“Welspun India Q1 FY ’22 Conference Call hosted by Edelweiss Securities Limited”

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MODERATOR: **MR. NIHAL JHAM – EQUITY RESEARCH ANALYST, EDELWEISS SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Welspun India Q1 FY ’22 Conference Call hosted by Edelweiss Securities Limited. 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 ‘*’ and then ‘0’ on your touchtone phone. I now hand the conference over to Mr. Nihal Jham from Edelweiss Securities. Thank you and over to you.

Nihal Jham: Thank you Stanford. On behalf of Edelweiss, I would like to Welcome you all to the Q1 FY ’22 result call for Welspun India. From the Management today, we have Mr. Rajesh Mandawewala – Managing Director; Ms. Dipali Goenka – CEO and Joint MD; Mr. Sanjay Gupta – CFO; and Mr. Akhil Jindal – Group CFO and Head (Strategy).

I would now like to hand over the call to Ms. Dipali Goenka for her opening remarks. Over to you Madam.

Dipali Goenka: Thank you Nihal. A very warm Welcome to all of you to the Welspun India Quarter-1 FY ’22 earnings conference call. I hope that you, your family, and colleagues are well and safe, and are taking the necessary precautions. I would like to take a moment and appreciate the efforts of our employees who continue to be our anchor and serve our customers in these unprecedented times. The company continues to conduct on-site vaccination drive across its plants location. Until date 20,223 people have been vaccinated across our manufacturing locations in Anjar, Vapi, and Hyderabad. We remain committed to our plan of administering at least first dose of vaccine to 100% of the workforce latest by August 15, 2021. Global economic activities appear to have returned sequentially in the preceding quarters owing to Government policy assistance and relaxation of lockdowns in all major global economy following the recoveries in the prior quarters. This is indeed an encouraging sign.

Let me discuss the key highlights and later Sanjay will cover the key financial highlights. We started the year on positive note by achieving the highest quarterly revenues growing at 83% year-on-year and 2.5% quarter-on-quarter. The EBITDA grew by 93% year-on-year and 28.4% quarter-on-quarter on the back of strong business growth. The Government of India’s recent announcement of the extension of RoSCTL till March 31, 2024, will prove to be a level playing field for Indian textile manufacturers and exporters while enabling them to capitalize on the recent shift in the global retail sourcing strategies. Our export sales grew by 53% year-on-year as we continued to witness an increasing demand for home textiles. This demand is driven by the rise of homebody economy and change in consumer behavior as it lays more focus on hygiene and wellness products. Coupled with this, various factors like bounce back in the hospitality sector due to increased spending on travel and holidays in Euro and US regions, strong global retailers’ financial performance and their plans to continue to adopt China plus one strategy for supply chain management would continue to drive the demand in FY ’22.

Our home textile plants situated at Vapi and Anjar operated at near-peak capacities. The capital-light expansion at both the plants is on track and during the quarter one such expansion of the TT capacity by 7% to reach 85,400 metric tons per annum has been completed. The benefits from this investment will start accruing in phases from Quarter-2 FY ’22. The capacity expansion planned for bed linen and rugs are currently underway. We should realize the benefits of the enhancement of 20% in bed linen and 80% in rugs latest by Quarter-3 and Quarter-4, respectively. On the back of expanded capacity, we are confident of significant top line growth over the next few years. In the last quarter, we had mentioned about aligning all our business strategies to the aspect of environment, social, and governance principles. We continue to further our efforts here. I am proud to share that Welspun Flooring Limited has become the first company to achieve certifications under the SCS' new Zero Waste Standard. The first fully integrated LEED certified facility has achieved 98% diversion of waste from landfill through a combination of recycling, waste accumulation, co-processing, composting, and storage.

Our farm to shelf 360-degree capabilities has always resonated with our customers and we are glad to share that more than 16,000 farmers have already benefitted through our Wel-Krishi Program in the past quarter. They are availing complete farm management solutions today and developing agronomic knowhow through our innovative products based on digital technologies and artificial intelligence all developed in collaboration with appropriate Government and technology partners. 5% of our current supplies are coming through this initiative and we aim to take it to 30% by FY ’25.

Additionally, in the backdrop of prevailing Xinjiang cotton issues, we are witnessing a shift in our customer expectations in terms of fully integrated operations and complete transparency. In the forthcoming quarters, we will be revisiting our investment strategies to pursue our growth targets. Welspun continued to introduce innovative customer-centric products and nano core technology is a result of these efforts. Our Hygrocotton portfolio continues to set milestones. The recent program for promotion by Scott Brothers on QVC was hugely successful where we saw a record 5.5 million sales i.e., 94% sell-through in 72 hours. Closer home, our domestic business has entered into an exclusive tie up with an international technology partner to launch anti-pollution home textile range (the carbon capture product technology). Our innovation product sales during the quarter were 553 crores registering a growth of 64% year-on-year and contributing 29% to the sales.

We expect the textile demands to grow further in H2 FY ’22 as pent-up demand comes with the opening of retail offices, educational institutions, and resumption of social activities. Additionally, e-commerce is no longer an alternative buying channel but has become a default, a primary buying channel for many. In US, the significance of the online channel continues to increase as it currently accounts of 13.6% of total retail sales. Our e-commerce business also witnessed similar trends and heightened demand with growth of 45% year-on-year contributing 5% to the sales. The e-commerce channel is on track to meet its $100 million target by FY23.

Our continued focus on brands both own and licensed has enabled us to deepen our connection with consumers across markets and aspiration categories. Martha Stewart is on track to clock 25 million in sales this fiscal year at an estimated 79% year-on-year growth. Our iconic brand Christy drew over half a million eyeballs and our towels at Wimbledon were huge success. We are confident that the strategically curated brand portfolio will deliver $100 million revenue by FY'24.

At the supply end, logistic challenges were at the forefront globally with non-availability of containers, delays by shipping lines, congestion at ports, and non-availability of truckers in the United States. The trend is expected to continue in the next quarter. Additionally input cost pressures continue to hit with increase in almost all the raw materials including cotton, yarn, dyes, and chemicals. Increased demand for Indian yarn and internally higher MSP, may results in cotton prices remaining firm till new harvest season, thereby putting pressure on margins.

Emerging businesses Retail: I am pleased to share that Manjari Upadhye has returned to Welspun India, and she will spearhead the domestic operations of Welspun Flooring, and home linen brands SPACES and Welspun.. She brings with her two decades of experience of extensive work in FMCG, e-commerce business and I am excited about her plans for the domestic business in the coming years.

As we entered FY '22 with renewed vigor, the recent second wave and surge in COVID in India hurt the numbers of India retail business due to the localized lockdowns, which had an impact on demand in Q1. Despite that, the domestic retail business recorded revenue of Rs. 48 crores in Q1 growing 222% year-on-year. Additionally, with an aim to be "*Har Ghar Welspun"*, we increased our nationwide footprint to 4288 outlets and 80 towns with brand Welspun in Q1. With a massive vaccination drive underway, we are confident of better quarters in terms of retail demand compared to Q1. Our domestic home textile e-commerce business, which includes brand Spaces and Welspun doubled on year-on-year basis.

Advanced textile: Advanced textile business revenue during the quarter stood at Rs. 62.5 crores registering growth of 7.2% year-on-year. Spunlace business is witnessing major correction in demand due to material overstocking in the supply chain and we expect the situation to ease over the next couple of quarters. Wet wipes business saw addition to its innovative product offering by contracting cosmetic sheet mask business by large multinational brands. The industrial filtration application sold by the needle punch business continued as per plan with some domestic softening in demand due to the partial lockdown in Q1. The product and the business development funnel continue to be healthy and promising in both domestic and overseas markets. Spunlace capacity at Telangana is underway and is expected to start commercial production by Q4 FY '22.

Flooring business:

Overall, the flooring business stood at Rs.121 crores in Quarter-1 FY '22 growing by 379% year-on-year contributing 5.4% to the top line. We are seeing significant improvement in utilization levels primarily on account of easing of lockdowns in multiple geographies. While Q1 saw muted growth due to COVID related manufacturing challenges, we are confident of a very strong Q2 backed by repeat orders from large clients across the US and Middle East regions with higher ticket size indicating customer satisfaction and trust in our products. The global reception of products and order flows from marquee brands give us confidence that this business will be major growth driver once the project execution concludes and full capacity comes aboard.

The domestic flooring business while strong at 108% year-on-year growth was a complete washout on account of lockdowns and customers across the country deferring home improvements. With second wave receding, we are already seeing strong green shoots in the domestic market and the festive period in the country will build on the export momentum.

With the products gaining traction in the markets, we are excited about the forthcoming quarters and are confident that we should achieve EBITDA breakeven by the end of the financial year.

Now, I would like to hand over the call to Sanjay to provide updates on financial numbers. Thank you.

Sanjay Gupta: Thank you, Dipali. Good afternoon Ladies and Gentlemen and many thanks for joining the Quarter-1 Financial Year '22 India earnings con call. I will give a brief overview of the financial numbers for the quarter before we open for question and answers.

I hope everyone have got a chance to look at the earnings presentation and press release by now. As has been the practice for the last two quarters, we continue to provide greater details and granular statistics, which will help you track company' progress with clear lens.

I am delighted to share that during Quarter-1 the total income grew by 83% year-on-year and 2.5% quarter-on-quarter, and it stood at our quarterly best at Rs. 2227 crores. Domestic business had limited contribution to this growth owing to the second wave peak in Quarter-1, but we have already begun seeing progressive growth with the improvement in pandemic situation.

We earned an EBITDA of Rs. 459.8 crores in Quarter-1 growing 93% year-on-year and 28.4% quarter-on-quarter, and the EBITDA margin was 20.6%. As already mentioned, Government of India announced extension of RoSCTL till March 31, 2024. Based on this in Quarter-1 Financial Year '22, we have booked the income of Rs. 198 crores. Out of Rs. 198 crores, Rs. 105 crores pertain to Quarter-4 of Financial Year '21 exports. There was an overall positive impact of 6.4% on Quarter-1 EBITDA on account of the revised ROSCTL rates.

As mentioned by Dipali, we faced severe challenges in terms of logistics both in terms of the availability of container and liners and higher freight cost of shipping lines which were almost 2.5x to 3x year-on-year. Coupled with that port congestion and non-availability of truckers in US resulted in the stocks getting stuck at port resulting into higher inventory and demurrage charges. This had an impact on revenue and EBITDA of the current quarter. These one-time costs of higher freight, demurrage, and inventory carrying cost had an unfavorable EBITDA impact of 2.2%. Going forward, we do not see the situation easing. Had one-time cost not hit us EBITDA would have still been higher.

Quarter-1 profit after tax and after minority interest stood at Rs. 218 crores up 343% year-on-year and 67.2% quarter-on-quarter.

On the FOREX front, we have been consistently following the Board approved policy to sell 60% to 65% of our receivables on rolling 12-month basis. The impact of current spot will reflect in our revenue with a lag effect that is from end of this financial year. We continue to hedge 65% for future receivables currently. Our average exchange realization for this quarter was Rs. 75.77 versus Rs. 72.66 in the corresponding quarter last year.

Net debt of the company stood at 2249 crores a reduction of Rs. 404 crores over June 2020 and a reduction of Rs. 84 crores over March'21. Our net debt-to-equity has come down to 0.58x as on June 30 '22. Our ROCE is 16.4% in Quarter-1 of Financial Year '22 and there is continuous improvement in ROCE in spite of adding capacities in various businesses, which will yield significant cash flows in future. The business generated free cash flow of 83.2 crores during the Quarter-1 Financial Year '22.

Coming to segmental results, Quarter-1 financial '22 home textile revenue stood at Rs. 2128 crores versus Rs. 1185 crores during the same period last year growing by 80% year-on-year and 4% quarter-on-quarter. Quarter-1 EBITDA margins of home textiles stood at 22.6% versus 18% in Quarter-4 of Financial Year '21. During the quarter, advanced textile business clocked a revenue of Rs. 62.5 crores up 7.2% year-on-year. Demand has muted to some extent in advanced textile which is expected to continue in Quarter-2.

During the quarter, revenue from flooring business was 121 crores up 379% year-on-year and 2% quarter-on-quarter. EBITDA loss during the quarter is Rs. 26 crores versus loss of Rs. 27 crores in the same period last year and 19 crores in Quarter-4 of Financial Year '21. The EBITDA loss included significant increases in input raw material cost and high freight cost. With margins being under pressure, we have already sought price increases with majority of customers and the same will reflect with a lag of three to four months.

We are enthused with the growth momentum in the emerging business, and it reaffirms the confidence in our strategy. Emerging broad businesses which include branded business, e-comm business, flooring and advanced textile cumulatively grew by 128% year-on-year and contributed 21% to the top line during the quarter versus 15% contribution in Financial Year '21.

The expansion projects of flooring, advanced textile, and home textile businesses are in different stages of progress, and they will get completed by end of Financial Year'22. CAPEX spends in Financial Year '22 to complete these projects is expected to be around 600 crores out of which 172 crores is already spent in Quarter-1. In spite of the CAPEX and higher outflow due to buyback and dividend, the company will continue to prepay the high-cost debt as evidenced over the last two financial years.

Over the last two quarters, input costs have been increasing significantly. This coupled with uncertainty on logistics have put further pressure on revenue and margins. With ROSCTL reinstated at the existing rates till March 31, 2024, and with our continued focus towards cost optimization and improved efficiency, aided further by accelerated economic revival across geographies and robust outlook, I am confident that we should be able to achieve annual EBITDA margin between 20% to 21% in Financial Year '22. However, quarterly margins may vary depending on the cost pressures and corresponding price revisions.

With regard to the buyback, we have extinguished the 1.67 crores shares in July '21 as per the required regulatory complaints.

We continue to remain focused on our strategic priorities and growth pillars. We continue to lay emphasis on our long-term goal of sustainable growth and profitability and deleveraging our balance sheet.

With this, I will leave the floor open for question and answers. 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 Ashutosh Somani from JM Financial. Please go ahead.

Ashutosh Somani: Thanks for taking my question, so just trying to understand the results better. If you look at the margins adjusted for the 198 crore duty benefit, so the two parts of it, one is the part pertaining to Jan to March quarter which was around 105 odd crores, so that is an extraordinary and the 98 crores if I leave that aside and compare the two results sequentially that there is a drop in margins at the EBITDA level, so just wanted to understand, we are talking about bridging the gap between let us say 13% to 14% EBITDA margins to fiscal '22 guidance of 20%-21%, so what will contribute to this, how do we bridge the gap, one you said that the one-time cost that we faced in this quarter is not showing any signs of easing if I heard you correctly, so can you bridge this gap how will we move from the current 13%-14% to 21% and this is including the duties, so how do we bridge the gap?

Sanjay Gupta: Thank you Ashutosh, so as I mentioned earlier, the impact of ROSCTL on the EBITDA as a percentage comes to 6.4% on the Quarter-1 results, so without ROSCTL our margins stand at 14.2%. If you add 2.2% of one-time cost that we had to incur in this quarter, we are at about 16.5%. Going forward every quarter the ROSCTL will have a 4% addition on our EBITDA, so hence we are guiding towards a 20% to 21% EBITDA for the year.

Ashutosh Somani: Just a clarification, the 2% that you are classifying as one time, so we are seeing some signs of easing there going forward?

Rajesh Mandawewala: There has been a relentless cost increase pressure on the margins of the company and all of you know that it takes us a quarter or two to pass on this cost increases to the clients, so we are actively engaged with our clients and the gap that you see will hopefully get bridged with the price increases that we will get from the customer, so that is where the confidence is coming from. Some of them have been put to bed, the others are under negotiation and that improvement will start trickling little by little from the second quarter itself.

Ashutosh Somani: Sir, the second part of the clarification was 4% improvement going forward in ROSCTL, so that part Sanjay Sir if you could clarify, I thought that we sort of realized the entire benefit in terms of percentage in the two quarters, Jan to March and April to June, so how will the percentage increase be going forward in second quarter from an EBITDA margin perspective?

Sanjay Gupta: Overall the products on which we get ROSCTL, if we take that and the different rates that we get, the net impact on EBITDA is 4%. For Quarter-1, the impact was overall 6.4% because it included last quarter as well and there were some accounting impacts. Going forward, it will remain at 4%. When we had guided towards 17% to 18% EBITDA last quarter, we had taken 2% RoDTEP in our guidance and this is now working out to 4%, but with 4% we are guiding towards 20% to 21%, which is still higher.

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

Bhavin Cheda: Congratulations to the team for the excellent result, so my question was if you can break up the sales in the quarter geography wise, US, Europe, India, and rest of world?

Sanjay Gupta: We do not report our sales geography wise. We have two segments which are textile and flooring. Textile we had a turnover of 2128 crores and flooring we had 121 crores.

Bhavin Cheda: If you can give rough percentage that would be fine because a follow-up question was there are lot of talks on China losing market share all across US we have seen, but Europe also we think they are losing data and there are some developments of some sanctions on Pakistan sales, so the markets were opening up, so what is your outlook on European market, current presence of Welspun in Europe and what is Welspun doing to increase its presence in Europe also?

Dipali Goenka: In Europe, we hold a strong position in towels, but if any changes that happen which we are not aware of right now, it becomes a fair level playing field for the Indian players who are exporting to EU, so for sure definitely there will be an upsurge and for Welspun as well, but our contribution continues to grow. For example, this quarter we have grown around 22% in Europe itself.

Bhavin Cheda: Okay, so you are seeing already a sales growth traction because I am sure market has not grown 22% in Europe, so in some way we are able to increase some market share in European market also?

Dipali Goenka: Because it is a mixed product category that we talk about, we have towels, we have sheets, and we also have rugs.

Rajesh Mandawewala: Let me just elaborate that Bhavin, yes you are absolutely right, the China plus one factor is clearly playing out and it is playing out not only in America, but it is also so in Europe as well, so it is a clear thing. Now, we have been witnessing this for two or three quarters and things that happened in Xinjiang where the retailers are now absolutely uncomfortable sourcing product which were cotton or raw materials grown in that region. And you know how the young consumers are now, they are unforgiving, so the retailers are in fact pushing us to set up a traceability system from farm to let us say this retail. Good that we invested in our WEL-TRAK system and so that will hold us in good stead So it is clearly playing out and that is what we believe that it will continue to play out. Now your question on the tariffs with some of the competing countries in the EU. Yes, we start with a disadvantage today, so the average rate of duty is 9%-10% on our products in Europe, but to the best of my knowledge those preferences as of today at least continue and there is nothing so while there have been press reports, but they seem to be unconfirmed and so there is nothing official that has come out in that regard.

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

Prerna Jhunjhunwala: Thank you and congratulations Sir on good set of results. Sir, I just wanted to take forward the previous participant's question. I had the same query, could you just help us understand how is the US market growing in terms of consumption and do we see the consumption growth rate improving than with levels in terms of growth, that is from US? A related question to this would be now that India has a very strong market share in the bed sheet and towel market in US market, do we see improvement in bargaining power to pass on the cost increase to customers and how far we can go in attaining better market share in the US market?

Dipali Goenka: This quarter our sales have grown by 53% year-on-year and US being an integral part of it, definitely the demand continues to grow strong Prerna here with the homebody economy and the consumer behavior focus on health and hygiene, and also actually the bounce back in the hospitality sector that has increased because the travel and the holiday spends have definitely had an upsurge and of course the global retailers' financial performances have been very strong and their plans to continue to adopt the China plus one strategy has definitely also played a very important part. Your question on the cost pass, we have taken that up and as RRM has pointed out, it comes in at a lag of around three to four months, so definitely that is something that we have seen growing.

Prerna Jhunjhunwala: One question on how far in terms of market share gain do you believe that India as a country can actually reach now that we are 61% market share in bed sheets and 46% market share in the towels business?

Dipali Goenka: I would just say Prerna, I cannot give you a number here but definitely China share is dropping from 2020 and we see that India is here to gain because of a strong integrated supply chain that we have. Apart from that, of course the cotton, we are a cotton producing country as well and the largest exporter of cotton as well and yarn too, so I think that actually holds us strong and the mention on Xinjiang cotton as it holds very, very true Prerna, so definitely these factors are going to play, and India seems to be in a very good position.

Rajesh Mandawewala: Let me just add to that Prerna, so there is a 1% to 3% market share gain for India in the current year, product by product but it is between 1% and 3%. Already there is a market share gain and Sanjay will be happy to share the details offline with you.

Prerna Jhunjhunwala: Sir, my second question was on the margin guidance, as a company have you increased the margin guidance for 21%-22% or it is for home textiles business only?

Dipali Goenka: It is for Consolidated business. *

[* During the call, it was erroneously mentioned as Home Textiles. The Company would like to state that the margin guidance of 20-21% is for the consolidated business.]

Moderator: Thank you. The next question is from the line of Alpesh Thacker from Antique Stock Broking. Please go ahead.

Alpesh Thacker: Thank you for taking up my question and congratulations for a very good set of number; one from Xinjiang cotton issue, so definitely this is like in the news that US is definitely taking up this very seriously, but few days back I was reading that even Japan was getting serious about this issue, so just wanted to understand, so are we getting any sort of business enquiries from rest of the world or Japan because I understand that China is a major exporter of cotton made up through the Japan, so any thoughts on that would be useful?

Dipali Goenka: I will just say that overall, the Xinjiang cotton has been playing on the retailers' mind whether it is US, or another region. US has taken an action on it but globally also it has been playing on everyone's mind, so everybody is looking at it and looking at a Plan B for sure, so definitely whether it is Japan or whether it is Europe or ROW, it is playing on everybody's top of the mind for sure.

Alpesh Thacker: There has been a change in the ministry level and there is lot of impetus or the positivity around because of the strong name in the ministry now, so any thoughts on that. Is there any talks regarding the free trade agreements with the EU that we can have going ahead or anything on that would be helpful?

Dipali Goenka: Right now, I think we cannot comment on it, we will wait and watch, but yes definitely it will be positive for India as a country.

Alpesh Thacker: Last one, on the flooring business, so what was the CAPEX that was envisaged and what has been spent till now and what kind of asset turnover can one expect in that business?

Rajesh Mandawewala: We had almost 1300 crores of capital spend planned. We are almost through with that, so over the next two quarters, say another 100 odd crores is still remaining to be capitalized so which will happen over the course of this year, so we will get past the CAPEX and we are looking at peak utilization of let us say this close to 1.75 to 2 times turn so if anything between 2200 to 2500 crores in peak revenue and when everything is going full throttle.

Moderator: Thank you. The next question is from the line of Khushboo Meshri from Quant Mutual Fund. Please go ahead.

Khushboo Meshri: Thank you for taking up my question, so as I can see from the financials that for the flooring business, the capacity utilization has been increased from 6% last quarter to 30%, so I want to understand that what is the driving force behind this increase and how are the plans to increase further utilization and also the current contribution to the revenue is only 5%, so are you planning to increase its contribution to the revenue and as mentioned the high material cost in the flooring business, so how long do you expect this to continue?

Rajesh Mandawewala: Good question, yes, you are absolutely right, the utilization levels have been steadily improving and mind you they have been improving without our people being able to travel and ever since we started in the fourth month, we as a country got into lockdown and so our people have not visited international customers and despite that we have a reasonable let us say is about 25%-30% utilization levels, so obviously the seasoned customers see us as a long-term player as a sustainable player and this we have been giving virtual tours to the customers and this level of utilization will continue to grow, so this we are seeing good traction in parts of our business and in other parts also, the traction will build up, so all in all, we feel pretty confident about growing the business. As I said this now, at peak it could do about 2200 to 2500 crores in revenue, but it might take us a few years to get there, so it is a young business and there is a learning curve that we have to follow as a company which we are doing very strictly. Though, it is a few years down the road, we believe we have a good enough business to do 2200-2500 crores in revenue over the next maybe three to five years.

Coming to your question on increased cost, so yes, the costs have increased. They have moderated a little bit, but we are not waiting for the cost to moderate. We have almost passed on significant increases of the cost already to the customers, so all the new business that we are contracting, is at higher prices taking into account the increased cost and there is enough throttle in the business. The Customers also realize, the raw materials like PVC and these are all internationally quoted, dollar denominated commodity, so it is an open book the customers to understand that the costs are going up, customers understand freights are going up, so there has been cooperation in terms of accepting reasonable price increases and which will manifest itself hopefully in the next half of the year where we are hoping that we will see some improvement in margins along with volume growth as well.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Sir, my question is regarding the overall pending demand what we are sensing and so how well prepared we are to grab the opportunity in terms of capacity addition in the next couple of years, as we know you are going to increase the capacity and we are sensing the higher demand going to come because of tomorrow we will hear the news on the GST and again suddenly we have a requirement of the CAPEX, so how are we going to do that what is the duration of that?

Dipali Goenka: We are looking at a Brownfield as we spoke about that we were looking at a capital light expansion and we already have an expansion in TT capacity which is around 7% and in the sheets we will be enhancing it by 20% and rugs by 80% by Quarter-4, so definitely that will take care of the rising demand for the next one year or two, but definitely there will be opportunities as I spoke about the Xinjiang cotton and the retailers are talking about the whole transparency in the terms of supply chain and complete integrated facilities, so there would be some opportunities there to explore for sure. India will be at the epicenter for demand, so definitely there could be opportunities to explore.

Sumant Kumar: I was talking about the cotton price, we have seen in India the cotton price is still lagging and US also is not tracking, so you mean that, what is your view on cotton price?

Dipali Goenka: Right now, we know that yesterday the cotton prices were absolutely at their peak at around 53,000 to 54,000, but this is the fag end of the cotton season. The cotton in India starts coming in by October where there will be higher moisture and by October end, November is the time where we will be able to see what cotton prices look like, so let us wait and watch for that and see, and the cotton crop has been relatively decent though there were talks about that the cotton crop will be lower, but the West and the South have been pretty okay, so definitely we will be able to, the cotton supply is pretty decent and we will wait and watch till October end how the cotton prices go.

Moderator: Thank you. The next question is from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: Thanks for the opportunity. Just few things on flooring business development, so if you share the domestic and export mix in this business it will be great? Second thing wanted to understand in previous quarters we had mentioned that we were in talk with some of the Canadian or Middle East client for a soft flooring and it was expected to be a big-ticket size client, so what is the development on that side?

Rajesh Mandawewala: Naushad in the first quarter for the flooring business, the domestic market was a washout, so we were in single digits in revenues in the first quarter in the domestic market and understandably slow because home is where people would not allow anybody to get into due to the COVID second wave and our product is such that unfortunately we have to get into homes of the people to install that, but having said that now the markets have started to open up and we get an instant sense because of, let us say, us being active on the social media and the digital communication with the customer, so it is growing again and hopefully the second quarter onwards we should start seeing sales getting back in the domestic market. As regard the soft flooring side of our business, so we are now engaged with not one but at least three seasoned large size players. We are at advanced stage of discussions with them and conversion does take a little time because development as a product approval, trial process that you undergo with the clients takes a little longer and as we are also learning along the way but the list of clients and the list of large clients is only growing and as I speak there are at least three if not four large customers that we are very actively engaged with and hopefully will convert with at least a couple of them very soon.

Naushad Chaudhary: Just a clarification in domestic business, I have understood domestic would be through distributor and there would be a diversified set of customers because of distributor network whereas in export business, we would be concentrated with few clients, and we will work on a contractual basis, is my understanding correct on the flooring business Sir?

Rajesh Mandawewala: Yes, you are absolutely right that is the intent, so at this juncture we want to keep our international business simple and so we have sales marketing and development teams in the major markets already appointed and it is not new to us, so we are used to doing that in our home textile business so we have got the same approach here, so that will be our intent and in the domestic market it will be door-to-door through distributors through dealers and also honestly through digital means, so out of this whatever 8-9 crores of revenue that we did, almost 25% was actually achieved through digital engagement with the end consumers, so that also is going to play a big part in the domestic market.

Naushad Chaudhary: Sir, in terms of distributor count, what is the development and at what number we are today versus previous quarter?

Rajesh Mandawewala: We have added about 15-16 channel partners if not more this quarter, so we have north of 400 active point of sales now. We were earlier available at about 550-600, but we are now measuring who are actually active, which the channel partners who are invoicing for us and so we are close to 400 marks. Unfortunately, this quarter we have not added much due to the lockdown situation and also distributors we are in excess of 75 distributors because the commercial products, the hospitality products like artificial grass, most of it moves through the distribution channel, so we have about 75 distributor partners across all product categories.

Moderator: Thank you. The next question is from the line of Jigar Shah from May Bank. Please go ahead.

Jigar Shah: Good Evening and congratulations for a strong performance, my question pertains to the plans to invest substantially in the renewable energy, so is there any update on that?

Dipali Goenka: Jigar, we have been working on this and there are couple of plans that we are still exploring, so I think we will be able to solidify those in the next quarter and you can appreciate that being a kind of a very massive operation, it will take that much of time and window, so we are just evaluating a few opportunities here.

Jigar Shah: A follow up question, this is about the flooring unit, so I believe at full capacity it can do a 2000 crore plus revenue, but when do you expect the utilization to improve, I mean in the next two-three years will it reach that level, is there any timeframe?

Dipali Goenka: It is going to take as RM had pointed out it is definitely going to take two to three years where it is going to reach that peak capacity of 2300-2400 crores.

Rajesh Mandawewala: Let me be a little more cautious here, so it is a three to five journey. But for this COVID situation we would have gotten there a little faster, but it is a three-to-five-year journey, and it is a young business so I want to sound a little bit cautious, but I think we have gained enough confidence in the business now to stick our neck out and say that this entire timeframe we should be able to get there.

Moderator: Thank you. The next question is from the line of Chetan Shah from Jeet Capital. Please go ahead.

Chetan Shah: Thank you for an opportunity, just one quick question, this is with reference to opening remark, Dipali talked about changing the CAPEX model for the business, the way things are evolving in a global market and also in the domestic market, so if you can kindly elaborate what exactly you mean by that, is it mean that we may end up spending some more money trying to be more integrated player or will do some sort of things outsourcing and some within, if you can give some idea or some elaboration of that please?

Rajesh Mandawewala: I think this is a heads up, clearly with the Xinjiang situation this integration is at a premium and the consequence of that is for everyone to see with the yarn spinning margins shooting through the roof and that is something that, a) there is a traceability which our customers are demanding from us and b) also on the other hand let us say there is there very high delta between cotton and the yarn prices now, so this we are thinking about . As I said, we are engaged with our customers. We want to be cautious with whatever decisions that we take, but so there is some change in thinking that is happening, and we thought it proper to call this thing out over this call, and I think we will be better prepared to answer this question over hopefully in the next quarter call so there is some thinking going on. We want to go back to our customers, we want to do some more homework, and then arrive at the right solutions and conclusions for the company.

Chetan Shah: Thank you for this, one small follow up of that, will we have any internal target in terms of IRR or ROCEs as and when we decide in whichever side of the CAPEX model, so that as an investor or shareholders, we know that the capital allocation is more prudent rather than definitely it has to be with a lot of business prospects, but still at the end of the day the financial return really matters?

Rajesh Mandawewala: It is a fair question and let me just go back and say that the capital expenditure, the IRR goals have always been between 16 and 20. Currently, the business is delivering about 16%-17% of return on capital employed slightly higher on equity, so that has been our guiding principal ever since and definitely in the last four or five years and that is what will continue as our guiding principle going forward as well and everything that we are doing we are keeping that 16% to 20% goals in our mind as we invest capital, so we are very mindful of that.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: Just wanted to know about the sustainability of the current improved margin of the sector and is it going to be a permanent sort of relating or again sort of a one-off because of the incentives given by Government and what is the mode for us, our company and India in this textile sector for which we operate in?

Rajesh Mandawewala: Let me say that if you look at Welspun India as a company, you take up any five-year period and as a company we have delivered a 20% return or a 20% EBITDA margin or just around that. You take any five-year period and you will see that business has consistently delivered those kinds of margins and it has weathered exchange rate, it has weathered cotton movements, it has weathered refund of duties, it has weathered drawback, so we have gone through let us say this all rain, sun, winter, snow everything, but over a period of time, our business actually settles down at that range and we believe that our business is good for a 20%. In a good year slightly north of that and in a year where you have headwinds slightly less like it was last year and particularly this last couple of quarters, but over a period of let us say two or three quarters we are able to pass on everything to the clients and that is the motto of the business, so you ask me a question, so A, is Welspun India an innovative company, it is a strategic vendor to almost all the clients at least the top 10-12 clients that we work with and we let us say this we own 25% to 33% of their wallet and Dipali herself sits on various this consultative panels with a lot of our customers, so our approach is 360 degrees as we look at our business not as selling let us say towels and sheets, but we are in the business of improving our customers business and as their business improves our business improves, and that is our model. Even as a country, you will appreciate and agree with me that no country can get a 50%-55%, 45% market share in a country like US if you do not have a mode, so we have a country advantage. This Welspun India has got a company advantage because of its innovative solutions that it offers in terms of product and the 360-degree solution it gives. While we are running a product business, however we look at our business as an FMCG business, as a consumer business with all developments actually made insight of what the consumer is telling us through the constant researches that we do with the consumers, so I think the mode is fairly well established, so this as a company we have weathered all the storms as I told you, you take up any five-year period and you will see this margin, so we are business people. We run companies, we have a longer horizon and our horizon will always be 10, 20, 30 years and sometimes decisions have to be made to protect your future which might not look this very good in the current stage and vice versa, but we have to look at our business as a long term thing because we are around for 20, 30, 40 years and we will continue to do that so that we are able to maintain the edge that or in your language, the modes that we have in the market.

Vivek Gautam: Sir, looking into the future part I believe the scope for rerating is there due to the US ban on Xinjiang cotton and we are hearing the news that Pakistan has also been banned due to that 20% addition benefit, Bangladesh also?

Rajesh Mandawewala: You are asking our opinion; we feel very positive and look there is stability now. You are at a stage where cotton prices are almost at an all-time high. The uncertainty around refund of the taxes whether it is ROSCTL or whatever you do not have that uncertainty any more so it is behind us until 2024, so I think and let us say with all this happening around Xinjiang and everything so as a company we feel very confident and I think this is a serious opportunity that this company like us are looking at and also as a country I think we are looking at, so we believe that this is a decisive opportunity.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Ms. Dipali Goenka for closing comments.

Dipali Goenka: Many thanks for joining the call today and I would like to share my closing thoughts on the company's performance and our outlook for the future. Our core textile business continues to enjoy robust growth momentum driven by a significant uptick in global growing demand across geographies and structural changes and our customer sourcing and supply chain strategies. As envisaged, the emerging businesses portfolio is a stone pillar of growth and is now trying to play a key role in driving business profitability for Welspun India. We have consistently delivered a solid performance and we continue to be optimistic in our revenue growth and margins despite pandemic-related hiccups and we are witnessing a transformational growth and a confident of delivering consistent performance quarter on quarter. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Edelweiss Securities, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.