TRANSCRIPT: Welspun India Ltd Q1 FY23 Results Conference Call
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Moderator: Ladies and gentlemen, good day and welcome to Welspun India Q1 FY2023 Conference Call hosted by Edelweiss Securities Limited. 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. Nihal Jham from Edelweiss Securities Limited. Thank you and over to you Sir!

Nihal Jham: Yes, Michelle. On behalf of the Edelweiss, I would like to welcome you all to the Q1 FY2023 Earning Conference Call of Welspun India Limited. I would now like to hand over the call to Mr. Abhinandan Singh, Head – Group Investor Relations, Welspun Group to introduce management and take it further. Over to you, Abhinandan!

Abhinandan Singh: Thanks Nihal and good afternoon everyone. On behalf of Welspun India, I welcome all of you to the company's Q1 FY'23 earnings call. We have with us today Mr. Rajesh Mandawewala, Managing Director; Mr Altaf Jiwani whom most of you are familiar with, and Mr. Sanjay Gupta, the company's Chief Financial Officer along with myself. Our CEO Dipali Goenka is travelling for customer meetings and therefore she is unable to join us in this call. As usual, we will start the forum with some opening remarks by our leadership team and then we will open the floor for your questions. Once the call gets over, should you have any further queries that remain unanswered post the earnings call, please feel free to reach out to me and with that I would like to hand over the floor to Altaf. Over to you.

Altaf Jiwani: Thank you, Abhi. Good morning, ladies and gentlemen. Thank you for taking time to join us today. It is always a pleasure to interact with all of you. I would like to begin with the quick snapshot of our operating performance for the quarter and then cover the external environment followed by our strategy. Subsequently, Sanjay will take you through the financials. During this quarter, overall revenue was Rs.1979 crore out of which Rs.1852 crore was from the core business, that is, Home Textiles, and as you all know the environment was extremely challenging. Overall, this has been a great start to the fiscal year for our domestic retial business, which you will recall has two power brands "Welspun" and "SPACES". Both these brands delivered a very strong growth and reported revenue growth of 113% year-on-year. This was achieved even after we passed on higher input cost to a large extent, demonstrating the strength of brands.

The reach of Brand Welspun within the country has further expanded as it now covers almost 500 towns and over 7800 stores. The branded portfolio recorded a growth of 41% year-on-year and 31% quarter-on-quarter, which includes own and license brands across businesses and geographies. During Q1 FY'23 markets have grown in low and mid single digits driven essentially by price growth, however, our brands have witnessed double digit volume growth. This ahead-of-the market growth for the Brands and the Emerging Businesses is a testimony of of our strategy and the agility of our teams. Our investment in the brands and B2C is undoubtedly giving us an edge and is steadily making us as "FMCG of home textiles'. The share of our branded and e-commerce revenue has steadily moved up to 24% of our total revenue as compared to 16% last quarter.

It also gives us immense pleasure to inform you that Welspun India has won the Texprocil platinum trophy for highest global export, 12 years in a row. Further. Welspun's innovative artificial intelligence project of towel counting and defect detection using AI/ML based vision system, which is an industry first, has received the Nasscom AI Gamechangers award as innovator.

Now, let me share our assessment of the external environment. Inflation has been a challenge for the industry over the last few quarters. Unfortunately this bout of inflation has been worse than the past ones because prices of several key commodities have inflated to all-time highs simultaneously. Be it cotton, crude, caustic soda, or ocean freight, the price increases are at historical highs. I do acknowledge that there has been a very recent cooling off in a few commodities; however, they still remain significantly elevated versus the long-term averages. The softening is very recent to conclude that that the correction has finally kicked in. The forward rates for cotton are indicating a significant reduction in prices.

In such an inflationary scenario it is quite natural for consumers to withdraw their spends, at least for discretionary items. The consumers, world over, are prioritizing essential categories to manage their budgets and we are seeing the same trends in the US and other Western economies. Most large retailers in US have revised their profit guidance for the year a) due to change in consumer spending trends – where consumers are spending more on food and less on higher-margin merchandise and b) due to off-loading high inventories built up, by offering steep markdowns. Recent data from the US that came out last month showed that US inflation hit hit a fresh 40-year high with the consumer price index (CPI) there rising 8.6% year-on-year.

In the UK too, as per data released a few days ago, CPI was up by 9.4% in the last 12 months. As per the US Department of Commerce, the US retail trade & food services sector grew by 8.1% year-on-year between April and June 2022. This is, however, a deceleration from 12.9% increase year-on-year registered in the previous quarter that is Jan-March 2022. Month-on-month, the growth during June 2022 was 1%. This clearly reflects a softening compared to preceding quarters, and this trend might sustain for a while. In these challenging times, as we have continued to articulate in the past few quarters, we have two specific imperatives. First, we need to maintain our competitive edge that comes from a highly-differentiated business model. I had earlier shared updates on the Branded and Domestic side of the business. Flooring also followed suit with revenues at ₹169 cr, growing 40% year-on-year. Sales momentum is continuing on Domestic flooring business seeing a healthy growth of 108% year-on-year. The D2C business is picking up good traction in all key 5 cities, where it has been launched. Flooring exports, however, continue to face challenges due to input cost pressures and high ocean freight. Further increase in mortgage rates will have an impact on housing demand in the US. Second, we need to continue focus on building the organization for the future driven by purpose. In the past quarter we continued our effort to demonstrate ESG leadership through our work on the sustainability front, with circularity embedded in our operations, and ensure that we keep strengthening our position on each of the E, S, and G parameters. We were pleased note the recognition received once again, with Welspun India's industry-leading scores by CRISIL in its Sustainability Yearbook 2022 that was released during May. The Company has been rated "Strong" in that report, where CRISIL analysed over 575 companies across 53 sectors on ESG. Welspun India leads among textile companies with the highest scores in each of the three dimensions of Environment, Social, and Governance. Texprocil too has awarded Welspun with a Gold Trophy for Special Achievement in Madeups for Sustainability Initiatives.

Through these unprecedented challenging times, the Company has shown great resilience through an unmatched combination of Scale, Quality, Innovation, and deep Customer Relationships, which clearly sets us apart from rest of the players in the industry. Our investments in brands and D2C initiatives globally have started giving the desired results, and we expect the momentum to propel future growth through our D2C initiatives and our Emerging businesses. We would again reiterate that while the medium to long term fundamentals of the business remain strong, these couple of quarters are a bit challenging, following the deteriorating global environment currently. With the downward trend of commodity prices, and as the consumer sentiment improves, we expect our operating performance would start reflecting the same. With this, I would now like to hand over to Sanjay who will take you through the financial highlights. Thank you.

Sanjay Gupta: Thank you Altaf, and greetings everyone. I will briefly discuss the financial highlights for the quarter and then we will be happy to open the forum for your questions. From the financial perspective, Q1FY23 has been a quarter of resilient cashflows and balance sheet, with sustained de-leveraging.

During Q1FY23, we reported revenues of ₹1,979 cr., which was down 12% quarter-on-quarter and 7% year-on-year on a like-to-like basis, that is, after taking out the impact of Q4FY21 RoSCTL accounted for in Q1 of FY'22.

Compared to last year, volume impact has been about 16% while price upcharge has been 5% and forex upcharge about 1%. EBITDA margins for the quarter stood at ₹174 cr and the EBITDA margin was 8.8%, which is lower QOQ by 220 bps, reflecting the impact of highest ever input costs as well as relatively lower volumes. The major impact has been due to increase in cotton prices by about 15% from last quarter. The performance is relatively healthier due to various steps taken by the company in rationalizing costs and achieving better efficiencies across board. Year-on-year EBITDA margin on a like to like basis is lower by 790 basis points, that is down about 50%. Profit after tax after minority interest for the quarter is Rs 22 crore vis-à-vis 53 crore last quarter and the like to like 145 crore in Q1 of FY2022, reflecting the earlier mentioned factors. Our consolidated EPS for Q1 stood at Rs.0.23 per share vis-à-vis 0.53 per share last quarter and Rs.1.3 on a like to like basis in Q1 FY2022.

On the forex front, we have been consistently following the board approved policy to hedge 45% to 65% of our receivables on a rolling 12-month basis. Our average exchange realization for the US dollar during Q1 of FY'23 was Rs.77.13 compared to Rs.75.77 in the corresponding quarter last year. Going forward, while these pressures might linger in the near term, we expect improvement as prices for cotton, coal and freight soften. An uptick in sales volume post inventory decongestion should also help on both the top line and resultantly on margin front. As you are already aware, central banks worldwide including in India have acted to counter inflation by raising interest rates. With the existing geopolitical factors and the accompanying inflationary situation sustaining, or in some cases even exacerbating, the possibility of further tightening cannot be ruled out. We believe that our ability to continually de-leverage and maintain debt levels at a very healthy level will stand us in good stead.

. During Q1FY23, we saw some positive impact starting to stream in from measures undertaken to enhance efficiencies and improve cash flows even as we did not shy away from investing in innovation or brand building that are key drivers of our long term growth. As a result, at the end of Q1 FY23, net debt stood at ₹2,139 cr. This is ₹90 cr lower than ₹2,229 cr a quarter ago and ₹110 cr lower than ₹2,249 cr a year ago. In addition, we have in hand e-scrips of RoSCTL and RODTEP amounting to Rs 400 crore. Over the past 3 years, our net debt has consistently been coming down, from ₹3,028 cr. at the end of FY19 to ₹2,139 cr. at the end of Q1FY23, a reduction of 30%.

The expansion projects of Flooring, Advanced Textiles, and Home Textiles businesses which were in different stages of progress had some balance capex of about ₹200 crore remaining, which we plan to complete during FY23. In Q1FY23, we spent ₹85 crore towards these and the balance would be spent in the course of future quarters. Coming to segmental results, in Q1 of FY2023 core business Home Textiles revenue stood at ₹1,852 crore versus ₹2,073 crore in Q4FY22 and like-to-like ₹2,023 crore during the same period last year. Q1 EBITDA of Home Textiles stood at ₹172 crore, at 9.3% as compared to 11.6% QOQ. During the quarter, revenue from Flooring business was ₹169 crore, up 40% YoY. EBITDA was at near breakeven at ₹ 2 crore as compared to loss of ₹26 crore YOY.

We are deeply encouraged to see the growth impetus in all of our emerging businesses and it continues to endorse the confidence we have in our strategy. Emerging growth businesses which include branded business, e-com business, flooring and advance textiles cumulatively grew by 40% YoY and contributed 37% to the topline during Q1FY23 vs 21% in Q1FY22 and 26% in the previous quarter.

With this I will leave the floor open for question and answer. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Aman from Augmenta Research Private Limited. Please go ahead.

Aman: Congrats and thanks for the opportunity. Actually, I wanted to ask about how are we seeing the orderings, or we say order books from the US retailers in this quarter or we can say for the upcoming quarters given the fears of recession pending in hand and new inventory on the books of the retailers, can you throw some light on this thing?

Rajesh Mandawewala: Good question, Aman and it is a million dollar question, but it is clear that in the developed markets the spending is gearing towards services and experiences, which is travel, restaurants, just having a good time. So it is moving away from products and particularly discretionary products and that includes our home textiles products as well, so we have been witnessing the slowdown in demand and this has been going on for the last couple of quarters and there has been a very aggressive promotion strategy by our customers to push this excess inventory out of their doors, but there is still a lot of inventory that they are carrying not only in home products, but also in electronics and so on and so forth. So there is a drive to get rid of this and just being some guidance revisions from some of our large customers, so I am afraid it does not look good for the next quarter at least. Our hope is that as we get into the holiday season or Christmas season of shipping, which is sometime in September, October there should be some revival that we should see, but as of now it is not looking good and the mood and the confidence with our customer buying teams is circumspect so you have at least another quarter of pain on the demand side ahead of us.

Aman: Second question regarding let us say if I am not wrong, we are integrated to the tune of 25 to 30 percent in the yarn side and if I want to ask regarding how been the yarn prices or how has been our procurement on the yarn side because we have heard spinners have altered the production, like around 30% to 35% of the spinning mills in India shut down currently, so how has been the prices on the yarn side, how are they behaving, the procurement we do from outside?

Rajesh Mandawewala: So, with the reduced order flow and reduced volume, we are not procuring much. There is procurement, but we are not taking as much as we used to and making most of the yarn that we need within our spinning facilities. Generally, if you take one or two quarter forward view, so December Futures today are trading at about 94 cents to 95 cents and even cotton in India is being offered at between 65,000 and 70000 over the last 10 to 15 days or little more than that, futures cotton in India is also trading between 65000 and 70000. And it is an open world, so everybody knows about that, the spot prices of cotton are in the 80,000 to 85000, 84000 range. So the customers are waiting and you know everybody is in that circumspect mood, so the yarn prices are really adjusting to the future cotton prices, so somewhere you know at 70000 to 75000 range, so yarn prices have significantly come down. I think the yarn deltas have also significantly come down because this is irrespective of whatever cost spinning mills have got their cotton at, but they have to adjust their prices to the current reality and the suggestive prices for December are about 65000 to 70000 today, so the yarn prices have definitely adjusted downwards.

Aman: Sir, one more question about like we are reading that currently during this cotton season in India like India would not have deficit and they might have to rely because of because the crop is good, but it is bit low because of the weather and the fair things. So how is the cotton scenario building in India because we are seeking scenario with us like in the case we have to import on the cotton yarn, there would be a good demand for cotton in India, so are we expecting the prices to remain at the same level like you had mentioned that it would be around 65000 to 70000, so how is the cotton scenario because the crop is low as compared to the last year, right?

Rajesh Mandawewala: The past crop was lower, so as we started the previous season 2021-2022, the estimates started 340 lakhs bales and then they stood the course of the year, now let us say it looks like the crop is not going to be more than 295, so India has almost run out of the last crop's cotton, which is 2021-2022. But the good news here is that the new crop, which will start arriving in September is progressing well. I think the plantings are going to be in the 5% to 7% higher range and year to date right at the current situation it is about 5% higher than where it was last year. So far, whatever we may have heard on the weather side in India, but overall the crop situation is looking good. Trade is estimating the next 2022-2023 crop which starts arriving in September to be around the 340-350 lakh bales level, so as of now the crop situation in India is looking quite decent, with say 5% to 7% higher planting and hopefully better yields as compared to last year because last year the yields were horrible, the quality was horrible, so hopefully that should get better. Coming to your question on imports, I doubt because the spot prices even now are significantly higher and when you know that the futures are trading at 25% discount, it will be harakiri to actually contract newer imports now, so not much new imports will happen. Yes, imports did happen I think until June and those arrivals will keep coming up to September-October, but I do not see more import contracts getting transacted at this moment and people will wait it out for the new crop to arrive and it is not too distant, it is not too far away. By the end of September the arrivals will start, so just a couple of months, and the industry is operating best on a best guess basis at about 65% and the spinning industry is at about 65% so consuming significant lesser amount of cotton. I think people will wait it out and at least higher levels spot purchases of cotton, whether in the domestic or international markets, are likely to be neither.

Aman: Okay, sir and to summarize the whole scenario that is going on because it is across the value chain, and you just said that everyone is just on a wait and watch because the prices are increasing and there is a fall in demand, so everyone is on wait and watch more on procuring the raw materials or we can say the major retailer giving the orders like to summarize the whole issue?

Rajesh Mandawewala: Yes, you could say that. That is the situation, nobody wants to take a position right now at higher prices and it is across the board, across value chain. Having said that, demand in India is holding up well, and here let us say that we do not see a huge rhetoric about recession and inflation, but I think the demand in India is holding up well. So to that extent the productions and consumptions will continue to happen, but I do not think many positions would get taken on the basis of the international markets, at least not until the new crop arrives.

Moderator: The next question is from the line of Abhineet Anand from Emkay Global. Please go ahead.

Abhineet Anand: Sir, just on the present gross margin numbers, is it fair to assume that buying spot currently and selling at the current spot of your products, is giving these low gross margin or because we had some higher cost inventory, is the reason for this margins?

Rajesh Mandawewala: Good question, Abhineet. What do you see in this quarter is that the highest cost inventory is still not consumed, so this is from cotton that was bought before this quarter and I am afraid the margins will continue to remain under pressure. In fact they may worsen because from July to September, the highest cost inventory is likely to get consumed. But the good news is that it will get consumed in this quarter, which is the ensuring quarter July to September and thereafter let us say from the October quarter onwards the average cotton consumption rates should significantly improve. So the margins will continue to remain under pressure in the next quarter and it is likely to be impacted with even more severe pressure on the margin, but in the back-half of the year I think we should hit the bottom in the second quarter, slight improvement in the third one and hopefully significant improvement coming from the fourth quarter of the current financial year.

Abhineet Anand: Okay, thanks, Sir.

Moderator: I would request participants to join the queue if they have a followup question. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Good afternoon, three questions from my side. One, if I look at your branded e-commerce business international that seems to be doing reasonably well despite all the commentary around inflation. So if you could just comment in terms of what is really happening there and their efforts are is it because of the segment that you are playing in, that is number one. Number two, there is a certain bit of seasonality with your textiles business with September being the heaviest month, is there a seasonality associated to your flooring business as well? That is number two. And number three, in your opening comments you spoke about 400 crores of scrip. What is the realizable value of this 400 crore? Historically, how much do you realize out of the scrip values? Those are three questions from me, thanks.

Sanjay Gupta: Tarang, to address your first one which is about our branded international business, all of you have heard Dipali constantly talking about our focus on the brands for the last couple of years and the international brand business is just maturing. It is all the effort that we have taken over the last two-three years, which is now bearing fruit and showing better top line. So the effort has been going on for the last two, three years and what you see is the culmination of that effort. The effort will continue. In fact, we are looking at more opportunities and more licenses and we have licensed decent brands like Martha Stewart, so they are continuing to show good traction and hopefully will continue to show good traction as we go forward as well. On your second question on seasonality in the flooring business, it is not as stark as you would see this with the other textile businesses. Having said that, the demand scenario is almost similar and with falling commodity prices customers even on that side, particularly in the international customers, want to wait and they want to see the bottom of the commodities before transacting new businesses. And all this noise around recession in the developed markets is making customers very circumspect. So it is not so much seasonality, but the demand situation in the international markets even for the flooring business is a little circumspect right now. So that was for your second one. And the third one is about the scrips, the current premium are in the 90% to 92% range, so the realizable value would be 90% to 92% of the 400 crore which Sanjay mentioned.

Tarang Agrawal: Thank you.

Moderator: Thank you. The next question is from the line of Biplab Debbarma from Antique Stock Broking Ltd. Please go ahead.

Biplab Debbarma: Good afternoon everyone. I hope all is well with you. Sir, I have three questions, first question is basically my understanding is that both the demand and input costs especially cotton price are the key main factors for home textiles and definitely you want to see situation improving in both. But am just trying to understand which is more severe. I mean if you are given an option for only one to improve, which one you would decide to say first - improving demand or cotton costs going down significantly? Just trying to understand the pain factor, which is more serious?

Rajesh Mandawewala: So, Biplab, I think the correction on the input costs side is more desirable in the near future from our perspective and there is a reason to it. When the commodity prices are correcting, it is a natural tendency for everyone to hold the procurement and the consequence of that is then on demand as well. So clearly, input costs. And input costs, I want to highlight, is not only cotton. There is also energy, which is a significant cost in the textiles supply chain whether it is with spinning of cotton or weaving of cotton or the downstream processes. So energy costs are also an important input. And the third very important element of cost is also ocean freight. Ocean freight rates, as you all know, went through the roof and the US freight saw rates rising up to $14000 to $15000 for a 40 feet container. Now thankfully there is some correction that is happening on cotton, which was at a 1 lakh-1.05 lakh at peak, now December is already getting quoted at 65000 to 70000. Freights, which were touching 14000 to 15000 currently are in the 9000 to 10000 range and we also understand that there is not enough, let us say, loading of the vessels and there are a lot of cancellations of sealinks also happening out of India. So logically speaking it should put pressure on freight, and while our friends in the shipping industry would not agree with this but at the end of the day you cannot fight demand situation. So we see cotton and freights correcting. I am not so sure about coal and oil, because geopolitical factors are playing out there. So out of these three key elements of input costs, I think two will look like correcting and energy might actually take a little longer or the jury is out on that. Coming to demand, we have gone through these cycles before, so this is not the first time you see a breakdown in demand. I am assuming that people will continue to sleep and I am also assuming that people will continue to have a bath. As long as that happens demand will return. It will return when the prices are good enough for discretionary spend, and with correcting input costs situations one could argue about how much time it is going to take, will it be one quarter or two quarters or more, so the argument could be on how much time it will take, but that the demand will resurrect, I think one should not have a doubt of that. We also saw unprecedented demand in the whole of 2021, so it was unthinkable, unprecedented 20% to 30% extra sales out of our customers' door. So, some leveling out possibly is happening. It will return, it is only a matter of time. As I said, one could argue if it's one, two or three quarters, but demand will definitely return.

Biplab Debbarma: Thanks, Sir and good to know that there are some respite in input costs and we are also optimistic about the demand may be in two, three quarters. My second question is on, please correct me if I am wrong, my understanding is correct, cotton prices in the quarter or in the last few months although have gone up initially, but later has gone down. So if the cotton prices reduce further, we are hearing some good news from our agriculture analysts also, if cotton price reduces further, should we expect better margins going forward into second half of FY'23? Just assume that everything remaining the same, cotton prices go down or stay at the current level and if that is the case what level of margin should we expect, Sir?

Rajesh Mandawewala: See even the current spot prices are high in India, so they are still hovering around 82000, 83000, 84000 range. The business is not viable at the current prices, so the cotton prices need to be in the 60000 to 65000 for respectable margins in the industry to return. Symptoms are there, as I said. The December Futures, which has actually seen 63000 to 64000 a couple of weeks back, moved up to about 68000 to 69000 and it is actually ranging between that level. Closer to 60,000, the industry should start seeing comfortable margins and when I say industry, it is across the value chain. North of 70000, margins will definitely improve, 70000 is definitely better than one lakh, but for whole kind of margins to return we need to see prices closer to 60000 and 70000. But as I said, 70 thousand is definitely better than 90 thousand and one lakh. So the abysmal margins that one has seen in this quarter and possibly we will see in the ensuing quarter, which I believe will be the worst one for the industry, will definitely get better from there. But for old reasonable levels of margin to return we will need to see cotton at about 60,000 level and also some connection on freight as well as the other input costs as well. One good thing is that the currency is working in favour. Once our old hedges run out, say if you talk about the next financial year, the exchange rate realization will be higher. So some positive will come out of that as well and it has been a significant movement of the Indian rupee to the dollar. So those will possibly help margin resurrection. But in the end of day the costs need to get rationalized. Because as you rightly said, it is linked to demand. And margin is a function of input costs and also let us say good demand; both need to resurrect. I suspect the resurrection, complete resurrection, will happen around the 60 thousand cotton mark and possibly some respite on the energy cost maybe about 75-80 on oil price and freight further correcting to about 6000 or odd around those levels. So if you will see those levels you'll see the industry returning back to the average historic margins.

Biplab Debbarma: Okay, Sir. Thank you that was very elaborate answer. Thank you, Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Monish Ghodke from HDFC Mutual Fund. Please go ahead.

Monish Ghodke: Sir, one kg of towel, how much cotton would be required and what is the backward integration which we have for that and likewise for one meter of bedsheet, how much cotton is required and what is the backward integration?

Rajesh Mandawewala: There is no straight answer to this Monish, it depends on the kind of yarn you make. But on an average let us say you would recover 70% from virgin cotton on a cone cotton yarn, you would recover about 87% on carded yarns of 90, but in the sustainability drive that we as a company have undertaken, we reprocess and recycle several times and try to extract as much of lint cotton out of whatever that we buy. So on an average what we lose would be in single digits. We try and recover as much as we can. At peak capacity we are about 60% to 65% of yarn production to our needs, but now that the demand is lower so obviously the inhouse capacity to make yarn as a percentage is a little higher than where we would operate on a comfortable utilization of capacity.

Monish Ghodke: Sir, one meter of bedsheet, how much cotton will be needed?

Rajesh Mandawewala: About two kilos, again a thumbrule number, say about two-and-a-half kilos. And for a towel you would need a kilo and let us say maybe 250 grams to 300 grams.

Monish Ghodke: Sir, towel versus bedsheet, which is more profitable on EBITDA margin front on an average?

Sanjay Gupta: It keeps changing. Historically towel has been the more profitable business for us, right now it is the most painful to be honest with you. And when things return we believe that the margins on the towel will be definitely better than on sheets.

Monish Ghodke: Thank you, Sir.

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

Abhishek Nigam: Sir, two questions from me, one on the flooring side. Is there any kind of medium term guidance, which you are able to provide with respect to revenue or EBITDA margins? And second, can you share your capex guidance for FY2023 and FY2024? Thanks.

Rajesh Mandawewala: Right now to make a guidance would be misguiding you people, so I would refrain from that. You would have seen over the last 3-4 months that our key customers are constantly revising guidance. I want to refrain from doing that, in a volatile commodity pricing situation. Right now it will be important for me to tell you that what we are seeing on the home textiles side, we are seeing it in the flooring business as well. So with reduction in commodity prices, raw materials prices, there is a wait and watch thing that is going on. My answer will have to be roundabout on the margin side. One thing is certain, the second quarter is going to see margin pressure. I believe that it will hit the bottom in the second one and third quarter onwards we should start seeing improvement. As I said for it to resurrect those three input costs that I mentioned, we would need those for our margins to resurrect themselves to our historic levels. It looks possible to me. So, it is not hoping. The costs are moving in the right direction. So it is not unlikely that those costs will get achieved, but the jury is out whether it will get achieved in the December quarter or the March quarter or it will take longer, so I just do not want to misguide all you people by providing a guidance which tomorrow may need to go out and change.

Abhishek Nigam: On the capex side, are you able to give an estimate?

Sanjay Gupta: As we have mentioned, during the FY'23 all the projects that were under completion will get completed and there is a plan for to spend Rs 200 crore during the year out of which Rs 85 crore is already spent and balance would be spent during the remaining part of the year.

Rajesh Mandawewala: Also, there are no new projects we are undertaking so anything new is on hold. We will wait for things to get a little better from here and there is still a lot of unutilized capacity right now, so there is no need for us to rush into anything. Everything new is put on hold. Sanjay put a number to it about 115-125 crore is the balance capex that remains and once we get past that, there is nothing new that at this moment we wish to undertake.

Abhishek Nigam: Thank you so much. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: Thank you for the opportunity. Sir, my question is, besides hoping that the cost obviously will come down, which hopefully will, but if they remain at this level for some time, what is our sort of backup plan or strategy? Any company is always looking at either some sort cost rationalization, preimmunization, things like that. So what are the other initiatives we are doing to ensure that we get some bump up the margins?

Rajesh Mandawewala: Again a very good question and on that, look I am very proud of the work that the company is doing and there is just not one line item of cost on which work is not happening in the company. Starting from yield to the variable cost and the specific consumptions and utilities to every line item on the fixed costs and a significant part of that is already done. A lot of new initiatives are under way, so as I said I am very proud of the work that that is getting done in the company. These are unusual times and there is nothing that shakes our belief in the business or that which is warranting us to change our strategy. We are happy that we are seeing all our key initiatives yielding good results and making progress. As I said, the branded business is doing exceedingly well for us. And also the distribution, the way it is coming up with between 'SPACES' and 'Welspun', almost 7.5 thousand. So all that good work is happening and there is nothing that we are seeing here which shakes our faith in the business or in our strategy. So, these are unusual times, you have to ride through them, take as much cost out of your business, continue to innovate, which has been a hallmark of the company. And clearly you are seeing symptoms, so cotton, from a peak of 105,000 I could buy cotton today at 68,000 for December. Ocean freights are coming down. The only area where possibly this one cannot be certain is possibly energy prices, but then exchange rate will give us a lot of coverage as we get into the next financial year. In the domestic business, domestic brands are growing in the 25% to 35% range. The flooring business has EBITDA break even. So every strategic initiative of the company is headed in the right direction. This will take a couple of years, and these will all become meaningful parts of the business and there is nothing that is happening out there which makes us less confident about our businesses. We believe our margins will return, we believe our top line will return and we believe all our key strategic initiatives are in the right place and we are doing what we can in the meanwhile ride this difficult period, take as much cost out of the business, innovate as much as we can, create new products and get as close to the customers also. The fact that Dipali is not on this call is a testimony of that – she chose to be in front of the customers and you guys will like us more if the customers like us. So we are doing all that we can take to ride over these times, but it will take a couple of quarters I think as I said. You can now start seeing the light at the end of the tunnel and demand will also certainly return, so we stay confident with our business as well.

Naysar Parikh: Got it. And just A follow up on the demand side, what percentage of the business would be core, which is like just the annual replenishment that you do to your regular customers and how is that, what has been the impact on that particular side of the business?

Rajesh Mandawewala: Almost 85% to 90% of our business is replenishment and normally it is predictable so in unusual times it will go here and there by 5% to 7%, but these are unusual times as we discussed, so that way the home business is quite predictable and as I said 85% to 90% is the repeat kind of business.

Naysar Parikh: And now that we are seeing the order backlog reduce by how much?

Rajesh Mandawewala: Significantly. It would be unfair for me to put a number to it, I think this quarter's results are getting you an indication, so it is not likely to improve significantly at least in the second one, but we do hope that the third quarter onwards that we will see better demand.

Naysar Parikh: Thank you.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Thank you for the opportunity. Sir, I had one question on flooring and one on home textiles. In home textiles, you have been operating since a very long time, decades actually, but volatility in the demand in the last few years has been much higher…because of the wider inventory write downs by retailers or recession….there has been a lot of volatility, so in your experience how much time generally it takes for retailers to come back? I mean some of the demand destruction has already happened, I am just trying to understand is it fair to assume that it takes around 9 to 12 month for retailers to come back in full scheduled demand after clearing up their inventories? Or consumer purchases start coming back to the industry? Because as you rightly said demand will come back, that's for sure. Am just trying to understand the general period of coming back?

Rajesh Mandawewala: Good question, Prerna. Historically in a normal cyclical recession we have seen demand getting restored over a two to three quarter period and it has always happened that way. In some recessions we have also seen that demand actually does not reduce. So if people tend to stay more at home, demand for home products actually does not reduce. In 2008 we saw a negative growth on the top line, but other than that to the best of my memory in every single year we have grown our top line and we have gone through three recessions in the life of this business. But at this point it has been a little unusual. There was a COVID disruption that came and then there was this resurgence of demand because people stayed at home and had money in their bank to splurge, so there was an unusual demand. I suspect this kind of cycle is going to be about more 12 to 15 months and out of that this is the third quarter where we are actually seeing a reduced demand. So I suspect we are another couple of quarters away where the resurrection of demand should start happening. To put numbers, past may have been 9 months, three quarters and this time it could be five, and we have passed three already. So hopefully another two quarters and we should start see the demand resurge.

Prerna Jhunjhunwala: Thank you, that was helpful. Sir, second question was on flooring business, do we see any challenges in the flooring business demand, in case US reduces tariff on China in certain category because there we as a cost structure against China in this business is something which we are not yet very clear.

Sanjay Gupta: So, again good question and there will be no demand destruction, so on that we are very clear. The China plus one thing is playing out and if at all it has never been more pronounced than what we are seeing right now. I see that as a medium to long-term positive for our business as well as for India in general. And this time it appears to me as ticking and will stay very strong. Our customers very, very forcefully looking to reorient their supply chain. Now coming to tariffs, when the tariffs came the world readjusted. So the margins in the industry, give or take two or three points or four points here and there, but the industry adjusts. And I suspect the same will happen as and when the tariffs go away from there they were. So as and when they go away the margin adjusts. When a country gets flagged with antidumping duty or a tariff, the margins in that country disappear so the suppliers absorb the most of the hit and when the tariff gets eliminated they would want their margins back. No company, no business can survive forever making no margins. I have seen this happen with antidumping duty, anti-subsidy duty. So give or take 2-3 quarters and the margins adjust. I wouldn't be too concerned with that. As and when it happens, one or two quarters here and there, but otherwise inevitably I think the margins return. And regarding demand, as I said China plus one is for real, there will be no dearth of demand. And let me tell you there will be no dearth of demand not only for the flooring products but for the home products as well, as we come out of this difficult situation.

Prerna Jhunjhunwala: Thank you, Sir. This was quite detailed and all the best.

Moderator: Thank you. The next question is from the line of Umesh Matkar from Sushil Financial Services. Please go ahead.

Umesh Matkar: Thank you for the opportunity. Sir, just one question I had, with the increase in the commodity prices in India, do you see a market share shift to other global players? Or are even the other global players also facing same pressures as we are facing? That is it, thank you.

Rajesh Mandawewala: I can talk about the home business. I think everybody is in the same boat, whether it is India or a Chinese player or it is from Pakistan. I would think of the key three players as far as the home textile business is concerned. I think the cost impact has hit everyone and the consequence of that has been reduction in demand which is linked to (a) input costs and (b) rebalancing of the services consumption. It is happening everywhere. Because of a very high estimate on crop last year, 340 lakh bales, which actually turned out to be 290 to 295, I think the industry got caught on the wrong foot in terms of procuring their cotton, timing their cotton well. And the consequence of that is for this whole year the Indian cotton prices were 15% to 20% higher than the global cotton prices. But I think the next crop with the higher acreage and hopefully some respectable yield is likely to be much higher than last year, last year was abysmal. Once that happens, I think the cotton price parity will also return and should be within 5% plus or minus. Overall structurally, I think when things rebalance, we should be where we are and one could argue again as to this will take how many quarters for us to get there, but it looks like with the new crop and the global markets adjusting for commodities and the recessionary trends and the rebalancing of the services, I think things will get back to normal maybe if not two, maybe three quarters, but we will get there.

Umesh Matkar: Thank you, Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Abhinandan Singh, Group Head – Investors Relations for closing comments.

Abhinandan Singh: Let me on behalf of the entire team once again thank all of you for taking the time, for your interest and for your questions. As I said earlier, please feel free to reach out to me for any unanswered questions or queries that you might have. Look forward to seeing you again next quarter. Thank you.

Moderator: Thank you. On behalf Edelweiss Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.
