



“K. P. R Mill Limited”

Q1 2012 Earnings Call

August 12, 2011

Moderator: Ladies and gentlemen, good day and welcome to the KPR Mill Limited Q1 FY'12 earnings conference call hosted by Four-S Services Private Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Ms. Rupam Prasad from Four-S. Please go ahead.

Rupam Prasad: Thank you Moderator. Good evening everyone and welcome to the Q1 FY'12 earning conference call of KPR Mill Limited. We have with us Mr. P. Nataraj, Managing Director and Mr. J. S. Kumar, Vice President Finance of KPR. I would now request the senior management to begin the call with their initial remarks on the financials and operational performance during the quarter and the way forward, which will be followed by a question and answer session. Thanks and over to you Mr. Nataraj.

P. Nataraj: Good afternoon everyone and welcome to the call. I am Nataraj from KPR Mill Limited. We believe that the Indian textile sector is poised for good times ahead. Cotton prices have stabilized in Rs.30,000-40,000 level a candy after reaching all time high in the previous quarter. The government approval of setting up 25 new textile parks is a further positive.

The first quarter was tough for domestic textile industry. Topline for branded apparel market was impacted by mandatory 10% excise duty introduced by the government. The yarn business was affected by high priced inventories at the beginning of this financial year. Further the company started the year with high yarn inventories due to export ban in the last quarter of FY'11. Spinning mills had to resort to production cuts to ease stock positions of cotton yarn.

While our yarn sales growth was affected, our integrated business model ensured that we could drive growth from garments and fabrics. Our Q1 financial year 2012 operating income is up by 31% year-on-year to Rs.3,212 million driven by exports and improved price realizations across product segments.

*K.P.R. Mill
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Our EBITDA margin was impacted with our prudent one-time raw material cost write down of Rs.278 million on account of steep falls in cotton prices. Our EBITDA margin stands at 13.8%. Hence our net margin also came down to 3.2%. We have generated cash profits to the tune of Rs.338 million giving us cash EPS of Rs.8.97.

From next quarter onwards our EBITDA margins are expected to increase as cotton prices have reduced. We believe the worst is over for cotton textile industry and given our traction in revenues we are expected to do much better in the rest of the financial year.

Power cuts are a pain area for most of the textile players. We have always adopted a proactive approach - green power initiative through wind power meets 75% of our power needs. In order to attain 100% self sufficiency in captive power consumption, the company is investing in Co-Gen cum sugar project established by its wholly owned subsidiary KPR Sugar Mill Limited at Bijapur, Karnataka.

That brings me to the end of my opening remarks and I now request Mr. J.S. Kumar, Vice President, Finance of the company to take you through the financial and other operating parameters for the period under review. Thank you, very much.

J. S. Kumar:

Thank you Sir. I will briefly take you through the financial and operational performance for the period ended June 2011 before we open the floor for question and answer session. Coming to the financial performance for the quarter, we booked total revenues of Rs. 3,211.6 million registering a year-on-year growth of 31.3% over the corresponding period in the previous year. Operating profit stood at Rs. 442.2 million during the quarter registering a decline of 27.9% largely on account of increase in raw material cost which went up by 68.6% year-on-year and included one-time raw material write down of Rs. 277.6 million. Net profit stood at Rs. 105.7 million. Our operating profit margins stood at 13.8% and net margin at 3.2% in Q1 FY'12.

In terms of revenue mix the yarn contributed 48.1% of the net sales in Q1 FY'12. Fabrics contributed 14.7%; knitted garments contributed 32.5% and others 4.7%.

There was a sharp improvement in price realization across all product segments. Yarn saw a 34.1% year-on-year growth over the corresponding period of last year. Fabrics 44.5% year-on-year growth and knitted garment saw 70.6% year-on-year growth.

In terms of geographical revenue breakup in Q1 FY'12, revenue from exports was up by 73.2% year-on-year to Rs. 1,129.5 million and that from domestic sales was up by 1.8% year-on-year to Rs. 1,713.1 million. While export sales contributed 40% of net sales, the contribution from domestic sales amounted to 60%.

Furthermore, KPR Mill has acquired KPR Sugar Mill Limited as a wholly owned subsidiary company and plans to invest Rs. 3,257.6 million in Co-Gen cum sugar project. With additional capacity of 34MW Co-Generation the initiative will enable the company to attain self-sufficiency in power. The project also provides significant upside and is expected to contribute to higher profitability once it commences operations it is expected by October 2012.

Thank you. I would now like to hand over to the moderator.

- Moderator:** Thank you Sir. We will now begin with the question and answer session. The first question is from the line of Naga Deepika from Capital Markets. Please go ahead.
- Naga Deepika:** Just wanted to enquire about the hike in the other operating income, the very sharp rise, what was that reason, can you give us the breakup of this income?
- J.S. Kumar:** In the other income, the majority income comes from job-work done at processing division where the capacity utilization has gone up in this quarter. And, as we mentioned earlier, the export business has gone up substantially which contributed to higher drawback income. There is an exchange gain also added up in that.
- Naga Deepika:** How much was the drawback income?
- J.S. Kumar:** Drawback amounted to around Rs. 70 million.
- Naga Deepika:** Sir, how much was the exchange gain?

- J.S. Kumar:** That comes to around Rs. 65 million.
- Naga Deepika:** Is processing income sustainable in this whole year?
- P.Nataraj:** It is sustainable. The processing capacity is utilized for captive consumption as well as for outsourcing. Wherever the gap is available it is utilized for outsourcing. This is called as job work basis and comes under other income. So as long as we utilize the capacity for captive use, garment revenue will increase, otherwise, the other income will go up because of the job work basis.
- Naga Deepika:** In this quarter both has increased, other operating income as well as other income, so this is because of the increase in processing capacity utilization and even the garment utilization?
- P. Nataraj:** Here we would like to point out two to three things - one is because raw material price has gone up, the revenue per garment also has gone up and two because of the pollution issues lot of processing units were closed and the exporters had to rush up towards the running factories, since our factory was running continuously throughout the year, the volume also has gone up.
- J.S. Kumar:** Other income has also gone up a lot of CapEx is going on for which we have deposited margin money that has led to increase in interest on deposit.
- Naga Deepika:** Otherwise generally it would be the same as the corresponding previous year levels?
- J.S. Kumar:** Yes, otherwise it will be the same.
- Naga Deepika:** There was again a sharp rise in the inventory levels in this quarter. What is the current average price of the inventory we are holding and what is your outlook on the cotton prices?
- P. Nataraj:** As on today the average price of the inventory especially yarn is around Rs.160 per kg which was previously around Rs. 130-140, but it went up to 250 and it has come down to Rs. 160 which is the present level.
- The cotton position, previously it was around Rs. 25,000 went up to above Rs. 60,000 and suddenly within two months, it has come down again to Rs 30,000

to 35,000 level, today the price is around Rs. 35,000 to 36,000. When you see the overall future, not only in India but world over, monsoon is good, so there will be a good yield and consumption will meet comfortably. We hope that the level of around Rs 30,000 will be the expected price in future. In the last 15 to 20 years there no wide fluctuations except last year but for unforeseen circumstances we hope that this position will be consistent.

Naga Deepika: Mr. Nataraj what was the average price of the inventory held in this quarter? Yarn is Rs.160 per kg and what about cotton, do you hold any cotton inventory?

P. Nataraj: Cotton inventory we hold around one month production.

J.S. Kumar: The average price would be Rs.35,000.

Naga Deepika: Can you just give us the actual prices of yarn, fabric and knitted garment for the quarter, you have actually given the growth, but what are the actual prices during the quarter?

J.S. Kumar: It comes around Rs.209 per kg for yarn, fabrics Rs.244 per kg, garmenting Rs.114 per piece.

Naga Deepika: What are the current realizations in the current august month?

J.S. Kumar: For yarn it may be around Rs.160 and for fabric you have to add Rs.7. Garment depends on the product mix and it may remain same.

Naga Deepika: Okay thanks a lot. I will join in the queue again.

Moderator: Thank you madam. The next question is from the line of Abhilasha Satale from Techno Shares. Please go ahead.

Abhilasha Satale: Can you give segmental EBITDA numbers in case of yarn, fabric and garment.

J.S. Kumar: For yarn it is 7% for this quarter, garment it is 22%, fabric 15% and for processing it is 35%.

Abhilasha Satale: Secondly, I just wanted to know what is the strategic intention behind venturing into sugar business because you are already having 70% self sufficiency in power and secondly if at all Co-Gen then why sugar?

P. Nataraj: Actually our plan is more towards power. Even though we have nearly 75% self sufficiency in power requirement which is met by our windmill, the balance 25% is procured and there is also power scarcity in the state. If you take the last one year there were more power cuts and because of some grid non-availability the running of the windmills also slowed down due to non-availability of the transportation of the power. These are the major reasons which will continue at least in the near future.

To meet our power requirements we also buy power privately from power exchange and during peak time power cost per unit goes up - from Rs.4 to Rs.14 to Rs.15. Power cost in the textile business is next to the raw material cost. So to mitigate that, we have planned to go for the Co-Gen which is also a green power energy. So once we go with Co-Gen and compare to the windmills we can run this throughout the year so we can get continuous power which will meet the balance 25% power requirement also, enabling the company the KPR Mill Limited to meet the 100% of power requirement through captive generation and 100% Green power generation will have some advantages also. So the idea for combined project is mainly to go for Co-Gen and for the Co-Gen the raw material is bagasse from sugarcane so we can say that sugar is secondary product.

Abhilasha Satale: But that also won't for entire year, because it can be around eight to nine months wherein Co-Gen is operated and that is special season for sugar companies so what will you do, will you buy bagasse from outside and operate that or if it is multifuel boiler?

J.S. Kumar: In fact our facility itself would supply for 200 days, and for the remaining days we would procure from in and around the location at Bijapur which has the highest sugar yield - it is #2 in India. In and around the location, factories of around 25,000 TCD capacity are running and they don't have Co-Gen facilities. There is surplus availability of bagasse catering to our facility; so throughout

the year there will be no shortage of raw materials, that is the biggest advantage of this project.

Abhilasha Satale: When can we see this benefit growing into?

J.S. Kumar: Project is expected to shoot up by October 2012.

Abhilasha Satale: What kind investment have you done like, how is the road path, how much you would be investing this year in the project?

P. Nataraj: KPR will invest around Rs 725 million in the span of two years. Project cost comes around Rs 3,250 million; the balance will be tie up as term loan from bank.

Abhilasha Satale: So has financial closure happened?

P. Nataraj: Not yet, it is in the process.

Abhilasha Satale: We have seen currently turmoil happening in the textile industry. What is the outlook going forward because if we see current quarter realizations for yarn and current cotton price then actually 7% margin in this quarter looks quite difficult for the yarn business whereas you being integrated players you are getting advantage from fabric and the garment business, so how do you see the margins panning out over a medium term for textile industry and how is the demand outlook?

P. Nataraj: Everyone knows about the industry in the last six months. 2010-2011 was very good and after that once the yarn export was suspended, yarn prices started falling down and simultaneously cotton price also came down by almost 50% from Rs. 63,000 levels and it almost touched Rs. 30,000 and again now prices are around Rs. 35,000. So both the yarn price and cotton price have fallen down equally and the impact is that we have the stock of cotton which was procured at high price because to keep stock over a minimum period of two to three months. Previously our system was buying in bulk and keeping stock for the full year, but in the beginning itself the cotton price was high hence it is better not to procure and keep stock in bulk. So we kept minimum stock of two

months at high price and due to falling down of prices which has an impact this quarter and we hope that coming quarters will be better.

Abhilasha Satale: Okay so margins will be better, what was the cotton cost during the quarter in Q1?

J.S. Kumar: Per kilo it comes to Rs.160.

Abhilasha Satale: At current cotton prices and current yarn prices you are saying that the margins will improve?

J.S. Kumar: Yes definitely.

Abhilasha Satale: Okay fine Sir. If I have anything I will join again thank you.

Moderator: Thank you madam. The next question is from the line of Mr. Vikram Suryavanshi from Antique Stock Broking. Please go ahead.

Vikram Suryavanshi: I just wanted to know that the inventory write off that you have done of around Rs 278 million is it mainly raw cotton or include yarn also?

J.S. Kumar: It is raw cotton.

Vikram Suryavanshi: If you look at the yarn which you must be having some inventory so if you look at the high cost cotton which has gone into this yarn are we carrying that yarn inventory which is again a high cost?

J.S. Kumar: Yarn also valued at Net Realisable Value only.

Vikram Suryavanshi: Okay so basically in terms of yarn if you take the high cost yarn we do not have much inventory?

J.S. Kumar: We do not have much inventory on high cost yarn.

Vikram Suryavanshi: What is the exact current status in terms of export for the yarn and cotton? Earlier I think it was yarn export which was banned, but I guess now the government has allowed exporting yarn. But now international prices have also fallen so how is that economics is working?

P. Nataraj: The thing is that previously the prices were matching, the cotton price was high and yarn price was also high, but suddenly both have fallen down and the cotton which was on the stock at higher price made the impact. Today the prices are matching because of sudden fall, for example, say today cotton price is around Rs 34,000 to 35,000 and yarn price is also matching to that.

During last couple of months the customers domestic as well as international customers were reluctant to place the order. The reason is that the prices fell from Rs. 60,000 to Rs. 50,000 and then to Rs. 40,000 further down to Rs. 30,000. Nobody can predict where it will sustain, whether below Rs 30,000 or below Rs 25,000. Thus the customers were reluctant in placing the order despite having the regular orders (for example if they have regular orders of 10 containers yarn they placed only one or two containers and keeping the rest for price stabilization). But now at around Rs 34,000 to 35,000 levels seen in the last one month, orders have little bit started flowing so we are able to see in the last two weeks the market situation is improving and we hope that this will continue to improve.

Vikram Suryavanshi: Additional information on your sugar plant, is it close to your textile production unit or what is the distance between them?

P. Nataraj: The textile is located in Tamil Nadu, Coimbatore and the sugar project is at Bijapur district, Karnataka.

Vikram Suryavanshi: For transmission will you be putting billing arrangement or how you are looking at for power transmission?

P. Nataraj: Even in Tamil Nadu though we have our windmills 300 to 400 miles away from the factory we cannot directly take power, we have to supply to the government grid and from there we have to take from government to our factory. The same procedure follows, irrespective of the factory distance.

Vikram Suryavanshi: I just wanted to know how much TCD plant is that.

P. Nataraj: 5,000 TCD is planned.

Vikram Suryavanshi: Thank you Sir.

- Moderator:** Thank you Mr. Suryavanshi. The next question is from the line of Niket Shah from Edelweiss. Please go ahead.
- Niket Shah:** **Congratulations on a great set of numbers, compared to what your peers have been giving.** Just wanted to know the breakup of these Rs 3,250 million how are we going to fund it?
- J.S. Kumar:** That is Rs. 725 million is from the internal accrual, and the balance would be from debt from bank.
- Niket Shah:** Also can you give me a breakup in terms of the quantity sold in yarn, fabric and garment for the quarter?
- J.S. Kumar:** Yarn sales Rs 1,366 million, fabric Rs 416.9 million and garment export is Rs 925 million.
- Niket Shah:** In terms of quantity can we get that number as well?
- J.S. Kumar:** Yarn 6,620 metric tonnes, fabric 2,262 metric tonnes and Knitting garment 8,063 pieces ('000s).
- Niket Shah:** That would eventually mean there is a decline on YoY basis in terms of volume for everyone for yarn as well as fabric as well as garment right?
- P. Nataraj:** This is because of the market slowdown. This was the major issue in last quarter. Because of the suspension of yarn export, yarn market slowed down and in the value chain this led to slow of garment too. Fabric as well as processing everything has come down. Due to slowing down the inventory also has gone up.
- Niket Shah:** So going forward can we expect the volumes to actually pickup?
- P. Nataraj:** Yes definitely. That is what I said in the previous reply. The last quarter was the worst case and now the cotton prices are stabilizing at level of around Rs 30,000 to 35,000 and even positive news is coming from international markets like US, Europe, etc. Even in other countries also like Korea, Sri Lanka, fabric is moving so we are able to see positive news.

- Niket Shah:** In this particular quarter the tax rate was around 33%, can you just elaborate why the tax rate was around 33% because I think we are eligible for MAT and also if you can highlight what will be your tax guidance for the whole year in terms of percentage?
- J.S. Kumar:** In this quarter especially we have included deferred tax liability based on the actual assets purchased and the average annualized will be at 25%. This is not the actual outflow.
- Niket Shah:** Sir, also one last question on the duty drawback and the DEPB for the yarn which has actually got opened, have we taken that in our Q1 numbers or that is yet to get in terms of the rates and everything is not yet out, so that is still going to get factored in may be with retrospect effect in Q2?
- J.S. Kumar:** Yes, because the decision came after this Q1 so this will not be included in this Q1 results and it will be factored in Q2.
- Niket Shah:** So you will be eligible for the duty drawback or the DEPB?
- J.S. Kumar:** DEPB.
- Niket Shah:** DEPB and what is the rate for that?
- J.S. Kumar:** 7.67%.
- Niket Shah:** 7.67% on exports of yarn.
- J.S. Kumar:** Yes.
- Niket Shah:** For garment I think the duty drawback is already at 7.5%?
- J.S. Kumar:** You are right.
- Niket Shah:** Okay Sir. If there are any more questions I will just get back in the queue. Thanks so much and best of luck.
- Moderator:** Thank you, Mr. Shah. The next question comes from the line of Mayank Hyanki from Birla SunLife AMC. Please go ahead.

- Mayank Hyanki:** Sir my question was pertaining to the sugar mill purchase only. Primarily if you see that the last installation of the additional power capacity in the windmill front, I think you have installed around 24 MW of extra capacity at a cost of Rs 1,280 million is that correct?
- P. Nataraj:** Correct.
- Mayank Hyanki:** That is almost something like Rs 50-60 million kind of cost per megawatt installation of wind capacity whereas if we try to take out the cost of this project barring the sugarcane profits, it comes to be around Rs 100 million per MW kind of cost.
- J.S. Kumar:** It is not that. It comes to around Rs 47.5 million. The biggest advantage in this Co-Gen as we explained in an earlier question also, the location is the biggest advantage and for the Co-Gen what we are going to incur is very less. We are saving around Rs 400 million for 34 MW capacities. Normal capex will be Rs 60 million/MW but for this it comes only Rs 47.5 million/MW.
- Mayank Hyanki:** How about the operating cost? What will be the cost of production unit of electricity?
- J.S. Kumar:** It comes at around 2.70 per unit.
- Mayank Hyanki:** How much?
- P. Nataraj:** Rs.2.70 per unit. In fact it has a significant saving in power cost for KPR where we are planning for captive consumption.
- Mayank Hyanki:** Just given that you have already experience in the windmills, I was just wondering why was the need to venture into sugar mill which again is quite a cyclical sector and prone to as people have mentioned sometimes supply or short supply of bagasse, so overall are you saying that this will be much more cheaper than the windmill cost as well?
- P. Nataraj:** The main thing is consistent power generation throughout the year. Wind mill is season-based.

- Mayank Hyanki:** Secondly, over the last 12 to 15 months we have seen that global prices of both cotton and yarn have been much above the Indian prices. Now with the open general access coming in do you think that Indian prices will now catch up with the global prices? What is your view basically under disparity which is there between the Indian prices and the global prices of cotton and yarn?
- P. Nataraj:** In the last two years after the global recession, the Indian price and the international price are almost in parity. Previously, if you take the year 2008, there was no relevance between domestic price and international price. But, in the last two years, the key difference is the transportation cost amounting to Rs. 2,000 to Rs. 3,000 due to which the international prices are on the higher side at any point of time. So already the parity is there, and now the government has announced OGL in which, I do not find much difference. This Rs. 2,000 to Rs. 3,000 difference may be further reduced to Rs. 1,000 - Rs. 2,000. So if the domestic price is Rs. 30,000, international would be some Rs. 31,000 or Rs. 32,000 or if domestic price is Rs. 60,000, international would be Rs. 61,000 or Rs. 62,000, but otherwise the level will be the same.
- Mayank Hyanki:** But don't you think that with OGL coming in probably Indian players will try to route their product more towards the export market where the realization is a little bit higher than the Indian markets and that would probably bring the prices of both yarn and then accordingly cotton up rather than your view that these could soften a bit from these levels to around Rs. 30,000 levels?
- P. Nataraj:** Possibilities are there, but one thing if you see, in the past, except the last year where the price crossed Rs. 30,000 for first time in the history, even in 2008-2009 there was no restrictions on export. Even last year export was around only 55 lakh bales plus addition of 10-lakh bales totaling 65 lakh bales. In the year before there was no restriction but export has happened around 95-lakh bales without any restriction, but even during those days there was not much price increase so we cannot say because of the OGL price will go up steeply.
- Mayank Hyanki:** Finally, on the commissioning of the additional yarn capacity, which is due this year how is the progress on that and when will it start contributing completely?

- P. Nataraj:** It is already commissioned. Almost now 25,000 spindles out of the 1-lakh spindles have started production, we hope that 1-lakh spindle will be fully in operation by October 2011.
- Mayank Hyanki:** By October in phases of two or three months, is it?
- P. Nataraj:** Yes.
- Mayank Hyanki:** Great. Thanks for that. Thank you.
- Moderator:** Thank you, Mr. Hyanki. The next question is a followup question from Abhilasha Satale from Techno Shares. Please go ahead.
- Abhilasha Satale:** Just wanted to know that inventory write-off is around Rs 270 million, under which item in the P&L it is mentioned?
- J.S. Kumar:** Raw material consumption.
- Abhilasha Satale:** If the cotton prices do not go down further then there would not be any further inventory write downs?
- P. Nataraj:** There will not because now we are ruling at the current market price level. We have minimum stock presently.
- Abhilasha Satale:** Yes, and Sir this being the off-season for the cotton how is the quality of cotton we are obtaining during this season because from a strategic point of view even that is also a constraint to procure cotton in the off-season?
- P. Nataraj:** Previously, during the season we bought and kept stock throughout the year. The reason is that almost most of the reasonably cash rich companies bought and kept stock for a longer time. But because of high fluctuation, no mills in the market have bought and kept stock for more than two or three months. Because of that the quantity is very much available in the market with the farmers, so there are no issues for the quality.
- Abhilasha Satale:** Thank you.

- Moderator:** We will take the next question. It is from the line of Mr. Niket Shah from Edelweiss. Please go ahead.
- Niket Shah:** Sir, just wanted to know what is the debt level at the end of this quarter?
- J.S. Kumar:** It will be around Rs 6,750 million.
- Niket Shah:** And cash?
- P. Nataraj:** Are you talking about the current quarter?
- Niket Shah:** At the end of Q1 FY'12?
- J.S. Kumar:** Rs. 950 million.
- Niket Shah:** Sir in that sense I just wanted to know why has the interest cost actually come down on a sequential basis because in Q4 the interest cost was Rs. 150 million and in this quarter we are at around Rs. 65 million, just wanted to know why has there been a significant sharp fall in the interest cost. Have we borrowed some foreign currency and moved out of high interest cost rate to a low interest cost rate?
- J.S. Kumar:** In fact in this quarter we have borrowed foreign currency loan, and we had PCFC loans for which the prevailing interest rate is very low.
- Niket Shah:** How much would that be?
- J.S. Kumar:** PCFC it would be 2.75% to 3% range. You want to know about the loan amount?
- Niket Shah:** The loan amount, yes?
- P. Nataraj:** It totally comes around to Rs. 2,130 million.
- Niket Shah:** And you get that against exports or something like that?
- P. Nataraj:** Yes.

- Niket Shah:** Any particular minimum requirement of export required to get a particular amount of loan? Is there any ratio out that?
- P. Nataraj:** Based on the order we have to go ahead. PCFC is like normal working capital loan. We need the facility from the bank.
- Niket Shah:** Sir going forward for the whole year do you expect your interest cost to be subdued because of this?
- P. Nataraj:** We are planning similar strategy to reduce cost, since the interest cost is going up.
- Niket Shah:** That is all from my side. Thank you so much.
- Moderator:** Thank you, Sir. We have the line of Naga Deepika back on the call. Please go ahead.
- Naga Deepika:** Thank you. Sir, did you book any garment exports in the month of February or so at a higher cost. Do you see strong revenue coming in from the garment side because of the booking previously done in the start of the calendar year? And what is your outlook on garment exports for Q2 and Q3?
- P. Nataraj:** Normally we book the orders for maximum period of three months that is 75 to 90 days. By that time we cover the raw material also based on the requirement. And for Q2 and Q3 as the slowdown situation is easing out, we hope that next coming quarters will be better.
- Naga Deepika:** The revenues would be in line with the current quarter numbers around Rs 900 million or odd?
- P. Nataraj:** Yes, we hope.
- Naga Deepika:** One more update on the spinning front. There was one-third production cut in spinning facilities in India, is the production cut still going up?
- P. Nataraj:** The situation has improved. If you see, after two months of cut, the situation has started improving in the last two weeks and based on that the mills have also started production. For example, after 30% cut, they are now reducing that

cut. In a month's time, I think things will be normal. So they will be fully operational.

Naga Deepika: So you do not mind commissioning the 1-lakh-spindle yarn capacity by the end of October?

P. Nataraj: Absolutely no issues, because as far as KPR is concerned we have not cut down any production, because we have the advantage of integrated facility where we have captive consumption and we have various markets like not only in export, we have the major market in domestic as well. So KPR is one of the very few companies which has not cut down the production.

Naga Deepika: The commission of the next 1-lakh spindles would also, you expect the demand to continue?

P. Nataraj: Definitely demand will be there. 25% of the capacity is already commissioned, and it will be completed in a phased manner by October 2011, and we are very comfortable. There is no issue at all.

Naga Deepika: Why I was asking this question is we had a sales volume decline of 23% in this quarter, so I just wanted to understand how was the capacity utilization in yarn, fabric and knitted garments front?

P. Nataraj: The yarn capacity utilization is 90%, for the garment it is 70%, for knitting it is around 90% and processing is 85%.

Naga Deepika: This was at the end of the quarter, right?

P. Nataraj: This is for Q1.

Naga Deepika: Can you just give me the CapEx details for this year?

J.S. Kumar: CapEx of the year, we have to complete the compact yarn facility for which we spent around Rs 4,050 million out of Rs 4,380 million; and Sathayamangalam is yet to complete where Rs 350 million has been already spent and Melange is yet to complete where we have spent Rs 80 million out of Rs 180 million.

Naga Deepika: Sir this should be roughly around Rs 550 million to Rs 600 million?

- P. Nataraj:** That is it.
- Naga Deepika:** That answers my question. Thanks a lot and all the best.
- Moderator:** Thank you, Madam. The next question is a followup question from Mr. Mayank Hyanki from Birla SunLife. Please go ahead.
- Mayank Hyanki:** Just wanted to know your currency exposure in the hedges, which are currently outlined?
- J.S. Kumar:** In terms of currency exposure, ratios in Dollar, Euro and Pound, from Dollar we are making 35% to 40% and from Euro 40% to 45% and balance is in Pounds. Normally we have a hedging mechanism to book 40% when the orders get confirmed and because the market is highly volatile, we have a treasury team to closely monitor, accordingly we book the balance part.
- Mayank Hyanki:** Current dollar rates will be close to 45 only given the fact that the movement has not been much sharp?
- P. Nataraj:** Yes.
- Mayank Hyanki:** Secondly, on the industry front how basically have the CapEx been on additional yarn capacity installation which was going on? So what is happening there? Are people now stalling their CapEx plans or are they continuing with them?
- P. Nataraj:** Those who have started earlier say six months or one year back, they are continuing and those who have been planning for new CapEx in the last three months after February, are postponing because of the market situation. However, compared to last two months, this month looks better and maybe after August and especially if you take in this region that is Coimbatore, Tirupur, all these regions are doing more summer garment exports to Europe and US, for which the season starts by September. So I think after that based on the market situation, the industry may think of going for further expansion. And another thing is that cotton season also starts by October so that also we will have to see very cautiously. So I think maybe over the next two to three

months the industry people will monitor very closely and cautiously, after then only we have to see whether further expansion will be there or not.

Mayank Hyanki: Thanks a lot Sir.

Moderator: Thank you Sir. There are no further questions from the participants. I would like to hand the floor back to Rupam Prasad for any comments.

Rupam Prasad: I would like to thank everyone for taking their time out and joining us in this call. If you have any further queries you can get back to us. Thank you.

Moderator: Thank you. On behalf of Four-S Services Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.