what gets what was slightly sluggish at retail what made up this by the e-commerce side and let's say we are indifferent to where the base come from because as we are beautifully set up on both the channels.

Moderator: The next question is from the line of Resham Jain from Batlivala & Karani Securities, please proceed.

Resham Jain: Sir, congratulations for a good set of numbers, just couple of things, one we have always looked at the EU opportunity which can be very large for us but do you think that, because US typically there are large retailers there we typically have large runs with Europe coming in will the margin profile be similar to what we have in US or with US retailers?

Rajesh Mandawewala: I will try and answer your question in two parts, (a) you are absolutely right that in the US we have a level playing field with all the competing countries whereas in Europe our products attract lets say an import duty of about 9% whereas Bangladesh and Pakistan, Turkey and Egypt, these guys get in let us say duty free, so obviously all things being equal let us say the margins in Europe will be lesser. Having said that, we have recognized that the margins in Europe are going to be less, so we are positioning ourselves slightly higher in terms of the market positioning where we are actually offering only high end products to our clients, so that help us bridge a part of this margin dilution in Europe that we currently have, so having said, that if the FTA goes through, then you can well imagine that it will be a deluge of India gaining market share over the competitors, so we are growing our market despite this duty disadvantage and also this regaining a part of the lost margin you can well imagine if the FTA goes through what kind of opportunity it can bring. The other part of your question is that it is not as large a market as US, you are absolutely right, so having said that there are both large and mid size retailers in Europe, some of them are really very large customers like IKEA, Carrefour, Fort Ingles, they have a significant amount of this clout, but even with the others the way we are set up is that we have two facilities for our towels, for the smaller run we have the Vapi plant and for the larger runs we have Anjar, likewise on our bed linen facility as well as rugs we are geared to actually cater to both large runs for our US clients and other larger clients worldwide as well as we can also service them, so our plants and our infrastructure is actually geared to service that business and we are already doing that business, so it is not a futuristic statement that I am making. We are already catering, 17% of our sales are coming from the European market and another 8% is coming from the rest of the world, so put together almost a fourth of our sales and you also add India which is not a very large market for us, so almost let us say 30% of our business is coming from clients who are not very large, so we have structured our business to actually take care of that eventuality.

Resham Jain: Sir if we look at overall India on the home textile space we are seeing a lot of stressed asset in the space both large as well as small, given an opportunity what will be your stance on it in terms of any acquisition opportunity coming your way?

Rajesh Mandawewala: We are not looking at anything, if that is what you want to hear from me. We are not looking for anything and we are coming to the end of this large capex cycle that we had gone through and we are currently very happy where we sit, so we do not want to go out and do anything ridiculous, so unless the opportunity is compelling right now we find ourselves to be in a very happy state and we are in complete charge of our business and we are in a comfortable zone, our returns are sustainable over a longer period of time, so we do not want to be doing anything just for glory or just for the heck of it, as I said we are currently not looking at it.

Resham Jain: Sir, on the e-commerce side in US are you still selling through third-party e-commerce players or you have already started doing certain co-branded products along with them to significantly increase your presence there?

Rajesh Mandawewala: There are three parts to the e-commerce business that we have (a) we have got our own website which we have just launched, the revenues from that are insignificant but over a period of time I think it will gain credence. The other part is selling to the e-commerce sites like Amazons of the World and third part is with our existing clients, also we go and get in to a drop ship arrangement with them where we actually put our branded products on their sites and that is the third part of our e-commerce business. We are actually set up with all three and there is lot of investment both in terms of infrastructure and people and top management focus that we are actually devoting to this sector because we believe that the retail channel will eventually turn in to an omni channel and so we are beautifully set up to take advantage of that in all these three areas.

Moderator: The next question is from the line of Dhaval Shah from Siddhesh Capital, please proceed.

Dhaval Shah: Sir my question is regarding what the previous participant asked, what is the probability of FTA with EU going through, what are you seeing?

Rajesh Mandawewala: Very good question. I hope I was a politician to be able to answer that but I will still make an attempt.

Dhaval Shah: Since you are in the industry.

Rajesh Mandawewala: We are also very close to this development for obvious reasons, so it is an important this landmark that we as a member of the industry are looking forward. We represent many industry councils. What we are seeing is a positive inclination, the whole thing was paused because of 750 drug items, that actually stalled the process for two, three quarters but I think things are back on track, in fact, the first set of meetings will happen over the next few weeks, so the thing is it is back on track and there is a better likelihood of it happening than not happening, so obviously there is a lot of concern within the industry also, within the government that India is not part of any trade block, so we have been left out of any treaty with the US or Europe or for that matter we are not a part of TPP, so there is some positive sense within the bureaucracy and the government to actually make this work.

Dhaval Shah: By when the decision could come because it is getting prolonged for a very long time and if at all it happens, so what sense you are getting, will this be by this calendar year?

Rajesh Mandawewala: I doubt honestly, if I were to take a punt on this it will be 18-24 months.

Dhaval Shah: Assuming it goes through will it be like TPP that in first phase a 10% reduction and then gradually it will get reduced, so how will this be structured?

Rajesh Mandawewala: It has not reached that point yet but I presume that it could be on those lines although many treaties they take a lot of items out upfront. Even in the TPP there are a lot of items they will take off, go to zero duty on day one, textiles is certainly not one of them.

Dhaval Shah: Because we already have a global market share that is why it would not be applicable that way, is it?

Rajesh Mandawewala: Yes.

Dhaval Shah: Sir, on your debt repayment schedule for 2016, 2017 and 2018 how will it be?

Rajesh Mandawewala: We are looking to end the current year FY 2016 at the same level of net debt between; we were Rs. 2650 Crores FY 2015 end, so we should be within a couple of hundred Crores of that, so this is the time when we actually cover a lot of cotton, couple of hundred Crores within this, this is where we will end up and for the next year I will be surprised if we do not reduce debt by 500-600 Crores at least, so that is how it will look.

Dhaval Shah: Sir if I remember when we met for the first time one-and-a-half years back your guidance was around mid teens and now that has been reduced to 10-15%, what is the reason for this, is it the drop in cotton price and the realization or something else?

Rajesh Mandawewala: That also is a part of it, the cotton prices and raw material prices have been going down, so that is also a part of it, actually really speaking there is nothing that is changing, even this year we are looking like 2012-13 just being on little cautious on that, this year it will be likely around where we are currently, so there is a base effect, so all in all this is the level that we feel comfortable.

Dhaval Shah: This quarter was our highest ever EBITDA margin and over a longer time you are guiding 23% kind of thing, this drop in margin will come because our backward integration has already been consumed completely and going forward we will be outsourcing the fabric requirement and thus we would not gain the incremental margin is this the reason?

Rajesh Mandawewala: A small part of it is that, of course that is a part of it, but the other thing is about the government incentives which of course this government has gone on record, so the MEIS incentive that we have it is part of the foreign trade policy now which will go through 2020. The first review will happen in 2018 only, so the reason why we are saying is that this MEIS that we get, that has nothing to do with our cost or it is a straight benefit that we get, if that gets taken of, we are always very cautious while guiding the margins and that is the one and the other thing to some extent of course the integration part.

Dhaval Shah: We also have a small portion of technical textile business in our total pie, so what is the vision of the management for that business, how do we opportunity in that and what is the size of that business currently?

Rajesh Mandawewala: Right now it is a very insignificant part of our business, as I said we are actually wetting our feet. We are in the business for about a couple of years now and we are trying to find our feet, there is no hurry, we are trying to find, all we know is that we are liking what we are seeing the space, the market is growing in double digits and this is the fastest area of growth in textiles, so we like this space. We are discovering ourselves and it will take us a year or two to actually find the right path that we want to pursue in this area.

Moderator: The next question is from the line of Rahul Bhangadia from Lucky Investments, please proceed.

Rahul Bhangadia: Sir, there is a significant distance in the profitability on the consolidated and standalone side, I believe your manufacturing entities are all the standalone business and if you could just help us understand the difference, the PBT difference is of the order of 70 Crores for the quarter and as been of this order for the last two quarters?

Rajesh Mandawewala: You should always read our results on a consolidated basis because all the subsidiaries are almost 100% except the power plant where we own about 68%, the power plant incidentally has gone well over the last couple of quarters, we are currently clocking about 10 Crores of EBITDA a month on the power side, so other than that, these things will keep shifting and you should look at our results, I would encourage you to look at our results in totality.

Rahul Bhangadia: Fair enough Sir but even by normal transfer pricing or any normal rule that we go by the manufacturing will transfer the product ultimately at fair pricing itself right?

Rajesh Mandawewala: No we have to; there are transfer pricing rules as well, so we have to.

Rahul Bhangadia: Just wanted to understand the reason behind the quite a bit of difference between the profitability on the PBT level itself, it is a 70 Crores difference on the PBT level between the standalone and consolidated on a quarterly basis.

Rajesh Mandawewala: I will still stick my neck out and say let us not over analyze this, just look at the numbers in totality because 95% of the revenue or business of the subsidiaries also is by and large products which is actually shipped out from here, so sometimes it can be a currency factor, sometime something else, so any kind of over analysis will lead you to only sub-optimal results, so look at our results in totality. The only thing outside the business is the power plant which I have said this, so we are actually clocking about 10 odd Crores of EBITDA on a monthly basis, otherwise from a quarter to quarter these things can shift a little bit here and there, so do not over analyze this, it will not help you.

Rahul Bhangadia: Fair enough Sir, I will not continue with the question, the only reason I asked that was because all the profit growth has happened in the consolidated numbers, there is no profit growth in the standalone numbers that is all. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to the management for closing remarks. Over to you.

Altaf Jiwani: Thank you Avi. Thank you everybody. I wish we could spend more time but if you have any more questions please do send mail to us and we will reply to you and we look forward to meeting you again in the next quarter. Thank you very much.

Moderator: Thank you very much members of management. Ladies and gentlemen, on behalf of IIFL Capital, that concludes today’s conference call. Thank you for joining us and you may now disconnect your lines.