

Welspun India Limited

Q1 FY14 – Earnings Conference call (August 08, 2013)

Moderator: Ladies and gentlemen welcome to the Q1 FY14 earnings conference call of Welspun India hosted by Espirito Santo Securities. We have with us today Mr. Rajesh Mandawewala – Managing Director; Mr. Dinesh Jain – President & CFO from Welspun India. As a reminder all participants' lines will be in a listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during the conference please signal an operator by pressing * and 0. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Rajesh Mandawewala. Thank you and over to you, sir.

Rajesh Mandawewala: Good evening everyone. This is Rajesh Mandawewala – Group MD of Welspun and welcome to our quarter 1 call with you investors today. So as you would have seen this we have had a very decent performance in the first quarter while the revenues have declined 3% over the corresponding quarter of FY13 however the reported EBITDA has gone up from Rs. 170 crores to Rs. 223 crores and the profit after tax has actually moved up from Rs. 51 crores to Rs. 90 crores and as compared to quarter 4 of FY 13 we have moved up on EBITDA from Rs. 135 crores to Rs. 223 crores and a profit after tax of Rs. 90 crores from Rs. 63 crores. As you would recall that this in the FY12 the company had undergone a lot of restructuring of its businesses. We had closed down our factories in Mexico. We had sold off our subsidiary that we had in Europe this we also trimmed the number of stores that we had here and all these business is put together were actually draining Rs. 120 crores to Rs. 150 crores on annual basis of profit after tax. So all these were cleaned up in this FY12 so consequently FY13 was a year of consolidation for us were we worked a lot on operating efficiencies in the business and this improving our efficiencies as well as cost and consequently you would have observed that our EBITDA margins have actually grown significantly. And this quarter I am happy to report that our EBITDA is come in at 23.6% before other income and after other income it is come in at 26% of total revenue. So this all a culmination of the hard work that the teams did in FY13.

We have continuing this effort to improve our operating efficiencies. We have also now invested in to a SPV for generating power now this is a thermal power plant of 72 megawatts. Welspun India owns 65% of this power plant so with this current quarter financial results actually also consolidate the result of this power plant because we own 65% on this SPV. Now this power plant has just been commissioned so this we have actually not got full benefit out of this power plant. This in the coming quarters we will see benefit of this power plant that we have set up are its energy cost should also move down as we move in to subsequent quarters. So as I said this there is a sharp effort that we are making in terms of bringing the operating efficiencies and to become one of lowest cost operations in the world.

Coming back to the top line so this while we have had a muted first quarter but I am happy to report that we have a very strong order book going forward and it looks like this we are going to be 90% to 95% plus in terms of utilization over the rest of the year as let us say the order in flow is strong US happens to be our key market and this we see a revival of demand and the other factor which is actually this pushing a lot of business our way is the India factor where in cotton textiles it looks like that India is now one of the most competitive cotton textile producing country and in fact, this textile council TEXPROCIL who had actually given this a benchmarking job to one of the leading international consultants to actually benchmark costs in the relative countries like India, China,

Pakistan, Bangladesh, Vietnam etc and after six months of work these people came back and reported that India today is the best possible location for sourcing of cotton textiles. So this I think as a country we have come a long way. The advantage is clearly are coming from let us say large cotton crops so India is a net exporter of cotton vis-à-vis all the other textile producing countries like China, Pakistan, Bangladesh, Vietnam which are net importing cotton. So that gives us a huge advantage in this. Then there are these issues which the other countries had like Pakistan had this power outages and Bangladesh as you people must have read this huge issues on safety and environment. So all these things along with the favourable let us say Government disposition here in India has led to this improving market share as a country so India for example in the last three or four years if you look at US imports of all towels in to America India used to account for about 35% it is moved up to 45% now. So 45% of the towels imported in to the US are coming from India. If you look at bed sheets it used to be about 26% to 27% of imports in to the US from India which is moved up to almost 50% now. So this is clearly manifesting that India as a country in Cotton textiles particularly where there are plants and companies with economies of scale, are gaining market share. So this we as a company being one of the leading players both in towels and the sheet segments apart from rugs have benefitted from this trend so while the economies have been slow for the past 18 months this we have managed to let us say this maintain or grow our business and going forward let us say this we are hopeful that our top line performance will significantly improve and we are also hoping to continue this generating improved margin performance at least the floor being 20% going forward this year. We are very hopeful that this, our both the top line and the margin performance in the business should be quite decent.

We are also seeing signs of slight revival in Europe, parts of Europe I would say. This UK is certainly doing better. Germany is certainly doing better and of course the other parts of Europe are still struggling although this we get a feeling now that this we have come towards the end of let us say this down cycle so hopefully in the next couple of quarters the rest of Europe should also revive. But clearly Americas is back, UK is looking much better as I said and Germany is looking better. We as a company are continuing our efforts to diversify our business worldwide so from almost a 77% to 78% sales in America last year or the year before last we are now about 62% of our sales in America and 38% is coming from other parts of the world predominantly from Europe, Middle East and as a company we are also now focused heavily on building business in Russia, Japan where we have a free trade agreement. South Africa also Canada, the Middle Eastern market and South America markets so this we continue to make efforts to this penetrate in these areas. Our focus as a company on introducing new products, customer friendly products have paid rich dividends so almost 35% of our revenues are coming from products that we have actually introduced to the market and these products actually gave us better margin as compared to the commodity products. So we are continuing our effort to do so and keep remaining focused on this introducing better products for our customers.

On the balance sheet side the company's net debt is about Rs. 2,000 crores and if we annualize let us say the EBITDA for the current quarter our net debt to Operational EBITDA comes in at say around 2.4 to 2.5 times. We have been mindful of this as I had mentioned in my earlier calls that for the last three or four years we have been relatively quite in terms of making capital expenditure been very focused on improving the quality of the balance sheets at this moment. We feel very comfortable with the level of leverage on the balance sheet and all the debt that we have very little dollar denominated debt so also the depreciation in the currency will actually not impact the borrowing significantly. We have less than 5% of our overall borrowings in dollar. So this provides us a fair amount of comfort on the balance sheet and also this our cash position as of now is about Rs. 311 crores and the repayment obligations of the company for the next 12 months is about Rs. 130 crores to Rs. 140 crores so enough cash on the balance sheet and this fairly comfortable with the current debt-to-EBITDA ratio. So this and we will continue to monitor this going forward and hope to maintain this 2.5 to 2.6 times net debt to Operational EBITDA ratio going forward in the future as well.

In the last call I had also mentioned about us undertaking some vertical integration to our operations. We are about 35% in house yarn production to our overall consumption and like wise on the bed sheet side we are about 35% percent of fabric production in house and our intent now is to take this up to 70% and this expansion plans are underway and where we will consolidate this increase our spinning capacities as well as fabric weaving capacities and all these investments are with healthy return on capital employed with very low risk because even with these investments this will still be only at about 70% to 75% of our overall consumption. So we hope to generate this positive cash flows the moment we get this expansions under way because let us say the sale side of this CAPEX would have been covered by captive consumption. So this and also we will be taking advantage of the Gujarat textile policy which will offer us almost 5% to 7% interest rebate over and above there 5% this TUF benefit that we get on interest rates. So virtually this whatever new capital expenditure that we will make this will come out of the internal accruals of the company and the long term debt that we will undertake for expanding this will actually bear our interest rate of about 3% to 3.5%. This is all rupee debt so net of the TUF benefit and the Gujarat textile policy benefit. Our interest on the new CAPEX is likely to be 3% to 3.5% on this entire rupee denominated debt. So pretty happy to take that debt on with let us say an overall rider that our net debt to EBITDA this will be in the 2.5 to 2.6 range this going forward despite the capital expenditure.

So these are a few things and we continue to grow our customer portfolio and we continue to grow within our customers. Having said that we have a fairly diversified customer profile about this. We export to about 25 odd countries and none of our customers accounts for more than 10% to 12% of our revenue. So this we will be in very mindful to actually to take risk out of let us say the customer profile that we have. Having said that we work with almost 15 to 16 out of the top 20 retailers in the world being strategic vendors to them so this fairly in good shape. So to summarize all this let us say this we have a rupee cost all our raw materials are bought ingeniously. 95% of our revenues are coming from exports in dollars. Very little dollar debt so this we find our ourselves in a very comfortable position within the industry and also as a company I think this we have a strong strategic position with our customers. So this we are pretty optimistic about our business going forward in the future.

So thank you very much for patiently listening to me. I will now open the floor for questions.

Moderator: We will now begin the question and answer session. At this time if you would like to ask a question please press * then 1 on your Touchtone phone now. If you decide to withdraw your question from the questioning queue please press * and 1 again to remove yourself from the queue. Participants are requested to use handsets while asking the question. Please press * and 1 now.

Deepak: This is Deepak here. We just want to understand this hedging reserve you mentioned about some figure in the press release. What is amount that we have charged to hedging reserve this time in the quarter?

Rajesh Mandawewala: Rs. 136 crores has been charged to the hedging reserves as of now. It stands at a negative of Rs. 104 crores on our overall reserves.

Deepak: What has given raise to this the hedges that we had?

Rajesh Mandawewala: The Company has a policy of hedging let us say 60% of its export for the next 9 months. So this we have a hedging position since the last two years we have been actually taking the mark-to-market gain or let us say a negative variance straight to the reserve under AS 11 accounting standard. So that quarter-on-quarter this M2M thing does not disturb our operating performance in the company. So our current hedge is averaging about 57% to 58% that is the average hedge that we have on almost about \$300 million which is let us say when you mark-to-market leads to this negative reserve of about Rs. 109 crores. Having said that the first quarter let us say this results that you see are let us say at a dollar realization of less than 57 so going forward let

us say this our realizations would be 57 or more. So this while there is a hit on the reserves but let us say it hopefully it should not negatively impact let us say our performance going forward.

Deepak: The other income of around Rs. 20 crores to Rs. 22 crores that we have this time how much of that, is there anything from the operation in that?

Rajesh Mandawewala: Look Rs. 11 crores is treasury, so as I said we have Rs. 300 crores plus of cash balance so if you have got about Rs. 10 crores to Rs. 11 crores from treasury and the rest of it is about Rs. 4 crores or Rs. 5 crores from cancellation of forward contracts. So this hedges that we cancelled gave us a positive gain and there are Rs. 3 crores or Rs. 4 crores of some other benefit that we got from some of the incentive scripts that we bought from the market. So all in all it is primarily this you can say foreign exchange and let us say this treasury income.

Deepak: And I just logged in to the call so have you given any outlook for the coming period?

Rajesh Mandawewala: Not hard numbers Deepak but this we are looking very good in terms of order position right now this for the rest of the year. At least up to December the visibility is very good. And we hope the momentum will continue through March and which means that our future top line in the next quarters is going to be higher than what is reported right now and there is nothing which is indicating this significant margin drops as well. So this we hope to maintain a 20 plus let us say margins on the EBITDA side. So that is what I actually mentioned on the call before you joined.

Deepak: And the CAPEX that we are doing that I understand will commission phases, so when will the first phase commission?

Rajesh Mandawewala: See precisely so this most of it will come in to production this in the fourth quarter. In the third quarter the weaving part should be over but the spinning part which is the bigger CAPEX will actually commission in the fourth quarter.

Moderator: Thank you Mr. Deepak. We have our next question from Hiloni Mehta from Wow India. Please go ahead.

Hiloni Mehta: Could you please just comment something about the current Return on Capital employed and the Return on Equity and the targeted both?

Rajesh Mandawewala: If we annualize the current quarter the Return on Equity comes to about 38% and the Return on Capital employed is about 15%.

Hiloni Mehta: How about the targeted ROC and ROE?

Rajesh Mandawewala: As I said this I do not want to be very specific on this but this we are hopeful that we should be able to replicate the current quarter performance through the year.

Hiloni Mehta: And also just could you kindly tell us about the capital expenditure plan?

Rajesh Mandawewala: We are in this current year looking to spent about Rs. 750 crores to Rs. 800 crores and of which Rs. 250 crores is already spent. So that is cash already out so in the remaining part of the year I think another Rs. 550 crores to Rs. 600 crores of CAPEX will be incurred.

Moderator: Thank you ma'am. We have our next question from Ms. Aditi Murkute from IDEN Advisors. Please go ahead.

Aditi Murkute: I wanted to ask could you tell us about the profile of your products and which countries do you other main countries of your export I mean the targeted countries?

Rajesh Mandawewala: Look we are a home textile company and the main products that we do are towels which forms more than 50% of our revenues. Then we have bed sheets and related products like bed covers and comforters and things like that so that is about 35% of revenues. And then we have carpets flooring products, carpets, rugs and things like that. The key markets are in the US and Europe. US accounted for about 63% of revenues in this quarter and Europe was about 22% to 23% and all the major top retailers happen to be our clients. So if you look at UK virtually all the retailers like Marks & Spencer or John Lewis or Tesco or Dunelm all of them are our customers. In the US starting Bloomingdales to Wal-Mart, JC Penney, Target, Kohls, Cosco, Sam all these are our customers. So in the US almost the top 20 players would be our customers and all of UK. In Europe we have business with Ikea, and all so this as I said this we work with most of the top retailers in the world.

Aditi Murkute: And one more thing. Did you experience any kind of impact of further rupee depreciation?

Rajesh Mandawewala: See this if at all there is an impact it is a positive impact because as I said most of our cost is rupee so our raw material is indigenous. Most of the things that we buy is local. So the cost that we incur is in rupees and 95% of our revenue is actually come from exports. So our sales come in dollars. So if at all there is a depreciation it is only a positive impact. Having said that see prices correct to the currency fluctuation. So it is a momentary couple of quarters where you either tend to make gain or you loose two or three points of margin but then over a period of time see the margin's level of with price adjustments with the customers.

Moderator: Thank you. Participants are requested to press * and 1 to ask question. We have our next question from Resham Jain from BNK Securities. Please go ahead.

Resham Jain: Sir, couple of questions. One is in this quarter how much growth is because of volume and how much is because of volume and how much is because of currency?

Rajesh Mandawewala: Resham, actually the reported numbers of last year quarter 1 are not representative because this if you would recall there was a restructuring and now this the Welspun Global Brands and Welspun Retail are all consolidated into WIL so actually this quarter our top line is not grown. If we have actually shank top line by 3% and this is the result of our customers actually cutting back on the inventory in the quarter 4 of last year as well as Q1 of the current year. So from January onwards the customers were actually cutting back on inventories but that trend is now reversed so the customers are back with a bang and hopefully this Q2 this will not only make up this let us say the shortfall in sales in the current quarter but this going forward throughout the year we actually hope to see a very robust top line as well.

Resham Jain: And any impact because of currency because Y-o-Y growth is like negative 3%?

Rajesh Mandawewala: Yeah, so statistics if you look at the volume the volume would be actually down double digits. So the currency makes up let us say 7 or 8 points of that shortfall adhere.

Resham Jain: Sir, secondly just wanted to understand your view on the new cotton season like what we have heard is that the cotton with the mills is at an all time low when we see in the last three to four years. So how you currently gauge the new cotton season and the cotton prices scenario based on that?

Rajesh Mandawewala: See look, I think we are going to have a record cotton crop this all numbers that have been out are indicating a bumper crop this year rains have been fantastic in almost all the cotton growing states in the country. So there is a general expectation for a very, very bumper crop to come in. Having said that you are absolutely right while the world global cotton endings or end of

the season inventories are very strong but all this inventories actually concentrated in China. So China is the joker in the pack, it all depends on what policies they are going to announce. This is true for the current season which is going to end in September 2014 they are clear so China will continue with the existing policy of buying cotton at support prices and so that will keep the cotton markets by end. If you ask me what is my view on this I think cotton will be anywhere between Rs. 40,000 and Rs. 45,000 for the season considering a Rs. 60 to Rs. 61 to a dollar equation. So if that changes cotton prices in India will change but my take would be Rs. 40,000 and Rs. 45,000 price for the next crop with a mean of about Rs. 43,000 which is where cotton is today. In the short term between now and as the new crop arise you might actually see the prices go up though I would not be surprised if prices move up to Rs. 45,000 to Rs. 46,000 even Rs. 47,000 but as the new crop arise I think the overall level we are expecting is between Rs. 40,000 and Rs. 45,000 per candy.

Resham Jain: So you mean to say that if rupee-dollar further depreciates from here we will see price going further up from here?

Rajesh Mandawewala: Of course. I strongly believe now Resham that the cotton prices are actually governed with what happens in India and not New York anymore. So New York prices this used to get Indian prices used to adjust to New York so the last couple of years it is now it is the reverse actually this New York is adjusting to prices in India which is let us say also prices in India is a factor of the exchange rate as well. So we have seen very clearly this that what happens in India is now moving the World markets in cotton.

Resham Jain: And any major shift in policy which we were expect in China or do you think that the same will continue for the coming season also?

Rajesh Mandawewala: See cotton policy is already announced so for this season which is let us say up to September 2014 China will continue to do what they are doing. Having said that they are losing billion dollars every year on this stupid thing that is happening there the Government realizes this but cotton being political so this year they do not have the Government do so they did not have the courage to actually revoke something like this. It is inevitable that the policy will change. The question is when so at least for the next 12 months you have protection nothing is going to change. Beyond that it all depends on what China wants to. They will certainly reverse this buying at abnormal prices this is not sustainable. So I think that either next year or the year after I think that should get corrected.

Resham Jain: Sir, one more question on the investment allowance like we are planning CAPEX of around Rs. 700 crores this year and in this budget they have announced a investment allowance. So how much saving we are expecting because of that?

Rajesh Mandawewala: Se we will get an additional investment allowance of let us say this Rs. 120 crores to Rs. 150 crores so that would go to save the taxes in the future. But we are anyways under MAT so our tax out rate is 20% anyways and we are under MAT and we will continue to remain under MAT for at least the next 2 or 3 years. So that 20% outgo will continue to happen.

Resham Jain: Sir, I was actually asking about the investment allowance like on the investment whatever our company is doing this year in textile machinery is they are going to get some investment allowance?

Rajesh Mandawewala: Yes, we will get Rs. 150 crores of investment allowance.

Resham Jain: And sir, what is the gross and net debt figure at the end of this quarter?

Rajesh Mandawewala: End of this quarter we had about Rs. 2300 crores of gross debt and with Rs. 310 crores of cash is the net that comes to about Rs. 2,000 crores. Of this Rs. 2,000 crores the term debt is about Rs. 1400 crores and the rest of it is the short term against our working capital.

Resham Jain: And sir, do you see that like in this recent announcement they have declared that made up there is a interest subvention of additional 1% so anyway that going to help us?

Rajesh Mandawewala: See all the short term borrowings that we have on working capital this we will say 1% so this we are estimating a Rs. 6 crores to Rs. 7 crores positive impact on account of that.

Resham Jain: For the full year?

Rajesh Mandawewala: Yeah, for the full year.

Moderator: Thank you, sir. We have our next question from Mr. Deepak. Please go ahead.

Deepak: Sir, Deepak here. I wanted to understand had there been any contract revision recently with our customers and what there been the major highlights of those?

Rajesh Mandawewala: Not at all. There is everything is the way it is. So this actually no revision or nothing which is worth mentioning, so this business is at steady state.

Deepak: Any major content is up for renewal over the next three months?

Rajesh Mandawewala: No, see that is the part of our business normally our business moves on program so there is program we ship, while it weekly or monthly depending on the size of the program and till such time the program sells well at retail our customers continue that and when the sales start tapering off at the retail that is when there is a change of products. Now normally when there is a change of product this incumbent vendor retains the business. So there are not many instances where this businesses would have been lost on account of these transitions happening, so nothing major Deepak, nothing major on the cards as of now.

Deepak: I mean is it not there any pressure in prices because of the dollar appreciation?

Rajesh Mandawewala: Look this is people view it as only a one sided thing the fact is also the cost move up so as I said this commodities the prices of commodities are benchmarked globally so as the rupee depreciates the cotton prices move up, the packing material prices go up, the plastics go up, dyes and chemicals which are a function of petroleum prices the prices of those go up. So there is also an upward cost push in rupees that happens so which partly offsets the gain on the currency. So far there have been no discussions that this would. If there is a significant gain there is a tendency over a period of time we sit with our customers to rationalize the prices whether it is upwards or downwards but as of now there are no discussions.

Deepak: On a net-net basis the rupee depreciation is beneficial to us?

Rajesh Mandawewala: Of course there is no question because see on a relative basis it improves our competitive position against other countries like Pakistan and China. So it certainly benefits there is no question on that.

Moderator: Thank you, sir. We have our next question from Bhavin Chheda from Enam Holdings. Mr. Bhavin?

Bhavin Chheda: Sir, few questions. One, Y-o-Y basis there was a revenue fall you mentioned that there was a double digit fall in volumes which was compensated by currency gains of 8% to 9%. So

why should there be a volume fall on Y-o-Y basis? What is it behind that when as a country and as a company we are gaining market share in US?

Rajesh Mandawewala: See Bhavin, there is nothing unusual about this. So this with our customers there is this tendency let us say to work on their inventory so sometimes they cut back their inventories sometimes they tank up inventories. So the last two quarters between January and June this we clearly saw a clear sign particularly with our American clients where they were all cutting back on inventory and the sales actually came in better than what they forecast. So now they are back to so the doom and gloom is gone and they are back to this replenishing the inventory putting back this stock in their warehouses. So it is not unusual this once every couple of years we see this happen. So we see customers take that call. It is not unusual but having said that as I told you now that the reverse is happening we cannot make enough. So there is much demand now that we cannot make enough.

Bhavin Chheda: So you are saying volume growth is again back across all the segments from this quarter 2 onwards?

Rajesh Mandawewala: Absolutely so we have had a phenomenal July in terms of volume and also this we will have a fantastic August and September so those are all orders booked. So the volumes are back the first quarter is done and the buying habits are returning so we see a very, very robust order book.

Bhavin Chheda: Another question is what on pricing so obviously 95% of your revenue is export so what part of currency gains would you have to pass it on to the clients and how much would be retained? So to ask it in a different way what will be the sustainable operating margins you did a margin of close to 21% whereas the historical margins of the company were 14% to 15%. So if you can answer these two questions separately how much benefit you would have to pass it on and what is the sustainable margins going forward?

Rajesh Mandawewala: See at our current level of integration this 18% to 20% kind of a EBITDA margin is a sustainable margin you could say 18% plus-minus 2 which is at our current level of integration now with this CAPEX while our top line will not grow but this we will add a lot more value to whatever we ship out so for FY15 the margin percentages will be higher but this on a sustainable basis this we are looking at this between 18% and 20% so the prices tend to adjust. When we have an advantage it is only fair that this we share with our customers like they give us better prices when let us say our costs run away. So it is only fair that give and take happens but it happens over a 2 or 3 quarter period because as I said we also hedge currency so while you see the market at 61 we have realized 57 for the first quarter and our current hedge as I said is at about 58 so we do not get the benefit of the entire currency depreciation over night either. So over a period of time the margins adjust but on a sustainable basis as I said this 18 to 20 percent would be a fair number where you could say that is a sustainable level of margin.

Bhavin Chheda: And sir this 80 megawatt power plant is now started and fully stabilized?

Rajesh Mandawewala: The plant is started it has just very recently stabilized so in fact 5th July this onwards the plant has been working well the first quarter was up and down so this we actually this lost a lot of time, effort and money in the first quarter. In the second quarter as I said from 5th of July the plant is now stabilized. This 80 megawatt net generates 72 megawatt so it is not 80 actually for all practical purposes it is a 72 megawatt plant and our current load is at about 47 to 48 so we are working the plant at about 70%. As our expansion go through over the latter half of the year that is when the plant will get fully utilized. So by the end of the current FY this we would have this entire 72 megawatt being consumed. Between all the constituents SPV we owns 65% and then Welspun Corp owns about 11% to 12% and there are other companies in the group which own the balance. So this

all in totality this we are at about 70% utilization level with our increase in consumption in the last quarter we are hoping to actually hit peak utilization.

Bhavin Chheda: And sir, last one on the broader thing whether the banks have started dispersing the TUF loans I believe there was some issue and FY14 TUF loans were delayed?

Rajesh Mandawewala: Look I am very close to this because I am championing this cause on behalf of the industry. So you are absolutely right while the budget made the announcements that it will be continued but the GR's have not been issued. So the banks are not disbursing the new loans under TUFs. Having said that our expansion that we are currently undertaking we had the sanction before March 2012 so we are not affected by this. So all these loans that we are disbursing we have the UID numbers and we will get the TUF benefit. Even otherwise this we have clear indications from the Government that this TF will continue there will be no blackout period like the last time they had this blackout period so there will be no blackout period this time. So for all practical purposes what it means is anybody who is investing today will almost certainly get the TUF benefit.

Bhavin Chheda: But still there is no clarity that your banks are yet not issuing it, right?

Rajesh Mandawewala: Correct, they are not doing that but for Welspun India as I said whatever we are undertaking to expand we have the UID number because our sanctions with the bank happened in March 2012. So we were expecting this to happen which is why we have run this project with the banks and got the sanctions done before March 2012 and thankfully so. So we will not be impacted by this we have the UID number. The UID number is a confirmation from let us say the administrating agency that you will get the TUF benefit. So as a company we are not impacted with this.

Bhavin Chheda: And out of Rs. 800 crores CAPEX how much is the TUF loan component in that total loan component in TUF loan component?

Rajesh Mandawewala: 62% of the project cost is TUF. I think about Rs. 600 crores The non-TUF portion is I think 15% to 20%.

Bhavin Chheda: No, so 62% of Rs. 800 crores if I do you are saying roughly Rs. 500 crores is the TUF portion, right? So you will get a Rs. 500 crores loan or you will get 70% of that?

Rajesh Mandawewala: No, you will get Rs. 500 crores of loans which will be TUF another Rs. 100 crores will be non-TUF. So on Rs. 500 crores you will get the benefit of that 4% to 5% TUF plus we will get this 5% to 7% interest benefit from the Gujarat policy. So effectively the TUF loan will actually cost us say about 1% or 2% and then the non-TUF of course this will cost us whatever that 11.5% or 12% that we have to pay. So the hybrid cost on this whatever new debt that we will acquire is about 3.5% for us.

Bhavin Chheda: And you said you spent Rs. 250 crores so have you got the TUF loan or you are waiting for banks?

Rajesh Mandawewala: Yes, we have already drawn Rs. 125 crores and from the bank under the TUF loans. As I said this ours on our expansion there is no uncertainty.

Bhavin Chheda: Okay, banks have already given you TUF of Rs. 125 crores in Q1?

Rajesh Mandawewala: Oh yes.

Bhavin Chheda: So balance part of the order when you are placing it? You have already incurred Rs. 250 crores so?

Rajesh Mandawewala: All orders almost all of them have been placed. So the equipment will start arriving from September let us say and let all of them should hopefully get commissioned by March.

Bhavin Chheda: Near 1 lakh 70 spindles I believe you were looking at, you have placed the orders?

Rajesh Mandawewala: 170,000 spindles about 2,000 rotors, about 6,000 TFO spindles, about 140 looms for sheeting and then some little bit this balancing here and there. So this is what we are undertaking in the current year.

Bhavin Chheda: And all the orders are placed already to the equipment?

Rajesh Mandawewala: Almost I would say about 90% are done.

Bhavin Chheda: Thank you sir, that's all from my side.

Moderator: Thank you, sir. As there are no further questions I would now like to handover the call to Mr. Rajesh Mandawewala for closing comments.

Rajesh Mandawewala: Thank you very much ladies and gentlemen for the patient hearing this we hope to remain continuously engaged with you going forward in the future. Thank you once again for the time.

Moderator: Ladies and gentlemen this does conclude your conference call for today. We thank Espirito Santo for hosting this call and Welspun for their insightful presentation.