



Alok Industries Conference Call

August 1st, 2011



Operator:

Ladies and gentlemen, good day and welcome to the Alok Industries Q1FY12 Conference Call hosted by Fortune Equity Broker India Limited. As a reminder for the duration of this conference call, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Krishnan Sambamurthy. Thank you and over to you, sir.

Krishnan Sambamurthy:

Good afternoon, ladies and gentlemen. Welcome to the Q1FY12 Conference Call of Alok Industries. We have with us the management of Alok: Dilip Jiwrajka, Managing Director; and Sunil Khandelwal, CFO. We will have a brief update from them about the results which will be followed by a Q&A session. Over to the management of Alok.

Dilip Jiwrajka:

The main highlight of this quarter has been the increasing sales of about 49% and increase in exports of about 39% and the other main issue has been that we have started selling the real estates. We have as indicated, rented out two floors in the Peninsula Business Park. Also, sold one floor in the Ashford Centre and contracted for 73 acres of industrial land at Silvassa. And the process is now on and we should be able to sell this entire portfolio by the end of this financial year. I think with that I leave the scope for people to ask questions.

Operator:

Thank you. We will now begin with the question and answer session. The first question comes from the line of Manas Majumdar from SPA Capital. Please go ahead.

Manas Majumdar:

My first question will be that, the company is targeting to open like 500 H&A stores, I believe, by FY12.

Dilip Jiwrajka:

We already have about 311 stores and we propose that we open another 180 or 190 stores by the end of this financial year.



- Manas Majumdar:** So, what will be the costing and funding method for this?
- Dilip Jiwrajka:** Nothing. These are all on franchisee model. There will no capital expenditure.
- Manas Majumdar:** And sir, my next question is like as you said about the real estate, the deals that are in progress, so what's the total income that is coming from those deals?
- Dilip Jiwrajka:** We hope to collect about 2000 crores from all these three deals that are in the pipeline.
- Manas Majumdar:** And what will the use it will be put to?
- Dilip Jiwrajka:** We mainly use it to reduce debt .
- Manas Majumdar:** Coming to your segmental results, sir, as we can see like all the segments have decreased as a percent of sales except for the polyester yarn on a year-on-year basis for the quarter. I just wanted to know like what is the go ahead of the company and the reasons for as such.
- Dilip Jiwrajka:** See, the polyester capacities came into play this year and that's why the increasing sales are there. In fact, in the next quarter it will be further increasing. There are more capacities that are coming on scene and this will lead to the other sectors going down in the percentage term. In the absolute numbers, if you compare, all the other divisions have also done better.
- Manas Majumdar:** They have done better. Percent of sales, they have decreased.
- Dilip Jiwrajka:** This is a conscious decision.
- Manas Majumdar:** For the next quarter, how much will be the capacity for the polyester as you said?
- Sunil Khandelwal:** At the moment, we are working at close to 850 tons a day and by the end of September, we would reach about 1100 tons a day.



- Manas Majumdar:** My next question will be, if you can give me the segmental volumes for this quarter as well as for the last quarter.
- Sunil Khandelwal:** We would mail to you. That will be fine. It's quite lengthy.
- Manas Majumdar:** And the implementation date of the added capacity that you have given in the presentation for your all different segments. So, can we have a tentative date for all? Like the commencing date?
- Dilip Jiwrajka:** See, except polyester which I said is coming to scene, by September we will be at 1100 tons a day but ultimately our target will be 1400 tons a day, which would be by December. all remaining capacities will be in operation in September or October itself.
- Manas Majumdar:** In your garmenting division, the H&A which is part of your retail chain, can you just give me the contribution for this retail chain in this quarter?
- Dilip Jiwrajka:** We actually have listed a sale of about 18 crores in this first quarter.
- Dilip Jiwrajka:** Not part of these standalone results because what we have declared are only the standalone results.
- Manas Majumdar:** If we compare the results on a quarter-on-quarter basis. Like if we compare, say the last quarter, that's March FY11, you can see that there is degrowth in terms of your top line and bottom line. So, if you can just give me specific reasons for those.
- Dilip Jiwrajka:** Basically, this last quarter for the company ,historically it has been better . It continues to remain like that. So, this year also, we see the last quarter to be the best quarter because of the seasonality of the business.
- Sunil Khandelwal:** It will be better to compare the result on YoY basis.
- Manas Majumdar:** And what will be the CAPEX for FY12 for the company?
- Dilip Jiwrajka:** We are projecting about 800 to 850 crores kind of a CAPEX.



- Dilip Jiwrajka:** Maybe, plus minus 10 percent
- Manas Majumdar:** And like how much has the company incurred in this first quarter?
- Dilip Jiwrajka:** First quarter, close to 400 crores
- Manas Majumdar:** And what is the basis of funding in this?
- Dilip Jiwrajka:** We have only tied up. The necessary debt for this has already been raised, partly this is going for internal accruals and partly from the debt.
- Manas Majumdar:** And going ahead, what does the company have to say about the raw material prices?
- Dilip Jiwrajka:** Raw material prices are governed by the market and we do not want to enter a speculative mode. So, I will [0:7:59] market how much the price changes. We will pass it on to our customers. If it goes up, we will pass on to the customers and if it goes down, we will pass on to the customers.
- Manas Majumdar:** And sir, this sales growth of around 49%, can you just give me a breakup in terms of price increase and volume increase overall?
- Dilip Jiwrajka:** Yes, compared to YoY, the price increase was almost, I would say, 23 to 24% and the volume growth remaining as well, say about 26 to 27% in volume growth.
- Manas Majumdar:** And do you have the margins for the segment in this quarter?
- Manas Majumdar:** Margins, if you can just give me the segmental margins for this quarter.
- Dilip Jiwrajka:** Segmental margins, I will again mail it to you because we don't need the segmental margin but we will mail it to you.
- Manas Majumdar:** Is the company having any effect due to the DEPB that has been removed.



- Dilip Jiwrajka:** I don't think DEPB is yet removed.
- Manas Majumdar:** It has been reinstated.
- Dilip Jiwrajka:** It was never removed.
- Sunil Khandelwal:** See, the thing is even if this goes, there is a duty drawback scheme in place. So, it should not be affecting the company at all.
- Operator:** The next question is from the line of Dimple Sheth from SKS Capital.
- Dimple Sheth:** Just wanted to know this quarter your margin has been down by 220 basis points on YoY basis. So, going ahead, what kind of margins do we expect and what was the reason for the fall in margin?
- Dilip Jiwrajka:** See, volumes have gone up this quarter and what has happened, volumes for polyester have gone up drastically. So, typically the polyester has a lower EBITDA compared to the cotton. So, going forward also, the polyester proportion is going to increase. So, you find a lot of volume growth happening in the company. Maybe, in terms of EBITDA, it might further go down. I am not talking about this year specifically but going forward as well. But volume growth would more than compensate the decline in EBITDA margin. We are focusing more on volumes.
- Dimple Sheth:** Sir, going ahead, I mean the next quarter, what kind of margins do we expect? At the same level or around 25% or down?
- Dilip Jiwrajka:** I mean for this current year, it should be around this level. First quarter indicative level should be this but of course, very specifically saying that it will be around so much will be difficult but we are expecting it to be around 27% only.
- Dimple Sheth:** And sir, your debt equity level currently is 3.14. So, during this quarter, do you expect to maintain this or is it going to go low?



Dilip Jiwrajka:

See, what we calculate the debt equity is on the business of net debt equity and per for the banking rule also, we had deferred tax in that. So, if you do that, the debt equity of the company is about 2.5 as on June and we believe that this year corporate will hover around that level and of course, depending upon if they are able to encash the sale of real estate and all, we will be able to reduce the debt but definitely it will improve this level but surely going forward, it will come down below 2 as we go along, maybe next two years.

Dimple Sheth:

The real estate, you expect 2000 crores of inflow. By which quarter do you expect this inflow to be recorded in your books?

Dilip Jiwrajka:

This is the total value of our real estate portfolio. Out of this, I will tell you about 7 lakh sq. ft. is the commercial space at Lower Parel. Then, we have some land at Silvassa, 73 acres has been sold now and we have a residential project at Nahur. So, we expect to encash this value in the next three years but out of which, major value, we should be able to encash this year close to about 1400-odd crores and maybe some 200-odd crores next year and balance may be by 2014 which over a period of three years, we are going to encash but yes, major chunk should come this financial year.

Dimple Sheth:

And the deal which you had done this quarter, what's the amount that you received and what is the quantum?

Dilip Jiwrajka:

The lease has been contracted now which would happen going forward, there is a time to start the lease.

Sunil Khandelwal:

We will get deposit in the next few days.

Dilip Jiwrajka:

Initially, we will get the lease deposit and then the leased centres will start from the time they actually start occupying these. There is some free lease period also. So, the lease settlement starts maybe by the end of this financial year.

Operator:

Thank you. The next question is from the line of Manesh Soni from Ventura Securities.



- Manesh Soni:** I have a question on the industry part. The recent India FDI deal which comes effective from today, so I wanted to know how beneficial it is for the Indian textile sector and is company doing something to tap this market?
- Manesh Soni:** The India Japan FDI deal. That comes effective from today. So, I wanted to know how much it is beneficial for the Indian textile sector. And is the company doing something to tap this market?
- Dilip Jiwarjka:** Well, the deal has just been announced. So, we will looking at it. But I think any FDI into the textile will always be a welcome step. So, with the very capital intensive industry and because the stock markets will not open for promoters to raise fund for the textile industry. It is a good move. If FDI really takes off, it will help the textile industry.
- Manesh Soni:** No, sir, I was actually asking about the free trade agreement between India and Japan.
- Sunil Khandelwal:** See, Japan as a market for India in textile, it's almost not there. Hardly anything is getting exported to Japan from India but definitely this pact that we have signed today will open the door for us to explore Japan as a market. We are getting to some of the branch in Japan already but in a insignificant way. There is hardly anything but our place, we have started seeing good demand, I mean enquiries coming in from Japan and especially from the FDI front, that Mr. Jiwarjka was talking. We are seeing a lot of banks coming from there and lot of funds from there. Wanted to know more about the textile industry in India. So, definitely this is a good beginning. We are definitely keen to increase our export market and definitely an economy like Japan which is presently, I would say 90 to 95% dominated by China, we would definitely like to explore our share there.
- Manesh Soni:** Another thing I wanted to know, what is the debt on consolidated level right now?
- Dilip Jiwarjka:** Debt on the consolidated level is close to 12,000 crores.
- Manesh Soni:** And sir, average cost of debt?



- Dilip Jiwrajka:** It's about 9%.
- Operator:** The next question is from line of Hitesh Godhani from Span Capital.
- Hitesh Godhani:** I have a question regarding the Peninsula Business Park. How much lease rental amount will we get from this FMCG company? I want to ask the lease rental amount.
- Dilip Jiwrajka:** See, the area that we have leased is about 64,000 sq. feet. That is about 2 floors and the rate we have contracted is about 1.45 crores a month.
- Manesh Soni:** What's the term of lease?
- Dilip Jiwrajka:** Nine years.
- Manesh Soni:** And one more question, do you have any balance that you owe to the Peninsula Park?
- Dilip Jiwrajka:** Yes, we have to pay about a large installment of about 165 crores to them.
- Operator:** The next question is from the line of Abhilasha Satale from Techno Shares. Please go ahead.
- Abhilasha Satale:** My question pertains to the cotton and yarn prices and margin. Have you booked any inventory loss during the quarter or how much less price correction you have seen on quarter-on-quarter basis in cotton and yarn prices?
- Dilip Jiwrajka:** See, the cotton prices have come down drastically. Now, they are hovering at around Rs. 30,000 a candy. Fortunately for us, we were running hand to mouth. We were not having any inventory stock during the peak period and of course, we have started accumulating the cotton now. So, as far as cotton hit is concerned, there was no hit taken by us for the cotton prices.
- Abhilasha Satale:** How much yarn price correction you have seen. Has it increased quarter-on-quarter or it has gone down?



- Dilip Jiwrajka:** The realization has gone down but the margins have been received.
- Abhilasha Satale:** Margin, could you quantify please?
- Dilip Jiwrajka:** In terms of what ?
- Abhilasha Satale:** Yarn and Cotton
- Dilip Jiwrajka:** In the June quarter, at any given point of time, we have already sold for three months. So, any price change etc will start happening from the fourth month onwards. So, in fact, the major impact is not there in the June quarter.
- Abhilasha Satale:** Yes, exactly. I am just asking forward, like after you are saying you have not booked any inventory cost, our inventory [19:44] [there was no high-cost cotton you were carrying or even yarn prices. So, going forward, current cotton prices or current yarn prices, how margins will pan out and how much correction you have seen in yarn and fabric consequent to cotton price?
- Dilip Jiwrajka:** Basically, the cotton prices have got corrected by about 50% and so also yarn prices have got corrected by 50%. As far as the stock is concerned, we are generally carrying 30 days stock which is pre-sold. We have no loss or profit on the stock which is lying with us and going forward, I believe that the cotton prices will remain as low as they are today and if that is the case, we will be selling them on the basis of the current market prices.
- Sunil Khandelwal:** It means that fabric price would also go down correspondingly to the extent of decrease in cotton prices. As of now, I think we have already corrected about 20-25% but we can further correct.
- Abhilasha Satale:** Most probably margins will be maintained because cotton prices have also come down, cotton and yarn prices.
- Dilip Jiwrajka:** Yes, in percentage terms, we have given absolute terms, it might go down because once you are selling the fabric, it is of Rs 100 and we make 10% on it, you make Rs. 10. Similarly, when the price goes down the impact is there.



- Sunil Khandelwal:** So, as far as the margins are concerned, we don't see any impact.
- Abhilasha Satale:** Secondly, how is the demand we saw last quarter, we saw huge piling up of inventory into the system, currently you are seeing that situation happening in the industry.
- Dilip Jiwrajka:** Yes, in fact, demand wise there are no issues. We have very good export order book as of now. Exports are growing at a good pace. Domestically also, demand is good. So, it is growing about 10% per annum. So, we have a visibility of four to five months sales as of now.
- Abhilasha Satale:** In the industry, what is the inventory piling up, even at garment level in that entire value chain, how is the situation currently, sir?
- Dilip Jiwrajka:** I think demand wise, there is no issue at all. If you are talking about industry, there is no issue as far as the demand side is concerned for the entire industry. So, I think it is only a matter of time that the inventories pile up, which is mainly at the yarn stage. It should get exhausted very soon. Because on the fabric level or at the garment level or at the bed sheet level, there is no concern on the demand.
- Operator:** Thank you. The next question is from the line of Sumant Bhuturia from Jet Age Securities. Please go ahead.
- Sumant Bhuturia:** Sir, I have a question on your yarn price. What is the current yarn price that you are selling your contracts on? Say for 30 counts.
- Sunil Khandelwal:** It is on the price of Rs. 150.
- Dilip Jiwrajka:** Let us tell you that, we are not selling yarn in the market. Most of the yarn is consumed in-house only.
- Sunil Khandelwal:** Rather, we buy the yarn from outside.
- Dilip Jiwrajka:** Yes, we buy some of the yarn from the market.
- Sumant Bhuturia:** So, you are buying at the about Rs. 150 a kg?



- Sunil Khandelwal:** For about 30 counts
- Operator:** The next question is from the line of Vinay Chhawchharia from Crisil Research. Please go ahead.
- Vinay Chhawchharia:** I wanted to know about, what is the current polyester capacity?
- Dilip Jiwrajka:** See, the present polyester capacity that we are producing as of now is about 860 to 870 tons a day and we are gradually increasing every month like for example, by the end of this month, another 170 to 180 tons per day it will go up. Like that, by September or by October, we would be at 1200 tons a day and then polyester fibre, we are adding 200 tons a day by December.
- Vinay Chhawchharia:** And going forward?
- Dilip Jiwrajka:** So, we will be at 1400 tons a day by December.
- Vinay Chhawchharia:** And Sir, what was the capacity in Q1 last year?
- Dilip Jiwrajka:** It was 550 tons a day.
- Vinay Chhawchharia:** So, sir, the growth in polyester is mainly due to the capacity extension.
- Dilip Jiwrajka:** Absolutely right.
- Operator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings.
- Bhavin Chheda:** Sir, there was no inventory loss in the quarter booked under any head?
- Dilip Jiwrajka:** Especially, on the cotton side, no.
- Bhavin Chheda:** But on the finished product side?
- Dilip Jiwrajka:** No, not on the finished product side also because it's all presold as far as cotton is concerned. There was a marginal impact in case of polyester.



- Bhavin Chheda:** But, was that taken in this quarter?
- Dilip Jiwrajka:** Yes, obviously.
- Bhavin Chheda:** Can you quantify the amount?
- Dilip Jiwrajka:** Amount in terms of what?
- Bhavin Chheda:** How much inventory loss was taken in the quarter?
- Dilip Jiwrajka:** See, there is no inventory loss as such we have not taken up the inventory loss. It is the contribution for that division, therefore, that particular month might have gone down. But, we would not say it is the inventory loss as of now.
- Bhavin Chheda:** And, sir, in the presentation what you have attached, this March 2011 balance sheet has an audited number, so, is that change from the numbers when you released your Q4 results?
- Dilip Jiwrajka:** It has marginally changed. PAT what we reported was 376 and the audited PAT is about 400 crores.
- Bhavin Chheda:** Similarly, the balance sheet numbers have also changed.
- Dilip Jiwrajka:** They have also changed, yes. We would be, of course, in the process of printing the audited results and we should be able to ... in fact, printed version will be available in sometime but numbers can be given to you, balance sheet can be provided.
- Bhavin Chheda:** And what was the March 2011 audited consolidated numbers?
- Sunil Khandelwal:** Yes, of course, they are also ready now.
- Dilip Jiwrajka:** In terms of PAT, there is about 336 crores PAT.
- Operator:** Thank you. The next question is from the line of Dimple Sheth from SKS Capital. Please go ahead.



- Dimple Sheth:** I just missed on something like the 165 crores payment you are going to make is for what?
- Dilip Jiwrajka:** 165 crores payment to Peninsula Business Park, that's the last installment upon ... you know, they have received the [0:27:27] we have handed over the position. So, I would say [0:27:35] is going on in terms of technical specifications. So, once that is done, most probably that payment would be made this month.
- Dimple Sheth:** And, sir, what is the cost of debt?
- Dilip Jiwrajka:** Cost of the debt is 9% now.
- Dimple Sheth:** Sir, as you said that cotton price is expected to correct at 25% going ahead.
- Dilip Jiwrajka:** They are already corrected. We expect it to remain at the present level.
- Operator:** The next question is from the line of Vinay Chhawchharia from Crisil Research. Please go ahead.
- Vinay Chhawchharia:** Sir, I have just read through the amalgamation of Grabal Alok, in fact, with Alok Industries.
- Sunil Khandelwal:** Yes, correct.
- Vinay Chhawchharia:** Sir, what kind of synergy is the company looking or just to keep one company?
- Dilip Jiwrajka:** The idea is to demonstrate that the group has only one company to focus on now. Grabal was mainly into embroidery and most of the processing of Grabal was done by Alok Industries. So, in terms of synergy, there is definitely operational synergy. Alok would have as a portfolio embroidered fabric also in its overall basket. And, in terms of UK retail, if you look at now, almost 90% of the holding now comes under Alok, post merger it will come under Alok. So, that 90% UK Retail is about 1000 crores retail turnover, which would come to Alok now. And as for the last year, UK Retail has already made a cash profit. So,



I think that should also give a very good overall synergy to Alok Industries.

Vinay Chhawchharia:

So, from now onwards Grabal Alok and UK Retail would be consolidated in Alok Industries.

Dilip Jiwrajka:

Yes, because now Alok becomes 90% owner of that.

Vinay Chhawchharia:

Sir, regarding the UK Retail, at PAT level, when are you expecting it to turn positive? This year.

Dilip Jiwrajka:

Yes, definitely, a lot more depends on the December quarter sale of UK Retail but yes, the way we are working on now, we should be able to achieve PAT level positive, although maybe marginal but yes, we can achieve PAT level positive.

Vinay Chhawchharia:

And sir, what is the size of Grabal Alok in terms of revenue? Grabal Alok India, embroidery division.

Dilip Jiwrajka:

India is about 250 crores top line.

Vinay Chhawchharia:

Sir, a few minutes back you mentioned that the cost of debt is 9%. Sir, that is after terms benefit or before?

Dilip Jiwrajka:

No. After considering the term benefit.

Vinay Chhawchharia:

After considering the term benefit. Okay sir. Thank you.

Operator:

Thank you. The next question is from the line of Nirav Shah from Adroit. Please go ahead.

Nirav Shah:

When is Alok Industries a debt-free company, sir?

Dilip Jiwrajka:

See, I would say we would have a debt equity ratio of about 1.5 by 2015-2016. See, the idea is I will tell you the next three years, we intend to bring upon 2500 crores out of our subsidiaries and from the next year onwards 2013, we are a free cash flow company. So, we should start generating free cash flow out of the operations, so, in the next three to four years we should reduce another 2500 crores out of operations. So, we should be down by 5000 crores of debt by 2016, and there where I am talking to you that our debt equity will be below 1.5.



- Operator:** The next question is from the line of Chetan Vadia from JHP Securities. Please go ahead.
- Chetan Vadia:** My question to you is, what is the operating and net level margins that you are looking for by end of FY12 consolidated basis?
- Dilip Jiwrjka:** By the end of this year, the gross margin will be in the region of 27% and the net margin will be in line with this quarter numbers.
- Operator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Krishnan Sambamoorthy.
- Krishnan Sambamoorthy:** Thank you to all the participants. Thank you to the management as well. Mr. Khandelwal, Mr. Jiwrjka do you have any closing comments?
- Dilip Jiwrjka:** No, thank you.
- Operator:** Thank you very much. On behalf of Fortune Equity Broker India Limited, that concludes this conference call.