“Welspun India Limited Q2 FY15 Earnings Conference Call”

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Operator: Ladies and gentlemen, good day and welcome to the Welspun India Limited Q2 FY15 Earnings Conference Call hosted by Reliance Securities Limited. As a reminder all participant lines will be in the listen-only mode. 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. Nitesh Sharma from Reliance Securities Limted. Thank you and over to you, sir.

Nitesh Sharma: Thank you Shaima. Good afternoon ladies and gentlemen and welcome to the post results conference call of Welspun India Limited. From the management team we have with us Mr. Rajesh Mandawewala, Managing Director of Welspun India Ltd. Mr. Dinesh Jain, President, Finance, Welspun India Limited and Mr. Akhil Jindal, Director, Group Finance and Strategy. Good afternoon and a big thank you to the management team for coming on the call. I would now like to hand over the call to Mr. Mandawewala for initial remarks post which we can start the Q&A session. Over to you, sir.

Rajesh Mandawewala: A very good afternoon to all of you. Welcome to the Second Quarter Financial Year '15 this call for the investors. I am very glad to report that the company had a record performing quarter where the sales had come in at about 1414 crores with an operating EBITDA of 3017 crores, reported EBITDA of 336 crores. And profit after tax of 130 crores the cash profit at 230 crores. So on the top line we have grown 22% quarter-on-quarter, year-on-year. 25% operating EBITDA growth and 36% increase in the cash bag from 170 crores to 230 crores. The operating EBITDA is at 22 or slightly north of 22% and with a reported EBITDA at about 23.8%. And the PAT margin is 9.2%.

So it has been a rewarding quarter for us, a decent quarter for us and with the said order position the client fulfillment rates were good and all in all we are very happy to report the performance on the company. Coming on some balance sheet numbers the network of the company is now 1276 crores, the total long term loans and the short term loans put together so the total loan is about 2900 odd crores and with a net debt of 2540 crores. So this about a 100, 120 crores left as compared to March 31, 2014. So the company actually generated about 122 crores of free cash flow which helped us to reduce the debt and this is despite the 340 crores that the company spent on the ongoing this capital expenditure on ongoing expansion. So despite that we in the first half have generated a 122 crores free cash flow and this also have managed to reduce debt. The fix assets to the long term debt is about 1.5, gross debt to equity is 2.3, net debt to equity is about 2, net long term debt to equity is 1.17 and net debt to operating EBITDA is 2.16 based on H! and if we annualize this the net debt to operating EBITDA come in at 2.16 and which this we feel quite comfortable in the current circumstances.

So this is a significant improvement over last year if you look at our net debt to operating EBITDA, last year we were at 2.9 so this is down to 2.16. And also the net debt to equity was 2.4 which have gone down to now 2. So there's a fair amount of improvement, coming on the balance sheet. The interest out go in the current quarter has been higher as compared to the corresponding quarter in the last year by about 14 crores. This is despite the fact that we actually had lesser borrowing. Now this is coming from the fact that there was a 3% interest subvention that was getting on account of which was being offered to us as an incentive that has not been continued from 1st of April. Now there is a, not that there's no possibility of that coming back but as of now this expired on 31st March, 2014 and no renewal announcements had been made which is why the interest burden is coming at about 70 odd crores against about 57-58 crores, 59 crores in the last year.

So also the depreciation charge in the current quarter is higher, from 48 crores to about 72 crores. Now this is on account of two reasons, one is as you would recall we changed the method of depreciation to written down value. So there is part of depreciation increase that is coming on that account and the other being of course the capitalization of the ongoing expansion that we are undertaking. So we have capitalized almost half of the project that we are undertaking. We had undertaken to invest about 2500 crores of CAPEX over FY14, 15 and 16. So we are halfway through that, we have invested about 1200 crores.and the balance would be spent over the next 18 to 24 months.

Coming to the projects I'm happy to report that the large spinning expansion of 170,000 spindles is now operational. So end of this current quarter which is September '14 we have commissioned the 170,000 spindles, it could take us a quarter or two to stabilize the mill but we are now operational and in this going forward quarters we should start deriving some benefit from this spinning mill that we have implemented. So from that 1200 crores that we have invested significant things that have come already into play is 170,000 spindles. There is another 30,000 spindles mill which we have modernized and increase our production from let's say 10 tons a day to 25 tons a day. The carpet project has been partially commissioned so we are now capable of producing carpets. This of course happened in March of 2014 but we are now capable of producing carpets and as we speak the company is now executing its first orders on the carpet category which is a new product category for us. And this 140 looms for sheets were already commissioned in the last year and over and above that the open-end capacity of 25 tons a day that we have set up so that also got commissioned in the Jan to March quarter of 2014. So all these are operational now and giving us this better momentum in terms of earning of the Company.

Coming to the asset turn. So the fixed asset turnover for the first half is about 1.88, the total asset turn is about 1.27. Inventory days have reduced from about 82 days in the last year to 73days . Receivables are down to 28 days from 33 days and payable days are down to 45 days from 50 days and the cash converter cycle has reduced from 65 days to 56 days. So you would notice that there is an all round improvement in the working capital cycle and so we are able to turn our working capital faster as compared to the previous period. The Return on Equity for the first half is about 39% and return on capital employed is 16.7%, this is on a post tax basis.

The EPS on an annualized basis comes to 47 so for the first half we are at about 23.5 on the EPS. And as I said on the net debt front we are at almost 2950 crores. Just some words on the outlook, so the order position of the company continues to be healthy. Our plants are running at reasonable capacities. In fact in the September ’14 quarter we used our towel capacity more than 100% and so did almost nearly 100% on the sheet side as well. Now mind you we are consistently basis ongoing capital expenditure and expansion we are continuously debottlenecking let’s say both towel and sheet capacity. So we are not losing any opportunity on account of full utilization of towels and sheets. So steadily, slowly our capacity is continuing to increase.

In this quarter pre-Diwali we also relaunched our brand spaces in the domestic market. We are very happy with the kind of response that we are evoking from our channel partners both lifestyle retailers as well as our distribution network. So it’s gone down very well. Ms. Parineeti Chopra was our brand ambassador. So we are looking to now sharply focus on the domestic market and we are also available now on the digital platform. It now available on most of the commerce sites as well as let’s say our own site. So we have built both the frontend as well as the backend to expand our domestic market reach on the ecommerce platform as well. So that was a significant positive step towards taking better advantage of the domestic market.

Our innovation thrust has continued so our products that have been developed by the company have accounted for almost north of 25% of our revenue and obviously because these products are developed by us, innovated by us, so it helps us to better identify with our clients and this makes us very strategic in the eyes and minds of our customers. So our focus on the innovation continues and so happy to report that we are north of 25% of our overall sales on account of products that the company innovated.

All-in-all this is a decent quarter. I think business going forward is also looking pretty decent. So the India story is playing out ladies and gentlemen on the specialty cotton textiles. Company is able to take advantage of this because of being the leader in the business. So we are the number one Home Textile company in the international markets today. We are clearly the number one players in towels with largest towel international Company in the World. And also considering all the other product category we are the number one Home Textile business which in fact Home Textile today USA reported a second year in running to be the number one player within Home Textiles in the US market.

So pretty happy with the way things are in the company. The balance part of the capital expenditure is on course so as I mentioned the goal is to actually spend this money over the next 18 to 24 months. And primarily this made capacity available as and when we need it. We don’t want to put the cart in front of the horse. So our goal is as we invest money into expansion we should be able to quickly utilize it so that we don’t drag down the earnings of the company and at the same time we are also mindful to control our debt. And we started the year at north of 3000 crores in debt and we want to stay around that mark couple of 100 crores on either side. So we are spending our money in a very calibrated manner, very careful manner. And it pleases us as I said it report that we have a positive free cash flow for the first half of FY15.

So with this I would now just open the floor for questions. Just one more thing from our side a good news that I wanted to share with all of you and which is the company has actually declared its first interim dividend so in the board today the board approved 30% interim dividend. So we were comfortable since we have had free cash flows in the company. So the board has approved this. I'm very happy to announce that as well. So with this I will now open the floor to questions.

Operator: Thank you, sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Niraj Mansingka from Edelweiss. Please go ahead.

Niraj Mansingka: Sir, this is Niraj Mansingka. Sir, congratulations on the good numbers and I think interim dividend was also a pleasant surprise. So thanks on investors behalf. I've got a few questions one was on capacity, what would be the capacities of each utilization of day towels, linen rugs and yarn?

Rajesh Mandawewala: On your question on utilization, Niraj , the towel capacity was almost fully used. Likewise on the sheet side this is the strongest quarter for us. So the sheet capacity was also fully used. So we were almost 100% on both towels and sheets. On rugs we were about 60%. So that sums up the utilization. Having said that, see as I said, we are not losing any business opportunity and the capacity is continuously getting debottleneck. So we are currently capable of doing about 50,000 tons of towels and 60 million meters of sheeting fabric. This is our current capacity. So with all that, we are doing on the expansion side little by little the capacity is growing. So we are hoping that this capacity will be made available with the expansion as and when we needed.

Niraj Mansingka: Sir, just a curiosity, the capacity of the towels was 45,000 last quarter and sheet…

Rajesh Mandawewala: Now we are at 50.

Niraj Mansingka: Right. And the sheet, sir, 55, so there was an impact of…

Rajesh Mandawewala: Now we are at 60, so as of today as I said because of the consistent expansion happening, this capacity is also getting available to us. So we thought its prudent instead of going for big bang growth in capacity, we calibrate our growth in capacity as per the needs of the business. So gradually the capacity is consistently increasing.

Niraj Mansingka: Right sir. Sir, On the interest expenses can you give more color on how you see the expenses because the state subsidy is not yet accounted it seems. How do you see that evolving in terms of reporting as far as the cash flow is concerned?

Rajesh Mandawewala: I just informed that the increase in interest year-on-year is purely on account of the interest rate subvention we use to get this 3% interest back, because of dominantly being an export oriented company which got discontinued. So the increase in the cost is on account of that. Now overall the debt is where it was. In fact it's about 100 crores less. I'm talking about the total debt here. Going forward as I said we don't see our overall total debt position increasing going beyond 3200 to 3300 crores, we'll try and keep it at less than 3000 but even at the peak it won't go beyond the 3200 to 3300 crores. So-all-in all this interest should be reflected where it is currently being reflected. The Gujarat benefit has not been accounted for the simple reason we have actually applied for the benefit now so we chose to delay it for the reason that this benefit is for a period of 5 years. So we wanted to invest a reasonable chance before we applied for the benefit. So now that we have applied from October 1, a part of that benefit will start flowing in. We have about 700 crores which will qualify for the Gujarat benefit as well. So that benefit should start kicking in hopefully from the October quarter.

Niraj Mansingka: Sir, does it mean that from Q3 you will end up reducing… you'll account for that 5% subsidy?

Rajesh Mandawewala: Not really. My feel is that we'll be around the same level on the overall total interest basis.

Niraj Mansingka: Okay, got it. As a last question on the CAPEX, future CAPEX whatever remaining, some thoughts on that.

Rajesh Mandawewala: We are halfway through now. We have committed to about 2500 crores. We are 1200 crores plus already invested as of September 2014 and the rest of it will go to a), modernize our Vapi factory which is about 20 years old. So end-to-end this modernization as well as capacity expansion there. So that is one and then this increase in towel capacity in Anjar also sheeting capacity will be increased from 60 to 72 million. And then to automate a large part of our processes. So I have been mentioning all this expansion that we are undertaking will be headless growth. So we will continue to modernize, we will continue to automate so that we don't add the number of people to actually grow our business. So our overall headcount will remain the same. And on the back of that we will continue to grow the business. So we will invest the rest of the balance 12-1300 crores over the next 18 to 24 months. 18 months for sure but this might actually go up to 24 months as well. So as I said the guiding principle being we will spend the money when we need the capacity and 2 is we also want to be mindful of the overall debt book on the balance sheet.

Niraj Mansingka: Got it sir, thank you very much.

Operator: Thank you. Our next question is from the line of Abhijeet Dey from PNB Paribas Mutual fund. Please go ahead.

Abhijeet Dey: Good afternoon, sir.

Rajesh Mandawewala: Good afternoon.

Abhijeet Dey: Yes, just wanted to know if you can tell me the volume growth you witnessed in each of your segments, towels, cotton sheets and rug.

Rajesh Mandawewala: On an overall basis, Abhijeet, our volume growth is about in double digits. If you look at the second quarter we are about 14% volume growth.

Abhijeet Dey: Okay, right. And what is the outlook in terms of volume growth because I guess the US market has somewhat been temperate at least on the cotton sheet side at least this calendar year.

Rajesh Mandawewala: Look, we are not witnessing, at least we are not as a company witnessing any significant slowdown. Yes, the back to college season which was July, August, September, that was a little slower than what the customers, the retailers really expected. But having said that, this is not a significant thing that is worth worrying about so all in all our order position continues to be decent. We are amongst the top four or five companies now in the world very strategic to our vendors. So we continue to grow our business within each product category and also different product category. So we are not overly concerned with what is getting reported because at least in our product categories we are not witnessing any slowdown there.

Abhijeet Dey: Right. And in terms of US and Europe what would be the basically contribution from Europe right now?

Rajesh Mandawewala: We are about 61%,in America. We are about 17-18% in Europe and the rest of it is coming from the other parts of the world. Domestic market is about 5%.

Abhijeet Dey: Thank you, sir and all the best.

Rajesh Mandawewala: Thank you.

Operator: Thank you. Our next question is from the line of Shaurin Shah from Enam Holdings. Please go ahead.

Shaurin Shah: Hi, sir. Congratulation on a good set of numbers.

Rajesh Mandawewala: Thank you.

Shaurin Shah: First of all a data question, could you share the product wise and geography wise revenue share?

Rajesh Mandawewala: Americas was about 61%. Europe about 18-19 % as I said. 5% is India, rest of it is coming from the other parts of the world. We are making good inroads now in Japan, so while it is only 1% of our overall business but we have managed to now open doors with almost all the major retailers there. So in either selling to them or having very active business dialogue with them, Europe continues to grow for us. So year-on-year our Europe business is actually growing north of 25%. Rest of the world is growing north of 25%. India, sales in India has actually grown 40%. And the slowest rate of growth is actually in America which has come in at about 17%. So by and large all the geographies are growing for us and the fastest growth is coming from India followed by Europe and the rest of the world.

ShaurinShah: Okay. And sir, product wise you have any…

Rajesh Mandawewala: 55% is towels, 27% is sheeting and about 8% is Bath Rugs and the rest of it is other product categories.

ShaurinShah: Okay, sir. Sir, what was our dollar realization during the quarter?

Rajesh Mandawewala: Close to 64.

Shaurin Shah: 64?

Rajesh Mandawewala: Yes. As you know in the company got this policy of hedging 60% of its exports forward for 1 year. So as we speak we are in the second week of November so we are today selling exchange for the second week of 2015. So we get that benefit of the premium on 60% of our revenue which is why on an average basis since we have actually average slightly north of 64.

ShaurinShah: Okay, sir. Sir, what's your outlook on the current cotton prices and what's our strategy on cotton procurement?

Rajesh Mandawewala: Look we are still continuing with, we have stocks until the end of November 2014 from the last season and thankfully so because the current quarter is actually very late in terms of arriving. It has started arriving but the quality is still not where it needs to be. So from our last year average of about Rs. 39-40,000 a candy the current market prices are down to about 33,000 per candy. My view is this is the average that we are going to see for the next cotton season. So anything between 32,500 to about 34,500 per candy, so the prices should oscillate between this range with a mean of about 33-35000 per standy which is the MSP. So anything lower than this the government will step in to buy cotton and the market conditions don't seem to allude that the prices will move up. So we are looking at this 33,500 per candy kind of an average for the next season.

ShaurinShah: Okay. and sir, one more thing, any update on the FTA, FTA to Europe?

Rajesh Mandawewala: Unfortunately there's not much movement on that currently happening. So the current mindset in the Government is Make in India, there is a fair bit of concern on you know what an FTA with Europe could do to the domestic industry particularly on the industries like automobiles and wine and stuff like that So having said that it's not dead and buried, so the commit is still active so there are parlance, there are deliberations are happening. I think the process has been pushed off by a couple of quarters. So hopefully sometime in the next year we should start seeing some active discussions happening on that front.

Shaurin Shah: Okay. And last any thoughts on the dividend policy like we were expecting for more dividend from your side.

Rajesh Mandawewala: You are never going to be happy isn't it So there will be a policy so we are committed that we will deliver a policy. All we want to do is get pass the major part of this expansion that we are undertaking. As we have seen free cash flow we are distributing, so give us another 12 months I think in the next 12 months a good part of the expenditure would be behind us. So with no major overhang on the outflow of money we will come out with a clear policy. So our mind is very clear that once we get pass this major CAPEX of 2500 crores. Let's say now the balance 12 to 1300 crores. There will not be another big bang capital expenditure in the company and we have an alternate strategy to continue to grow our business despite that. So once we are there you will see our policy from us.

Shaurin Shah: Okay, sir. Thanks a lot, sir.

Operator: Thank you. Our next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Yes. Good evening, sir.

Rajesh Mandawewala: Good evening.

Dikshit Mittal: Yes. Sir, just wanted your thoughts on your competitor, they are spending capacity very aggressively particularly Trident , so do you see any threat because now everybody wants to get good use of this tough policy and all so they are coming out with the new CAPEX plan. So do you see this competition intensity again like increasing forward in the US and European markets?

Rajesh Mandawewala: First of all I will refrain from commenting on our competitor's business because that is not my business. Having said that I will take up the issue of how it is going to impact our business. So to the best of my knowledge let's say the Trident plant was commissioned the fourth quarter of FY14 so it has been around for almost these two or three quarters. So as of now, we do not see any negative fallout from this additional capacity which has come up. Our clients are happy working with us. In fact at least our clients are not even bringing this up with us. So we are very confident of not only retaining but also increasing our market share. I strongly believe there is enough business for everybody. Today Welspun is accounting for almost 40% of all exports out of India clearly by far the largest player on towels in the international market, clearly the number one exporter of towels by a distance out of India. So I think we find ourselves in a very let's say comfortable situation with our clients. And this is coming on the back of two or three very important things that the company is doing and which is a), a huge thrust on innovation. So we are consistently innovating products and this keeps our clients excited. b), is our delivery track record has been almost flawless and I would touch wood on that that we've been almost 100% on time in terms of delivery and our clients actually are very happy about that and our quality record has been flawless and over and above that see we offer them this 360° solution. So we offer them market research, we offer them consumer research, insights, we offer them help on the marketing side, packaging, point of sales communication, creating ads and prints and things like that. So it's a holistic offer, it's not a product that we are actually selling to our clients. It's actually a solution that we are offering. So we help our clients improve their business and in that sense they actually have almost a unique position in the market place. And our clients at least view us as a unique vendor in that respect. So coming back to your point we do not see much negative impact on account of compared to Competitor capacity, God bless them with whatever they have done. But I do feel there is enough business for all in the market place. Our philosophy has been very clear that we do not want to put capacity ahead of demand. So we have a slightly different philosophy. I do not want to put my investors' money into assets where I don't have 100% confidence that we'll be able to use that capacity. So which is why we are calibrating our investments and we are pretty happy that. So I hope that answers your question.

Dikshit Mittal: Yes. Sir, secondly doing first half you had maintained your margins at around 22%, so sir, what are your thoughts going forward, will you be able to maintain the margins under current levels or will they will further improve from here on?

Rajesh Mandawewala: This is where our comfort zone is. So 21-22% is our comfort zone and we have consistently been around this mark if you look at our results for the last several quarters maybe even eight quarters. So we have been around the 21-22% mark all throughout. So this is where our comfort zone is and we feel reasonably confident to stay around these levels in terms of margins.

Dikshit Mittal: Okay. And sir, because the full impact of the spindle your backward integration will come in third quarter, so can we see further margin improvement as compared to second quarter?

Rajesh Mandawewala: See there are some things which will help margins, there are others which will not help the margin. So while there is certainly the advantage from integration which will come in but see there are cost like for example the wage cost and things like that which consistently keep on growing. So all-in-all see the margin will move on point here and there. But by and large this is what you should expect out of the Company and I'm a term view here not quarter-on-quarter. So you ask me do you feel good about delivering this level of margin for the next several years I would say yes. So this is where our comfort zone is. Having said that on a given quarter you might actually end up delivering a slightly better margin because of some tailwinds, in another quarter you might deliver a margin which is a point less. But by and large I would encourage you to look at our business on a steady state margin of what we are currently reporting.

Dikshit Mittal: Okay. Thank you, sir.

Operator: Thank you. Before we take the next question a reminder to all the participants, anyone who has a question you may press * and 1 on your touchtone telephone. Our next question is from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Yes. Good afternoon, sir.

Rajesh Mandawewala: Good afternoon, Siddharth.

Siddharth Mohta: Sir, in your initial remarks you have mentioned that you have commissioned 170,000 spindles and 140 looms was commissioned in FY14. After which you said that carpet capacity has also increased from 10 tons to 25 tons, I missed that particular part.

Rajesh Mandawewala: That was not carpet really. We also have a a coarse and medium count spinning capacity of about 30,000 spindles. So we actually debottleneck that and from this 10 tons a day we have moved to 25 tons a day within those 30,000 spindles. So that is accomplished. Open-end we had a 25 tons capacity. All this had actually happened in the Jan to March quarter of '14. So I was just giving a snapshot of what has already happened on the expansion front so just to refresh your memory. So in totality 25 tons of open end spinning has been added. One medium count spinning mill capacity has increased from 10 to 25 tons without adding spindles. But we have added preparatory in other machines. 170,000 spindles have been commissioned, 140 sheeting looms have been commissioned. Partial debottlenecking of sheets and towels has happened to increase the capacity. And partial capacity of carpets is now commissioned. So this is what is now already in play and this has happened over the last 12 months. So I was just refreshing because the expansion has been going on for 18 months so I was just trying to refresh that the 1200 crores that we have spent, this is what is currently in place and which is giving us some revenue and this margin also.

Siddharth Mohta: Okay. Sir, my second question is with respect to your segmental result in power which has swing from on y-on-y basis from 1 crore to around 17 crores. So now it has stabilize actually because last year it was like 20 crore loss at EBIT limits.

Rajesh Mandawewala: Yes. So this has not only stabilized now, last year in fact for the first half our losses were almost 22-23 crores. So from there in fact in the second quarter we are actually net profit is positive also in the power plant and we have still not seen the best because the plant is still operating at about 75%. So as we complete all the expansions that we are undertaking this capacity utilization will grow to about 85-90. So we should only expect improved performance on the power plant from here on.

Siddharth Mohta: Okay, sir. That's all and all the best to you.

Rajesh Mandawewala: Thank you.

Operator: Thank you. We have the next question from the line of Rajesh Kothari from ALFAccurate Advisors. Please go ahead.

Rajesh Kothari: Good afternoon, sir.

Rajesh Mandawewala: Good afternoon.

Rajesh Kothari: Just wanted to check that on this since you already talked about CAPEX level as well as the date level which you would like to have over the next one and a half to 2 years, do you have then stated payout policy?

Rajesh Mandawewala: As I just recently mentioned see we still have about 12-1300 crores of CAPEX pending which we have to invest over the next 18 to 24 months. Now we will certainly come out with a policy that all we want to do is get past a bulk of this capital expenditure so that if we know that free cash flows are coming at a faster pace going forward in the future. So I would say that you should expect a policy from us let's say 12 months from now. So it is there, let's say it is occupying a very high attention in the mindset or our top management and we will certainly come out with a policy. But for us to be a little more comfortable we want to get passed a reasonable part of this balance 12-1300 crores of capital expenditure.

Rajesh Kothari: I see. So basically in the current year going by our profit size and let's assume that full year is half into two, so then whether do you see increase payout overall compared to what we have done in first half?

Rajesh Mandawewala: Rajesh, the desire is to payout as much as we can. So the thinking of the management is very positive in this direction. So we are looking at it very, very positively but having said that we have to look at the free cash flows of the business as well. So particularly in light of the fact that we have 12-1300 crores of CAPEX left, So Without making any commitment let me tell you that we are positively inclined on distribution.

Rajesh Kothari: Perfect, thank you.

Operator: Thank you. Our next question is from the line of Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: Hello?

Rajesh Mandawewala: Hello.

Riken Gopani: Hi, sir. Thanks a lot for the opportunity and congrats for the great result. Sir, first thing that I wanted to understand is what would be the broad revenue growth across our key revenue categories towels, sheetings, rugs, what would be the broad growth rate?

Rajesh Mandawewala: Unfortunately I don't have that, by categories I don't have it but all-in-all we were about 22% plus in the current quarter.

Riken Gopani: Okay, sir. That will do. You also mentioned that you have got an order on the carpet side and you have put up a capacity as well. What is the capacity there and could talk more about the potential of that category?

Rajesh Mandawewala: See Carpet actually is a fungible category with rugs business that we are already in. So with carpet now it gives us ability to make bigger floor carpets. And things that go under the table and things like that. So it gives us that ability and also now we have added capacity to actually print this carpet which we did not have. So all-in-all when we talk about capacities we talk about capacities of rugs and towels together. So our current capacity is about 15 million units between rugs and carpets put together.

Riken Gopani: Okay. With a revenue potential of?

Rajesh Mandawewala: With a revenue potential in excess of Rs. 100 million. Currently we are at about 50-55, our current run rate is about Rs. 55 million so we can actually double our business from here.

Riken Gopani: Okay. And the growth here is there in India as well or this is mostly in the export side that the growth is coming through?

Rajesh Mandawewala: India we have just about begun now with the re-launch of the SPACES brand in the domestic market. But it's not such a substantial business in India yet but we have seen very promising signs coming from the rugs and carpet market. So a couple of retailers that we recently launched our products I was informed that we have actually become the best seller there. So the customers actually like our products here in India as well.

Riken Gopani: So the order that you want on the carpet side is in export order at least.

Rajesh Mandawewala: Domestic we are already shipping. We have also started exporting now.

Riken Gopani: Okay. Got it. One point on the launch which you mentioned for the India brand, was there any expenditure on that account given that you would have advertised quite a bit because of that. Was there any expenditure on that account which was…

Rajesh Mandawewala: If you have somebody who will do it free for us please send them to us.

Riken Gopani: What I meant is that I wanted to understand the margins slightly better, was there any expenditure of a significant amount which was there in this quarter?

Rajesh Mandawewala: Yes, there has been some spent. Part of it has been in the current quarter, the rest of it is in the October quarter for obvious reasons, Diwali was in October and this was the time when we were more intense. Yes, there has been a significant amount of spent which has happened in the September quarter. And you will see us more and more visible so we are talking our domestic market opportunity very seriously. So this spend will only increase from here to grow our market share here in India.

Riken Gopani: Okay. And some clarifications on the P&L side. One is there has been an increase in the raw material cost, was that because we had a high cost inventory which has led to a higher increase in raw material cost this quarter?

Rajesh Mandawewala: I do not think we have a significant increase in the raw material cost. There is also an inventory adjustment that happens, so there has not been a significant increase in the raw material cost. the raw material cost was quarter-on-quarter basis 51 Crores. So you know we are actually almost the same as compared to the same quarter the corresponding quarter last year.

Riken Gopani: Okay. What would have been the average cost for the quarter, is it still higher than the current average?

Rajesh Mandawewala: The raw material?

Rajesh Mandawewala: No, no, no, we are almost at the same level.

Riken Gopani: Okay. So you don't envisage that post November there could be any benefit because of raw material prices having cooled off as compared to the earlier levels?

Rajesh Mandawewala: Look we have inventory in the chain. And we have also cotton which will go through end of November. So for any impact of the raw material to come and hit our P&L would only be next year. The impact of the inventory will continue for the next four or five months. If at all there is an impact it will only be felt possibly in the back half of the fourth quarter so not before that certainly.

Riken Gopani: Okay got it. And on the benefit that you have derived on the basis of commissioning of capacity already is there a way we can understand what would have been the quantum of benefit that you would have derived because of the backward integration in the quarter?

Rajesh Mandawewala: Very difficult to do that because see all these expansions they are not green field, they are all brown field, all just within the same premises, within the same building. So for us to get that kind of information we think would be costly and over analyzing. Not really, this is very difficult for us because see again the capacity and all this is happening quarter-on-quarter. Something is happening this quarter, something is happening the next quarter. So very, very difficult for us to isolate that really.

Riken Gopani: Okay. And just one last question, on the margin which you mentioned that you would be comfortable in the current range, have we also given any price reductions to any of our customers in the last three months or did it remain…

Rajesh Mandawewala: Not yet. But there is a back and forth process with our clients. So as a good vendor if we have a favorable cost push we have to pass it on to our client over a period of time. And likewise when our cost is increased the clients give us price increases. So if you take the last 2 or 3 years we have had two or three price increases with our client and we have also reduced our prices one time. So the goal is to keep our reasonable margins at a consistent level and not be greedy because if you'd be greedy and tomorrow if cost comes and it hits us adversely our clients wouldn't pay for it. So we like to take a balanced approach with our price.

Riken Gopani: Okay. So this guidance is taking that into account that whatever you might have to.

Rajesh Mandawewala: Yes, of course.

Riken Gopani: Okay, got it. Great sir. Thanks a lot from my side and all the best.

Operator: Thank you. Our next question is from the line of Aman Sonthalia from Suvrithi Capital. Please go ahead.

Aman Sonthalia: Good afternoon, sir and congratulation for such a good result.

Rajesh Mandawewala: Thank you.

Aman Sonthalia: Sir, what is the scope of our brand and this Christy brand going forward?

Rajesh Mandawewala: Well, we have been very pleasantly surprised with the results that we have seen with the re-launch of the SPACES brand. In fact pre advertising campaign we had actually launched a very expensive collection. Test launch are very expensive collection in the Bombay market and to give a flavor the towel was at Rs. 1000 and the sheet was almost Rs. 3000 a unit. And it became the fastest selling thing from the counters that we actually test launch this product. So I am very, very encouraged with what we have seen. That gives us a lot of hope to grow the business exponentially actually going forward in the future.

Aman Sonthalia: Sir, there is one suggestion from my side that when you distribute the dividend you must give them discount coupon with that dividend so that it will also go down very well with the shareholders. I think there'll be an increase in the sale also

Aman Sonthalia: This is a very good and a very valid suggestion. So we'll certainly take note of that.

Rajesh Mandawewala: Sir, next question is that you have invested around Rs. 230 crores in SEZ, what is this all about I don't… able to understand sir.

Aman Sonthalia: It was in the last year so this is about 500 acres of land which is a part of the contiguous block of land that we own in Anjar. And this company was then let's say the taken over of by Welspun India in the last year. So this is a part of the contiguous land that we are currently occupying and a part of it which is also getting used for the expansion project. So by and large it was sitting somewhere else so this is a part of let's say the consolidated balance sheet of Welspun India. But this has already happened in the last year.

Aman Sonthalia: And sir, one more question is that you are expanding your capacity of bed sheet from 60 to 72 and towel from 50 to 60. So when this expansion will get completed and when you will start the extended capacity?

Rajesh Mandawewala: This is happening on a gradual basis. There is nothing like a new plant that is coming up. So it's a gradual thing. We are expanding our capacities in our existing plants in Vapi and Anjar. So there is nothing big bang that is happening. So gradually every three months, six months some capacity we are increasing by debottlenecking adding machines. So all this will be over by the end of FY16. So that is what we are working towards.

Aman Sonthalia: Okay. And going forward do you think there will be around 10 to 15% compounded growth in turnover?

Rajesh Mandawewala: We hope so. See the company track record if you look at our historic track record we have always grown in double digits which we feel quite comfortable growing our business in double digits.

Aman Sonthalia: And one more question, as you have said that you will not increase the headcount in the company and also the loan will be very much around the Rs. 3000 Crores so going forward if EBITDA margins remain the same but I think the profit after tax will be much higher because this interest cost will remain the same.

Rajesh Mandawewala Interest cost should remain where we have reported in the current quarter but having said that the depreciation charge will go up. So the cash profit will certainly significantly improve. PAT should also increase but the cash PAT will, even in this quarter if you see, actually the PAT has grown from 116 crores to 130 Crores which is 11-12% growth but the cash profit is up by 36%. So the impact will be sharper on the cash PAT and on the profit after tax.

Aman Sonthalia And sir, which is the best quarter for the company?

Rajesh Mandawewala: Actually historically the second quarter has been a good quarter for us. The last 2 or 3 years at least this has been the best quarter for the company.

Rajesh Mandawewala: Okay. what about the December quarter, it will be very much like this or better than this?

Aman Sonthalia: Look, I don't want to make futuristic statements here but having said that the order position is decent so there are no surprises I have here. End of the day it is not only the next quarter but I think we are looking good for the current year.

Rajesh Mandawewala: Okay, sir. Thank you, this is from my side.

Operator: Thank you. Next question is from the line of Pulkit Agrawal from Karma Capital. Please go ahead.

Pulkit Agrawal: Hello sir, thank you for taking my question and congratulations at delivering a good set of numbers.

Rajesh Mandawewala: Thank you.

Pulkit Agrawal: Sir, I wanted to check with you if you have a guidance on revenue for the next 2-3 years and how would the product wise block breakup of revenue look after 2-3 years, will it remain the same or will some product gain in its contribution to revenues?

Rajesh Mandawewala: I think by and large our buy would be almost in the same ratio that it is currently. And we feel that our business is good to grow in double digits for the next several years.

Pulkit Agrawal: So sir, could we expect in double digits higher teams or greater than 25%?

Rajesh Mandawewala: Don't ask me to quantify this, it's a very difficult question. But teens is we are comfortable in the teen so you should expect that from us.

Pulkit Agrawal: Thank you, sir.

Operator: Thank you. Our next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: Congratulations and thanks for the opportunity. My questions have been partly answered. It was most on a perspective of the top line growth but just to understand more, sir, you made a statement that you said that there won't be an increase on the CAPEX on the frontend side of it or finished goods side of it. And you have a strategy to probably to ensure that you don't lose out as well. Can you elaborate a little bit more on this, I mean what exactly…

Rajesh Mandawewala: So see there are parts of this value chain, manufacturing change which we are looking to ancilarize**.** So the biggest investment if you look at our business, the biggest money that you spend is actually in spinning to make yarn and then to make fabric. So almost 60% of your capacity CAPEX is actually in spinning and weaving. So these areas we are actually now wanting to ancilarize and attract business partners who will come and make investments. And we give them some kind of an assurance and we are inviting them to come and set up factories close to our factories in Anjar. Give them some kind of an assurance and on the… so they on the one hand get benefit of the Gujarat Policy, very low, or no indirect taxes, very low freight rates, reduction in packing cost, reduction in working capital interest. And we on the other hand are able to take this CAPEX off our balance sheet and put it on our partner's balance sheet. So we are kind of working on a solution.

Jigar Valia: Perfect. And sir, after this expansion is complete on a general run rate what would be the maintenance CAPEX?

Rajesh Mandawewala: There's about about 100 crores on a growing steady basis.

Jigar Valia: 100 crores on a quarter?

Rajesh Mandawewala: Annual basis.

Jigar Valia: Okay. Great sir. So now if we are looking at you probably conservatively guiding that you are comfortable with growth rate of teens but when you are giving the region-wise break up and with US also which is the larger pie right now, 62, even that is growing at 17% whereas the other markets are growing at 25 to 40%. So clearly one is the overall growth rate, secondly with the mix also clearly it's the Non US regions which are growing at a faster click, a little bit on a lower base. So the mix also cannot really remain the same as you kind of suggesting right now.

Rajesh Mandawewala: The geographical mix you are right, it's by design we are looking to grow our business in the other parts of the world as we are sufficiently penetrated in the Americas. So even from an effort perspective, from a design perspective, we are wanting to grow our business at a much faster **pace with** other markets similarly.

Jigar Valia: Right. Okay. Now sir, while this mix may change, maybe given the efforts that we are putting in if you can also explain how does the margins really pan out across regions for us and if there are any difference in the working cap cycle particularly like I would understand India would have a very different working cap cycle as compared to US market.

Rajesh Mandawewala: By and large I would say a big part of our business is actually LC governed. So the working capital cycle is by and large the same for all the international business that we have. And for the domestic market it was slightly different. Obviously we need to carry inventory and also the payment terms there are credits involved. So it's a longer working capital cycle. So from a margin perspective our international business I would say by and large it is almost within two or three points, in terms of margin from one country to the other. By and large there's not much difference and we don't follow a differential pricing kind of a strategy when we go to one country from the other. So by and large we try to hold our margins wherever we go out and sell.

Jigar Valia: Perfect. Sir, my next question pertains more to this CAPEX that we have done 1100 crores right now and overall 2500 crores. How much would this really add to… this kind of CAPEX can add to our PBT?

Rajesh Mandawewala: You have seen now that half of it is already invested over the last 18 months. And the impact has already started coming. In fact if you look at the last four quarters you are seeing some impact of this, little by little coming into the results of the company. So you are already seeing an impact of the results that we are presenting to you.

Jigar Valia: I was actually slightly confused because all this is that CAPEX is more towards the backend and more towards spinning, I was clearly hoping for towards a guidance on a margin expansion because that should reflect on the higher margins then get lower by depreciation and interest and certainly the cash profit will be higher. But the EBITDA margins should certainly be a much higher number as compared to what we have currently.

Rajesh Mandawewala: There are two-three things. A), whatever money that we have spent while… a good part of it has gone to backward integrate but if you look at the last 18 months every single product category our capacity has increased. So a good part of money is also invested to increase a little bit towel capacity, a little bit in sheets, a little bit in rugs. As I said we are also calibrating the finished goods capacity growth as we need the capacity for our customers. So we are calibrating that. So that is already happening. And when you look at the margins while there is a positive push with **captive** consumption but if you look at the overall scheme of things there's still a lot of household things that we do in terms of fabric. There is still a lot of outsourcing that we do in terms of yarn. And when your overall business is growing the impact on the overall total margins of the business. This becomes not as significant as one would expect with the backward integration. And B), there is also the currency factor. So you've got some favorable push from the currency, sometimes you get an adverse impact on account of the currency. So all said and done and there is also the constant negotiations and repricing that you do with your clients on new businesses and things like that. So all-in-all as I said and I have been repeatedly saying this that the business is good for 22%. In some quarter you might see this dropping off a point here and in one quarter you will see a 1 or 2% increase if you have a favorable tailwind. So those changes you will see but all-in-all from a sustainable perspective, I would say we would be comfortable around the current margins that we are currently reporting. Having said that if you ask me in a current quarter can you be a little more than this, the answer is yes. In a given quarter can you be slightly less than this that is also possible. So you have to allow for the variable to play out but all in all with the diversity in the business I think on a sustainable basis we feel that the current levels of margins is where our comfort is going to lie.

Jigar Valia: Great. Thank you so much, sir. Thank you.

Operator: Thank you. Participants that was the last question. I now hand the floor back to Mr. Nitesh Sharma for closing comments. Thank you and over to you, sir.

Nitesh Sharma: Thank you everyone for participating in the call. Mr. Mandawewala , any closing comments from your side?

Rajesh Mandawewala: Well, thank you very much all of you for having taken the time out and I hope you are happy with the performance of the company and hope to continue to enjoy your support in the future. Thank you.

Operator: Thank you. Ladies and Gentlemen on behalf of Reliance Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.