



“Welspun India Limited
Q1 FY2020 Results Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to the Welspun India Limited Q1 FY2020 Earnings Conference Call hosted by Equirus Securities Private Limited. As the reminder, all participant lines will be 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, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

Please note that this conference is being recorded. I now hand the conference over to Mr. Vikas Jain from Equirus Securities Private Limited. Thank you, and over to you, Mr. Jain!

Vikas Jain: Thank you. Good evening, everyone. On behalf of Equirus Securities, I would like to welcome all of you to the Q1 FY '20 Earnings Conference Call for Welspun India.

From the company, we have with us the key senior management, including Mr. Rajesh Mandawewala, Managing Director; Mr. Altaf Jiwani, Director, Finance and CFO; and Mr. Akhil Jindal, Group CFO and Head Strategy.

I would now like to hand over the call to the management for the opening comments, post which, we will open the floor for Q&A. Thank you, and over to you, Sir!

Altaf Jiwani: Thank you. Good evening, ladies and gentlemen. On behalf of Welspun India, I would like to welcome all of you to our Q1FY20 concall.

We have actually, a very strong profitability, coupled with the deleveraging. So we have seen a turnover of Rs. 1,736 Crores, which is a double-digit growth compared to the same quarter last year.

The EBITDA is Rs. 371 Crores, with a margin of 21.4%. So this is 77 basis points higher than the same quarter last year, and it is substantially higher than the Q4FY19 EBITDA, which was at 15.8%.

In terms of PAT, we are at Rs. 150 Crores, which is a 17.9% growth and also in EPS compared to the same quarter last year.

The borrowing level has come down substantially, so on Net Debt, we are at Rs. 2815 Crores as compared to Rs. 3028 Crores as of March 31, 2019.

Now if you see the core business, which is the home textile business, we have actually reduced the borrowing by almost Rs.412 Crores in Q1. So there is a substantial cash flow generation in the core business, which has led to this kind of reduction in debt level. The Debtor Days has also come down with the better management. We had some government receivables, which we have received during this quarter. All these factors has helped us to reduce the borrowing level.

As far as topline is concerned, the growth is a combination of three factors. One is the currency, which has contributed 4.8% in growth, 3.4% because of the revision in the RoSCTL scheme which happened in March of last financial year and the 3.4%, which is the volume and the unit value realization that has resulted into growth in topline.

As far as Welspun story is concerned, we have come to our almost end of our capex cycle in this financial year now. We have already invested Rs. 850 Crores as of June 30 2019 in Welspun flooring business out of Rs.1100 Crores, and the core business does not require much of capex going forward, because there is a strong ecosystem available in India, where we can source our products. This will help us to reduce the debt from all the cash flow, which we will be generating from the core business. So we are on track for our debt reduction plan for the current financial year as well.

As far as opex is concerned, you would have read about this, where the retailers are recalibrating their opex in the U.S. market, which happens to be the largest market for us. Actually, we have prepared our plan based on this scenario, and we have lot of levers available with us, which will help us achieve the guidance of double-digit growth for the full year. We might see a variance from quarter-on-quarter, but the overall guidance for the full year, we are confident we will be able to achieve the double-digit growth. Because we will also have a situation where in the second half of the current financial year, we will have Welspun flooring business coming in, which is not there in the base.

We have seen some of the levers, which I would like to highlight which are available with us is, one, we are launching new products in our different markets in U.S. as well as in India. For example, in India, we launched a new category pillow in Q1. In the U.S., we are launching new products. We are also looking at new segments in U.S. So hospitality continues to be our focus, and we have seen a substantial traction over there. We are also looking at e-commerce segment in U.S. market. We are also looking at licensed brand for the U.S. market, so all these levers are available for us to mitigate the impact of the calibrated offtake from the U.S. retailers.

In U.S. domestic market, we have launched 'Bamboo Charcoal' products in retail business, and was very well received during the current quarter. Also for the advanced textile, we have launched green spunlace, which is like a biodegradable product, which has helped us to create a sustainable range of products within non-woven products.

So our strategy of twisting the category on its head through 'Spaces', where we personalized our products around thoughtfulness, which is actually helping us create a kind of a growth rate. Our emerging business has grown at 30%-plus during Q1, and we expect this kind of growth rate to continue in the coming quarters also. You might be hearing about the slowdown in the domestic market, but for us, we are seeing a kind of growth because there is a large chunk of unorganized segment in home textile, which is actually getting converted into segments. So there is an opportunity for players like us. And fortunately, for us, there are other players also who are focusing on this business, which is helping us to create more of this organized segment in the home textile business. So we do not need to do the entire heavy lifting in the domestic market.

As far as capex is concerned, we have actually done capex of about Rs.200 Crores during Q1. Of which Rs. 166 Crores was for Welspun Flooring. And our capex guidance for the full year continues to be Rs. 600 Crores, and we will continue to calibrate our capex based on the cash flows available.

In terms of working capital, you would have seen our inventory and debtors, both have come down, and we Payable Days has gone up. So cash conversion cycle has improved substantially to 83 days from 95 days from 31st March 2019.

So with this, I would like to leave the floor open for question and answers. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.

Saurabh Patwa: Good Sir. Thanks for taking my question. In case if you can throw some light on AS 116 implementation. You have mentioned in your notes that you have increased the liability by Rs. 99 Crores. But how would it have impacted the EBITDA and depreciation, if you can just throw some more light on that?

Ataf Jiwani: In terms of PBT, there is no impact actually. In terms of EBITDA, there is an impact of about 0.5%

Saurabh Patwa: 0.5%?

Ataf Jiwani: Yes. So there is about Rs. 8.4 Crores of rent has been classified as interest and depreciation.

Saurabh Patwa: Thanks.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss Securities Limited. Please go ahead.

Nihal Jham: Thank you so much. Good evening to the entire management. Sir, my first question was that our volume growth has come in at ~3.5% based on the breakup you gave. So just wanted to understand that of the three main segments we have, which segment has given us growth. Because I understand, last quarter, you mentioned and we are seeing quite a lot of traction because you mentioned that the U.S.-China trade war and rugs was one of the products which we are seeing duty increase. So I just want to understand that is it the rugs, we have seen a higher volume growth or it has been spread even across all the 3 categories?

Ataf Jiwani: So Nihal, we have seen a significant growth in bedsheet, and that is substantially higher compared to the other two categories.

Nihal Jham: Sir, any reason that the bedsheet category is seeing traction? Because I would assume that the rugs category would have been in a continuous growth considering that Q4 was strong for them?

- Altaf Jiwani:** Rugs, we expect to pickup actually going forward, Nihal.
- Nihal Jham:** And just one, so what is the average realization for this quarter, the rupee realization?
- Altaf Jiwani:** The exchange rate you are asking?
- Nihal Jham:** Yes, Sir.
- Altaf Jiwani:** It is Rs. 69.55.
- Nihal Jham:** Just on the working capital part, I mean it is pretty commendable that even in the current environment, we are mentioning that the retailers are mentioning that demand outlook is not being great, and they are looking at calibrating their supply chain, but even they are reducing that. And so just if you could throw some more light that how we managed to do this. And is there any more possibility reducing this?
- Altaf Jiwani:** This is a continuous focus, which is where we are trying to minimize the turnaround time between the dispatch and the negotiations with the bank. So we have also introduced kind of paperless export negotiation, and we continue to focus on this activity, which is helping us improve that. But as you know, most of our retailers are also looking at how to extend the credit period. So it is a constant battle, which is there. So I wouldn't be surprised if retailers suddenly increase their credit period from the current level.
- Nihal Jham:** Sir, there is a possibility of maybe the debtor days increasing again in the coming quarters, is what you are saying?
- Altaf Jiwani:** We cannot say that conclusively, but yes, we should be mindful of that.
- Nihal Jham:** Just one last question, I think at the end of this quarter, our net debt stood at around Rs. 2800 Crores. And we are looking at the guidance, Rs. 2700 Crores by the end of this year. Considering we have already made so much progress and considering the amount of cash flow that we would generate in the remaining 9 months, is there a possibility that we could see net debt being further lower than Rs. 2700 Crores at the end of this year?
- Altaf Jiwani:** We will stick to our guidance of Rs. 2700 Crores as of March 2020. So our endeavor will be to stick to our vision that by March '23, we want to become a debt-free company.
- Nihal Jham:** Sir, you have actually exceeded your guidance. And unless working capital deteriorates significantly, whether capex plans are more or less in place that our net debt could be significantly lower. So just on that part, any reason for being conservative?
- Altaf Jiwani:** Nihal, I understand your point, but we would like to stick to our guidance of Rs.2700 Crores for March.

On the flooring, I wanted to give an update that we will be commissioning the flooring business, say, by end of this quarter. As we had guided earlier, we will be having about Rs. 150 to Rs. 200 Crores of revenues from the flooring business, but we are also seeing kind of opportunity opening up in the U.S. market for the flooring business.

So the entire project, the execution is on track. So the commissioning date, we will be announcing very soon, we expect before end of this quarter.

Moderator: Thank you. The next question is from the line of Mr. Vikas Jain from Equirus Securities Private Limited. Please go ahead.

Vikas Jain: One question, as you just mentioned about the flooring part. Can you just elaborate upon the export or the export flooring market for us? How is that? And what are markets are we targeting? Is it primarily the U.S. market or the other markets also? And how big is the opportunity for the flooring in the export side? That is it.

Rajesh Mandawewala: Yes, Vikas, this is Rajesh. So first thing is that the project is on schedule. So this, we are very happy to report that.

And to your question on let us say international business potential. So over a period of 3 to 5 years, we believe this more to be a half and half spread in the domestic market and exports. So all the products that we are going to produce now, do attract this half part of the U.S.-China trade war. So which means all imports from China on the products that we are going to manufacture will attract this additional 25% duty. So it certainly opens up, and this creates an advantageous position for us in the U.S. market.

But having said that, it is not the only market, as we speak, we are trying to build a network across the globe, more importantly in Europe. So this Europe and the U.S., which are going to be two very important, export markets for us.

Our big focus is actually on the domestic market. And very honestly, the genesis of us getting into this business was actually to develop the domestic market where we, perhaps, will have a, a first-mover advantage as a manufacturer in most of the products that we are going to make here. So our big emphasis is actually on the domestic market and we are actually building this very elaborate dealer distribution, distributor networks. As we speak, we have already appointed about anything between 25 and 30 distributors. Say, about 300-plus dealers have been appointed, with a sales force in excess of 150 people, who is on the road trying and doing business development for us and preparing ourselves for, till the plant will come up.

There are some imports that have happened, which is helping us to build the pipeline and give us some experience in terms any roadblocks that we might get in the distribution system.

So we are very keen to develop India as a market. And again, all these products that we are making attract this between 15% and 25% import duties into India. And so that gives us a substantial advantage.

And for example, the carpet tiles now will be the first plant to actually produce here. And also, just on the hard flooring, there are a couple of others of those manufacturers that is very, very infant. There is a huge potential for that part of the business to grow as well. So while we say this is going to be 50:50 between exports and India, the heart of the business, and as I said, the investment genesis thesis was actually to capture the Indian market both in B2C and B2B play. So there is a lot of work that is going on in the company to leverage that.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Sir, you are one of the very few companies who has actually utilized the cash flows into a very progressive segment rather than doing overcapacity in home textiles, whether it is a bedsheet or terry towels. My question was that the domestic carpet business is a more B2C business than a traditional B2B business that you are doing in the U.S. You were saying that you will do Rs. 150 Crores of topline in India. Can you give us a little more confidence on what is the kind of visibility that you have that you could easily replace an existing market in India, which is being imported by your product?

Rajesh Mandawewala: So Nisarg, so this Rs.150 Crores guidance is for the business and not only the domestic market. So this will be necessary for the sum total of exports as well as the domestic market.

So there are multiple products that we are doing. There is wall-to-wall carpets, the market in India is going to be the hospitality industries or the hotels and auditoriums and these cinemas halls and so on and so forth and we are trying to create a very specialized product there.

So this is where we are, and we are already making let us say our Vapi facility is also capable of partly doing that product range. We are already making some product and business developing on that front. And we are currently at a run rate of about Rs. 2 Crores a month on the wall-to-wall side.

The second product is actually carpet tiles, which is a B2B place that carpet tiles is essentially a product that goes into commercial offices. So it is all the multinational companies, the large companies, the IT companies where there carpet tiles go. And it is a tile which can be replaced. So as you know, there is cable running under the ground these days, and the carpet tile, it makes it very easy for any maintenance or the repair work that needs to get carried out. This is not a market that we need to create. We just need to take market share from all the imports that come into the country. And our estimate on imports on carpet tiles is about USD125 million to 150 million on an annual basis.

We also believe that because there is nobody producing in the domestic market, that the market is actually getting throttled. Because from the time we rent, an office space to the time we want to occupy the 6- to 8-week window, and if the tiles are not available off the shelf, then this could possibly delay the commissioning and the furnishing and finishing of the office space. So we believe that the market will actually grow. So as we come in and offer, with a quick delivery solution to all the architects and interior designer community to furnish these offices. So that is the second product.

The third one is artificial grass. Again, we are the first player. This all stuff is getting imported, and this is a product that improves institutional selling, things making stadiums, these hockey stadiums and football stadiums. And so that is one. And the other thing is landscaping in the housing itself so to replace natural grass. And there is a distribution system already available. So this is both a B2B and B2C play. We will also use our distribution network as well as contracts for making stadiums and so on and so forth, the OEMs for the artificial grass.

And then the hard flooring business is going to be all B2C. So this is by and large going to residences, some a little bit into commercial space. So this is where our channel is going to come into play and you guys will see a lot of this brand visibility. And it is essentially this will be marketed under the Welspun brand. And so this is going to be a larger B2C play.

All these 4 products have also export possibilities now and particularly to the U.S. because of the U.S./China thing going. So there is the possibility to export as well.

Our current run rate is about Rs.5 Crores a month through, this product that we have imported. So we are already doing about Rs.5 Crores a month. And as the production comes about and as we have merchandise to offer, we are hoping that we should be able to step up volumes in the back half of the year.

Nisarg Vakharia:

Sir, is it safe to assume that from Q3, Q4 onwards for the next 2 years, the topline growth would actually be driven by the ramp-up in the flooring segment because you are at sufficient capacity utilization in your traditional business of terry towels and bedsheet?

Rajesh Mandawewala:

Thank you. Thank you for understanding the genesis of our investments. Today, we have a 24% market share of towels in the U.S. We have a 13%, 14% market share in sheets, and there is competitive intensity. So at some stage, the growth is going to slow down, and particularly, the volume growth is going to slow down. In anticipation of this, all these measures have been taken. So you are right, there will be some growth, which will continue to come from our textile businesses through these new product additions. I think the rug business is going to grow phenomenally because we are introducing fashion bedding and basic beddings in a modest way, the brands that we will license. There is a lot of growth that is waiting to happen on the e-commerce side and hospitality.

So our textile business will also continue to grow, not that it will not grow. But whatever the shortfall is the rate of growth will actually get made up by the newer businesses. And when I say

newer businesses, flooring is being one of them. And then we also have, the Spaces and the Welspun brand for the home textile business itself in India. So we are seeing phenomenal results as we are aggressively marketing both the brands here in the domestic market. We are in excess of 30% growth this year-on-year, and it has gone beyond Rs. 200 Crores already. And the growth, which we are very enthused with the response that we are getting despite a slowing market situation here in India, our business continues to grow. And we believe that it will continue to grow at a scorching pace in the domestic market.

And then the third part is the small advanced textile business that we have. So it is small, but it is crossing Rs. 200 Crores now in sales. So it is sort of generating decent amount of EBITDA. So that is another area, which possibly we would like to grow capacities and also leverage our existing capacity sometime in the future and not very high capex. Right now, we could actually grow 50% without spending a penny. So we are not looking at any capex in that area, but it is moving up from Rs. 200 Crores to, let us say, about Rs. 300 Crores, Rs. 350 Crores with the current capacities that we have is a real possibility. So yes, so there is a fair amount of substantiation of growth that will actually come from these 3 focus areas, which is flooring, our advanced textile business and the Space brand and the Welspun brand for our own textile products in the domestic market.

Nisarg Vakharia:

Sir, my last question is relating to the growth engine that you have developed for the future. Traditionally, the economics of our business has essentially been if you invest Rs. 100 Crores, you do a topline of Rs. 100 Crores and an EBITDA of about 20%. What is the blue sky scenario possible in this flooring segment? So let us say, you invested Rs. 1100 Crores. So over a 5-year period, what is the peak turnover potential? And what sort of margins we can do on that investment?

Rajesh Mandawewala:

Look, it is early days. But by and largethis is the way we are looking at this. is that with Rs. 1100 Crores of capex is a starting point. So because, we have created a funnel-like capacity, so there is no point in putting all the investments and all the processes upfront. So we have actually staggered some of the processes for future capacities for the future.

So but give or take, after this Rs. 1100 Crores, we might invest another couple of Rs. 100 Crores. So it will get, say, a Rs. 1300 Crores over a 5-year period of Rs. 1300 Crores to Rs. 1500 Crores of investment, it is capable of generating a 2x kind of topline.

Now look, there is some work as a company that we need to do, so Rs. 3000 Crores is not a small business. So there is work that the company will need to do. But you ask me the potential, so the potential is the capacities that we are setting up as we invest about Rs. 1300 Crores to Rs.1500 Crores could actually generate a Rs. 3000 Crores revenue across all the 4 products that we are intending to do. And the margins will be near about the home textile business. So we are hoping that the margin should be similar to the business that we are currently looking at. So in the early years, it will not be because of the obvious reasons that operating leverage will not come. But as the business matures, this 16% to 20% kind of margin on a steady state basis should not be difficult.

Nisarg Vakharia: So if I go as for your guidance, Sir, actually, it will be over a 5-year period of talking or creating a Kajaria Ceramics equivalent within your organization. Wish you all the best, Sir.

Rajesh Mandawewala: You allow us to run our business and we are too small in this space to be even talking about the leaders here. Right now, we are focused on that as being our category, and it is an alternate kind of flooring. So we are not into ceramics, and obviously, we are not targeting that as well so we are pretty excited with what is going on and with what we are seeing. So at least, where we are going, we are seeing very favorable response, and everybody likes our products that is making the approach that we are taking both in the domestic as well as the international market.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Congratulation on your numbers. I had a quick question with regards to how much of your increase in profitability is driven by the increase in RoSL. And there is a little bit of chatter that the MEIS will go away. Is there expectation that there will be incremental RoSL giving us some of the subsidy or could that potentially impact our margin going ahead?

Altaf Jiwani: Riddhesh, if you see, our material cost has gone up by about 2.4% starting the current quarter compared to the same quarter last year. So what I am saying was cotton was Rs. 49500 per candy compared to Rs.44500 last year, same quarter.

Now you are right, MEIS actually can go away any time. So you never know when it will happen. So it is not a question of whether, it is only a question of when.

And all our plans, actually, which we have prepared are actually based on that scenario, where MEIS will not be there. And therefore, the guidance, which was given 19% to 21%, is after considering all the scenario. And we are confident that the kind of mitigation impact which is an initiative, which we have taken, will actually make sure that we achieve this kind of annual guidance. We might see a quarterly movement. But for the annual, we are very confident we will be able to achieve that.

Now the other side of this story also is you are seeing a kind of a drop in the cotton prices, the yarn prices, the commodity prices. So that is also reflected. That will also help improve the margins going forward. So we expect that the impact of this should get mitigated through various initiatives, which we have planned during the year.

Riddhesh Gandhi: If we look at the quarter, effectively speaking, it has an incremental impact of MEIS. And then in the event that it goes away, you expect that to be offset by lower RM cost?

Altaf Jiwani: Yes, there is one initiative. Other is also looking at the growth and third is looking at new products.

Riddhesh Gandhi: Thank you.

- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from JM Financial Limited. Please go ahead.
- Nitin Agarwal:** Thank you for giving me an opportunity. Sir, just to clarify, so whenever MEIS goes, we still have a RoSCTL of 8.2% and duty drawback of 2.6%-plus input tax credit. Am I correct?
- Altaf Jiwani:** Yes, that is right. Yes.
- Nitin Agarwal:** There is no timeline given on when MEIS will go. Because yesterday news, it was there that there is a note floating in the cabinet that this RoSCTL will be coming in other industries too, and MEIS will eventually fade out. So nothing impacting on home textile as of now.
- Altaf Jiwani:** Definitely, it is a question of when. So we do not know. Your guess is as good as mine when it will happen. But it is definitely going to go.
- Nitin Agarwal:** Okay. Sir, my second question is, like last quarter, you said that for FY2020, our INR hedge is at 73, which will start kicking in from first quarter. But when we see, there is just other expenses of Rs. 52 million for forex. So where is this gain of 73 hedges coming in? Is it coming in this quarter? Or will we see it in coming quarters?
- Altaf Jiwani:** Actually, see, our 60% of hedges were at around 71-72 in Q1. And the remaining was actually settled at the spot level. We expect this exchange rate for Q2 should be better than Q1. Because as you know, last year, in the Q2, almost 74. And so whatever hedges we have, we are carrying it until then we get at the higher rate.
- As far as your question about the Rs. 5.17 Crores is concerned which is into other opex, because that is a realignment, because the rupee appreciated towards the end of the quarter. So the closing rate was 69.02. So all of our deals get realigned at that level, so whatever we sell during the month, we actually value at spot and then realign at the end of this quarter. So that is an impact of the realignment of debtors.
- Nitin Agarwal:** Okay. So even in next quarter hedge gains which we will get at 73-74 will be recorded in topline?
- Altaf Jiwani:** Yes.
- Nitin Agarwal:** Thank you. That answers my question.
- Moderator:** Thank you. The next question is from the line of Naushad Chaudhary from Systematix Group. Please go ahead.
- Naushad Chaudhary:** Two questions on our home flooring business in terms of the pricing strategy. What are strategies for all these 4 segments in terms of pricing versus import prices?

Rajesh Mandawewala: So we are going to benchmark on the landed cost basis. And so it is early days, we have this formulated for each of the product categories a pricing strategy but by and large, this will be on an equivalent of landed cost basis, and that is how we are going to price for that.

Naushad Chaudhary: Okay. When you talk about that around 15% to 17% ROI you will get from this investment, what price base would have taken to get that number, Sir?

Rajesh Mandawewala: So the current existing prices in the market and all these numbers that I am speaking to you about are based on as I told you, this year, already had a Rs.5 Crores kind of a run rate. So there is evidence now in terms of what product is selling where and at what price. So our assumptions are actually based on that.

I think the volume and the trajectory of growth in topline are the questions that I think that we need a little more time to answer. And as we penetrate the network a little deeper, we will have better clarity. But by and large, from a pricing perspective, we are fairly even now.

Naushad Chaudhary: I was just trying to understand sort of the demand of these products would be driven by the better price compared to imported products or the lesser, lead time. And what would be the key drivers for these products versus imported product?

Rajesh Mandawewala: On the B2B side, as I said, is we believe that this shortening the lead times will be a critical success factor for us and it will actually generate more demand. And this will shift more, this commercial premises into our product categories.

And look, we do not want to be margin spoilers and destroy pricing in the marketplace. So this will be the last people to do that. But if we want to play, fairly and squarely, we do not want to destroy these prices, and we do not want to destroy margins. So we will take this very cautiously. So that the business in the future remains profitable, and we do not become so aggressive in our greed to grab this quick market share that we actually end up destroying future profitability.

Naushad Chaudhary: Okay. Any specific geography you will be focusing first?

Rajesh Mandawewala: This time on India, 50 cities penetration. By March 2020, we will be available in at least 50 cities through the shop in shops or dealers and exclusive showrooms by our distributors. So we will be there as I said, at least 50 cities, if not more.

Naushad Chaudhary: Okay. Any initial teething issues you see in the plant, Sir?

Rajesh Mandawewala: It is early. Right now, the machines are getting erected and commissioned. So we are hoping that these are all world-class equipment. There should not be hiccups and we should not be able to work on before the end of this quarter. As of now, we believe that we are good to go to start towards the end of September.

Naushad Chaudhary: Last question. At what level of utilization we should get margin from this, Sir?

Rajesh Mandawewala: On revenue of about Rs. 750 Crores to Rs. 1,000 Crores should start delivering, the margin, the numbers that we discussed.

Naushad Chaudhary: Okay. And overall, expected revenue from this investment is around how much?

Rajesh Mandawewala: As I said, that right now, that we have built the capacity like in our funnel shape so over a period of four five years, this Rs. 1500 Crores kind of an investment is capable of generating Rs. 3000 Crores in revenue.

Now I am not saying we are going to generate that Rs.3000 Crores. We will need to get with more penetration, with more experience to actually determine at what trajectory we are going to grow and what kind of market share we are going to get. But over a 5-year period, it will be definitely in four digits, and there is much more than that from the earlier signals that we are getting.

Naushad Chaudhary: That is it. Thank you Sir.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Congrats for the set of numbers. Can you give us some sense? You mentioned that the revaluation of 69.5% for the first quarter based on the current hedges, what are the type of realization we can expect, say, for Q2 and for the full year?

Altaf Jiwani: Sachin, it is difficult to put the number because 40% at what level of the spot will remain...

Sachin Kasera: Assuming the current spot rates, Sir?

Altaf Jiwani: About between 71.5 and 72.

Sachin Kasera: Essentially, does it mean that then there could be some offset to the margins? Or because you are going to start the flooring project, part of this incremental margin, the base business will be compounded by lower margin in the flooring business?

Altaf Jiwani: So Sachin, we do not give quarterly guidance for margin

Sachin Kasera: Revision for the full year? Because you did 21+ in this quarter, and we are assuming because spot rates, then the realisation should be higher at least 2.5% and 3%.

Altaf Jiwani: Yes.

Sachin Kasera: And you also mentioned that the RM prices are supposed to come down?

- Altat Jiwani:** Yes. Sachin, you have to look at the full year average also because we are not going to extrapolate based on Q2 average, 19% to 21% guidance includes the impact of the flooring also in the second half of the coming financial year.
- Sachin Kasera:** Second thing was on the capex. There is a mention of Rs. 600 Crores for the full year. So how much of that will be towards the flooring? And how much will be the traditional home textile business, Sir?
- Altat Jiwani:** Flooring we have done only Rs.160 Crores. We'll do another Rs. 250 Crores to Rs. 300 Crores in the remaining part of the year. And remaining will be our home textile.
- Sachin Kasera:** So essentially, Rs. 400 Crores to Rs. 450 Crores will be additions from home textile. And since this was one of the large capex that we were doing in the last couple of years and you also mentioned that in the next two to three years, we target to become debt-free company, so the debt from FY2021 onwards, the capex intensity is going to come down from the Rs. 600 Crores?
- Rajesh Mandawewala:** Yes. There is no big bang capex that we are looking at right now. So I think that the chunky capex is behind us now with this Rs.1100 Crores of investments in the flooring business. I think all chunky capex is behind us. And from here on, it will be just maintenance capex, balancing capex and so on and so forth. So we should see an essential reduction in borrowings from the next year, including this year also. So within this year, we have started of well, so this borrowing is going to reduce in this year itself.
- Sachin Kasera:** Sure. Sir, you mentioned that approximately 3.5% to 4% of the growth was from the base business. This was contributed by benefits and higher exchange rate. But you mentioned that Q2 onwards, you expect some pickup in some of the segments. So for the full year, what is the type of growth we can see in the base business including the volumes or realization?
- Altat Jiwani:** Sachin, we do not give a breakup for the full year, actually. This 10% double-digit growth guidance includes all the three impacts actually, so volume, exchange as well as the new businesses. So while the new businesses will continue to grow at 30% plus for emerging businesses and retail. And the flooring business will add that Rs. 150 Crores to Rs. 200 Crores of revenue, which is not there in the base.
- Sachin Kasera:** Sure. You mentioned that around Rs.750 to Rs. 1,000 Crores of run rate when we achieve, we will get to the desired margins. So based on the current visibility, you think it will take three, four, five quarters before we achieve that?
- Rajesh Mandawewala:** I do not want to stick my neck out on, as I said this, we need some more experience that should determine the trajectory of growth. And as we have better handle on velocity, as the plant starts within a couple of quarters, we will know. So it is better that as we wait for that time. So right now, what we have learned is that where are the prices sitting because we have generated some revenue, that as we know that is where these are sitting. But the trajectory at which the business

will grow, I think this will need some more we have to spend a few more quarters to really get a handle on that.

Sachin Kasera: Sure. And just lastly, Sir, will you be able to help with the utilization levels across these various product segments currently?

Rajesh Mandawewala: Ditto, we need some more experience.

Sachin Kasera: I am talking of the traditional businesses, what was the utilization for the quarter?

Altaf Jiwani: We give utilization figures annually, Sachin. So last year, we had 82% for towel, 88% for bedsheet and I think about 70% for rugs so we give this figure on an annual basis.

Sachin Kasera: Thank you.

Moderator: Thank you. The next question is from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.

Arjun Sengar: Congrats on a good result. I missed the opening remarks. Can you please give me the split of your revenue growth with the 10%? How is that between the volume, currency, etc.? Sorry I missed that part.

Altaf Jiwani: It was 4.8% is the currency impact, 3.4% is the RoSTCL impact, and 3.4% is the volume impact.

Arjun Sengar: 3.4% is the volume growth?

Altaf Jiwani: Yes.

Arjun Sengar: Also, can you just give us some commentary on the retail market in U.S.? You mentioned that the scenario there is retailers are recalibrating the offtake. Can you just elaborate a little bit more on that in terms of what that means for demand going forward?

Altaf Jiwani: As far as the growth, the buy side continues to grow. The expectation is that the growth rate will slow down. And in anticipation of that slowdown, the retailers are probably looking at recalibrating their offtake. So that nobody wants to sit on a very large, heavy pipeline. That is the impact which we will see going forward. As we head towards the holiday season, we might see that this situation possibly could be recalibrated. But as of now, we are seeing a kind of a, let us say, a lukewarm offtake which is there.

Arjun Sengar: Sure. And lastly, what is the current status of this class action suit?

Altaf Jiwani: We have received the preliminary approval from the court for the settlement agreement, which we had signed, which we can get to resolve all the issues which were there. It is difficult to put a time line on the exact process because it is a court process. But we expect to finalize everything during this current financial year. So I think for this settlement, we have received the preliminary

approval from the court, and we expect that during the current financial year, we should be able to close this whole settlement. The final hearing is scheduled somewhere end of October.

Arjun Sengar: One more question, Sir, on the margin. We have seen a 560-basis-point improvement in our EBITDA margin on a Q-o-Q basis versus Q4 of FY 2019. So how do we explain that?

Altaf Jiwani: If you recollect, this RoSTCL was introduced in fact in March 7. So this quarter, we have seen a full quarter impact.

Arjun Sengar: That would have been somewhere between 200 and 300 bps, right, that positive impact?

Altaf Jiwani: Yes.

Arjun Sengar: Or was it that the Q4 margin was abnormally low?

Altaf Jiwani: It has both impacts, one is the exchange as well as the RoSTCL vis-à-vis Q4.

Arjun Sengar: Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Niraj Mansingka from Goldman Sachs Asset Management.

Niraj Mansingka: Thanks for the opportunity. Congrats on the numbers. Sir, few questions; one was, what was the revenue growth in the domestic sales of towels and bedsheets?

Altaf Jiwani: Niraj, we are seeing 30%-plus growth in Q1, so in the domestic market.

Niraj Mansingka: Okay. And what is the proportion of revenues right now?

Altaf Jiwani: Domestic market, actually, as we mentioned, we have actually crossed the Rs.200 Crores of milestone on an annual basis for domestic retail business, and we are continuing to grow at 30%. So both our emerging businesses, advance textile as well as retail crossed Rs. 200 Crores of threshold last year in topline and both this continue to grow at 30% in the current quarter.

Niraj Mansingka: Can you give some more color on the technical textiles? And recently you said that you can easily grow revenue at 50% without doing capex. Can you also give some color on how much margins can you make on the gross margin side and where are the market sizes and how much investment you can need to be done to scale up further from here?

Rajesh Mandawewala: Right now, so there are two or three areas that we are currently operating in. One is, of course, hygiene. The other one is filtration. And so these are the two areas that we are currently operating in. One thing is that both are decently profitable areas. The global growth rates in these products are in the range of 9%-10%. And these are the fastest growing categories in all of textiles, including this nonwoven and woven and all put together. So it is the fastest part of growing is in textiles.

The market is \$60 billion - \$70 billion, if you take it in aggregate, the product we are operating in a narrower part. So right now, this is what investments that we have committed. This business is capable of going to Rs. 500 Crores from the current level of about Rs.200 Crores. We will see from there just in terms of the further specialization that we need to go and resolve, what is it that we need to specialize in. So right now, we are currently focused on what we have. And there's further operating leverage used the full capacities within both parts of our business.

Niraj Mansingka: Most of the revenue would be the export or the domestic side?

Rajesh Mandawewala: It is a mix of both. The filtration is more domestic, also we are looking to develop international markets in that. And the hygiene business is a mix of both domestic as well as export, more exports than domestic.

Niraj Mansingka: Sir, last question. On the tile side, what will the average realization of the tiles, medium size?

Rajesh Mandawewala: The tiles will be in the range of Rs.175 to Rs.200 per square feet, let us say, the cost of ownership range. And so the cost of owning, installing a tile to a final consumer will be in that range.

Niraj Mansingka: The Rs. 175 to Rs. 200 per square feet?

Rajesh Mandawewala: Yes.

Niraj Mansingka: Thank you.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint, that was the last question for today. I will now hand the conference over to the management for closing comments.

Altaf Jiwani: Thank you, ladies and gentlemen, for joining this con call. And if you have more questions, you can please reach out to Harish, and we will be happy to answer those. Thank you.

Moderator: Thank you very much. On behalf of Equirus Securities Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.