Trident Limited

Q2 FY15 Earnings Conference Call Transcript
November 18, 2014 at 11.00am IST

Moderator: Ladies and gentlemen, good day and welcome to the Trident Limited conference call. 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 this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you.

Nishid Solanki: Thank you. Good morning and welcome to the Q2 FY15 earnings conference call of Trident Limited. On the call today, we are joined by senior members of the management team including Mr. Pawan Jain – Group Company Secretary, Mr. Gunjan Shroff – Chief Financial Officer and Mr. Siddharth Gupta – Manager, Investor Relations. We will commence the call with the opening remarks from the management following which we will have an interactive question and answer session.

Before we begin, I would like to highlight that some of the statements made or discussed on the call may be forward looking in nature and a note to that effect has been included in the conference call invite sent to you earlier. The company does not undertake to update them publicly. I would now like to invite Mr. Pawan Jain to make his initial remarks. Thank you and over to you sir.

Pawan Jain: Thanks Nishid. Good morning and a warm welcome to everyone on the Q2 FY15 earnings conference call of Trident Limited.

I will begin by sharing the corporate developments and the operational performance of the Company during the quarter across business segments, following which Mr. Gunjan Shroff will take you through the financial highlights for the quarter and half-year ended September 30, 2014.

After demonstrating a healthy performance last fiscal, Trident reported a steady performance during the quarter marked by decline in yarn prices globally and reversal in Chinese policy on cotton. In addition, stock of higher priced cotton inventories combined with softer yarn prices impacted spreads and thereby margin in the yarn business. Having said that, the performance of Terry Towels business was strong on the back of expanded capacities, improved demand scenario from key geographies and our continuing focus on value-added products.

Let me give you some of our perspective on Textile industry.

The Indian spinning industry is going through a rough phase with significant decline in the prices of yarn due to steep correction in cotton prices. Cotton prices have declined about 20-21% globally, though domestic yarn prices have been resilient with 14% decline. Demand for cotton yarn in the domestic market remains strong and will partly compensate for the decline in export demand especially from China. Due to reduction in demand from China, the raw cotton exports from India are expected to reduce substantially over the forthcoming quarters leading to an increased cotton stock position in India as compared to the last year. While the correction in cotton prices would help yarn manufacturers given that the cotton procurement would start soon, high priced cotton inventories of last year are playing a spoilsport thereby impacting margins. Given these sectors, we expect the performance of Trident's yarn business to be soft in the next quarter as well. However, with the new cotton coming in, we expect the margins in the yarn business to normalize Q4 onwards.

Terry towels, on the other hand, have shown good growth due to improving demand scenario leading to strong order book position supported by our branding initiatives, expanded capacities and penetration across online portals. The Indian e-commerce market is set to grow manifold in the forthcoming years primarily driven by increased internet penetration along with rising standards of living and availability of much wider product range. Trident Limited is set to capitalize on this opportunity given its presence across leading online portals and television shopping.

Paper business has shown margin improvement during the current quarter in spite of increasing raw material prices during the quarter whereas better efficiencies, raw material mix and allocation of capacity to branded copier paper helped us to improve margins as compared to corresponding quarter of last year.

Let me now take you through the segmental performance of the company:

Net sales in our Textiles business were low during the quarter on account of declining spread in the yarn segment and enhanced captive consumption of yarn from 19% in Q2 FY14 to 33% in Q2 FY15. However, the de-growth in yarn business was partly offset by improved offtake in Terry Towel volumes and better contribution from high margin value-added products. I am pleased to state that our Terry Towel and yarn mix currently stands at 53:47 vis-à-vis 46:54 last year which is in line with our focus on increasing the proportion of home textile in the overall textile mix to move away from the commodity cycle. To give you a perspective on operations, total yarn production during the quarter stood at 21,932 MT, while the total sales volume came in at 21,919 MT.

Terry Towel production improved to 8,529 MT, up 16.6% Y-o-Y while the total sales volume picked up by 20.7% to 8,517 MT. To give you a perspective, value-added products contributed 39% of total textile revenues in H1 FY15. Our focus on expanding into new geographies, penetrating in the domestic market, enhancing our presence across online portals and branding initiatives has delivered sustained results. New products launched over the past few months have positively contributed to the performance and we foresee a better H2 for our Terry Towel business. In addition, the expanded capacities are under stabilization and currently we are operating at 30% utilization rates. Our focus is on ramping up utilization rates and we expect to close the year with average utilization of close to 45% which would further augment performance going forward. The full impact of expanded capacities will be visible from FY16 onwards.

Our Paper business sustained strong performance vis-à-vis the same period last year. Total paper production during the quarter stood at 37,853 MT while the total sales came in at 38,228 MT. The value-added copier segment contributed close to 47% to the total paper production. The branding initiatives undertaken over the last few quarters have shown positive results and this would drive sustained growth in the paper segment. In addition, we are consciously focusing on growing our value-added portfolio and further penetrating into the domestic market through tie-ups with large institutions for writing and printing papers.

Before I conclude, I am happy to share that in-line with our long-term focus of being in the largest textile player, the Company recently inaugurated the world's largest Terry Towel plant at Budhni, Madhya Pradesh comprising of 300 looms which will add close to Rs. 1,800 crore to the topline at optimum utilization. With this expansion, the installed capacity of Trident has increased to 688 looms, making Trident the largest manufacturer of terry towels in the world. In addition, the Company has also laid the foundation stone of its composite textile project comprising of two spinning units and a bed linen unit of 500 looms. The work is progressing well and we expect to commence the production by September 2015. I would add here that Trident has once again being honored with prestigious TEXPROCIL Silver Trophy for second highest exports of Terry Towels in made-ups in financial year 2013-2014. This has been the 9th consecutive year that Trident has been honored by The Cotton Textiles Export Promotion Council.

I would also like to share that the Board of Directors have approved the Dividend Policy of the Company where the Company would endeavor to pay 6% of the face value per share as dividend every year, subject to the gross dividend payout not exceeding 33% of the net profit after tax of the Company.

While the growth in first half of the year was moderate, we are confident of delivering a better performance in the second half on the back of our expanded capacities, order book position and improved product portfolio. In addition, we would strive to contain our debt and finance costs resulting in a healthy balance sheet.

With that, I would like to hand over the call to Mr. Gunjan Shroff – Chief Financial Officer of Trident Limited who will share the financial performance of the Company for Q2 & H1 FY15. Thank you.

Gunjan Shroff: Thank you Pawan and a warm welcome to everyone present on the call today. I would like to take you through the financial highlights of the Company for the quarter and half-year ended 30th September, 2014.

During the quarter ended 30th September, 2014, the total revenues stood at Rs. 962 crore vis-à-vis Rs. 1,000 crore in the corresponding quarter of last year. EBITDA came in at Rs. 156 crore while the EBITDA margins stood at 16.2%. Profit after tax stood at Rs. 21 crore as compared to Rs. 73 crore in the same period last year.

For the first-half, our total revenues improved at Rs. 1,875 crore as compared to Rs. 1,873 crore last year. EBITDA stood at Rs. 340 crore. EBITDA margins stood at 18.1% and profit after tax came in at Rs. 53 crore.

Let me share with you our segment-wise performance.

During the quarter under review, the revenues from textiles segment was lower at Rs. 752 crore compared to Rs. 787 crore in the same period last year. PBIT came in at Rs. 54 crore, while PBIT margins were at 7.2%. While lower spreads in the yarn segment moderated our margin performance, this was partly offset by improved performance of our Terry Towel business giving higher contribution from our value-added products. Revenues in our Paper business came at Rs. 209 crore, while the PBIT was higher at 17.5%.

The total debt of the Company as on 30th September, 2014 stood at Rs. 2,349 crore resulting in a total debt-to-equity ratio of 1.7:1. Trident has repaid close to Rs. 136 crore of the outstanding term loans during the quarter resulting into 14% decline in the finance cost. As on 30th September 2014, the outstanding term debt of the Company stood at close to Rs. 1,800 crore.

I am glad to inform that CARE has upgraded its credit ratings on Trident's long term and short term bank facilities. This revision in ratings factors in the improvement in the operational and financial risk profile of the Company marked by growth in operations, better profitability and improved capital structure.

The outlook for the second half looks buoyant and improved. While we expect a similar trend in the yarn segment given the uncertain cotton scenario and compression in spreads, the offtake in Terry Towels would progressively improve in the second half led by capacity addition and other branding initiatives as well as higher rate realization. Paper segment is also expected to report a stable performance on the back of our focus on the value-added copier segment.

With that, I draw my comments to a close and request the moderator to open the line for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Arun Kejriwal from Kejriwal Research. Please go ahead.

Arun Kejriwal: I have two questions. Cotton prices have been softening over the last couple of months and with new arrivals available, they are expected to trend lower. Could you take us through the spinning part of your business, how that would affect you? I understand that you are using a lot of yarn captively rather than selling in the market.

Pawan Jain: Yes, that is right. During the last cotton procurement season, our average cost of inventory was Rs. 120 per kg and with this new cotton arrival, our cost now is Rs. 107 per kg.

Arun Kejriwal: So how have the yarn prices softened? Is there a similar reduction or it is more or it is less?

Pawan Jain: Yarn prices have contracted during the last quarter and in this quarter also because of inventories which we were stored last year in October and on a moving average, it is at Rs. 107 per kg. The new procurement is happening at Rs. 92-93 per kg. So going forward, I think within the third quarter also, the margins would more or less remain at the same level or marginally go down and the new inventory that we are procuring for the next year will give us a favorable margin position from Q4 onwards.

Arun Kejriwal: So would it be fair to assume that even though your sales in rupee value may come down because of the absolute price per kg coming down, your margins will be well protected even though prices have softened in yarn as well as cotton?

Pawan Jain: Yes, that is true. If we take Textiles as a whole, than it will be improved from the current level because last quarter was worst in terms of yarn performance due to compression in spreads. But, going forward it would be better given the improved off take in terry towels.

Arun Kejriwal: Could you share the details of your capacity utilization at the new terry towel plant that you have commissioned in Budhni? Where have you averaged for the quarter ended September and going forward, how would this utilization improve?

Pawan Jain: Currently, the new plant is at 30% utilization rate and from the current quarter, we expect 35-40% utilization rates.

Arun Kejriwal: So by the end of this year, you would be at 50%+ in terms of capacity utilization at the new terry towel plant?

Pawan Jain: Yes. That is right.

Moderator: Thank you. We have the next question from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

Aman Sonthalia: Could you please tell me why the Company is not going for an asset-light model given that you have huge capacities at spinning? Why are you again setting up a spinning plant for your bed-sheet division? Instead of setting up a spinning plant, you would have utilized the existing spinning unit for the bed sheet unit?

Pawan Jain: Our model is totally integrated. So whatever CAPEX we do, is from cotton to the end product. There are a couple of reasons for this- One, the customers with whom we are dealing, they need a quality which has to be monitored right from the start till the finished product. So these customers need a specific quality and that quality can be monitored only when you have yarn capacities. Secondly, in terms of value-addition in the final product, you need to have a R&D at yarn level also. So the value-added products that we have introduced in the last few quarters have been developed by the yarn division. Thirdly, TUF is higher on composite project and on standalone yarn or sheeting project its lesser.

Gunjan Shroff: Just to add to that, the counts which are required in manufacturing of bed sheets are very fine. The average count required is close to 58 & 60 and you need to have a dedicated line for getting these counts because these counts are not readily available in the market. For the latest terry towel unit which we have recently added, what we are doing is that we are converting two of our existing spinning units into 100% captive unit by small modification of balancing equipment so as to manufacture only yarn which would be 100% captively consumed.

So we are trying to limit our yarn sales to the market and bring it more towards captive consumption which otherwise we would have brought it from the market. So the idea going forward is to actually make it vertical integrated as highlighted and whatever yarn we can make it from our in-house, we are doing that coupled with bed-sheeting where we have a dedicated line of yarn which most of the manufacturers have not.

Aman Sonthalia: Your current capacity of towel is close to 80,000 MT and at full capacity utilization, the yarn capacity will be close 80,000-85,000 MT per annum. So when your towel division achieves full capacity utilization, at that time will you use your yarn or you will buy coarse yarn from the market for your towel division and you will sell fine yarn in the market?

Pawan Jain: In terms of capacity, though we are fully integrated, we have given the decision making separately to both the business units and this would depend upon the count requirements and availability of orders in value-added yarn from outside. We are supplying yarn to most of the renowned names in the Country where value-added product is required. So this will help us to improve the margin in yarn business. So as a proportion, currently we captively consume 33% of yarn which may go up to 40-50% but not 100%.

Aman Sonthalia: Why is there a dip in production of towels as compared to the first quarter?

Pawan Jain: The towel production as compared to the first quarter is more or less the same.

Aman Sonthalia: There is a slight dip.

Pawan Jain: Yes, it was 8,587 MT in Q1 and now it is 8,529 MT. This is basically on account of stabilization which is happening in the new facilities which are now running at 30% level. Currently, we are in a process where most of the buyers are undergoing compliance and quality audits. However, out of 10 buyers, 3-4 buyers have already approved. So the rest are in process.

Aman Sonthalia: What is your expectation for the current quarter and the next quarter and by when is the Company expected to achieve full capacity utilization in the new unit?

Pawan Jain: In the current quarter, we are expecting 35-40% utilization and in the next quarter it will be ramped up to 45%-50% kind of utilization. So going forward in the next financial year, we are expecting to run the new plants at an optimum level.

Gunjan Shroff: Also in the second quarter, a lot of sampling took place from the Budhni unit in order to get the production orders. So sampling typically has taken close to 4.5-5% of our capacities across various customers which has not contributed to the revenues

Aman Sonthalia: Will the Company compromise with margins in order to gain the market in the towel division?

Pawan Jain: No, one of the reasons why this utilization is low is because we are not in a hurry to put up our orders for the fullest capacity by contracting the margins. If we reduce our margins, than going forward it will not help us in terms of procuring the new orders at a higher rate. So we are maintaining our margins and are very selective in choosing the orders.

Aman Sonthalia: What is the margin in our yarn division?

Pawan Jain: For yarn, it is around 10-11% EBITDA margin.

Aman Sonthalia: And what is the average cost of cotton inventory that you have at present?

Pawan Jain: At present, the current average cost is Rs. 107 per kg and this is until December 2014. For production post December 2014, we have started procuring at Rs. 92-93 per kg.

Aman Sonthalia: So currently, it is Rs. 107 per kg and from January onwards, it is expected to be at Rs. 92-93 per kg.

Pawan Jain: Yes, we are procuring the new cotton at Rs. 92-93 per kg.

Aman Sonthalia: Ok. So during that phase, the margins of yarn division would be around 17-18%?

Pawan Jain: We could not give you a guidance on that, but yes it will improve from here

Aman Sonthalia: And how is the current position of the paper market?

Pawan Jain: Inspite of increase in the prices of raw material for paper during the quarter, the margins have improved by close to 1.9% as compared to the corresponding quarter last year. So going forward, I think this would be sustainable.

Aman Sonthalia: How is the inventory position overall?

Pawan Jain: In Paper?

Aman Sonthalia: In paper, terry towels and yarn

Gunjan Shroff: In towels, we are absolutely at the same level, there is no increase in the inventory. However, there has been a slight increase in the paper inventory.

Aman Sonthalia: And what was the average sale price of Towel in the last quarter?

Pawan Jain: Net realization in towels was around Rs. 470 per kg.

Moderator: Thank you. We have the next question from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Currently your new capacity is running at around 30% utilization, but if we see your production numbers, it does not match because quarter-on-quarter the production numbers are more or less flat. So can you explain us the reason behind this flat production in spite of high utilization?

Pawan Jain: In Q2, sampling was going on for the new customers. Hence, the production was lower at 30% utilization. It was around 25-30% in Q1 as well. But when you compare it to the corresponding quarter last year, than the production has improved by 20% or so

Dikshit Mittal: Looking at your capacity of around 90,000 MT, by when you expect to sell substantial part of this new capacity because if I annualize the current quarterly run rate than it would be closer to 34,000-35,000 MT. So by which year do you plan to utilize your full capacity and may be able to sell in the market?

Pawan Jain: 90,000 MT is the optimum capacity at an optimum GSM. So even at a 100% utilization, it would be around 75,000-80,000 MT kind of a capacity. We calculate 100% as a loom utilization and that will be expected in FY16.

Dikshit Mittal: Are you confident that your towel sales will double from current levels?

Pawan Jain: Almost near to double.

Dikshit Mittal: Any particular markets in mind which will be targeted for volumes?

Pawan Jain: Currently we have a proportion of close to 55% in US and 33% in Europe and rest in the rest of the world and domestic also. So going forward, we expect that the US proportion will increase from here and then we are also considering other markets like Japan and Australia and we are also taking initiatives in terms of branding in the domestic market. So domestic markets would also have a larger portion.

Dikshit Mittal: Considering that US market growth is not that high, will you be targeting the market share gains from other player's?

Pawan Jain: Yes, that is right. Basically India, China and Pakistan contribute close to 86% in the total US imports. So if we see, over a period of time the Chinese market share is reducing and shifting to India because of labor cost, power cost and currency valuation.

Dikshit Mittal: How much new CAPEX have you capitalized because depreciation does not seem to be increasing inspite of capitalization?

Pawan Jain: The capitalization has happened in the last financial year itself.

Dikshit Mittal: So all the new CAPEX has been capitalized?

Pawan Jain: Yes. The CAPEX for towel unit has been capitalized. The sheeting is under implementation and has not commenced production, which is expected to commission by September 2015. So capitalization will happen sometime in Q3 FY16.

Dikshit Mittal: Could you give a rough estimate as to how much have you capitalized till now and how much remains till next year?

Pawan Jain: For Sheeting, we have not capitalized anything.

Dikshit Mittal: For towels, how much have you spent that has been capitalized till now?

Pawan Jain: About Rs. 1,200 crore.

Dikshit Mittal: Any plans to venture in the domestic retail front like branding and other things in the domestic market?

Pawan Jain: We are not going in for retail on our own. We are going with a set of e-retailers and secondly we are also taking shop-in-shop concept of all these major retail chains in India. That is the strategy right now.

Dikshit Mittal: Have you fixed any targets for this shop-in-shop outlets or e-retailing?

Pawan Jain: We have just started over the last 2-3 months during the festive season and we have got a very good response. However, we will increase the proportion in our overall product basket.

Moderator: Thank you. We have the next question from the line of Abhijeet Singh from Crisil. Please go ahead.

Abhijeet Singh: Last quarter we had said that the utilization rate from the new terry towel capacity was 25-30% and you have already mentioned that this quarter also the utilization remains at the same level. Additionally, you had earlier indicated that this new capacity will be adding somewhere close to Rs. 1,000 crore in revenues this year. So what is your expectation now on this given that utilization has not ramped up in second quarter?

Pawan Jain: The revenue from the new facility was around Rs. 115 crore during this quarter and we expect it to increase going forward.

Abhijeet Singh: For H1 FY15, how much was the incremental revenue that was added from the new capacity of terry towel?

Gunjan Shroff: The ramp up at the new facilities has taken place. However, the existing unit which has older units, has sourced orders from new markets and this has taken its own time for ramp up. For instance, there were orders from new customers. So that had taken some more time. So as such, the ramp-up has taken place for Budhni and I think from the third quarter onwards you will see that both from the existing as well as new unit, we will have improved performance.

Abhijeet Singh: So what I understand is that last year FY14, your total sales was around Rs. 3,900 crore and you expected that from this new capacity, you will be adding almost Rs. 1,000 crore in revenues. However, your sales in H1 is flat. So are you confident that you still add this Rs. 1,000 crore of incremental revenues?

Pawan Jain: If you compare the first half this year with the same period last year and within this particularly Q2, the sales are flat but the increment sales from the new facilities is close to Rs. 115 crore. So for the existing sales in yarn and towel last year, the textile sales has dropped, because of two reasons- One, the yarn realizations have come down by 14-15%. Secondly, the captive consumption has been increased from 19% last year to 33% in the current half year. So that is the reason the sales revenue is flat during the current half.

Abhijeet Singh: Can you tell me how much has the sales of yarn declined in this quarter on year-on-year and quarter-on-quarter basis?

Pawan Jain: Yarn revenues stood at Rs. 338 crore in Q2 FY15 as compared to Rs. 424 crore in the same period last year and for towels it stood at Rs. 414 crore as compared to Rs. 362 crore in the corresponding quarter last year.

Abhijeet Singh: So this includes your incremental capacity?

Pawan Jain: Yes. That is right and the proportion in terms of towels and yarn has improved to 53:47 in H1FY15 as compared to 46:54 in the last year.

Abhijeet Singh: Your margins have declined by almost like 500 bps Y-o-Y. So I just wanted to understand what has contributed to this huge decline?

Pawan Jain: Two reasons. One, the cotton which we had bought last year was at an average cost of Rs. 120 per kg. The current procurement of cotton is happening at Rs. 92-93 per kg. Secondly, the yarn prices have reduced by around 14-15% as compared to last year.

Abhijeet Singh: So this is primarily on account of inventory losses?

Pawan Jain: Yes. That is right.

Abhijeet Singh: How many months of inventory do you keep?

Pawan Jain: Normally, it is at the highest level at the end of March or April. Now we have inventories upto one month till December. As soon as the arrival of new cotton starts coming from the mandis, we will start picking it up till the end of March or April.

Abhijeet Singh: Your terry towel sales have increased this quarter, right?

Pawan Jain: Yes

Abhijeet Singh: Last quarter also you mentioned that your internal consumption of yarn was somewhere around 33%?

Pawan Jain: Yes.

Abhijeet Singh: And you had indicated that if the yarn prices continue to go down, your strategy will be to increase the internal consumption of yarn. So that will give a margin booster for your terry towels, but your internal consumption remained flat at 33% only. It has not gone up like intuitively it should have gone up. So what has exactly happened there?

Pawan Jain: If you compare it to the corresponding quarter, than it has moved from 19% to 33%.

Abhijeet Singh: I am talking about the last quarter, not the corresponding quarter last year.

Pawan Jain: From last quarter to this quarter, it has remained at a 33% and that has helped us to drive a steady improvement in EBITDA margins. So if that would not have happened, then margins would have been declined even from this level.

Abhijeet Singh: What is your expectation going ahead in terms of margins for the second half?

Pawan Jain: On an overall basis, 18% margins would be sustainable.

Abhijeet Singh: You did EBITDA margins of 20% in Q1. In Q2, you have done 16%. So do you expect that you will go back to around 18% in third quarter or fourth quarter?

Pawan Jain: Yes. However, the current quarter is also looking on the same lines as Q2, but we expect the margins to normalize from Q4.

Abhijeet Singh: So for third quarter also, it will be 16%?

Pawan Jain: I would not be able to give you guidance on what exactly it should be.

Abhijeet Singh: Not exact numbers, but directionally I am just trying to understand because the major impact came in from inventory losses in second quarter.

Pawan Jain: Q2 was the worst quarter over the past six quarters. So going forward from here, it should optimally be better than this quarter.

Moderator: Thank you. We have the next question from the line of Viraj Mehta from Value Quest. Please go ahead.

Viraj Mehta: What is the exact interest on debt that we pay?

Pawan Jain: On an average, it is close to 9-10% of total debt. We are having a total debt of around Rs. 2,349 crore. So out of this, Rs. 1,068 crore is TUF based loan and on that, the TUF availability from center is 5% and from state it is 7%.

Viraj Mehta: This is Gujarat right?

Pawan Jain: No. This is in Madhya Pradesh.

Viraj Mehta: Madhya Pradesh is 7%?

Pawan Jain: Yes.

Viraj Mehta: So effectively, you will not be paying more than 2-3% on that?

Pawan Jain: Yes but the TUF eligibility is only up to 75% of the total loans of a particular project. So, on an overall basis it would be around 8% post Central TUFS.

Viraj Mehta: According to a WTO paper, once India crosses $1,000 of per capita income, all the subsidies on textile would be taken away from beginning calendar year 2015. India's trade in the global textile is around 3 - 4% now. How do you see that happening? Is that something you are very worried about?

Pawan Jain: No, we do not have any readily available data on that. We do not think something in this line would happen

Viraj Mehta: I can send you the WTO article and the WTO paper also

Pawan Jain: You can mail me and we can discuss this offline.

Viraj Mehta: But generally you do not see subsidy being taken away as a problem in near future?

Pawan Jain: It does not seem like that as of now. If we look at the last few years, the interest subsidies are reducing in terms of its eligibility. Earlier it was available on yarn standalone also and made-up standalone also, but now it is available only in composite projects. So going forward what will be the policy of Government is something that we cannot comment now.

Viraj Mehta: What is the current subsidy as a percentage of sales? Let's say if the FOB of your export is 100, than what is the subsidy that you get?

Pawan Jain: About 11%

Viraj Mehta: And is it same across products or does it vary with the product?

Gunjan Shroff: It does vary with the product, nearly 7% is the duty drawback rate and 4% is the focused product scheme. So this is specific to the products. Currently you get 2% for the focused product scheme, but the average is at 4%

Moderator: Thank you. We have the next question from the line of Dhaval Shah from Siddhesh Capital.
Please go ahead.

Dhaval Shah: I read an article in one of the reports by our consultant that the cost of production in the spinning business has been coming down significantly in US. So, do you think this is a new trend which has come up because of the reducing cost in US and the efficiency is also very high in terms of manpower. So have you seen any trend like this and also the previous participant mentioned about the reduction in subsidy, so over the next 3 to 4 year period, are you seeing some trend that the spinning business could shift to US, some part of it?

Pawan Jain: We do not think so. It is not the cost of production; it is only the raw material cost which seems to be lowest in US. The landed cost in India is feasible if you take it from indigenous source. So US cost maybe the lowest but the landed cost is cheapest in Punjab as far as the Punjab market is concerned.

Dhaval Shah: Typically to maintain the quality of your fabric, how many months of cotton inventory do you need to store?

Pawan Jain: At the end of financial year, we store around 5 to 6 months of inventory every year. It will be the lowest in the second quarter and highest in the fourth quarter.

Dhaval Shah: Correct, because of the procurement season?

Pawan Jain: Yes, it is roughly around 5 to 6 months kind of inventory.

Dhaval Shah: Can you throw some light on the current status of the Chinese cotton policy and whether they are buying more from the international market, any update on the cotton policy status?

Pawan Jain: The cotton yield is better in China as compared to India. So obviously their stock to utilization rate is highest, almost double from India. So China is not importing raw cotton during this year and it will improve the stock-to-utilization ratio of Indian cotton.

Dhaval Shah: How much is the import quota in China for cotton? I think last year it was 52 lakh bales. How much it would be this year?

Pawan Jain: Last year, I believe around 1 crore cotton bales has been exported from India.

Dhaval Shah: One crore? Total exports?

Pawan Jain: Yes.

Dhaval Shah: 75% was towards China?

Pawan Jain: Yes, close to that and in the current year, it is expected to reduce to 50-60%

Dhaval Shah: 50-60%?

Pawan Jain: Yes. Only 50 lakh bales may be exported.

Moderator: Thank you. We have the next question from the line of Niraj Mansingka from Edelweiss. Please go ahead.

Niraj Mansinghka: You mentioned that the cost of cotton was Rs. 120 per kg last year.

Pawan Jain: Yes.

Niraj Mansinghka: Till December 2014, the average cost would be Rs. 107 per kg and the current price of the cotton for January 2015 is Rs. 92-93 per kg.

Pawan Jain: Yes. That is right.

Niraj Mansinghka: So what was the average cotton yarn margin during all these three periods?

Pawan Jain: Average realization is about Rs. 219 per kg in this quarter.

Niraj Mansinghka: The realization for yarn is Rs. 219 per kg?

Pawan Jain: Yes.

Pawan Jain: Last year, it was around Rs. 225-230 per kg.

Niraj Mansinghka: And Rs. 219 per kg is for Q2?

Pawan Jain: Yes.

Niraj Mansinghka: And what are the current prices?

Pawan Jain: Almost same. It may vary Rs. 5 per kg here and there, but normally it is around Rs. 220-225 per kg.

Niraj Mansinghka: Could you tell us or indicate where the margins would be in January?

Pawan Jain: No, we would not be able to comment on what will happen in January right now but more or less when the cotton prices are on the lower side, yarn prices may come down from here or depending upon the demand-supply scenario, it may also go up. However, over the last 10 to 15 days, the yarn prices have picked up by 3-4%.

Niraj Mansinghka: Okay, so that is a counter thing where the cotton prices are going down, but over the last two or three days you are seeing some strengthening in the yarn.

Pawan Jain: Yes. Over the last ten days, yarn realizations have improved

Moderator: Thank you. We have the next question from the line of Sumant Kumar from Elara Securities. Please go ahead.

Sumant Kumar: Could you please throw some light on the paper prices and the demand-supply scenario in North region?

Pawan Jain: The demand-supply scenario in paper has improved and the realizations have also improved in this quarter as compared to the last quarter. The average realization is around Rs. 54 - 55 per kg in the copier paper and it is around Rs. 48 - 50 per kg for the regular paper.

Sumant Kumar: So any threat of import to paper price?

Pawan Jain: No. Impact of import is happening only in the coastal areas, the states which are near to the coastal areas, but due to favorable logistics, there is no problem in this part of the Country.

Sumant Kumar: But we have seen some pressure on volume growth and also in realization QoQ. So QoQ, I have seen that the price has corrected in the range of Rs. 1,000 to 1,500 per tonne.

Pawan Jain: Yes. That is true. However, we have changed our raw material mix during this quarter as compared to the last quarter. So earlier the proportion of wheat-straw, veneer chips and wood-based raw material was around 70%, 20% and 10%, but now it is 70%, 20-25% and 5-10%. So wood-based raw material which is costing us around Rs. 12,500 per tonne and the prices of wheat straw has also increased from Rs. 5,100per tonne to Rs. 6,500 per tonne. Veneer chips are costing us around Rs. 7,500 per tonne. So we have changed the raw material mix.

Sumant Kumar: How is the mix of branded copier and the non-branded copier?

Pawan Jain: Currently, 47% is the branded copier and 53% is non-branded i.e. regular paper.

Sumant Kumar: 53% is Maplitho?

Pawan Jain: That is writing and printing paper used for certain publishing houses.

Sumant Kumar: How will the mix change over the next 2 to 3 years?

Pawan Jain: Going forward, the mix from our copier paper will improve. We have improved it from 10-15% few years back to 47% currently. We expect to improve it to 70-75% in another 1-2 years period.

Sumant Kumar: So by FY17, the contribution from copier paper will increase to 70-75%?

Pawan Jain: Yes.

Moderator: Thank you. We have the next question from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

Aman Sonthalia: Could you throw some light on employee cost which has significantly come down as compared to the previous quarter?

Pawan Jain: Yes, in the previous quarter, there were certain retention bonuses and incentives which were given particularly to the employees. So that was an extraordinary cost reported during that quarter. That is not there in the current quarter. We had hired certain campus joinees two years back and certain other lateral hires one year back. So as soon as they complete their one year or two years period, we give them a retention bonus and there are certain productivity linked incentives as well which were paid in Q1 FY15.

Aman Sonthalia: Will it be a recurring expense every year or just a one-time expense?

Pawan Jain: No, it was a one-time expense.

Aman Sonthalia: Can you tell me what the total export of the yarn is?

Pawan Jain: Total export of yarn is around 36%.

Aman Sonthalia: And 64% is the domestic consumption.

Pawan Jain: Yes, that is right.

Aman Sonthalia: So how much has been affected due to change in Chinese policies?

Pawan Jain: Change in Chinese policies is not impacting the demand; it is impacting in terms of realization. Last year, the demand from China was good and we had exported close to 6**%** of our total yarn to China. So, though it has not impacted the demand on an overall basis as soon as Chinese reduce importing the raw cotton or cotton yarn from India, then that will reduce the realization

Aman Sonthalia: And going forward, while the domestic demand is looking very good as well as many new capacities are coming into the market, how do you foresee the demand-supply situation in the domestic market as far as yarn is concerned?

Pawan Jain: We do not foresee any challenges in meeting the demand for yarn. It is only that the inventory losses have happened in terms of procurement and going forward also in the forthcoming quarter again, there would be an inventory cost which would impact.

Moderator: Thank you. We have the next question from the line of Abhijeet Singh from CRISIL. Please go ahead.

Abhijeet Singh: How much is the EBITDA margin for yarn and terry towel this quarter?

Pawan Jain: For yarn, it is around 10-11% and in towels, it is close to 20%.

Abhijeet Singh: And how much was it in Q1 FY2015?

Pawan Jain: Last quarter it was around 12% in yarn and 22% in towel.

Abhijeet Singh: If the yarn prices have actually declined, then it will benefit your EBITDA margins in terry towels right?

Pawan Jain: Yes.

Abhijeet Singh: So why are the margins in terry towels lower?

Pawan Jain: If you compare the captive consumption for the last quarter and this quarter, it remained flat at 33%. So in towel business overall, there are certain value-added products and there are certain regular products. The margins in value-added product ranges from 22 to 24%, while in regular products it comes down to around 18 to 20%. So on an average, it is about 20 to 22% of EBITDA margins in towels. But during this quarter, we had ramped up the new capacity, so we got around Rs. 115 crore of revenue from the new facilities. So there was a contraction there due to stabilization of the new facilities. The initial stabilization will have more overheads as compared to the existing facilities in Punjab. So that will result in 1 to 2% contraction in margins.

Moderator: Thank you. Ladies and gentlemen that was the last question and now hand the floor back to the management for closing comments.

Pawan Jain: Thank you everyone for joining us on the call today. Hope we were able to answer all your questions. Should you need any more clarifications, please feel free to contact our Investor Relations team or CDR India. Thank you.

Moderator: Thank you. On behalf of Trident Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
