TRANSCRIPT: Welspun India Limited Q4 FY22 Results Conference Call 4:30 PM IST, 10 May 2022

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Moderator: Ladies and gentlemen, good day and welcome to the Welspun India Ltd. Q4’FY22 Earnings Conference Call hosted by Edelweiss Securities Ltd. 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. Thank you and over to you, sir.

Nihal Jham: Thank you Tanvi. On behalf of Edelweiss, I would like to welcome you all to the Q4’FY22 Earnings Conference Call of Welspun India Limited. I would now like to hand over the call to Mr. Abhinandan Singh, Head - Group Investor Relations at Welspun Group, to introduce the management team and take it further. Over to you, Abhinandan.

Abhinandan Singh: Thanks Nihal and good afternoon everyone. On behalf Welspun India, I welcome all of you to the Company’s Q4’FY22 Earnings Conference Call. We have with us today Mr. Rajesh Mandawewala – Managing Director, Ms. Dipali Goenka – CEO and Joint Managing Director, and Mr. Sanjay Gupta – CFO.

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 queries that remain unanswered post the earnings call please feel free to reach out to either me or Sanjay.

With that I would like to hand over the floor to Ms. Dipali Goenka, our CEO and Joint MD. Over to you, Dipali.

Dipali Goenka: Good afternoon everyone and thank you for taking the time to join us today. We hope that you are safe and in good health. I would like to share some perspectives on the operating highlights of our performance during FY22, after which Sanjay would take you through the financial metrics. The Company has delivered a strong topline performance for FY22 with revenues growing at 26.6% to ₹ 9,377 cr. In Q4, revenues grew by 3% YoY to reach ₹ 2,247 cr. Having crossed the $1bn revenue mark for the total company in FY21, the core business of Home Textiles crossed the milestone of US$ 1bn mark this year (FY22) with revenues of ₹ 8,791 cr, growing 23.3% YoY.

Innovation continued to be a key enabler, propelled by our patented products and processes, accounting for 27% of HT (Home Textiles) revenues in FY22, growing by 6% YoY. We now have 35 patents filed globally, largest for any Home Textiles player. Emerging businesses of Brands, Ecommerce, Flooring and Advanced Textiles continued on a strong growth trend, up by 44% YoY, accounting for 26% of total revenues of the Company, up from 23% last year. Domestic Retail business grew by 66% YoY in FY22 to reach the highest ever revenues and also grew by 23.5% YoY in Q4. We have seen a 150% growth in awareness for Brand Welspun from 6% to 15% this year. Each brand under domestic business – SPACES and Welspun – has independently become a power brand. Reach of Brand Welspun now covers 482 towns and 6,642 stores (adding 1,218 stores in Q4). We launched a new product category- Mattresses as an extension to HT products. Despite the unprecedented increase in costs of products, we were able to maintain the margins in the domestic business.

Welspun D2C initiatives globally is steadily making us an FMCG of home textiles with E-Commerce & Branded business continuing its upward trajectory during the year, growing by 40% and accounting for 16% of total revenues. In the US, we had a successful launch of three brands during the course of the year - Welhome, Martha Stewart Everyday, and Scott Living. Licensed brands grew by 54% YoY with Martha Stewart leading the growth. There was a 175% increase in shelf space at key retailers with Martha. Christy continued to be one of our largest brands growing by 20% YoY. The brand received 150Mn+ impressions and ~50k unique customers on its own website. It was very well-received with 150+ mentions and coverage across reputed digital publications such as Good-Housekeeping, Vogue, Metro, and House Beautiful. Amazon recognized Welspun among top 5 players in Home Textile category during Prime Day in US.

The Flooring business continued to achieve newer milestones growing by 107% in FY22 to ₹ 661 cr, contributing 7% of the topline and in Q4 grew by 60% YoY. Continuing on our focus on innovation, in Flooring as well, we have now 2 patents to our name. Newer geographies in Africa, Middle East and Far East have been added and repeat orders from existing large customers is very encouraging. Domestic business of flooring is shaping up very robustly with a brand reach of Rs 260 mn in FY22. There has been considerable marketing investment on both offline side in terms of ad films, sports related branding and social media and on the online side with a refreshed site and improved traffic.

True to our sustainability goals, Flooring also is embedding ESG and circularity:

- Zero Landfill Company from day one and achieved Zero Waste certification from SCS team for attaining certification with 98% waste diversion from Landfill.
- We have conducted life cycle assessment for all the products and have verified Third party EPD (Environment Products Declarations).
- 15% of total energy is from renewable energy (Rice Husk) and target taken up to 25% by 2025 and 50% by 2030.
- Zero liquid discharge operation from the day one of operation.

Welspun has been the front runner in the industry, encompassing sustainability and ESG in every realm of its operations. We are clearly differentiated in the industry due to our sustainability work and have set benchmarks for the industry as a whole.

- Multi-level traceability solution of WelTrak allows the consumer to track a finished Bed/Bath product to its raw material source, using block chain.
- We had the first Dow Jones Sustainability Index (DJSI) Assessment this year with an ESG rating of 48, which is 62% higher than the average industry score.
- We have set up ESG Compass - an integrated ESG digital platform, an automated data dashboard covering over 90 indicators, extending to all sites, locations and subsidiaries in India.

- We have joined SBTi Business Ambition for 1.5°C campaigns and committed to set a robust emission reduction target at the pace and scale required by climate science.
- Our Anjar facility has emerged as the First prize winner in the "Best Industry" Category at the Union Jal Shakti Ministry's 3rd National Water Awards 2020 for our STP operations and zero fresh water usage.
- Tesco, UK's leading retailer, awarded us their Sustainability & Community Award for exceptional focus on community initiatives and for outstanding ethical performance.

The other emerging business of Advanced Textiles recorded a revenue of ₹ 83 cr in Q4, growing 17% QoQ, despite the headwinds that the business faced due to higher logistics costs and spunlace demand remaining muted due to stock corrections. These headwinds resulted in the yearly revenues of Advanced Textiles at ₹ 297 cr, 4% below last year. In March 2022, we commenced commercial operations in our Telangana facility, which has an installed capacity of 17,729 MTPA of Spunlace. This augurs well for this segment's prospects going forward.

During the second-half of the year and also during Q4 FY22, we faced multiple headwinds that include extraordinary macro-economic factors such as a sharp and unprecedented rise in key raw material prices, increase in energy costs and disruptions in the global supply chain, which was further worsened due to the Ukraine-Russia conflict. To give you a snapshot, *Cotlook – A Index* has moved up from 92.5 c/lb in Mar 21 to 142 c/lb in Mar 22 and currently is at 159 c/lb – an increase of ~75%. In India, Shankar-6 has reached an all-time high of Rs 93,000/candy currently, the highest level ever recorded, up almost 100% as compared to March 2021. Today, the prevailing rate is Rs 100,000/candy. Coal Price index as per *ICI 4 GAR 4200,* increased by almost 150% in last one year. In addition, the ocean freight for coal import during the same time tripled. Ocean freight rates during the year, similarly, have increased about 3x during the last year. Spot rates for USEC rose from $4,500 /container in Q4 FY21 to $11,000 /container in Q4 FY22, a 144% increase. In addition, container shortages, port congestion and a shortage of truckers in the United States, which is our primary end market, have all resulted in a noticeable albeit transitory operating challenge. The afore-mentioned factors have, as you may have noticed, weighed on our operating performance, especially during the latter half of the year, which is reflected in our Q4'FY22 results as well.

During Q4'FY22, the company's revenues grew 3% YoY. On a sequential basis, however, revenues witnessed a slight decline of 8% QoQ on account of some rebalancing of demand due to correction in stocks, as indicated by us during the last quarter, precipitated primarily by logistics and supply chain challenges.

The global economic situation has further worsened in the latter half of Q4 and as we entered the new financial year, high inflation in western economies leading to decades-high interest rates and slackening of demand across categories, logistical challenges getting more acute with non-availability of containers & liners leading to continually rising ocean freights and cotton index scaling newer historical highs. In such unparalleled turbulent times, we are taking the steps necessary to ensure that we continue our dialogues and long term partnership with our customers, keep a keen eye on our operating costs and further innovate and value engineer our products.

We believe that the business sentiments which have deteriorated in the last few months would take a few quarters to resolve and ease itself. Hence, while the medium to long term fundamentals of the business remain strong, the next couple of quarters are a bit challenging for the business, following the deteriorating global environment currently. As and when the commodity prices normalise and inflationary pressures abate, our operating performance would reflect that.

With this, I would now like to hand over to Sanjay who will quickly take you through the financial highlights.

Sanjay Gupta: Thank you, Dipali. Greetings, Ladies and Gentlemen. Before we open the forum for questions, I will briefly discuss the financial highlights for the fourth quarter and full year FY22. During Q4 FY22, we reported revenues of ₹ 2,247 cr, an increase of 3% YoY. For the fiscal year FY22 revenue increased by 27 % to ₹ 9,377 cr, up from ₹ 7,408 cr in FY21. I am particularly pleased to share that during FY22, the company achieved highest-ever sales volume in bath linen, bed linen, and rugs & carpets. Bath linen sales volume increased by 1%, bed linen sales volume increased by 6%, and rugs & carpets sales volume was up by 19% in FY22. We reported an EBITDA of ₹ 246 cr in Q4, i.e. 11% of sales as compared to ₹358 cr at 16.5% YoY. For the full fiscal year of FY22, EBITDA stood at ₹ 1,425 cr, translating into an EBITDA margin of 15.2%, as compared to ₹1,420 cr last year at 19.2%.

During the year input costs have been increasing significantly and the situation has escalated very adversely in the last 2 quarters, with commodity prices touching historical highs and logistical challenges becoming insurmountable. Coupled with this, the entire global economy is affected due to the Russia-Ukraine conflict and inflationary pressures, which has gripped the US and the Euro zone after decades. These have put untoward pressure on margins of the Company, especially in H2'FY22. In spite of these headwinds, with our drive towards cost optimization, use of technology and improved efficiency, we have been able to reach the same rupee EBITDA for the year as last year. Going forward, changes in the government's cotton import duty structure may deliver some net-benefit for the industry in general, but any major shift in cotton costs might be seen only once the new crop season begins. Further, the cotton demand situation in India is impacted by continuing exports of cotton from India.

I am also pleased to share that Profit after tax (after minority interest) for FY22 rose by 11% to ₹601 cr, compared to ₹ 540 cr last year, despite the challenging environment in H2'FY22. PAT for Q4'FY22 was ₹52cr, as compared to ₹130 cr YoY. Our consolidated EPS for the year FY22 stood at ₹6.06 per share, up 13% as compared to last year EPS of ₹5.37. EPS for Q4 FY22 stood at ₹0.53 per share vis-à-vis ₹1.30 in the corresponding quarter last year.

On the forex front, we have been consistently following the Board approved policy to hedge around two-thirds of our receivables on a rolling 12-months basis. Our average exchange realization for the US Dollar during Q4'FY22 was ₹77.43 compared to ₹76.14 in the corresponding quarter last year. For FY22, it was ₹76.31 vis-à-vis ₹74.2 last year.

Let me to now share some balance sheet analysis. We continued our focus to reduce our net debt position and at the end of Q4 & FY'22, the company's net debt stood at ₹2,229 cr, down by ₹104 cr from ₹ 2,333 cr as on 31 March 2021. Excluding the Flooring business related debt, net debt stood at ₹1,399 cr, as compared to ₹1,637 cr, a reduction of ₹238 cr. As on 31st March 2022, we have in hand e-scrips of RoSCTL/RoDTEP amounting to ₹377 cr. Monetisation of the same would have brought down net debt further. Over the last 5 years our Net Debt / Equity has come down to 0.56x as on 31st March 2022 versus 1.27x as on 31st March 2017.

Gross block stood at ₹6,824 cr and we spent ₹543 cr on capex during the year. ROE for the company's business stood at 15.8% in FY22 as compared to 16.3% last year and ROCE stood at 13.4% vis-a-vis 13.8% in FY21. In spite of investments in our growth businesses and buy back of shares done during the year, net debt has remained below 31st March 21 levels.

Coming to segmental results, Home Textiles revenue stood at ₹ 2,073 cr in Q4FY22, representing a YoY increase of 1.0%. For the full year FY22, the Home Textiles business clocked revenues of ₹8,791 cr, as against ₹7,128 cr in the preceding year, recording a growth of 23.3%. EBITDA margins for the Home Textiles segment stood at 11.6% in Q4FY22, vis-à-vis 18% YoY and 16.1% in FY22, down from 20.9% in FY21.

The Floorings business revenue stood at ₹189 cr in Q4FY22, representing a YoY increase of 60%. During FY22, the Floorings business clocked revenues of ₹661 cr, recording a growth of 107% YoY. The business had a small EBITDA loss of ₹2.9 Cr during Q4 as compared to a loss of ₹19 cr last year. For FY22, EBITDA has substantially improved to a loss of ₹14 cr, as compared to a loss of ₹100 Cr last year.

The expansion projects of Flooring, Advanced Textiles and Home Textiles businesses, which were in different stages of progress, got near completion in FY22, with some balance capex remaining. Capex spend in FY23 to complete these projects and for maintenance is expected to be around Rs. 230 crores. In spite of the capex, the net debt of the company is expected to be around Rs. 2,100 crores in March 2023.

We are providing a guidance in terms of capex and net debt for FY23, however, in view of the uncertainties around factors which we have discussed earlier, for example fluctuations in input costs including cotton, coal and other raw materials, logistical challenges and related costs thereto and rising inflation in our target markets, the company is not in a position to provide any firm guidance for FY23 at this point in time.

At its meeting held today, the Board has approved a dividend of Rs 0.15 per share. The total outflow for this dividend would be Rs.148.21 million, and this translates to a 2.5% pay-out on Consolidated PAT. With this, I will leave the floor open for your questions and hand over to the moderator. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Abhishek Nigam from B&K securities. Please go ahead.

Abhishek Nigam: A couple of questions starting off with the revenue decline in the home textile segment. I was just going through the presentation. It looks like a fairly broad-based slow down across categories. So, if you could give some colour on why utilization numbers are also down and what should we expect in the coming quarter, first quarter, second quarter, that would be very helpful.

Dipali Goenka: So, the important thing is that I think there has been a complete glut in the whole logistics that we have seen. I think if you would know, in United States of America, the West Coast was completely choked, East Coast was also completely in a slowdown. Having said that, the holiday season goods also reached the retailers in the quarter 4. As a result, there has been a glut in their inventories. Their warehouses are choked. So, there is a correction happening in the stocks as well. So, while having said that now if I look at the whole costs that we are seeing in terms of commodities, they are also instrumental in the impact in the whole revenue, but fundamentally it is because of the stock correction that happened and hence this is where you are seeing the slowdown in quarter 4. Looking at the onward perspective as well, definitely the commodities are going to play a major role and saying that, I think everything has doubled over what it was and the fed rates going up in America, the ECB in Europe, the repo in India, I think overall the situation does not look that good right now. So, definitely the demand would be a little muted.

Abhishek Nigam: So, some timing issue, some demand slowdown and logistics, broadly those three things will be responsible.

Dipali Goenka: And commodities. Cotton today is Rs. 100,000/candy and of course, the energy cost and everything is also playing out an impact in everything what we do.

Abhishek Nigam: If you can just talk about given cotton prices have been so strong, what kind of price hikes were you able to push through in the fourth quarter and first quarter and how is it looking now.

Dipali Goenka: So, we have already taken two rounds of price increase and I think we all are consumers and when we buy a product, there is a ceiling to a price that you buy at. So, you can't pass on all the costs to the consumer because then the demand anyway is going to slow down.

Abhishek Nigam: And just last question from me, flooring has again slipped into a marginal loss, it’s a small one but I thought it was turning around. So, just what has happened over there and what should we expect for first quarter?

Rajesh Mandawewala: So, it’s the same story, it’s the cost of commodities, which has been relentless through the year and also ocean freight which makes it difficult. Whether it is our home business or whether it is the flooring business or the advanced materials business, bulk of our business actually come from the international market. So, when you, on an average, stock $30,000-40,000 of merchandise in a container and end up paying $6,000-12,000 in freight, it impacts the cost of ownership for our customers and consequently the retail prices have gone to a point now where the top line is affected. Same thing has happened on the flooring side as well. There is a commodity push, ocean freights have gone up and they continue to go up as we speak. We're trying our best to collaboratively work with our clients and on the one hand you have to maintain your client profile, the strategic relationships that you have with them and on the other, also manage the bottom line. So, we have been trying to do this balancing act and just taking the decisions accordingly. On the loss here, we would have broken even but there is some extraordinary charge. We had some merchandise, which got damaged in transit. So, we had to take a provision for that. Otherwise, we would have been positive EBITDA, but unfortunately it happened in March and the insurance claim was not filed and approved. So, we provided for the damage, but the consequent credit was not accounted for, otherwise we would have been positive. We could have been much better had those commodity situations not been there, and to be honest, I think the situation is going to continue the way we see it now at least for a quarter or two, because we don't see the commodity pressure abating. In fact, the ocean freights are actually going up because our long-term contracts run out this April, some in May, some in June and consequently the freights are actually continuing to move up. So, we have to manage. It's a juggling act that we will need to manage and wait for an appropriate time to go aggressively after margins than top line. So, I guess we are a quarter or two away from that and all we are trying to do across our businesses is to manage the top line and the margins so that we get out of this with our top line, with our business intact, with our clients intact, and relationships intact. So, what we are seeing is extraordinary. Now, whether it be cotton or PVC or whatever, you are seeing prices at an all-time high, they can't sustain at these levels. Also, on the demand side, people were actually locked down in their homes because of COVID, so people consumed more products and less of services. I think the consumption of services is now growing and consequently the disposable spend for discretionary products is reducing and also the increase in prices have not helped. So, all in all, things will settle down, it looks like they will settle down, but we don't see it coming in the next quarter or two, but eventually they have to come to long-term averages or thereabout and the margins would certainly reset once we get to that situation. But right now, we are actually right there in the eye of the storm and it's a difficult situation and we're actually navigating week-to-week, day-to-day, month-to-month and client to client. So, that's the way we are trying to manage our business.

Abhishek Nigam: Just one last follow-up question, this one-off cost related to the damage, how much was it in this quarter?

Rajesh Mandawewala: I think about Rs. 4 cr or so. Our EBIDTA loss is about Rs. 3 cr and we provided for about Rs. 3-4 cr on account of the damaged merchandize.

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

Biplab Debbarma: My question is on the demand outlook in the next one year. How do you see the demand across the segments in terms of volume? Do you see the same level of business remaining or going up, going down, any idea on the demand outlook?

Dipali Goenka: The demand outlook definitely looks muted. It doesn't look very encouraging for the next couple of quarters that is quarter 1, quarter 2, and I think quarter 3 because the visibility right now looks very muted because of the commodities and I think post the holiday season is the time we definitely will see the green shoots coming in.

Biplab Debbarma: So, we recently read that India as a country has signed FTA with Australia, so do you think it will have any positive impact on home textile business? Secondly what do you expect, we are optimistic about FTA with Europe, so that would have any positive impact?

Dipali Goenka: Of course, they both will be very, very positive. In Australia, we anyway do business, so definitely that is going to be encouraging for the business that side and FTA for UK also will position us competitively against the other countries that we compete with. Having said that, the USA remains the biggest market and the biggest economy of consumption. So, I think that will play a very big role in terms of the whole demand as well, but yes, to your question, with FTA, India will gain and Australia definitely is encouraging.

Biplab Debbarma: And one final question. We know that the cotton cost is at all-time high, but this is the cotton cost, what other factors are significantly impacting our margin? We know energy cost, logistics, but are they significantly impacting our margin? What are the factors that are significantly impacting our margins?

Rajesh Mandawewala: Most definitely Biplab, when ocean freight is 30% or thereabouts of your container value, it is going to impact the business. So, finally, everything adds up, so your raw materials, your fuel, the other commodities, the ocean freight, everything adds up and finally, it shows up at the door of the customer where the landed cost has already moved up by 50%, 60% or may be in some cases has even doubled from where they were when all this commodity cycle changed. So, it's obviously going to impact both the top line as well as the bottom line. The good thing which, I just want all of you to know is that the overall India story is playing out. We have a dominant share, for example, in the US where we have a level playing field with our competing countries and we have, in fact, our share has continued to either get maintained or only grow as a country. So, the overall story is intact. So, consumption based on whether the consumption is going to increase or reduce, these are a few quarter issues. As things correct, as prices correct, this consumption will automatically come back in our key consuming markets like the US and when it comes back, both the top line and the bottom line will resurrect. So, it's a period where you have to wait out, but let me assure you that at the bottom, the story is intact. There is nothing wrong. Beyond a point, you can't move or increase prices without actually seriously damaging the top line and unfortunately we are right now caught up in that situation. So, we have to wait it out. We have had some great years in the past and some great quarters in the past and it's okay if we have a few rough quarters, you have to ride through it and be true partners to our clients and make sure that together we are able to ride over this difficult period. So, this a quarter or two here and there, but eventually as I said the story is intact. India is in a very favorable position. Our cost structures are good. Our market share is intact. So, the underlying story doesn't really change and with the FTAs it will only improve now. Our Minister has gone on record to say next year we are hoping now that the FTA with Europe could also materialize and we have discussions on with Canada. So, in all these markets, where currently we have a disadvantage over some of the countries like Bangladesh, Pakistan, if these FTAs also materialize, that opens up another third of world consumption as a level playing field for all of us. So hopefully as and when that happens, as a country our position in the market place will improve. So, repeating for the third time, I think the overall underlying story is intact. These are transitory challenges. There can be a few quarters here and there, but the underlying story is intact.

Moderator: Thank you. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: I wanted to understand you mentioned that countries like Bangladesh and Pakistan, if there are FTAs, what I had been hearing is US had sanctioned Bangladesh for some issue and that is likely to get reversed. So, would there be impact and which are the other countries like Vietnam or which are the countries we are competing with?

Dipali Goenka: So, I'll just tell you that with USA, we are in a strong position compared to countries like UK and Europe where the FTA has an advantage for them and the category that we play with is the middle to the upper segment vis-à-vis Bangladesh and Pakistan are at the OPP. So, definitely I think for us, we maintain our position there. So I think we won't be anyway impacted by that.

Rajesh Mandawewala: In fact, if the FTAs come about, we will actually have an advantage.

Dipali Goenka: We will add on more to our portfolio.

Akshay Kothari: What would be the revenue from the top 5 or 10 customers? The customer concentration, how much would it be contributing?

Dipali Goenka: I think that would be a major part of the number that we talk about. I think we're doing about $782 million in our home textile.

Rajesh Mandawewala: It's about 40% to 45%, so we have a good mix of customers and big customers always remain important and strategic, but I think our risk is pretty well spread. So it will be about 40% to 45%.

Moderator: Thank you. The next question is from the line of Prathamesh from Axis Securities. Please go ahead.

Prathamesh: My question is regarding the truckers' issue in US and Canada, so this problem was I think because of COVID-related reasons. So, I think with all COVID gone, do you think this problem is about to end next quarter or two?

Dipali Goenka: I think it is not just because of the COVID, it is also because of the demand and the Amazon factor. They have basically hired most of the truckers and the prices are far dearer, I think you'd have heard about $150,000 that they are paying the truckers. So, I think there is an issue of the availability of truckers and that still persists and that is a concern. There is a lag there because for a lot of goods, after reaching the ports there is a lot of detention by the time it reaches the warehouses as well.

Prathamesh: Coming to the cotton prices, Rs. 1 lac is definitely not going to be a sustainable price, but what according to you will be a ballpark figure, like 2 to 3 quarters, where will be a ballpark figure and do you think are you going to plan any backward integration for this thing because it has been giving trouble to you?

Dipali Goenka: I think cotton, if I can look at it right now where it is at Rs. 100,000, we are very sure that it is not going to be the price at its peak, but every time it defies that norm. We were looking at 65 then 75 then 85 then 90 and today it is over 100,000, but I think as sowing has started, the harvesting will be in September and the acreage has increased. But I still feel the floor will open at Rs. 70,000, not lesser than that. That's what it looks like at the moment and when you talk about backward integration, I think for us at Welspun, we are completely integrated as a company, whether it's in our towels, whether it's in our sheets, or whether in rugs in fact right now.

Prathamesh: You are partially integrated, if I am not wrong, only 40% of your raw material you source by our own?

Rajesh Mandawewala: No, we don't grow cotton. So, we make our yarns yes, but we don't grow any cotton.

Prathamesh: That's what I am talking about, yarn. So, you are using only about 45% of your total capacity, that you can use only 45%, right?

Rajesh Mandawewala: About 60% or 70%.

Prathamesh: In this current quarter, there was this 8% degrowth, so what was the actual volume degrowth, was there any offset because of some price increase, what was the actual, if you can bifurcate between the actual degrowth?

Rajesh Mandawewala: Quarter-on-quarter, we don't even analyze, we don't even bother analyzing. These things can happen and our contracts run for multiple years. So, we don't look at our business on a quarter-on-quarter basis and with the inventory up and down, one quarter can be extraordinary and the other the inventory corrections can happen. So, I wouldn't read too much into that.

Moderator: Thank you. The next question is from the line of Kalpesh Gothi from Valentis Advisors. Please go ahead.

Kalpesh Gothi: In the last couple of quarters, we are focusing more on ESG front. My question is on your ambitions to become carbon neutral and freshwater positive by 2030. Can you elaborate more on ESG and the status of the wastewater treatment initiative?

Dipali Goenka: For us, we are water positive today as well. In fact, we just got the President's Award for that. The carbon neutral roadmap for 2030 is what we are looking at and that's what we are working towards. I think it is on our website, you can look at our goals there, they are quite intact in the terms of the milestones that we are wanting to achieve.

Kalpesh Gothi: And also regarding renewable energy?

Dipali Goenka: We are working on that project and you will hear from us in a couple of months on that as well. Having said that, our goals towards the renewable energy also remain intact because it is not only a commitment towards what we do in the environment, but it is also commitment towards our retailers and those are the things that we are going to fulfil as well.

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

Prerna Jhunjhunwala: My first question is on your capex plans. Your towel capacity expansion of 25% to reach 102,000 tons per annum, where is it and by when can we expect that to come in?

Rajesh Mandawewala: So, by end of this quarter we will be there and by and large, in fact, most of the capital expenditure is either concluded or will get concluded by September of the current year. So, we are very close to completing almost everything. To add to that, the new capacity that we were thinking of, that we have pushed forward a bit, by a year. What we will be completing is up to 90,000 tons, which we will complete by quarter 2 and the new capacities setup we will do after a lag of a year or so.

Prerna Jhunjhunwala: Sir I understand the demand concerns in the US, but considering that we have long-term contracts, should we see the 67% utilization that you have done across majority of your product range as the number that will be sustaining for this next one year?

Dipali Goenka: It all depends on the demand that comes in from the consumer. While we have the replenishment program, it also depends on the front end demand that is there. So, definitely those contracts are there, but it will depend on what the last mile demand is actually. So, with the goods, there is a glut as I spoke about earlier and there is a stock correction that is happening, so that is again something and also the COVID saw a peak of demand and now the wallet share also is getting divided.

Prerna Jhunjhunwala: Can you give some color on the inventory with your customers, something in transit, so that we can track if retail sales are there and how the demand can come in, some color on the inventory days with your key customers?

Dipali Goenka: We work very closely with our customers. To that extent, we do vendor managed inventories for a few retailers as well and we actually are in touch with all our retailers in terms of retail and the whole point of sales analysis as well. In fact, you can look at it from the perspective that I will not spin an extra towel or I'll not weave an extra sheet because the prices are any way, the cotton is so expensive. So, for me, to control the inventory not only at the factory, the goods on the sea, the goods in my warehouses, is far more utmost important for me than anything else. Our supply chain analysts at the point of sale give us a visibility, our supply chain and production planning team here give us a visibility as to what could be demand. So, we actually rationalize everything. There is a very close watch on anything that we make and that we do.

Prerna Jhunjhunwala: My last question is on working capital cycle. Here your debtor days have reduced substantially and your inventory days have also come back to normalcy around 75-78 days, just help us understand whether is it just that collection has happened faster or this is a new norm in the debtor days?

Sanjay Gupta: There has been a concerted effort to realize the overdue debtors. So, we have done a good job and we've been able to reduce the debtor days substantially and we hope to maintain at this level because our average dues with debtors is 45 days and we want to be below that number going ahead. Similarly, for inventory, the inventory also had increased to some extent during Q2-Q3 of FY22, which we have brought down through substantially better planning and we wish to maintain this level of inventory going ahead as well.

Moderator: Thank you. The next question is from the line of Neeraj Mansinghka from White Pine Investment Management. Please go ahead.

Neeraj Mansinghka: I had a question on the Flooring side. Can you share with me the capacity of soft and hard flooring and what was the utilization for the last quarter?

Rajesh Mandawewala: Capacity is also a work-in-process, so while our overall capacities are at about 25 million, there is some balancing equipment that we have chosen to defer for sales to actually pickup. We have a current run rate of about 10 million. So, we are between 40% or thereabouts. By and large, we are there, but just don't look at the utilization levels because this is a new business and mind you the first 2 years of operations were all done within the period of COVID where none of our boys could get in front of the customers, forget about developing a market. So, we lost 2 years in that only. Right now all we have done is open doors with some great clients all over the world and there is still a lot of product mix richness which is going to manifest itself. So we are right now, by and large, at the lower to the middle end of the market and over a period of 2-3 years, even the product mix will get richer. So, the same amount of yardage will actually deliver a higher unit value realization apart from better utilizations in the future. So, I hope that answers your question.

Neeraj Mansinghka: When we put up this plant, after that we had got some positive surprise of some improvement in the demand from the US markets after China exports to the US being slowing down. So what is the status of that and do you see visibility of exports to the US scaling up on this Flooring business?

Rajesh Mandawewala: Absolutely, clearly. At this time, it is not only about prices. We have seen this China thing happening in the past as well, but this time I tell you it is different. These large clients are actually afraid that their businesses might actually get disrupted if they are completely depending on China. So, there is a strategic intent and a program to de-risk their sourcing and we're continuing to see that. In fact, it is getting more and more visible from more and more clients. So, this time it looks like that is here to stay.

Neeraj Mansinghka: And the demand would be more from the soft flooring or the hard flooring from the US market?

Rajesh Mandawewala: Now it is more of hard because soft flooring goes more into offices and cinemas and hotels and they were closed for the last 1.5 to 2 years. So, it kind of was slow and it also needs a physical contact with the clients, which unfortunately we could not make over the last couple of years. Our boys have just started travelling from January and getting in front of the customers, and also offices are opening up. The hotels are running to decent capacities. So, now we are seeing this good traction build up. I think by the end of this year, we should have our feet firmly on the ground on the soft flooring side. Right now I think we are seeing more throttle on the hard side than on the soft side, but I want to qualify my statement by saying that we're seeing the same kind of margin pressures in this business as well that we are seeing with the home business and this cost push is just so relentless that it's an everyday job to do this balancing act between top line and margins, where we are trying to exercise our best judgement and just push it forward. But on the margin front, we are struggling and you have seen that even at Rs. 180 to 190 crore, we have just barely managed to break even at EBIDTA level and the quality of the business is much better than that, but unfortunately the pressure of commodities, ocean freights, is putting a lid on the margins in this business as well.

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

Vikas Jain: First question is in continuation to one of earlier participants' answer where you said that you do have a very good analysis on how the sales at the retailers' end are progressing, so any color as to what is the end market or the end customer demand looking like more in terms of how are we seeing this supply-demand to even out? In what period of time is the best estimate that this can even out?

Rajesh Mandawewala: One thing we are definitely seeing is that the curve is actually in the reverse direction. So I am afraid what we are seeing is that the demand is reducing and I am saying it is not only from our clients, but our clients' client, which is the final consumer, and our product is discretionary. So, the increased retail prices are impacting and then the other factor is also that this consumption of services is now catching up. So, the last year and a half to two years in the lockdown period, the services were not as much consumed. So, some catch up is happening on that side also. So, we will get a clearer picture in the next 3-4 months when things even out, when the world returns to a steady state services to product consumption pattern and hopefully by that time the commodity prices also correct. So, I think we will get a better sense or better handle on that, but right now over the last 2-3 months what we have witnessed is a steady decline on the point of sales. We see some occasional spikes when products get promoted very aggressively, so we see these occasional spikes. That kind of levels and averages things out but on a general basis, the curve is tracking down.

Vikas Jain: One more question, you mentioned in your opening comments or rather in one of the comments that the long-term contracts for this containers are just about to end in April-May. Can you just give us some color as to whenever you enter some new contracts, how much surge can you witness in these prices or contracts?

Rajesh Mandawewala: If you had asked me this question a year-and-a-half back, it would have been the other way around, every contract was at a lesser price and now it's the turn of the shipping companies to draw blood, which I must confess they are doing brilliantly. From where we were last year to now, it's almost 250% up, so it's a very, very steep increase. We even right now are under negotiations with the shipping lines. All in all, there was one re-negotiation that happened in the middle of last year as well, so the freight rates have been constantly growing up, but the things don't look very good. So, overall from one point from April or May of last year to now, we are looking like at least 200% to 250% particularly to the US. It's not as bad to the other parts of the world. In fact, in the other parts, freight rates have already started correcting to some extent. For example, Latin America freights are already tracking down. To the Far East, the freights have started tracking down, Europe has settled down, Mediterranean is settling down, but America unfortunately is very, very strong right now. So, we will know as we close the contracts over the next few weeks, but from point-to-point from May-to-May, this is 200% to 250%.

Vikas Jain: Just one followup, almost all of our shipments that we send to our retailers come under the long-term contract or do we have sent it like in open contracts?

Rajesh Mandawewala: See 85% to 90% of our business is replenishment. So, it's like a white shirt that you keep shipping as the customers sell, they re-order and so the program continues till such time that the productivity on their shelf space is good and then when the productivity on the shelf space starts dipping, that's when the transition of the program happens, so 85% to 90% of our business should be like that.

Dipali Goenka: So, I think for us at Welspun primarily 80% is FOB and 20% is CIF as well. That's again a very important part of impact on our freight cost that have impacted us.

Moderator: Thank you very much. In the interest of time, this was the last question. I now hand the conference over to Ms. Dipali Goenka, Joint MD and CEO, Welspun India Limited, for closing comments.

Dipali Goenka: I would like to thank you all for your insightful questions. As we stated earlier on this call, while our medium-term performance is likely to reflect the impact of a challenging commodities and logistics environment, as a business, we remain focused on transitioning from being a manufacturer to a direct-to-consumer company, an FMCG of home textiles enabled by investments in innovation and technology and a strong traction we are already seeing in our B2C initiatives, our brand and our digital channels and we will achieve this while also ensuring that sustainability and circularity remain embedded across our value chain. I would like to conclude by thanking each one of you for your continued interest in Welspun India.

Moderator: Thank you very much. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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