

K.P.R. MILL LIMITED

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12.09.2020

To,

The Listing Department
Bombay Stock Exchange Ltd
1st Floor, Rotunda Buildings,
Phiroze Jeejeebhoy Towers,
Mumbai - 400 001

The Listing Department
National Stock Exchange of India Ltd
Exchange Plaza, Plot: C/1, G Block,
Bandra - Kurla Complex, Bandra (E),
Mumbai - 400 051

Dear Sir,

BSE: 532889 / NSE: KPRMILL

Sub: Transcript of the Conference Call held on 14th August, 2020

In Compliance with Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached, the transcript of the aforesaid conference call.

Please take the same on record.

Thanking You,

Yours Faithfully,

For K.P.R. Mill Limited



P. Kandaswamy
Company Secretary

Encl: As above

Transcript

KPR Mill Limited 1QFY21 Post Result conference call

Event Date / Time : 14th August, 2020, 04:00 PM IST

Event Duration : 01 hr 21 mins 57 sec

Presentation Session

Madhuri: Good evening ladies and gentlemen. I am Madhuri, moderator for the conference call. Welcome to KPR Mill Limited 1QFY21 post result conference call, hosted by Batliwala & Karani Securities Private Limited. As a reminder, all participants will be in listen only mode, and there will be an opportunity for you to ask the questions after the presentation concludes. If you need any assistance during the conference call, please signal an operator by pressing star and zero on your telephone keypad. Please note that this conference is recorded. Now I would like to handover the floor to Ms. Prerna Jhunjunwala.

Prerna Jhunjunwala: Thank You. Good Evening everyone. On behalf of B&K Securities, I would like to welcome you all for 1QFY21 results conference call of KPR Mill Limited. From the company we have with us the senior management of the company including Mr. P Natraj, Managing Director of the company. Mr. P.L. Murugappan who is the CFO, and Mr. P. Kandaswamy who is the Company Secretary. I would now like to handover the call to the management for initial comment. Thank you and over to you sir.

P Nataraj: Thank you Prerna, and very Good Evening. Welcome to you all for KPR Mill first quarter Earnings call. With me my CFO Mr. PL. Murugappan, and the company secretary Mr.P.Kandaswamy are there. We are happy to report that with the support of all stakeholders KPR is marching towards attaining pre COVID 19 era operational level. The entire world is passing through uncertainty that was never seen before due to COVID-19 pandemic. Like, many other sectors of the economy textile industry have been hit hard by closing down its business. During this challenging time, our priority is the well-being of all of us. All our focus should be to support the government's public health initiative and instructions regarding social distancing. In compliance with the statutory lockdown directions, the operations of the Company was suspended more than a month, and that was from 24-03-2020. Lockdown was extended by the Tamil Nadu government up to 3rd May, 2020, effective from 6th of May the operations commenced partially with restricted work force as per the government guidelines. Operations are ramped up with all necessary safety precautions for the employees. Now, KPR remains operational, and continue to serve all stakeholders due to COVID almost all manufacturing companies faced the issue of migrated labor in entire country returning all to their hometowns causing severe labor shortage. Whereas KPR stands different here. KPR never faced such an issue at all even during this challenging time. Thanks to its unique, and best HR practices. The industry acclaimed HR policy adopted by the management since beginning rewarded KPR during this crisis period. The feel at home facility KPR encourages migrated workers to stay back enjoying the continued comfortable accommodation provided by KPR that is nutritious food, recreation, education facilities does help in safety measures. We are also glad to share with you the strong fundamental, sustained team efforts, and prudential financial management enabled comfortable liquidity position, and as such KPR neither availed any moratorium nor any COVID Loan announced by the government. Our executives and employees have successfully repositioned to ensure that our work progresses. Proving it strong fundamental, and leadership KPR was able to withstand all hurdles during this tough time by delivering good performance during the first quarter. In the financial year 2020, KPR has added latest technology vortex machine at Neelambur unit which produces various blends and range of

value added viscose yarn that creates new wave of old fashion. KPR is still in majority in manufacturing cotton product, and of course the market is slowly moving into value added manmade fiber also. But to meet the demand from the Customer we have installed the vortex machine. Established a new advanced technology in knitting facility. Housing the contemporary imported knitting machines that is housed in Karumathampatti mill. Third one is successfully established ethanol plant with a capacity of 130 KLPD at our sugar factory in Karnataka. Production has been commenced, but its full-fledged commercial operation is expected during the current financial year. With this the floor is open for questions. We are here to answer or reply to your question. Thank You

Madhuri: Thank you sir. Ladies and gentleman, we will now begin the question and answer session. If you have a question, please press star, and one on your telephone keypad. Wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing star, and one again. First question comes from Mr. Ankit Gor from Systematix. Please go-ahead sir.

Ankit Gor: Hello! Am I audible now?

P Natraj: Yes, you are audible now.

Ankit Gor: Thank you so much sir. Thank you for taking my question, and congratulations for great number in this testing time. My question with regards to CapEx growth for that matter. For example, in FY20 itself we were sought of 83-85% capacity utilization, what sort of CapEx we are envisaging sir in next one or two years, probably for Ethiopia as well as India? So, that is my first question.

P Natraj: For the last six months we have invested nearly around Rs.230crores expansion of knitting and establishment of ethanol plant. You know unfortunately this COVID situation has come, and no one in the world still have any solution for this when it will be sorted out, or when this will be over. So, we are also closely watching the situation because you know that due to this pandemic, getting work force is very difficult. As I explained in the initial comment itself that KPR is unique in the industry. Whereas, even till today if we see, the factories are running with below 50% capacity, whereas KPR from the beginning i.e. May 5th we started, and within four days we reached to 90% capacity. So, that is the strength of KPR, and we continue to do that. When we go for further expansion, you know recruiting new employees – previously it was different story, but now we have to recruit people from outside. So, lot of criticality is there. Like, E passing system, state to state movement is a problem. So, bringing them testing them, keeping them in quarantine, all these issues are there. Textile being labor intensive you know we have to wait and see. Our next plan is go into the expansion into the garment segment, but we have to wait and move little slowly.

Ankit Gor: Right... Sir, the new garment facility would be roughly of about 30-40 million pieces, can we assume that whenever we announce?

P Natraj: Yes, it will be around 30-40 million.

Ankit Gor: Okay Sir, my second question, we have done relatively very well in garmenting, in 1Q, did we see any pent-up order, or was it any one of thing in this quarter or it was the normal quarter in we should expect the subsequent quarter be in the same rate?

P Natraj: Nothing special, this is normal only. I think we can expect order also at the same rate.

Ankit Gor: Okay! Now lastly from my side. What is the fabric...You know we also expanded some fabric capacity, what is the total fabric capacity? If I remember correctly, it was 27000 earlier, and now it is 27 plus 13, right?

P Natraj: Yes, you are right.

Ankit Gor: Okay, thank you very much sir.

P Natraj: Thank you sir.

Madhuri: Next question comes from Anand Singh from Unify Capital. Please go-ahead sir.

Anand Singh: Thank you for the opportunity. Many congratulations for the performance which was extremely fabulous in this circumstances. I have three questions. First is, in case of sugar segment Q4 we had very strong performance, Q1 was also good. If you can comment on this, what was reason for such strong margin in Q4, and in Q1 whatever margins you see this can continue for the entire year. And our distillery operations were to start in Q3, have they commenced in the last cycle? How much is produced? Whatever you can share on sugar and distillery part of the business.

P Natraj: Sir actually during fourth quarter of the year we have commenced ethanol production in distillery unit, and it was running for about 3 months. We have continued the ethanol plant in the first quarter also apart from first period of lockdown. During April, we could not run the factory, and we run it in the month of May, and June. We produced about 40 lakh liters ethanol during this year, and same amount in the last year also. Actually, the major portion of ethanol came from sugar syrup that is one of the highest price realization segment. We realized about 60 rupees, and we also produce some portion from B-Heavy molasses. So, because of that revenue is higher in the fourth quarter of last year, and first quarter of this year. Revenue from ethanol is around Rs.40crore this year, and last year it was 12crore rupees.

Anand Singh: Okay. There is some system of sugar quotas, what was the sugar quota sales in Q4, and Q1?

P Natraj: Sir, sugar quota sale Q1 FY 21 is 23000 tons.

Anand Singh: Okay, is that for Q1?

P Natraj: Yes, Q1, and 23000-ton quota we received, and sold it during this quarter.

Anand Singh: And in Q4 Sir?

P Natraj: I will get back to you.

Anand Singh: Sure sir.

P Natraj: Q4 is about 31000 tons.

Anand Singh: Okay, 31000 tons.

P Natraj: Yes. The stock is about 39000 tons. We hope we may be realizing it in this quarter, in 3-4 months' time.

Anand Singh: Okay. In case of our retail venture, if you can give any update, how is the brand doing, what is the plan for this year, and COVID would have changed lots of plans, but what is the broad outlook, like two to three years of expectation for the business.

P Natraj: Sir actually we launched last year in May, and everything went on as per the plan. Almost after 7-8 months it was what we initially put up...The efforts started yielding but unfortunately due to the COVID, everyone knows that very well all the shops are closed, and you know only small shops, the malls and these things are not opened still. Small shops are opened, but even the public is not stepping into the stores. Unfortunately have to sit back now. Actually, we are on the track, however online business is happening. Still, they have to get solution for COVID, maybe this happens in other two three months. So, we cannot predict how the direction moves. Very strongly the management is planning, and in fact we also have internally set up the team efforts for manufacturing, marketing, distribution set up. Whatever time is time lost because of COVID, three months or six months, We would like to push it with maximum effort so that to cover by next one or two years. So, this is the plan.

Anand Singh: Sure. Can you give me the sales of the FASO brand for FY20 launched in May? We had about nine months of sales, can you give me the sales figure for full year FY20?

P Natraj: It is roughly about 7-8 crore rupees sir.

Anand Singh: Okay for the full year.

P Natraj: Yes.

Anand Singh: Fine. In case of sugar, you have mentioned that we sold about 23000 ton, and target is 35000 ton. Did I hear you correct?

P Natraj: No, 39000 ton is a stock as of 30th June. We hope that it will be liquated during this quarter, and early for the third quarter.

Anand Singh: Yes, got it. Distillery operations currently are running 24/7, or is it cyclical, and moves with sugar cycle? How does it happen?

P Natraj: For July and August usually, we take entire plant for a maintenance. Now the plant is on maintenance both sugar, and distillery. We will start our production in the month of September for distillery, and sugar as usual will be sometime in October.

Anand Singh: Okay fine, I will come back in the queue.

Madhuri: Dear participants, if you have any questions please press star and one on your telephone keypad. Next question comes from Chandar Bhatia from CS Fund Management Private Limited. Please go-ahead sir.

Chandar Bhatia: Good Evening everyone. Thanks for the opportunity. Congratulations to Mr. Natraj, Mr. Murugapan, and the entire team for excellent set of numbers during this tough time particularly. Sir, I have couple of questions.

P Natraj: Yes.

Chandar Bhatia: First question is, what is the likely incremental revenue due to expansion of viscose yarn, and fabric?

CFO: Sir, fabric actually we have expanded for our own requirement because as Mr Natraj sir earlier informed you about the expansion plan of garment factory.

Chandar Bhatia: Okay

P Natraj: We are preparing ourselves for other fabric, and processing division. You might have seen that last year we have expanded the fabric capacity by 4000 tons, and now we have increased the fabric capacity also. Mostly this is for our own purpose, own consumption, and portion of it will be sold, depending on the market condition.

Chandar Bhatia: Okay sir. What is the revenue expected from this, depending on whether it is being sold outside, or it is being used?

Murugappan: Sir, the turnover expected from viscose yarn is about 80 crores per annum.

Chandar Bhatia: 80 crores, okay sir. What is the expected turnover from ethanol vertical this year, this entire financial year?

Murugappan: We hope that we will reach somewhere around 150 crore this year.

Chandar Bhatia: Okay sir. There is a news in the paper about MEIS Scheme, which is now capped at Rs.9000crore, which is coming in the newspaper. And there was last year MEIS Scheme incentive was withdrawn from the retrospective date, and there is an introduction of RoSCTL Scheme. So, if I want to understand in terms of what were the incentive profile last year, and what could be the incentive profile this year for Yarn, and garment?

Murugappan: Sir actually for yarn only drawback is available.

Chandar Bhatia: Okay.

Murugappan: Drawback is available, that is 1.2 % ranging from 1.2 to 1.5 depending upon the blend... And the garments, we are eligible for drawback of 2.25%, and RoSCTL is 5.25%.

Chandar Bhatia: Okay.

Murugappan: Yes. MEIS Scheme is not applicable to yarn, and garment. It is only applicable to fabric. We are waiting for further order; export of fabric quantity is very small. So, we hope that it will come back.

Chandar Bhatia: Okay sir. What is cotton inventory as on 30th June, and cotton prices?

P Natraj: Cotton?

Chandar Bhatia: Cotton inventory as on 30th June?

P Natraj: Cotton inventory is 1 crore 50 lakh kg of cotton Average price is about Rs.35000 per candy

Chandar Bhatia: Okay sir, and what is the yarn price right now?

P Natraj: Yarn price is somewhere around 200 rupees per kg

Chandar Bhatia: Okay sir. Thank you so much

P Natraj: Thank you sir

Madhuri: Thank you sir. Next question comes from HR Gala from Finvest Advisor. Please go-ahead sir.

HR Gala: Hello Mr. Natraj, and team. Congratulations for very good set of numbers.

P Natraj: Thank You.

HR Gala: It is very fulfilling to see that even in bad times, we have been able to hold, and given the positive results. It is really surprising. And you know Plus you have rewarded the shareholders also pretty well by share buyback, and continuing dividends etc. So, that is really heartening sir, very heartening. Can you help us with the, how much volume did we sell in garments, and yarn fabric in the first quarter?

P Natraj: Yes, yarn sale is 6500 tons, fabric sale is 1500 tons.

HR Gala: Fabric is also same?

P Natraj: Yes, 1500 tons.

HR Gala: Okay, 1500 tons.

P Natraj: Yes.

HR Gala: How about garment?

P Natraj: 15.5 million garment.

HR Gala: 15.5 million, okay. Recently some news have come that cabinet committee is looking to increase the prices of sugar, and some changes will be made in FRP of cane also. Do you think this proposal will go through? How will it help, because that will be pretty much good if price increase is given?

P Natraj: Sir, we are hopeful. We are waiting for the notification from the government.

HR Gala: Okay! Sir, another question is, in current year FY21 there may not be any project export, what kind of capital expenditure we will have?

CFO: For the current year as M.D told that we are waiting for the situation to get settle to take all capital expenditure. Right now, regular capital expenditure will be done for maintenance CapEx kind of a thing. Any project will be decided based on the situation, in fact on returning to the normal situation.

HR Gala: Yes, that is correct. How much will be the regular maintenance CapEx?

P Natraj: Somewhere around 100 crore rupees.

HR Gala: Okay, around 100 crore rupees. One question I just wanted to know, if you see our performance of textile even on a lower sales, we have done so well on PBIT. Was it because we have consumed the old stock which we had marked down in fourth quarter?

P Natraj: Yes, that is also a reason because we have bring back the stock to the market price during last quarter.

HR Gala: Correct.

P Natraj: That is also a reason, that is why we are able to reach about 18% of EBITDA this quarter.

HR Gala: Okay.

P Natraj: As against 16%...9% in the last quarter, and garment also did well during this quarter. We have reached to 25%.

HR Gala: Correct. Sir, in case of sugar what has happened? Like, in fourth quarter we had 31% EBIT, and it has come down to 13%. Is it because output etc.? Was less? Sale was less in the first quarter?

P Natraj: In the first quarter there is no power sales. Generally during the season we have power sale. Power sale is profit for the sugar business. During first quarter there was no power sale, otherwise the margins are good, and we have clocked about 22% EBITDA

HR Gala: Okay, so sugar and ethanol there was no problem.

P Natraj: No problem.

HR Gala: Okay, thank you very much, and wish you all the best.

P Natraj: Thank you.

Madhuri: Thank you sir. Next question comes from Resham Jain from DSP Mutual Funds. Please go-ahead sir.

Resham Jain: Congratulations sir on good numbers on certain time.

P Natraj: Thank you sir.

Resham Jain: I have couple of questions. First question is on the yarn business. Because lot of yarn which we sell in Tirupur market, can you give the sense on how the industry is recovering over the last three to four months in Tirupur market, and how are we seeing the knitted yarn market overall? So, that is my first question.

P Natraj: Actually, Tirupur is slowly picking up. Once complete lockdown was relaxed Stage by stage 40% of the factories were opened, and now almost 70-80% of factories have started running. Again, it depends on the mainly western countries where 80% of the customers are from the European countries, and they also have opened the source of placing an order. One good thing was, previously during March or the beginning of April, whole industry was a little scared in Bangladesh, and here also. But fortunately 90% of the regular customers accepted the orders what they placed during pre-pandemic time, and they have taken delivery. So, almost this pandemic issue was over. So now the Tirupur is functioning almost around 80% level, that is what I can say. Because of the yarn movement has started from 40% to reach 80% level, and situation is further improving. So, what we feel that maybe from next month onwards you know, demand will pick up. We are looking for positive performance in the coming months.

Resham Jain: On the yarn business given that the cotton stock in the country continues to be very large, and CCI is also sitting with the large inventory, and this season is also looking very good. Do you see the next few months despite overall demand being lower the yarn margins can be better relatively what we have seen last years?

P Natraj: We can say that cotton price have come down because of that yarn margin may improve, but still we have to wait and see how it will be. Reason being, international cotton price is still higher compared to the domestic price. So CCI if they start exporting, there was a rumor that CCI may export to countries like Bangladesh, Indonesia, etc. then you know local price also may increase. So, then it will be parity with international price. There are lots of uncertainties. So, we have to wait and see, but new season is also starting, and our government has already announced 5% of increase in MSP, and this is really a surprising announcement. Already CCI holding nearly 100 lakh bale, and when they announced again increase MSP this year. How much they can cover and keep stock. How the China has cleared the huge reserve one and a half years of their total consumption. If this year also CCI covers same quantity about 8-9 months of India's entire consumption will be covered by CCI. And it is again big question, how they will dispose it, when international market price also comes down. So, we have to wait and see. This is the first time that more than one crore bale covered by CCI, and the coming year what they are going to decide. So, it is very difficult to predict now. But however with the raw material availability, and the prices within very comfortable situation. I believe that yarn will do well.

Resham Jain: Indian players also in the given context will be very competitive globally also.

P Natraj: Pardon?

Resham Jain: Even the current prices in India, Indian players will be very competitive in the current cotton prices.

P Natraj: Yes, Correct. But you know as CCI is holding majority of the cotton, so export is not happening. Now everything is in the hands of government. Even selling, pricing, everything sir.

Resham Jain: Right.

P Natraj: We have to wait and see.

Resham Jain: Okay. Sir my second question is on garmenting business. Overall, we have seen that over the last two years you expanded capacity, and you are able to fill up new capacity also very quickly. Is there any scope to improve the overall product mix from what we were doing earlier, in terms of increasing the customer mix, or improving the product mix?

P Natraj: Yes, actually we are increasing the customer base, and improving the product mix also, but again you know, customers like H&M, TESCO, Decathlon are large customer. So we cannot change the product mix. It is also ...We have to see what customer placing the order from season to season. But one thing is there that due to trade war between US and China, various customers are pulling back from China. Already there is a big talk, that they may come to India but till today there is no such big change. They move to various countries like Indonesia, Vietnam Cambodia, like Bangladesh, and India. If situation turns around, maybe we will get more customers based on the demand. So, presently you know we have to cope with the customers.

Resham Jain: Okay, right. In terms of order book visibility on the garmenting side, how do you see that currently?

P Natraj: Current order book is about Rs.500crores. This is for period up to October-November. New order will start, Negotiation ...expected to come in from September onwards.

Resham Jain: Is Ethiopia facility is normalized now, or do you see challenges over there?

P Nataraj: More or less it is normalized. Pandemic situation is more or less in control in Ethiopia also. We are able to run it at 50% capacity now. We hope that situation will improve in the coming period.

Resham Jain: Okay sir. Thank you very much, and all the best.

P Nataraj: Thank you.

Madhuri: Next question comes from Venkat Samala from Tata Asset Management. Please go-ahead sir.

Venkat Samala: Hi Sir, thanks for the opportunity.

P Nataraj: Thank you sir.

Venkat Samala: Firstly, congratulations on putting such good numbers in such prime time. I have couple of questions. If I look at the gross margin of quarter, they were pretty much good. I mean they are recorded high, if I am not wrong, at about 47%. So, one of the reasons is that, you have marked down your inventory cost to about 35000, right. Other than that, is there any other reason for such good gross margin? Do you expect this to be sustainable?

P Nataraj: As you said, it is right that we marked down the inventory during the fourth quarter last year to the market level, that is one of the reasons of higher gross margin. Second is, garment business is doing well. When yarn prices goes down, garment business will do really well. The margin will be higher. Also, we have added distillery during this year that supported us to make gross margin at higher level.

Venkat Samala: Right. Do you expect this to sustain moving forward, assuming that raw material cost is the same? Do you expect this to sustain?

P Nataraj: Sir hopefully this quarter we will be able to meet, but we have to see. Because it is very volatile market.

Venkat Samala: Right.

P Nataraj: Yes.

Venkat Samala: With respect to your export market for the garment, has the mixed changed with respect to the market that you usually export to, or that is largely the same?

P Nataraj: Largely the same.

Venkat Samala: Okay. One more thing which I wanted to understand was that, if I look at the percentage of exports, they have dropped by about 4-5%, some 42 to...sorry 35 % whereas garment mix has increased. Is there any such particular reason? Are you selling the garment to domestic market as well? Is it?

P Nataraj: Sir, we are selling garments in domestic market for the European buyers. They have started the shops in India, and we are selling to the shops also. Second one is, we also did some medical kits during this pandemic time, that was allowed because of that domestic sales has happened.

Venkat Samala: Right. Now in the current quarter, have the export sale normalize?

P Nataraj: Yes, normalized.

Venkat Samala: Okay. When do you expect the Ethiopian plant to run at 80-90% capacity utilization?

P Nataraj: It is supposed to be done during this time itself, but because of this COVID, lots of restrictions were there in Ethiopia also. We hope that thing will improve in the second half of this year.

Venkat Samala: Okay, alright. Thank you. Thanks a lot.

P Nataraj: Thank you.

Madhuri: Thank you sir. Next question comes from Chetan Karani, individual investor. Please go-ahead sir.

Chetan Karani: Yes, thanks for the opportunity, and congratulations on good set of numbers. My question is particularly FASO. I mean he said that we had sales around 8 crore this year. I would like to know, what was our internal target pre COVID things, and how much it has changed, and how do you see the sales of this FASO brand maybe two or three years from now? Any internal thought process within the company?

P Nataraj: In 2020 internally, we targeted around 12 crores, and because of COVID, we are not able to reach the target. This year we planned 23 crore. For first three to four years we can double, and reach up to 100 crores. Like, 12 crores, 25, 50, then 75, and then 100 crores to reach. So, that was our plan. We got little bit stuck because of this COVID. We hope that once this is over may be... I think this will continue for other 2-3 months. So, we are already setting the platform ready, push it stronger, next year onwards. So, that is the plan sir.

Chetan Karani: I see. Are we geared up for that much sale, or we will have to expanding the capacity, or geared up for 100 crore sale three years from now?

P Nataraj: Sir, we will do the expenditure based on the requirement, because we are already having the facilities, we can use the existing facility, and by the time we can increase the facilities for the future requirement. We don't have any issue on this facility side.

Chetan Karani: I see. What is that small part expenditure for getting that 100 crores sales for FASSO?

P Nataraj: Another 20-25 crore of capital expenditure is required for that purpose, not a big capital expenditure is required.

Chetan Karani: I see. Are there any particular market that we are targeting, like southern part of India, or any thought process on that sir?

P Nataraj: Within 7-8 months we almost reach all the southern states like Tamil Nadu, Kerala, Andhra, Karnataka, and Telangana, these five states, we have already appointed people, the distributors.

Chetan Karani: The distributors.

P Nataraj: Yes. So, our main concentration is to reach 100 crores only in these southern states, and then we will move to other area. So, that is the plan.

Chetan Karani: Alright. That was all from my side. Thank you for giving me an opportunity sir.

P Nataraj: Thank you.

Madhuri: Thank you sir. Next question comes from Sunil Kothari from Unique Investment Consultancy. Please go-ahead sir.

Sunil Kothari: Thank you very much sir.

P Nataraj: Thank you sir.

Sunil Kothari: Hearty congratulations to management team, and your finance department, and the way you treated your employees during this tough time, really proud for us, we being shareholders.

P Nataraj: Thank you sir.

Sunil Kothari: My question is, how much we have produced in terms of numbers of garment during first quarter, and currently what is run rate, and how much we are planning to produce during current year? I think last year we have sold 98 million.

P Nataraj: Yes.

Sunil Kothari: Any rough number or target or thought process of garment production, and sale?

P Nataraj: Current quarter, our production is about 15 million garments.

Sunil Kothari: Okay, is that the first quarter?

P Nataraj: Yes, first quarter.

Sunil Kothari: Okay.

P Nataraj: And now we are producing around 10 million garments a month. We hope that we will cross the last year's number this year.

Sunil Kothari: Okay! We are comfortable running our all the factories.

P Nataraj: Yes, comfortably.

Sunil Kothari: Really commendable. My question is regarding larger picture about garment sourcing from India during this COVID situation, pre COVID US, Europe and China, trade disputes. Do you see any such major opportunity as garment manufacturing from India, any larger opportunity? If you can talk little bit more on this situation.

P Nataraj: It is pre mature if I say something, but actually the market and the industry talk is like that. Definitely, some customers will move out of China, and they go, either to India, or Bangladesh, or other countries, like Vietnam. Still this issue is going on, so it is not taking a shape, so we have to wait, and see for may be another 3 months or 6 months, but definitely there is possibility of a share of those order to come to India. There will be a benefit for India, specifically to textile industry here. So, I can assure that.

Sunil Kothari: True. We are planning to have new garment facility in India. Previously your thought process was not expanding in India, but now it seems that after Ethiopian experience it seems India is a better place to go ahead. If you can talk about, it will be at same place, or whatever plan you have made. I am not asking when it will be going ahead

with new garment factory, but the size, capacity, the cost, and region will be similar, or any new state you are planning?

P Nataraj: I understand sir. Actually, we never told that Ethiopian expansion is totally ruled out, you know but situation should improve, and because of the pandemic everywhere, globally. Issue is there in almost all the countries, including Ethiopia. They also have some issues. Size is not so big, that is the reason we thought of planning to expand within India itself. Expansion will be in this region only. Already we have core strength, we have already existing capacity, technical people. For example, teams are available there. All are able to reach within 10-15 minutes, each factory. Factories are located the maximum of 10-15 kilometers distance only. So, anything based on buyer's need, or productivity can be met. So, it will be an advantage. This also we are planning, maybe 10-15 kilometers gap of this existing factory. Generally, for this type of factory CapEx may be around 250-300crores.

Sunil Kothari: Right sir.

P Nataraj: Yes, capacity will be around 35-40 million of garment capacity.

Sunil Kothari: Perfect! Sir, my last question is, looking at this global lockdown for some time, many retail stores and shopping malls were also not operating. Do you see any challenge towards demand? Mr. Murugappan clearly said that there is a good order, and expecting some further orders by September or October onwards. Your thought process on for next 6-9 months, any challenge on demand?

Murugappan: We are also looking very positively by two reasons. One is, pipelines are empty, and in whole world purchase has slowed down, in last 4-5 months. So, in another one or two months, slowly things will move, but to reach full level maybe by the end of this year. Once they start buying, I think demand will increase. Maybe next one year will be high demand. So, that is what our prediction is. This is one thing. Another thing is, we have already discussed about China. So, buyers may move into India. This is an additional capacity requirement and additional demand will be there. Taking both into account I feel that may after 2-3 months, or next one year will be very positive, and good demand market will prevail. So, that is what we are expecting.

Sunil Kothari: Great to hear. Thank you very much, and wish you good luck.

Muragapan: Thank you sir.

Madhuri: Next question comes from Anand Singh from Unify Capital. Please go-ahead sir.

Anand Singh: Thank you for the opportunity again. I just wanted to understand that 4Q we had some power sale showed up in sugar business, did I understand you correct?

Muragapan: Correct sir.

Anand Singh: This is the co-gen power, correct?

Muragapan: Yes, correct, co-gen produced from the sugar mill.

Anand Singh: So, what would be approximate absolute sale of power in Q4?

P Nataraj: Approximately power income is 36 crore rupees.

Anand Singh: So, largely almost all the EBIT in Q4 is from sugar, from power in sugar segment?

P Nataraj: Yes, most of it.

Anand Singh: Is it only Q4 you have, or how does it work? Can we see this in other quarters? Smaller level also, can you help us understand that?

P Nataraj: Yes, third quarter we will have smaller portion, and fourth quarter we will have full power generation.

Anand Singh: Okay, is it that we allow the sugar accumulate, and then we produce in one go in Q3, and Q4. Am I understanding correct?

P Nataraj: Power is actually produced from the bagasse. It is a byproduct of sugar mill. After sugar we get bagasse. It is utilized for producing power. It is integrated sugar mill where bagasse is one of the part, and power generation is also another part. It is a cogeneration plan, and whatever power generated portion of it is used in production, and portion of it we are selling it to the Karnataka Grid. Actually, we have an agreement with Karnataka Government for selling the power for 5 years. It ends by 2022.

Anand Singh: Okay, I see. Q3, and Q4 will have good power sales. Distillery, and Sugar plants both are shut down, Q1 will be the weakest, and then you would start picking on, and it will be Q3, and Q4.

P Nataraj: Yes, Q3, and Q4 will be this season, for sugar mill. And we hope that next year onwards we will have reasonably good amount of ethanol production. In Q2 also we crushed a little lesser as compared to the expected level. So, we hope that this year we will be crushing around 10 lakh plus of cane. So, we will have ethanol production also throughout the year.

Anand Singh: Wonderful sir. In Q1 Our gain on cotton inventory, what would be the approximate figure in rupees crores?

P Nataraj: I could not get you. Can you repeat sir?

Anand Singh: I was asking, inventory gain for cotton, that was showed up in P&L in fuel in absolute rupees crores.

P Nataraj: Are you asking about the gain?

Anand Singh: Yes.

P Nataraj: Sir actually we have bring it down to the market, that is 35000 rupees. So, even if gain, we bring it down to the market price.

Anand Singh: I think March end cost would be lower than 35000 rupees. So, you have brought it up, isn't it?

Murugappan: Yes. Actually sir, our margin is 18% EBITDA during this first quarter because we are bringing down the inventory to the market price.

Anand Singh: So, EBITDA margin would have been higher. Had we not... So, this is inventory loss, not inventory gain in cotton, in Q1?

Murugappan: Yes. There is no loss in Q1, only Q4 we have a loss.

Anand Singh: Okay, so there is nothing in Q1, no gain, no loss.

Murugappan: Yes, no loss.

Anand Singh: Okay, just trying to understand from a medium term prospective. You said that you have 90% production level in garments within one week of starting the facility,

whereas other competitors started 50. Given that you were so reliable, do you anticipate that you will get more business because of you having reliable? Is that a right expectation, or is that what you are expecting?

P Nataraj: Yes, correct sir. Once the lockdown is relaxed, and many people were not able to start the production because of the labor shortage. KPR started production within a week, or 4-5 days. So, all our customers are much comfortable, or happy that we were able to start production. Europe order is based on season, and lots of time was lost because of lockdown. Even many customers demanded special order to ship more quickly. We have given full attention, and increased the line for that particular order. We have even shipped it much earlier. So, customers are so happy, and this gives confidence to the customers. At any situation Compared to other companies, KPR will honour it. They will support in this kind of critical situation, so that feeling comes in the mind of our customers. We are very happy to share this. Where many companies having even 1000 employees, they are migrants, they are not able to retain them, and most of the people have left. KPR having more than 20000 employees, everybody stays within the campus. We have provided all kind of facilities not only one month, but throughout. So, only because of that all our workers, employees were staying inside during the lockdown. That is the reason... Machines are ready, and people are sitting idle. And you know in fact just you imagine that keeping 20000 people, and all are young people, wherein to manage them without any work was difficult. We created lot of entertainment program and all these things in the campus. So, once the lockdown is relaxed, since day one everybody was there in the factory, and that is why within four days we were able to do. They were also sitting idle, and management was providing all these facilities. Their mind and heart was fully on the job. The management has supported them during this time, and we paid full wages, salary to all the people. Because once we pay like that, and we considered them so important etc all these have paid us back. So, that is the reason that this quarter we are able to achieve this level. I am really happy, and I am really proud of our employees.

Anand Singh: And sir we are proud of you that you have taken care of them so well that we have come back to the business very quickly.

P Nataraj: Thank you.

Anand Singh: I have one follow up question. Given that our capacity was 115 million across in India. Now there is social distancing in work place, would you be able to produce 115 million due to social distancing, or would be lower? Can you comment on that?

P Nataraj: No, actually we are providing all securities measures whatever the government says, hand washing, social distancing, using mask, all these things we are giving that to them. Those who are working in the factory also, where they are sitting, and working is already in a distance of 6 feet. So, absolutely there is no issue. Again, government is also sending inspectors, or officers from the health department. They are coming and visiting every factory. Only those maintaining properly are allowed to work, or else they are warning, or shutting down the factory.

Anand Singh: Wonderful sir. Facts remain the same. It is already well planned, and social distancing does not affect our capacity.

P Nataraj: Yes sir.

Anand Singh: Wonderful sir. My last request, we love speaking to you, please always try to do a con call. We miss... I really miss if you don't do a con call in a particular quarter. So, so please consider my request. Please do a call every quarter.

P Nataraj: Yes sir. Thank you, sir. Well taken your suggestion, we will do that.

Anand Singh: Thank you.

Madhuri: Thank you sir. Ladies and gentleman if you have any question, please press star and one on your telephone key pad. Next question comes from Chintan Seth from Samiksha Capital. Please go-ahead sir.

Chintan Seth: Thank you for the opportunity, and congrats for very good set of numbers in this prime time. My question pertains to the follow up of previous participants. You have mentioned that the way we manage our HR policy, the way we manage our employees, we have upper hand in terms of accepting talent. In your initial remark you mentioned that you know lot of benefits taken away because of getting employees for expanding capacities. Don't you feel sir that this is the right time for us expect more, and expand our capacity, and be prepared for any future ship from China to India, and benefit from that front coming to us as an opportunity? Are there any acquisition target in nearby Tirupur market? Even the COVID impacted very small-scale players, and the opportunity for acquisition are now easy to come by.

P Nataraj: Yes, thank you sir. You are right. This is the right time to think about that. Previously we thought of expanding at Ethiopia. Now we thought of expand here itself, and only thing is if suppose we are sure that this pandemic will be over within two months, we can start immediately. We don't know. Somebody says that this will continue till vaccine is coming. People are saying that vaccine will come within three months, and even Doctors says that vaccine will take one year, or something like that. So, that is the only big issue. With this also for employees, or workers recruitment itself, there are lots of restrictions from the government. Even district to district, I am in Coimbatore, you know I have a sales office in Tirupur, and Coimbatore is a separate district, and Tirupur is another district, in the middle there is a check post. So, every time we pass by, they are checking, and only then they are allowing. For a company they are allowing only 5-6 passes, only particular people, particular vehicle is allowed. So, in that case, even bringing the existing people itself, we are finding it difficult. So, immediately if we start investing in Capex we may be keeping the factory idle, investing Rs.200-300crores without people, then it is unnecessary investment. So, we are looking at this seriously, and once things starts improving, we may consider all these things. We are on the job, as quickly as possible we will try to do that. So, this is one thing. Second thing, lots of small MSME are there. But here it is not like any other manufacturing facilities like more of CapEx, and less labor. It is not like that. Garment is more of labor oriented with less investment. Here each MSME factory is small in size, and their facilities are not proper. Even if we get that, we have to alter, the building. Machines will be substandard. So, instead of going and changing all these things, better to go for new green field, and that is the plan.

Chintan Seth: Correct, right. In terms of demand you mentioned some points that if you can highlight recent negotiation which was retailers, buyers basically, how are they looking end users demand market at their respective countries?

P Nataraj: In the last couple of months, we are able to see that customers are little forward looking. Previously we have to travel, but now customers are coming to us, but unfortunately they are unable to travel. And you know they are slowly coming forward. That itself seems either maybe demand is increasing, or they find it difficult to source wherever they want, or they are reducing their procurement from China. I don't know what the real reason is, but we are actually able to see that customers are coming forward, and giving positive signal. So definitely in the nearby future it will be very good opportunity, that is what we feel.

Chintan Seth: Sure sir. That is all from my end. Thank you, and all the best. All the very best sir. Thank you.

P Nataraj: Thank you sir.

Madhuri: Thank you sir. Next question comes from Keshav Garag from Counter Cyclical Investment. Please go-ahead sir.

Keshav Garg: First of all, I want to congratulate you sir. I think we are the only textile company of any size that have made good profit in this quarter, and rest everybody else made loses, even Vardhman Textile. Probably for the first time ever they have made losses. So, many congratulations sir.

P Nataraj: Yes, thank you very much.

Keshav Garg: Sir, in FY19, we got some 90 crore of export incentive. In FY20, what approximately export incentive did we get? Going forward in the present year also sir, the same export incentive will be there, or I understand that government has removed MEIS or something like that? Please throw some light on this.

Murugappan: Sir, last year export incentive was 114 crores. We hope that more or less the same amount of export incentive we will get. MEIS is not related to the garments. Garment is generally governed by ROSCTL which is in force now. We hope that would continue for a year, as per their circular sometime in May. So, we hope that more or less same amount of export incentive we will get this year also.

Keshav Garg: Okay sir, thanks. Also, sir, once we have decided to go for CapEx for garment factory, how much time does it typically take for the factory to get commissioned

Muragapan: Sir generally it takes more than a year. Last year we completed 36 million within six months. So, it may be like 6-7 months.

Keshav Garg: Okay sir, that is great. Lastly sir, last year we did share buyback, now one year has passed, our balance sheet is very comfortable. So, any plans of doing share buyback because share price is also down quite a bit?

Murugapan: No idea sir. We will take your valuable suggestion sir.

P Nataraj: Actually sir, buyback is completed in the month of January. So, we will be eligible by then. We will take your suggestions and take it to the board.

Keshav Garg: Sir I also ordered FASO innerwear from Amazon, and I must say that it is far better quality than Jockey, or any other product that I have tried. So, I think with proper marketing, we have got a winner in our retail core also.

P Nataraj: Yes, definitely sir. About the FASO product, everything is 100% in-house manufacturing. As on today nobody is manufacturing 100% inhouse Either they are buying materials outside or processing outside, and knitting also we have invested for FASO. We are making special yarn for FASO, and it is 100% made out of organic cotton. Definitely our quality will be much better. We have already received various appreciation about our quality. Your point is right, we have to place it in market and marketing is the key. So, we are already working on that. Thank you, sir.

Keshav Garg: Great sir. Best of luck.

P Nataraj: Thank You.

Madhuri: Next question comes from Mulesh Kansawala from Kansawala Consultancy. Please go-ahead sir.

Mahesh Kansawala: Thanks for taking my question. Heartiest congratulations for excellent set of numbers in the challenging time. Most of my questions are answered and I am delighted to know that our company is placed in a sweet spot. Lots of opportunities are available to us to take it further. Let me just ask one more question, as you say that sourcing is likely to move out of China to some other countries, and you named Vietnam, Bangladesh, India, and some of the countries where sourcing can be moved out. Can you tell me that how India is placed among all these competitive countries? What are the benefits of India for them to shift to India?

Murugapan: If you see now-a-days our government is inviting or attracting investment opportunities even in India. Some tax incentives the government has given. So, that is one point. Another thing is, you know apart from all these things how we are competitive to pricing, and attracting the customers, that is more important in the garment business.

Mahesh Kansawala: Okay.

P Nataraj: So, that is the reason. Some countries like Bangladesh, they don't have import duty to US, and Europe. So, that is the reason we have started a factory in Ethiopia. So, these things actually, based on pricing, quality, delivery time. In some cases, delivery is more important. Suppose Bangladesh are not able to deliver within 45 days, then that is a problem. Who is giving in 45 days, customer would move to then even by paying higher price. Along with the price, delivery is also important. Suppose there are hundred exporters are there, customers will not consider in all 100 equally. Vietnam or Cambodia if their cost is cheap, and India, who are able to match the cost of Bangladesh, Cambodia by cutting the cost by internal cost control, internal measures, and they are able to meet the cost, then instead of going to Bangladesh they will come to India for particular export.

Mahesh Kansawala: Okay.

Murugapan: So, we have to compete internationally. We are able to compete, then those buyers would come to India.

Mahesh Kansawala: Sir, my question was... I can understand that the quality, and delivery schedule, they are important. For that we are confident that KPR is best renowned Indian supplier. But I was just trying to understand, are there any other competitive reasons for customers to Vietnam, or Bangladesh, and not come to India?

P Nataraj: They are all duty-free countries.

Mahesh Kansawala: That is the biggest reason.

P Nataraj: Yes. Otherwise India has the biggest advantage of the raw material. Vietnam....

Mahesh Kansawala: Bangladesh.

Murugapan: Bangladesh they import raw material from India, and that is only because of the import duty they are going there.

Mahesh Kansawala: Great! We are sure that we will definitely get few new customers in these recent situations, and we look forward to PAN India distribution of your product at the earliest, and we wish you all the very best.

Murugapan: Thank you sir.

Madhuri: Next question comes from Shailender Seth from CS fund Management. Please go-ahead sir.

Shailender: Hello sir, congratulations on these numbers.

Murugapan: Thank you sir.

Shailender: My first question is on the employee part. We did some write-back on the employee cost in Q4, and Q1. Are we still continuing on that, or because volume goes back to the normal, so employee cost is back to normal.

P Nataraj: Yes, employee cost is at normal level only. Due to this COVID some of them, some small reduction in the employees who are not attending offices. During pandemic time some of them are on leave, otherwise employees are more or less in line. Q4 basically the management decided to reduce their remuneration from maximum level to 50 crore per annum. Because of that Q4 employee cost have come down.

Shailender: So, quarter two, and quarter 3, do you expect it at same level, 80 crore level?

P Nataraj: Yes, it will be around that.

Shailender: Alright. My second question is regarding viscose yarn. I have noticed lots of premium innerwear made of wooden, and bamboo viscose. So, the idea of adding viscose yarn under our umbrella is somewhere down the line added to FASSO, or is it only meant for outside sale?

Murugapan: Sir, this is for both. Whatever product we have that is for FASO garment. So, it is for both, outside, and inside also.

Shailender: Okay great. That is all from my side. Thank you.

Murugapan: Thank you.

Madhuri: Next question comes from Ankit Gor from Systematix. Please go-ahead sir.

Ankit Gor: Thank you for taking my question again. Demand outlook on garmenting side is very encouraging. If we extra bullet number what Mr. Murugapan said, we are crossing that 105 million pieces for FY21 itself. I am just trying to understand that this demand, this confidence coming from our existing customer, or new customer? What is driving this? Secondly sir, if we are achieving these numbers, we will obviously require a capacity this year itself. So, what is the outlook?

P Nataraj: Sir, basically demand is coming from the existing buyer. We are adding new buyers also. Existing buyers demand is also growing up. Because of that we feel we can reach to the previous level of garment export, or maybe more than that. This is the first part. Second part is that, existing capacity can be fully utilized, and small increase in the production can also be done by adding one or two hours in the day, in the shift. That can be met whenever the additional demand from the customer is coming. By the time we will be ready with the new capacity, which will be decided on the basis of pandemic situation.

Ankit Ghor: Okay. Government was supposed to announce ten textile parks, and three were already announced. Is there any such update?

P Nataraj: More or less places were identified, but official announcement has to come.

Ankit Ghor: Okay! Lastly sir, global retail guys are under pain. Do we see any weak hands in our customer's list, obviously not, but otherwise demand outlook would not have been there, but how are we checking our customers?

Murugapan: Basically sir, we have buyer wise insurance policies for all the overseas buyers. Review is happening every three months, or six months' time. In case there is any problem, or something is coming to our knowledge, we will be doing it. Second is, we are dealing with buyer. Number 3 is, now-a-days buyers have started giving their line for discounting their supply bills. So, more or less our head ache for waiting for payments is satisfied. Most of the larger customers are opening their buyers' line for discounting their bills. So, once we discount the bills after the shipment in time frame of 15 days, More or less all the receivables have received.

Ankit Ghor: Okay. Thank you very much sir. All the best.

P Nataraj: Thank you.

Madhuri: Next question comes from Anand Singh of Unify Capital. Over to you Sir.

Anand Singh: Thank you. I just wanted to understand that with the strong demand outlook we have in the near time, do you have any sense whether this demand is coming from buyers, consolidating their vendors within India, or consolidating some of their vendors from other geographic where COVID wise they are unable to procure from? So, any light on that.

Murugapan: They cannot predict that from the buyer's side what is going on. This situation is very difficult to identify. Maybe in due course of time, we will be able to understand that.

Anand Singh: Okay, thank you so much. I hope everyone in your family, management, everyone stay safe.

Murugapan: Thank you sir.

P Nataraj: Thank you sir.

Madhuri: There are no further questions. Now I handover the floor to the management for closing comments.

P Nataraj: Thank you so much. All your positive words are encouraging us. We will try to do our best in the future also KPR empowered by strong fundamental, high-tech infrastructure, crisis management, growth mindset, commitment, determined, drive for prospect, and consistent support from all the stakeholders would be able to sustain the growth level in the years to come... Once again, thank you all. Thank you very much for attending the call, and I wish to be safe, all of you. Thank you very much.

Madhuri: Thank you sir. Ladies and gentleman, this concludes your conference for today. Thank you for your participation, and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you, and have a pleasant day.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.