



“Welspun India Limited”

October 28, 2013



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- Moderator:** Ladies and gentleman good day and welcome to the Welspun India Limited Q2 FY'14 Earnings Conference Call hosted by Espirito Santo Securities. As a remainder for the duration of the conference all participant lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nitin Mathur. Thank you and over to you sir.
- Nitin Mathur:** Thank you. On behalf of Espirito Santo Securities I would like to welcome you all for the Q2 FY'14 Earnings Call of Welspun India Limited. Today on this call we have Mr. Rajesh Mandawewala who is the Managing Director of Welspun Group and Mr. Dinesh Jain who is President and CFO of Welspun India Limited. So without wasting any further time I will hand over the call Mr. Mandawewala for opening remarks and then we will have a normal Q & A session. Over to you sir.
- R. Mandawewala:** A very good afternoon to all of you ladies and gentleman, welcome to the second quarter financial results call of Welspun India Limited. I will start with the financials and then possibly deal with the projects which are currently under execution and then this little bit about the general scenario existing in the market place to give you a sense of how business is looking going forward. So, I am extremely glad to report that the company has actually delivered the best quarter in its history on almost every front which includes sales, profit, EBITDA as well as the cash profit so all in all this is on a consolidated basis. We have reported a total income of 1219 Crores; this is on a comparable basis over 994 Crores in the corresponding quarter 23% higher so the top line has actually grown 23%. EBITDA, Reported EBITDA is 278.5 Crores or close to 279 Crores which is almost 23% of total income, this also is possibly from a margin front one of the highest that we have delivered in a very long, long time. The finance cost of 59 Crores and a very high depreciation charge which I will come to in a moment but barring this change in the method of depreciation, our normal depreciation would have been 44 Crores and which would have resulted into a Profit Before Tax of 171 Crores and a Profit After Tax of 117 Crores which is compared to the corresponding quarter of last year we were at 59 Crores so almost 100% this growth at PAT level and our cash profit in the current quarter is 169 Crores which in the corresponding quarter was 102 Crores so there is a 67% increase in the cash profit also for the company in the current quarter. There is a very important development on the depreciation front, the company has decided and has moved on with a change in the method of depreciation from a straight line method to a written down value which we think is a much more appropriate representation of results of the company. There were two things which actually triggered this thought in our mind, the first one being the Vapi Plant which was the first plant that we set up is almost 20 years old now and so there are some equipments that we are putting out in the market and replacing and almost invariably we are encountering a loss when we sell this equipment for obvious reasons that the book value of the assets is actually higher than the price that we realize on disposal

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and now that the Vapi Unit is nearing 20 years the replacement cycle will only accelerate, so we thought it fit that change in the accounting treatment of depreciation would actually represent better in terms of a real financial performance of the company. The second reason why we chose to do this was actually as we buy this equipment the initial cost of operating is actually much lower as compared to the older assets so it is better we charge higher depreciation on the new assets upfront when the operating cost is low and as the operating cost is going up the depreciation charge on written down value actually continues to go down so over the lifecycle of the asset, the total cost of operating the assets actually remains more linear as compared to let us say a straight line method, these are the two fundamental reasons which drove our decisions to change the method of depreciation, this is obviously a non cash charge so all in all, as I said there is a 463 Crores of arrears in depreciation until end of June that we had to write off in the current quarter but the impact in the current quarter let us say July to September is only 4 Crores, so the bulk of the high depreciation charges actually to write down the arrears of a depreciation until June 2014 for bringing it in line with the current period. With this as I said it's a non cash charge, the company has earned 169 Crores of cash in the current quarter which as I mentioned is the highest cash earnings that the company has ever achieved in its history.

Exports have been robust, accounts for almost more than 95% of our revenues, our average foreign exchange realization came in at about 57 and some change, of course this is on account of hedging policy that the company has, so we average about 57.50 in the current quarter and if we talk about the balance sheet net debt currently stands at about 2100 Crores which let us say if we take the net debt to EBITDA ratio on an annualized basis it comes to about 2.32 so we feel fairly comfortable on that ratio and our asset turn has been 1.31 and our inventory has turned in less than 70 days, receivables have turned in less than 40 days and our current payable stands at about 50 days of sale so we are pretty happy about the way working capital of the company is being managed. The return on equity on the current quarter on an annualized basis is about 58% and return on capital employed on the current quarter basis is north of 18% so broadly these are some numbers on the balance sheet and 63% of our revenues actually came from bath products and the balance from bedding product so this is by and large the mix on the product for the current quarter.

We are at the end of the cotton season now, so we have almost run out of cotton that we had procured last year, so this year into the new season, the season is a little delayed, so we will hopefully start procuring cotton for the next season beginning in the next week and so all in all it has been a rewarding quarter for the efforts put in by the team to deliver the financial performance.

To take you through the projects, the company, as I have been mentioning in my previous calls is in the process of investing about 1000 Crores in the current year to broadly vertically integrate our capacities both for towels as well as sheets, so we are investing into a 170,000 spindles and some TFOs along with 140 looms for sheeting and plus some investments that we are making to make our

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utilities more affordable to bring down the cost of steam particularly in Vapi and in the current year by virtue of owning more than 60%, we are also now consolidating our captive power plant into the financial results of Welspun India, which has actually resulted into a debt increase of 300 Crores on the balance sheet without actually getting the proportionate earnings, now the plant is operating at about 60-65% of capacity, I am talking about the power plant here and in the April to June quarter as our expansions come to fruition in the next year the power plant will also be at peak capacity which is when it will also be profitable at the PAT level for the power plant as well.

Just to refresh all the capital investment that the company is making is by and large in the nature of vertical integration, so almost very little risk in it, each one of them will hopefully deliver an IRR of 18-20% so this is profitable in its own right and at the same time will help us derisk our business because now virtually a big part of our production is currently being outsourced on grade fabric particularly and lot of yarn is also being outsourced so this we thought it prudent that we do a better proportion of our raw materials in house which is why this expansion.

So, just to repeat, the investment is basically into making yarn spinning some investment into weaving capacities and little bit of investments going into de-bottlenecking into making our utilities more cost efficient and some investments also on affluent treatment facilities which I am very proud to say that the company is on the cutting hedge. So all in all this is about what we are doing on the project side, of course, the Gujarat policy is announced, the TUF GR is also out, so we will be getting the entire benefit of both the Gujarat policy as well as the TUF now effectively what it means is that the Capex that we are incurring, this will get almost 10% of interest back considering an average term loan rate on rupee debt at about 12-odd percent our net cost of the new debt that we will take on should be between the TUF loan and the non TUF loan be in that 3 or 4% range so this is very affordable in terms of the interest cost that we will be taking on the new debt that we will acquire, so this apart from the new debt that we will take this rest of it will come from equity so the company is got a decent cash position north of Rs.300 Crores and with the healthy cash flows that the company is generating so the rest of all the capital expenditure will actually come from internal accruals and this still leaves sufficient cash on the balance sheet at the end of the year so, fairly comfortable with this balance sheet despite the large capital expenditure and the project is on schedule, the weaving part would get done in this quarter. On the spinning side January to March out of the 170,000 spindles we are hopeful to commission at about 100,000 spindles and the rest of them would get into business between April to June of 2014.

The business continues to be robust. We continue to have a robust order book on almost all the product that we operate in so our cotton advantage as a country I think the India story is playing out well particularly in cotton textile so our cotton advantage over our key competitors like China, Pakistan continues, the Chinese cotton prices continue to be about 40-45% higher than what they are

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in India. Pakistan, cotton prices are higher than India, I think our yarn prices today are better than anywhere else in the world and with the current level of currency I think our competitive advantage over our competing countries is pretty significant which is very clearly manifested in the increasing market share that India is gaining in the US imports and home textiles, so India as a country is continuing to gain market share so on sheets, it is close to 50% so all sheets that get imported into the US almost half of them are now landing up from India and on towels it is about 37-38% so we continue to gain as a country this market share and obvious fallout of this is that as I have been repeatedly mentioning this on my calls that the pricing power has clearly returned to the industry, we are now proportionately able to adjust such a prices north or south based on the way the costs are moving, so while this year this has seen sharp movement on currency side which has been favorable but there have been cost pressures which have not been so favorable so cotton prices have moved up, yarn prices have moved up significantly, fuel prices have moved up, dyes and chemicals and every single input that we put into the product has gone up so consequently not passed on any, there has been no discussion on price reduction with any of our clients despite the sharp appreciation in currency and the way things look there is actually room for moving the price upwards, there is a point or two, in the calendar 2014, we have seen that worldwide dollar pricing is actually inching slightly up now, all in all as I mention that the pricing power has returned to the industry and the cost in China are significantly now rising and on an apple to apple basis I think there is somewhere if you compare equal scale I think India now stands very, very competitive, even if you take the cotton advantage out I think we are very competitive vis-à-vis China, so market share will continue to move from other countries into India, also this Human Rights things happening in Bangladesh, the safety accidents repeatedly happening there, our customers are very nervous now doing business in Bangladesh and they are looking to park more and more of their business to India, so we being the leaders in home textiles out of India with global scale we naturally tend to benefit with this tendency so we continue to see very robust order book and as I said in all our product categories we are hopeful that the company should continue to perform well in the coming quarter as well. With this, I think I have mentioned or said what I had to say and I would now leave the house open to questions if there are any.

Moderator: Thank you very much sir. We will now begin the question and answer session. First question is from the line from the line of Neeraj Mansingka from Edelweiss. Please go ahead.

Neeraj Mansingka: Hi, I think the numbers are good, congratulations for that, few things, sir, how do you see the environment of order book like you told us that there is a 50% market share of sheets in the US already, do you see expansion of market share further because generally you reached your level of 50% it become difficult to gain further market share in the US, to put the other side the question is do you really see organic growth now coming in flowing to Welspun because of market share concentration that is reached?

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- R. Mandawewala:** Really speaking no, our business continues to grow both in the US and non-US but very honestly, we have followed the principle of derisking geographies also, so we are now heavily focused into growing our business in Europe and in fact a lot of this top line growth is coming from our growth of business in Europe, so from single digits in 2011-2012 or let us say this 12% or 13% of our sales in the last year this year we are north of 20 already in Europe, our business continues to grow in US and honestly, there is enough potential for business to grow from here but it is a matter of how do you judiciously allocate capacity, so our business will continue to grow and look apart from let us say this gaining market share from countries there is also this tendency in our customers to now consolidate their vendor base, so they want to now work with this limited number of larger vendors so that is also a favorable wind for us, so our business will continue to grow in the US.
- Neeraj Mansingka:** Sir, the second logic that I gave, that is already there, India wouldn't have a 50% market share if you wouldn't have same repeat order and consolidation from the buyers of your product?
- R. Mandawewala:** Yes.
- Neeraj Mansingka:** How large would be the Europe market compared to the US like if you can give some
- R. Mandawewala:** Its almost equal as in size Neeraj, almost 30-32% of the world consumption is in Europe and America is about 34-35% so they are all equal size and business is just opening up in Europe for home textiles for India because of this competitive reason but you know very honestly in Europe we don't have a level playing field. We have countries like Turkey, Egypt which come into Europe duty free. Our products attract 8% or 9% so despite that our market share has now started to grow in Europe very clearly indicating that our cost competitiveness is improving and you also must be aware that India is discussing a FTA with Europe now if that happens the whole hell will break loose and India will substantially gain market share in Europe, despite these duties we are continuing to gain so you can very well imagine that if you have duty preference in the US or in the European market things will grow significantly well.
- Neeraj Mansingka:** Sir how much is the duty there, what is the disadvantage that we are running right now?
- R. Mandawewala:** 8% to 9%.
- Neeraj Mansingka:** Can you give a very top down and broad explanation of the cost structure to understand where the cost of China edge is higher and where is the cost structure of India competitive may be you can give an example of break up of selling price Rs.100 what will be the breakup in China and what will be the breakup in India?

- R. Mandawewala:** See, I will tell you, if you look at Rs.100 as your selling price or your total cost, if you are integrated 35 to 40 would come from cotton, if you take it at yarn it will be let us say a little north of 50 then the big other elements of cost are dyes and chemicals which is about 8% to 10% then you have trims and packing which is another 6% to 8%, labour would be about 8% to 10% depending on which country that you operate in and the rest of the cost would be another about 8% or 10% so these would be the broad buckets on cost. Now if you compare lets say China vis-à-vis India this Chinese Cotton today is about 40%, 35% to 40% higher than India, the yarn prices are about 10% higher, 8% to 10% clearly India is exporting a lot of yarn into China, our estimate is China will land up importing a million tonnes which is almost 25% of India's yarn production in the current year so China continues to import both cotton as well as yarn from India. If you look at labour in terms of Dollar cost now China on an average will be between let us say \$250 and \$350 a man month, India is between \$150 and \$200 today so very clearly we have an advantage on labour. Dyes and chemicals, we are all multinational companies so nothing really to choose from, so identical costs, interest is a very big element of cost, I am sorry I didn't mention interest, so the rates of interest with the TUF in India as well this Gujarat benefit our cost of interest also actually in India is now lower than what it is in China and I am talking about Indian Rupee debt here, so almost on every element of cost we have an advantage over China.
- Neeraj Mansingka:** That way you just put it that effectively it means that interest and the cotton prices are the major ones which has an external factor rather than internal.
- R. Mandawewala:** Yes the cotton certainly is a huge advantage as of today vis-à-vis China.
- Neeraj Mansingka:** Sir Do you see this policy change of the government coming in?
- R. Mandawewala:** Right now as the way things stand policy will be in play for the current cotton season which will go until September of 2014, so the Chinese government cannot afford to pay a lower price to the farmer so if at all there is a change in the policy it will have to be a direct subsidy that they grant to the farmer which is not going to be very easy to administrate so it's a catch-22 situation for the Chinese Government, so for the moment for the next 12 months I think there is no major shift that is going to happen, what the Chinese companies are doing, Neeraj is they have cut down yarn production so if you look at Chinese yarn production they are from 11 million tonnes, they are down to about 9 million tonnes now, so they are importing two million tonnes where their cost advantage is not as prolific as it is on the cotton front. They are also importing 25% which is the permissible level of cotton from the world market, so all in all if you look at the cost of the production level through the yarn, imports and the cotton imports, on a total cost basis the disadvantage that they sit with today my guess would be between 6% and 8% which of course is a big, big factor so I can't see this thing entirely disappearing they will need to continue to import yarn irrespective of what happens to cotton

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prices because the Chinese have gone on record to say that they really want to reduce production of yarn, there is a very deliberate attempt to bring down yarn production from 11 to 9 million tonnes so it's a stated policy they want to eliminate the inefficient spindles from their country so they will continue to import yarn, obviously the yarn when they import will be more expensive than the price that we pay as Indian companies here and cotton has historically always been expensive in China as compared to the world market so this is while this 30%-40% is a feature of the last couple of years but they have been historically 15% higher over world market prices on practical terms so they will continue to drive, let us say anything between 3% and 5% is a disadvantage on that front.

- Moderator:** Thank you. Next question from the line of Bhavin Chedda from Enam Holdings. Please go ahead.
- Bhavin Chedda:** Good afternoon sir, good set of numbers, sir few questions if you can give us the product wise sales mix in a Q2 in first half between towels, bed sheets and carpet flooring products?
- R. Mandawewala:** I will give you the breakup for the first half Bhavin which I think would be a more relevant number. We had about 63% on bath products and 36% in bedding products and the rest of it coming from miscellaneous things.
- Bhavin Chedda:** What would be the geographical sales mix if you would like?
- R. Mandawewala:** Almost 60% in the US, about 20 odd percent in Europe the rest of it coming from, let us say about 4 odd % from India and the rest coming from the other parts of the world.
- Bhavin Chedda:** Sir you said, in the opening remarks capex was 1000 Crores right?
- R. Mandawewala:** Yes.
- Bhavin Chedda:** How much has been spent till date?
- R. Mandawewala:** About 475 Crores is already invested and rest of it will happen over the next few months.
- Bhavin Chedda:** And is everything is happening before March '14?
- R. Mandawewala:** Bulk of it Bhavin, except I think about 50 odd thousands spindles which will spill into April to June but the rest of it, everything except 50,000 spindles would get commissioned by March of 2014.
- Bhavin Chedda:** In terms of spindles are you are looking for One Lakh Seventy Thousand spindles because I thought you were looking at One Lakh Fifty Five if I had my notes correct?

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- R. Mandawewala:** Finally it is 170, so it is One Lakh Seventy Thousand spindles and these are all for fine counts and this we are also converting, making this in one of our existing spinning units we are also making the yarn a little coarser so there is some investment happening on that also.
- Bhavin Chedda** So out of 170, 120 will be commissioned by March 2014 and 50 would spill over to June 14 of it.
- R. Mandawewala:** Yes.
- Bhavin Chedda:** And the weaving Capex and all other Capex is getting over in next two three months right?
- R. Mandawewala:** Yes, all the looms are in, so as we speak out of 140 looms that we were to add there is almost 100 are in business now so it only about 40 looms by end of November everything will be in business.
- Bhavin Chedda:** Sir as you guided in fact dollar pricing is looking up which I think three to four months back when we had a last call you said that if the rupee keeps on depreciating or stabilize we would have to negotiate the prices which means are we looking at the higher margin scenario for this fiscal as well as next fiscal?
- R. Mandawewala:** Look, as I said the prices will certainly get adjusted, so we had also had a huge cost upward push Bhavin, you are aware yarn prices have moved up significantly, cotton moved up from almost 35,000 to nearly 50,000 in the last season, yarn prices moved up 20% to 30% we have had 40%-50% increases in prices on dyes and chemicals, the cost have really almost caught up with the currency this advantage that we got so consequently there was no need for us really to reduce prices because the cost really caught up, so having said that because of some old cost inventory that you said, that you sit on, margins have improved a couple of points so I would not allude to the margins improving beyond what you are currently seeing.
- Bhavin Chedda:** Okay so what we have reported in the first half is close to 23% versus historical margins of 15% to 17% so what you are saying is that 20-21% is the sustainable number going forward.
- R. Mandawewala:** Yes, I think 20 plus minus 2 is where the business is so; we are currently coming in a couple of points higher so the business per se is 20 plus minus 2% steady state.
- Bhavin Chedda:** Sir my last question, what would be the tax and debt number as on, how much is the debt draw down pending on the capex and what is the peak debt number you are looking at and what would be the effective tax rate going forward?
- R. Mandawewala:** We are under MAT Bhavin so our tax outflow will be very insignificant, cash outflow will be very insignificant although the book charge including deferred tax and everything comes to a 32%-33%

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level but our cash tax will be pretty insignificant in the current year. Coming to the question on debt current net debt is about 2150 Crores roughly and we will end the year with a net debt of 2500 Crores.

Bhavin Chedda: Which includes debt drawdown or all the capex?

R. Mandawewala: This includes all the debt Bhavin including term loan, working capital, buyers credit whatever so at the consolidated level this includes all the debt that we have less cash.

Bhavin Chedda: And how much would be a TUF loan in that?

R. Mandawewala: We have very little non-TUF term debt. Our dollar debt I think is about 5 or 6 million, other than that we have I think 20-odd Crores which is non TUF all the other non TUF loans we have actually prepaid.

Bhavin Chedda: No sir how much is the TUF loan, I mean how much will be the TUF component in the 2500 Crores?

R. Mandawewala: Almost 1400 Crores will be a TUF debt.

Nitin Mathur: Hi this is Nitin Mathur here from Espirito Santo. I will take a couple of questions.

Moderator: Sure sir.

Nitin Mathur: Sir my question is regarding the free trade agreement that you mentioned about Europe and India, if I understand correctly there is also similar sort of agreements with Japan and South Korea and Australia, so are you seeing any traction in these markets?

R. Mandawewala: See Japan business has already started moving, as we speak! We already have a couple of accounts that we are shipping product into, so Japan has opened up. We are making business developments in Korea, so far not any major breakthrough but clearly with this duty advantage that we have into both Japan and Korea business will certainly open up.

Nitin Mathur: Okay great, and sir second what's the India outlook in light of the FDI in retail, recently there were some media reports that suggested different players looking within India with much interest and IKEA has actually formally entering India, so how will our business outlook sort of change in light of that?

R. Mandawewala: As these organized retailers, global retailers come in the first thing that will happen is the per capita consumption will grow because these people have a way with presenting products in a different way, so they will certainly be instrumental in terms of improving the per capita consumption, all known

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names who are wanting to come into India are our customers already so we will naturally tend to benefit as they come in we would be the natural sourcing partner so that means it is additional business for us.

Moderator: Thank you. We are going to take the follow up question from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Sir, this capex you mentioned about for FY'14 what's the plan beyond that and how would you like to utilize the operating cash flow from FY'15 onwards?

R. Mandawewala: Look as I said that it is absolutely imperative for us to vertically integrate, as we get past this phase of capex we will reassess, so if our top line in terms of volume in towel, sheets, rugs and all these products significantly improves from where it is now there will be some more investment that we would want to make on vertically integrating and at some stage we will need to look at modernizing our Vapi unit, as I said this unit began production in 1994, so we are almost 20 years there so at some stage I think a large scale modernization will have to be undertaken and we would want to do it within the tenure of the Gujarat Policy so the policy is announced for five years, one year has already gone by, there is four years to come, so over the next four years this is what we would want to look at so, a modernize Vapi and also continue to look at integrating further and some small capex and debottlenecking our towel and bed sheet capacities in the future but that will happen only as we see more demand for our products so we have no intentions of making any investments in our finished product capacities until we see there is a very clear demand so any investment that we will make will be to fulfill demand that we already have.

Maulik Patel: But is it safe to assume that your operating cash flow will be higher than the capex from FY'15 onwards?

R. Mandawewala: I hope so Maulik. I think a big Capex spend is happening this year, so we hope to generate positive free cash flows from the coming year.

Maulik Patel: What is your assessment of cotton price and the yarn spread going forward?

R. Mandawewala: The current prices are about Rs 42,000 to 44,000 per candy and my sense is that we might end up seeing the year; you have asked me a difficult question because currency has an impact on this but assuming a constant currency I am seeing a 42,000 to 43,000 average for the current cotton season. The prices might actually come down because this will be into a very heavy arrival period between November and February so in the next three four months we might actually see prices come down by couple of thousands which will pick up in the future, if I have to put a number at Rs.61- Rs.62 a dollar I would say 42,000-43,000 average for the current season.

- Maulik Patel:** And if the rupee goes to 68 then it will be higher?
- R. Mandawewala:** So you can straight away proportionately increase the rupee prices of cotton because very clearly now the cotton prices worldwide are actually governed by what is happening on cotton in India so the moment the rupee depreciates if it is 10% straight away just put 10% on that 43 you can see a 47 prices cotton moved up to 48-50 when rupee was 68.
- Maulik Patel:** So in that case, let us say rupee further depreciates then we will be a beneficiary right?
- R. Mandawewala:** To the extent of non-dollar cost you benefit but see all inputs today are commodities and dollar denominated, so a proportionate impact on PBT, my guess would be let say 0.2-0.3.
- Maulik Patel:** For every 1% rupee depreciation?
- R. Mandawewala:** Yes.
- Maulik Patel:** How do you see the yarn spread because as you earlier mentioned lot depends on China and for this season China has decided to keep their cotton price higher but there is a big fear in that in case lets say China, because they are also aware that cost pressure facing their textile mills in case they don't decide to extend the policy for one more year let us say from September onwards 2014 onwards is that the yarn spread is going to strengthen in near term and then probably fall what's going to be outlook there?
- R. Mandawewala:** See the yarn spreads might actually, if I were to look at the yarn business I think the margins can fall off a couple of points but nothing beyond that because the costs have caught on now Maulik and so they have in China and Pakistan as well so clearly even if you took the cotton advantage out this spread will continue to be where they are today, yes, a couple of points on EBITDA so I won't be surprised if the spinning margins fall off this 2% but I am not seeing anything beyond that happening honestly.
- Moderator:** Thank you. Next question is from the line of Neeraj Mansingka from Edelweiss. Please go ahead.
- Neeraj Mansingka:** Sir just wanted to understand about the 1000 Crores which you are spending, how do you see the earnings coming because of those spending?
- R. Mandawewala:** As I said we are looking at 20% kind of IRR on every Rupee that we spend so you can apply that logic to everything that we do.

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- Neeraj Mansingka:** Sir just a color on how the industry is, you said the dyeing cost had gone up almost 40%, what has led to that, is it because of lack of capacity and sudden jump in demand, what I am trying to say is, is it a structural cost increase or it may come by because of the commodity market?
- R. Mandawewala:** Neeraj there are two factors which are driving this (a) of course is the currency factor, so very clearly this being a global commodity so the currency immediately impacts prices, two is their raw materials H. acid these are quite polluting, so there is a huge amount of regulatory pressure on this H. Acid and some of the other raw materials that they use to produce dye stuff, so because of that a lot of production outages are happening in that area so that also is making their raw material expensive and third is simply that we have taken advantage of situation and also actually improve their margin significantly so it's a combination of all these factors which has led to the sharp price increases in dye stuff and things like that.
- Neeraj Mansingka:** So obviously when the capacity goes up, there is a possibility that the prices will not go further even though the rupee may depreciate.
- R. Mandawewala:** No, the prices cannot move up further but I don't see them going down either, they should sit now where they are currently even if Rupee was to go to 68.
- Moderator:** Thank you. Next question is from the line of Deepak Agarwal from Impetus Advisors. Please go ahead.
- Deepak Agarwal:** Hi, good afternoon, for the last couple of quarters we were seeing some re-stocking by our clients so this quarter's revenue growth part of that must have come from the re-stocking?
- R. Mandawewala:** Yes of course.
- Deepak Agarwal:** Okay so then in that case do we see a slow down in growth in the current quarter and the next quarter?
- R. Mandawewala:** As we speak Deepak we have a very robust order book, certainly in this quarter the momentum will continue. Over and above that there is lot of new clients that we have gained; particularly in the period when things were slow, those businesses have also started kicking in so we are hoping to maintain the momentum that we currently have on the top line.
- Deepak Agarwal:** Sir last year Q3 was very good, we had 1300 Crores plus of revenue so can we do better than that?
- R. Mandawewala:** Normally I don't give out guidances, all I can tell you is order book is very robust so whatever that we can produce we will actually ship.

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- Deepak Agarwal:** Is there any part of our production where your capacity is under utilized currently?
- R. Mandawewala:** There is room for us to improve our business on bed sheets, our rug business can improve in terms of volume not to forget that we have just added our ability to make accent rug now which is residential carpet, so this also will get commissioned in November–December, it is sort of rug only so it is a different variant of a rug, so that will kick in some additional capacity on the rug side, there is still room for us to grow our rug business significantly, on sheets about 15%, towels about with some debottlenecking and better operating efficiencies another 10%.
- Deepak Agarwal:** Of the 1000 Crores capex how much is the capex on weaving?
- R. Mandawewala:** Can I come back to you offline on this, I don't have this numbers off hand.
- Deepak Agarwal:** Looms - we can commission we can utilize them fully from day one because we are already sourcing that?
- R. Mandawewala:** Yes in fact, as I told you 100 out of 140 looms are already commissioned, for us apart from this not only utilization but it has got actually no effect on the working capital because we will happily reduce our grade stock because more proportion will get produced in house our net-net working capital will not increase despite going vertical.
- Deepak Agarwal:** When the 100 were looms commissioned?
- R. Mandawewala:** Every day we are commissioning one loom, for the last three months it has been happening.
- Deepak Agarwal:** Lastly we had 180 Crores charged directly to the reserves during the quarter, how much of that is due to hedging and what is the balance for?
- R. Mandawewala:** 157 Crores is on account of hedging in H1 FY14 ; so bulk of it is on account of hedge, current negative balance from the hedge is 125 crores which is as of end September - this we had a positive 32 crores at the end of the year; so the net-net impact as of now is a negative 125 crores.
- Deepak Agarwal:** For the half year?
- R. Mandawewala:** 125 crore is the total hedge loss that we are currently carrying on our balance sheet; the total hedge is about \$300 million so on that this M-to-M is about 125 cr negative.
- Moderator:** Thank you. As there are no further questions I would now like to hand over the floor back to Mr. Nitin Mathur for closing comments.

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- Nitin Mathur:** Thanks. On behalf of Espirito Santo Securities I would like to thank the management team and all the participants for this call. Over to you sir for any closing remarks.
- R. Mandawewala:** Nitin thank you and thank you all the participants for hearing us out and I hope that you are happy with the performance that the company has delivered thank you.
- Nitin Mathur:** Thank you sir and all the best.
- Moderator:** Thank you sir. On behalf of Espirito Santo Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.