

SVP Global Ventures Limited
Q3/9M FY 18 Results Conference Call
February 19, 2018

Moderator: Ladies and gentlemen, Good Day and welcome to the Q3 /9M FY18 Conference Call of SVP Global Ventures Limited. As a reminder, all participant lines are in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference call over to Mr. Anuj Sonpal – CEO of Valorem Advisors. Thank you and over to you sir.

Anuj Sonpal: Thank you, Janis. Good evening everybody and a warm welcome to you all. My name is Anuj Sonpal – CEO of Valorem Advisors, we represent the investor relations of SVP Global Ventures Limited. On behalf of the company and Valorem Advisors I would like to thank you all for participating in the company's earnings conference call for third quarter and nine months ending financial year 2018.

Before we begin, as always, I would like to mention a short cautionary statement. Some of the statements made in today's earnings conference call may be forward-looking in nature; such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumption made by and information currently available to the management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decision. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

I would now like to introduce you to the management participating in today's earnings conference call. We have with us Mr. Chirag Pittie – Managing Director of SVP Global Ventures Limited. Without much adieu, I request him to give his opening remarks. Thank you and over to you sir.

Chirag Pittie: Good afternoon, everyone. Thank you for participating in our company's earnings conference call for the third quarter financial year 2018. At first, let me start by giving you a little background of the company, followed by some key financial and operational highlights for the quarter under review.

SVP Global Ventures Limited is a diversified yarn manufacturing company. We were incorporated in 1982. Up to 2015 the company primary had textile-manufacturing units in Tamil Nadu for manufacturing cotton and blended yarn, having a total capacity of about 1 lakh spindles and some other contracted capacity. The company built various reputed brands in the yarn market that enjoy a good standing and reputation. We also have strong expertise in sourcing best quality raw material leading to higher quality yarn. Our company is driven by a team of highly experienced professionals.

The company was looking to capitalize on its extensive experience in the textile business and increase its manufacturing capacity and saw an opportunity to expand in Rajasthan with the various benefits like TUFs and other state subsidies and incentives under the Rajasthan Investment Promotion Scheme. In 2016, the company embarked on a major initiative by setting up high end value added compact cotton yarn manufacturing facilities in the state of Rajasthan, with a total capacity of 150,000 spindles and 2,400 rotors.

I am happy to say that we completed and commercialized all three phases in record time and all three units are now running at optimum capacity utilization levels. These new units produce high quality compact yarn which have higher strength and lower imperfections, giving significant advantages in downstream processing.

Now, I would like to summarize the financial highlights of this quarter. Our total income for the quarter grew 14.8% year-on-year to Rs. 711 crores. EBITDA for the quarter ended was Rs. 73 crores, which is about 48.3% higher on a year-on-year basis. EBITDA margins stood at 10.28%. The net profit for the quarter grew by 113.8% year-on-year to Rs. 20 crores. This growth in our financials is primarily due to full-scale production at the Rajasthan units versus last year. GST related issues, which the company had faced in the last quarter, are now streamlined. The focus of the company now remains on higher margin businesses as well as bottom-line growth.

Coming to the future expansion strategy of the company. We have recently signed an agreement to establish a new \$300 million plant in Oman to manufacture compact cotton yarn and open-end yarn. This unit is located at the port and will be setup in two phases. The unit will import cotton from USA, Africa, Australia and India. Phase 1 financial closure has been achieved and we will start work on the ground shortly. We do expect this unit to commercialize in 2019.

Thank you and now we will open the floor for questions.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Priyanka Shah from Discovery Capital. Please go ahead.

Priyanka Shah: I had two questions, the first one regarding the Oman project. I wanted to understand how are you planning to fund the same and what are the returns that you expect on that? And the second question is regarding the outlook on the overall spinning sector, most of the guys haven't done well in the industry, so what has lead to you guys to outperform?

Chirag Pittie: So the equity for Oman project is going to come from the company's internal accruals as well as the company is exiting its low margin verticals and non-core businesses. The returns for the Oman project are expected to be similar or higher than the margins that we are currently earning from Rajasthan.

Priyanka Shah: Sir, how much will the equity be, if you can quantify the same?

Chirag Pittie: It is \$45 million for Phase I.

Priyanka Shah: And the debt portion in this project?

Chirag Pittie: Phase I is \$150 million, of which the debt is \$105 million and \$45 million is the equity. With regards to your next question, the last quarter has actually been quite good in the sense that cotton prices have come down quite significantly. Prior to the season starting, the cotton prices which were hovering around Rs. 43,000 per candy have now come down to about Rs. 37,000 - Rs. 38,000 per candy. As a result almost all spinning companies will see an increase in EBITDA margins. The difference would come in based on inventory holding levels of spinning companies if they were holding a very high inventory level prior to the start of the season where some of their margins could have been affected in the last quarter.

Moderator: Thank you. We have the next question from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir, this Rs. 73 crores EBITDA which you reported in the quarter three, now this reflects the full utilization of 150,000 spindles and 2,400 rotors?

Chirag Pittie: Correct.

Pritesh Chheda: Can you split this EBITDA or give some idea as to the EBITDA from your old assets and the EBITDA from this new plant, which is 150,000 spindles plus 2400 rotors?

Chirag Pittie: We are not specifically sharing that information; I can tell you that our EBITDA margins from the Rajasthan operations are closer to 18%.

Pritesh Chheda: Okay. Some idea if you could give on the spreads and the realization?

Chirag Pittie: The realization again, there are a lot of various factors over there depending on the actual count or yarn being produced, so very difficult to give a number.

Pritesh Chheda: May be at some optimal product mix, if you could give some color in terms of how the realizations would have moved and how the spreads would have moved?

Chirag Pittie: I will give you some basic information. I mentioned earlier the cotton prices have come down significantly from Rs. 43,000 to about Rs. 37,000 - Rs. 38,000 levels. Yarn prices, presuming a certain count let's say 40s, has come down, but not as much, so our EBITDA margins are actually improving. So, for example, on Rs. 235 product it has come down to about Rs. 220 per kg.

Pritesh Chheda: So, optically the margins will look higher but obviously the spread would have come down, right, or spread is also intact?

Chirag Pittie: No, the margins are higher because the cotton prices have come down more than yarn prices.

Pritesh Chheda: So even the spread is higher?

Chirag Pittie: Spread is higher, correct.

Pritesh Chheda: Okay. Now, initial question, which I asked, this Rs. 73 crores reflects the full utilization of the Rajasthan unit or there is any more scope for growth in Rajasthan unit?

Chirag Pittie: The Rajasthan units are running at full capacity.

Pritesh Chheda: So which means if here on the growth has to come it has to come from a new capacity which you have planned in Oman?

Chirag Pittie: Correct.

Pritesh Chheda: Any reason why the capacities are planned outside India and there is no scope for expansion in India?

Chirag Pittie: So, we chose Oman for couple of reasons, the biggest reason being the logistic advantage that we have over there, given that the proposed unit would be located at the port itself. So that is the most significant advantage in terms of logistics. Of course, we do have other benefits such as lower power tariff compared to India as well.

Pritesh Chheda: Okay. And lastly, is there any scope for expansion in Rajasthan, incremental scope for expansion?

Chirag Pittie: There is always scope or expansion, we may do some small CAPEX over there as well. But the larger of course is in Oman.

Pritesh Chheda: No, I was talking about a new Greenfield in Rajasthan with benefits or that is all over?

Chirag Pittie: The present Rajasthan Investment Promotion Scheme, 2014 policy in textile will expire in March 2019, although it is expected that there may be an extension, so as of now with the policy ending in March of 2019 the timeline is very short. But once the Oman project is operational, we could consider something at that point.

Moderator: Thank you. We have the next question from the line of Ankit Tikmani from IIFL. Please go ahead.

Ankit Digmani: Sir, I just wanted to understand when will the commercial production start from the Oman plant and at what stage is the project at right now? I mean, has the civil work been done or machinery been bought?

Chirag Pittie: So, we are expecting the project to be operational in 2019. We are yet to start on the civil work. The machinery has been identified and we are in the process of placing orders for them. So, we have all the permissions and approvals in place. So we do expect that we will start work on the ground very shortly.

Moderator: Thank you. We have the next question from the line of Aegis Lakhani from MMFC. Please go ahead.

Aegas Lakhmani: Just wanted to check that you mentioned that \$45 million is the expected equity in participation that you will be making in the Oman project. So given that we have about Rs. 60 crores cash on books can you explain me where the deficit of Rs. 240 crores going to be financed? And can you tell that the balance \$105 million that you are going to be using as debt, what kind of rates are you expected to get there in terms of how are you financing that debt essentially, is it going to be term loans and what kind of tenure will you be getting there?

Chirag Pittie: So, the equity is being broken up now, as you mentioned we already have some cash on books, you are right about that. We also have a lot of commercial real-estate in the city of Bombay which are basically rented out properties. The company is in the process of disposing off all of this. As a result we will see paying off of some of the debt that we have on our books as well as freeing up the equity that will be going towards the Oman project. We would also be utilizing our internal accruals for the same. We are also expecting some equity to be generated from the exiting of our low margin verticals. So as a result we have more than sufficient equity to complete the entire \$45 million that needs to be infused over there.

The second part of your question regarding the debt, so it has been tied up based on LIBOR rates, so it is a term loan, a long duration term loan and the expected interest rate is about 5%.

Aegas Lakhmani: Okay. Sir, just a quick follow-up on that. When you see unlocking of the land in Mumbai, given the fact that property markets are still subdued what kind of land is this that you are looking to sort of unlock value for and are you getting a fair price on that portions of land or is it that because the investment is required the assets are being let go off?

Chirag Pittie: Okay. These is not a land parcel, but these are commercial properties, so basically showrooms and offices in prime locations like Breach Candy or Linking Road, so very prime locations. So, the company had planned that at a given point in time we would end up exiting these properties, of course the fact that we have this expansion project coming ahead is the reason why we are doing it. We also always have an option of, these are all rented out properties, so we always have an option of discounting our rentals as well. But given that interest rates have kind of bottomed out we do expect that this is a very good time to dispose of these properties.

Moderator Thank you. We have the next question from the line of Giriraj Daga from KM Vysaria. Please go ahead.

Giriraj Daga: Just on the revenue side, if you would be able to give the breakup of what was coming from the old facilities and the new Rajasthan one, revenue wise?

Chirag Pittie: We have not actually shared that information, but I can give you approximate idea, it is close to about 40% of our revenue.

Giriraj Daga: And when you mention all three units are working at optimal level, so last quarter reflected all three or reflected only two?

Chirag Pittie: Last quarter reflected all three.

Giriraj Daga: Okay. Second point, when you talk about Oman are you getting any incentive from government in terms of any subsidy there or it is all no subsidy?

Chirag Pittie: No, the Oman government does not give out any subsidy, although based on our terms with them we do have some advantages that have been given to us, although there is no direct subsidy.

Giriraj Daga: Would you like to highlight any of the advantage like percentage of EBITDA, or how much contribution we can have from these things?

Chirag Pittie: So, again, we are refraining from giving exact number, but based on our estimations we expect it to be very similar or a bit higher than Rajasthan.

Giriraj Daga: And I understand when you were searching why did you select the location of Oman, why not any other country, what is linked to that decision?

Chirag Pittie: So, we were focused on a combination of factors basically which are put in for us in terms of manufacturing yarn, things such as being the proximity to the port, location, as well as power tariff or the basic environment in the country, so some macro factors are there as well. Considering all of these we evaluated a lot of different countries and at the end of which we found Oman to have the perfect mix for us.

Giriraj Daga: Okay. My next question is related to our spread, you mentioned that the last quarter spread was higher since cotton cost were lower, how about now, like what we are hearing is that cotton prices actually have gone up in, at least in high graded cotton side. So, is the current spread lower compared to quarter three average, if so how much lower?

Chirag Pittie: Okay. So, cotton movement has been basically from 43,000 it went down to about 37,000 - 38,000. It inched up a little bit, and then it went back up closer to 39500 and it has come back down again now, so it is now around Rs. 39,000 levels. Our expectation is that cotton will be increasingly under pressure considering that this year's crop is still significantly larger than last year, despite the reports of pest attack that came out in Maharashtra. It was only due to the reports of pest attack in Maharashtra that cotton went back up a little bit. Given this entire scenario the cotton prices are still significantly lower than last year, R. 43,000 levels. So, we are seeing better margins.

Giriraj Daga: So, current spread is better than quarter three average?

Chirag Pittie: It is very similar.

Giriraj Daga: Okay. My next question is, just a bookkeeping question. If you look at other income that has gone down from Rs. 16 crores to Rs. 8 crores. What we understand is you book some of the interest subsidy there, so what has gone by there?

Chirag Pittie: Yes, that is where we book our interest subsidies. So based on quarter-to-quarter realizations of the interest subsidies that figure is booked over there. We also book some other things over there which are non operational in nature, so that is the reason why.

Giriraj Daga: So, what is the advantage, subsidy was lower on a quarter-on-quarter basis?

Chirag Pittie: Well, actually last quarter had a higher number, generally that expected number should be in the Rs. 8 crores range.

Giriraj Daga: Okay. And what is the current debt on the books, long-term as well as short-term?

Chirag Pittie: The long-term debt which is associated with our projects is about Rs. 476 crores and the short-term debt as well as some other debt we have such as rental discounting and such, these are close to Rs. 500 crores.

Giriraj Daga: But when we look at the second quarter numbers we had a debt of Rs. 965 crores, long-term debt?

Chirag Pittie: Correct, so we had about Rs. 980 to Rs. 1,000 crores debt.

Giriraj Daga: No, I am talking only long-term debt was Rs. 965 crores.

Chirag Pittie: No, our long-term debt highest was at Rs. 490 crores.

Giriraj Daga: No, there had been confusion between term debt and some, because what we are showing on the borrowing side last quarter we had shown about Rs. 966 crores.

Chirag Pittie: Probably includes the unsecured loans from the promoter side as well.

Giriraj Daga: Correct. How much that is now?

Chirag Pittie: I do not have the figure off-hand to give you, but I do know that our long-term debt is close to Rs. 476 crores .

Giriraj Daga: Okay. Last thing, if you can give the volume of Rajasthan, that is possible for you?

Chirag Pittie: Sir, we are not sharing that specific information.

Moderator: Thank you. We have the next question from the line of Aejis Lakhani from Money Mind Financials. Please go ahead.

Aejas Lakhmani: Just a quick follow-up, from Oman which specific export markets are we looking to cater to and what kind of clients are we really looking to target from that?

Chirag Pittie: Okay. So we are basically going to be targeting Pakistan, China and Bangladesh, these are the three primary countries, which are importing a lot of yarn presently, so we would be targeting these three locations. In addition to that, also some European countries, Turkey, some African countries.

Aejas Lakhmani: Okay. And sir, just from a perspective that currently you mentioned Pakistan, China, where are these guys actually sourcing the materials from, given that you plan to source it from Oman, where are they currently sourcing it from, will there be a price advantage once you set up a station in Oman or why will they be forced to buy from you versus their existing suppliers?

Chirag Pittie: Okay. So, these are countries we do have our sales and distribution network presently set up through which the company is exporting to these countries presently as well. The same sales and distribution network will cater to them. So in terms of pricing we are not expecting to see

a higher realization just because the yarn is coming in from the Oman plant, the entire logic behind and the entire fundamental behind the Oman project is basically the operating cost there.

Aejas Lakhmani: Okay. And sir this will be 100% subsidiary or how is your structure going to be in Oman?

Chirag Pittie: It is expected to be a 100% subsidiary of SVP Global Ventures Limited.

Aejas Lakhmani: And sir just lastly, the commercial properties that you shared you have in Mumbai, what is the expected cash that should come out from the sale of those properties?

Chirag Pittie: The properties are valued at close to Rs. 300 crores.

Aejas Lakhmani: You are in the process of already having figured out potential buyers or have the transactions, because it is a long selling cycle, especially real-estate. So, where have you reached on that page?

Chirag Pittie: Yes, we started the process quite some time back, so we do expect we should be able to carry it out fairly quickly.

Moderator: Thank you. Our next question is from the line of Priyanka Shah from Discovery Capital. Please go ahead.

Priyanka Shah: Thanks for follow-up. I am sorry you have said this already, you have commented upon in the opening remark side with that, but wanted to understand why has there been such low tax payment this quarter as well?

Chirag Pittie: So, basically given that the company has recently set up new units, the company's entire tax outgo is based on MAT. So as a result the provisions are made as per the accounting standards.

Priyanka Shah: And still how many quarters more will the MAT benefit to the company?

Chirag Pittie: We should get it for at least another few quarters, I will have to discuss it, on how many more quarters we have.

Moderator: Thank you. Well, that seemed to be the last question in queue. I would now like to hand the floor back to the management for their closing comments.

Chirag Pittie: We would like to thank everyone for taking out time from the busy schedules to attend this conference call. Thank you so much.

Moderator:

Thank you very much. Ladies and Gentlemen, that does conclude today's conference call.
Thank you for joining us. And you may now disconnect your lines.