



“Welspun India Limited Q3 FY20 Earnings Conference Call”

February 12, 2020



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Moderator Ladies and gentlemen, good day. And welcome to the Welspun India Limited 3Q FY20 Earnings Conference Call, hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikas Jain from Equirus Securities. Thank you and over to you, sir.

Vikas Jain: Thank you, Tanvi. Good evening, everyone. On behalf of Equirus Securities, I would like to welcome all of to the Q3 FY20 earnings conference call for Welspun India Limited. From the Company, we have with us the key Senior Management, including Mr. Rajesh Mandawewala – Managing Director, Ms. Dipali Goenka – CEO and Joint MD, Mr. Altaf Jiwani – Director (Finance) & CFO and Mr. Akhil Jindal – Group Finance & Head (Strategy).

I would now like to hand over the call to the Management for their opening comments. Post which, we will open the floor for the Q&A. Thank you, and over to you, sir.

Altaf Jiwani: Thank you, Vikas. Good evening, ladies and gentlemen. Welcome to Q3 FY20 Investor Call for Welspun India. Before we get into financials, I would request Dipali to give an overview about the market outlook, our business and some of the key initiatives which we have implemented in Q3. So, over to you, Dipali.

Dipali Goenka: Thank you, Altaf. Good evening, ladies and gentlemen. I just wanted to give you a perspective. Today, if I look at the core business, we are at a 24% EBITDA without the MEIS and the clutches of incentives. So, our business looks good. Volume growth, if we look at it, as Welspun we maintain the guidance that we have committed.

And I will just give you a perspective about where volume growth will be. Our emerging businesses will be at 30%, which they are continuing to be. And going forward, they will contribute around 4% to the top-line. At core businesses, we must share that innovation, brand and sustainability are the enablers. Hygro has grown at 15% year-to-date. And going forward, Hygro and Wel-Trak will be growing at double-digits as well. Our milestone of 15 years of Hygro, I must say we have achieved around \$1 billion of sales at retail on Hygro in these 15 years.

Second, the key enabler is brands. We have just recently licensed Martha, which actually was present at Macy's. And as you know, Martha Stewart, she is a renowned personality in United States of America with ~3 million followers. And this actually will also find our doors opening into Tier-2 retailers where Welspun wasn't present, like TJ Maxx Ross and the other Tier-2 discounters also.

If I look at sustainability as another enablers, we were recognized by ET Futurescape as one of the leaders in sustainability. And we were the only textile company which was ranked in the top 100, with the other FMCG and CPGs.

In the volume growth, bedding and rugs and carpets will be contributing to the other set of growth. Rugs and carpets being around 20%. Hospitality, again, will be growing at double-digit going forward as well, and we are opening global doors in hospitality.

And as you are all aware of, ecommerce is something that has been disrupting the retail landscape. Ecommerce will become a reality, omni-channel will be also the way forward. We have hired an expert who comes in, who has handled portfolio of around \$150 million of ecommerce business. And this will be the way forward for Welspun going forward. We have a digital brand called Welhome, that will continue to grow in pure play as well as omni-channel.

Our non-US business, despite the disruptions with Brexit and the others, is growing and will continue to grow. We are looking at non-traditional channels here like loyalty programs that that have been also important contributed to that. Thank you.

Altat Jiwani:

Thank you, Dipali. Q3, we have seen a PAT growth of 55%, so there has been a significant improvement in the margins. Our core business, while we have done revenue of Rs. 1,700 crores, which is about 0.5% increase over year-on-year. Our core business EBITDA margin is 24%. And as Dipali mentioned, we have not recognized the MEIS of 4% which was withdrawn by the government with retrospect effect from 7th March 2019.

So, in Q3 we did not recognize that and Q1, Q2, we have taken impact on the exceptional item. And we don't have any incentives now in our business model, so this actually demonstrates the robustness of the business model where without the crutches of the incentives we are able to demonstrate EBITDA margin of 24%. After considering the Welspun Flooring, we have EBITDA margin of 19.6%.

We have a core business net debt, which is about Rs. 2,286 crores, compared to Rs. 2,741 crores in on 31st March, 2019. So, we have actually reduced the net debt for core business by about Rs. 455 crores. If we consider the Welspun Flooring debt of Rs. 619 crores, we are at Rs. 2,905 crores of net debt position as of 31st December, which is lower than the March figure.

In the EBITDA margin, of course, we have certain tailwinds which we had. But, before I get into that, I would like to tell you that in flooring we have considered the entire cost which is upfront. So, our entire cost is front-loaded, and the benefit is going to come in the subsequent quarters. For example, the entire samples and trial runs which we have done, we have actually valued the entire inventory at a realizable cost, so we have not valued at cost. So, that is the entire cost, which has come in Q3 for floating.

The entire distribution model which we have built in, so we have about 50 distributors now pan-India, we have about 450 dealers. So, all the costs which are incurred in creating this kind of reach pan-India also has been absorbed front loaded in Q3. The entire activity of brand building for flooring as well has been captured in this Q3 numbers.

So, what you see there is an entire cost which has been front loaded in Q3 numbers. And based on the current run rate for flooring, which is about single-digit, it's about Rs. crores per month, we expect this will become into double-digit. So, we are seeing a ramp up of sales which is happening. So, March exit should be about between Rs. 15 crores to Rs. 20 crores of revenue run rate for flooring business.

The continuous focus on the emerging business, because most of these emerging businesses are actually our B2C, so actually the entire business organization is getting focused more on B2C, we have been either two more on a B2B business and we also engaged one of our major consultants who is helping us in creating the entire marketing strategy, the distribution strategy, the brand positioning for the flooring business.

All the emerging businesses, and retail also, actually the association of Mr. Amitabh Bachchan for Welspun brand has catapulted Welspun brand in the second in the second rank in the entire of home textile brand which is in the mass segment. So, this is within in less than a year we have actually reached that status. And we are actually in a situation where a legacy brand which is more than 100 year old, and we are at a number two position, which is less than one year old.

The innovation portfolio continues to keep growing, while we don't do the numbers quarterly, but when we give the annual numbers we will actually give the numbers for the full year, it has grown substantially higher. And our strategy to create that differentiation using innovation, particularly for Hygro brand, that continues to play well, and we are seeing the kind of growth rate. While the underlying market is growing at 2%, 2.5% in US, the Hygro cotton products are growing at 15% in the same market.

So, growth strategy, which is a three pronged strategy to look at new products, new channels and new markets, that we will share while we answer some of the questions, we will share some of the initiatives that we have taken on this three-pronged strategy.

So, as far as the top-line is concerned, it is 2.5% growth which has happened. It has a 5.7% impact of the exchange we have Rs. 72.96 per dollar for Q3 vis-à-vis Rs. 69 per dollar in the last year Q3. There is a degrowth of about 4% in volume terms, which is there. But we have seen a growth of both, flooring and the emerging businesses have contributed almost about 2%, 2.5% of growth in the top-line

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In terms of finance cost and depreciation, which has gone up year-on-year, it is flooring, finance cost which is about Rs. 4.5 crores and depreciation of about Rs. 12 crores, which has added to this depreciation. But as I told you, all these costs are actually front loaded. From here-on, on the flooring business you will see a substantial shift as the sales ramp up happens.

And we are started now, from last quarter, disclosing the segment, both for flooring and core textile separately. And you will see that we have about 24% of EBITDA margin on the core business.

In terms of exceptional items, Rs. 51 crores which is there, as government has withdrawn the MEIS benefit with retrospect effect, while as an industry we are looking at various legal options and we will pursue those options which are there. But as a conservative policy, we have gone ahead and actually written off whatever we had accrued from 7th March till 30th September, and that is about Rs. 97 crores.

And the other item which is there is about the class action suit. So, we have actually settled it and it is completely over everything is behind us. Now, this will pave the way for us to reach out to the customer. And that is about Rs. 43 crore of write-back which we have taken, the provision which you made last year. So, that's another item which is there in the exceptional item.

So, after considering the exceptional item, we are at profit after tax of Rs. 73 crores vis-à-vis Rs. 47 crores of PAT in the same quarter last year. So, that's about 55% jump in the EPS and the revenue.

So, in terms of in terms of CAPEX, we continue to calibrate our CAPEX based on the cash flows available. So right now, while the total CAPEX for flooring is about Rs. 830 crores as of 31st December, we will remain within our guidance of Rs. 600 crores of CAPEX for the current financial year.

So, in this quarter we have actually seen the overall margin after considering the Welspun Flooring business, we are at 19.6% EBITDA margin which is within our guidance for the full year, which is 19% to 21%.

And with this, I would hand over a call to RM to share his views about the performance in the market.

Rajesh Mandawewala:

So just to fill in, A, there is the China tariff thing. So, this is helping both our flooring business as well as the rugs business that we have. So, while the tariffs have not this impacted towels and sheets, but this this carpet tiles, wall to wall carpets that we will make in the flooring business, as well as the bath rugs that we do are likely to benefit. And the rug businesses is already seeing, let's say, some momentum, where we are seeing a 20% - 25% kind of growth in that area.

Also, the cotton prices have significantly dropped, which is one reason why, let's say, the textile business margins are at 24% in this quarter, despite the MEIS benefit getting taken away. So, the cotton prices have helped. So, the point that we keep making is that, our businesses is incentive and raw material price agnostic. So, our business will be around the 20% EBITDA mark. And give or take whatever cost pressures or incentive, this up and down will eventually get passed on and the business has a tendency to generate that 18% to 22% kind of this margin that we do.

Also, a lot of work has been done on the Spaces and Welspun brand, as Altaf mentioned. So, it has grown at a phenomenal 32%, 33% in the current year. And we are building good momentum, so there the distribution has grown significantly and it is continuing to grow significantly. So, we believe that both Welspun as well as Spaces brands will acquire maturity and continue to grow very, very significantly. And the current year, between the two brands we are likely to be between Rs. 270 crores or Rs. 275 crores or thereabouts. And our goal will be to cross, let's say, Rs. 350 crores or maybe even more in the coming year.

And I think our association with our brand ambassador, Amitabh Bachchan, is helping, let's say, our home textile business. And as we speak, this we have already signed up and shot the films for the flooring business with Mr. Bachchan, which will go live sometime before June. And so, hopefully that will also provide an impetus to the flooring business.

So, I will also take a couple of minutes to discuss what is happening on the flooring business. So, as Altaf said, until the end of Jan, most of our time and efforts were actually built, invested, and the money got invested in building the collection, so hundreds SKUs have been developed in all the four product categories that we represent. And for the various markets now, we cater to the export market, we cater to the hospitality business, both international and domestic, this we are building a network in India for the further residential market. And then there is the commercial market where our carpet tiles will also go.

So, simultaneously this product development and collections are getting developed. So, by and large, this end of January, middle of fact February, our first round of collection will get done. And it is already getting distributed as the designs and patterns are getting ready through our distribution channel. So, the product and the value proposition of flooring in a day has been well received in the marketplace, the product is well received. So hopefully in the coming year we are likely to see better traction this with the distribution network that we are building.

So, the whole go-to-market strategy, also the building of the network, BCG is assisting us the last several months and they will continue to do so over the next year as well. So, we are laying a very solid foundation. So, as Altaf said, we have 50 distributors now, we have represented almost in the entire country state by state all the major cities where we have about 400 points of distribution. Our goal is to get to about 1500 points by the end of FY21. And some of them are, let's say, shop-

in-shop, so we have about 70-odd shop-in-shops now. As we transition this year, we will be crossing 100 shop-in-shops. And our goal is to get to this 300 end of FY21.

So, we are building our network, there are some very serious discussions happening on the export side with some very, very large importers and distributors, also some very large OEM players. Again, we are at this sampling stage with them. So, this quarter I think things will settle down and this hopefully will translate into businesses for the year coming. So, this progress is getting made in all areas and we are looking to end the year, the March exit rate should be anywhere between Rs. 15 crores and Rs. 20 crores for the flooring business by itself.

And as the distribution and the dealer network crosses 650 - 700, maybe thereabouts, that's when we will go for an all-India marketing launch with our brand ambassador, Amitabh Bachchan. So that hopefully should help this kick start the product in the domestic market. And we have done about 8, 10 installations on carpet tiles in the domestic market with some very esteemed clients. And the inquiry list now continues to grow. So, it's a typical process where the architects and the A.I.D (Architecture In Development) they do smaller projects with us to test us out.

So, whatever has come our way, we have executed them beautifully. And so hopefully over the next three, four months, as we gain the confidence of our channel partners, and also this the A.I.D community, so this business on the capital tile also start happening. And we are also building a global distribution network or aligning with importers, distributors OEMs, so that this capacity that we have, we are able to find, let's say, a market for our product.

So, I think this these are a few things that I thought we would have. And the other thing I think, which in fact in our board meeting got extensively discussed today was the ecom strategy. So Dipali and our team are furiously working on the ecom business, particularly in America. So the guy that, we have actually hired an excellent leader there, and he has now settled down just a few months into the system. So, he comes from that background, he has built \$150 million ecom business from scratch there. So, there are things that we need to correct, both in terms of strategy as well as execution. So I think as a company, we are focusing attention on the ecom part of the business. Now that growth, so it's already about 15% of the American market, and it's likely to grow further.

So, this we need to participate in that growth and so we have building the right framework and the right talent pool. So, this is the business planning time. And hopefully by the second half of March, I think our blueprint will be ready, both for the textile business as well as the floorings business, along with the advanced textile business and both the brand Spaces and Welspun. So, all in all, we feel satisfied. And particularly in a time when the retail customers, some of them, let's say, are growing, some are not. So in that environment, we feel pretty satisfied with what we have done, both with our textile business and some of our emerging businesses as well. And hopefully, we are looking towards this positive growth in in the times to come.

So all in all, the emerging businesses in the company, which is advanced textile, flooring and the Spaces and Welspun brand should definitely grow this past 50% in the next year because the flooring businesses is off a very small base. So, it will grow significantly. We hope to grow our brands by whatever 30%, 35% that we have continued to grow the last several years. And the advanced textile business should also show us modest growth. So between the three of them put together, let's say, in excess of 50% growth there.

Now, these form already 10% of our top-line now. So, this 5% or 6% growth at the company level should come from the emerging businesses and hopefully the textile business should contribute an equal amount. So, we want to retain our guidance on a double-digit growth for going forward. And this 20% EBITDA margin, plus/minus 2%, that's where our business is currently and we are hoping to continue that performance going forward.

So, with that, all of us will be happy to take questions.

Moderator: Thank you very much, sir. We will now begin the question and answer session. We have the first question from the line of which is from Vijay Sarda from Crescita Investment Management. Please go ahead.

Vijay Sarda: Congratulation on good set of numbers. Sir, just wanted to understand two things. One is on the overall outlook on the textile, given the fact now there is a problem going on in China which may be temporary in nature, but overall the growth what we have seen in the home textile which was at one point of time two years back was around double-digit now have gone down to single-digit. So, how is outlook over there in textile business?

Secondly coming to the flooring, with the kind of investment that we have made now of Rs. 800 crores odd, what kind of revenue potential over next three to five year we can see in this business?

Rajesh Mandawewala: So, let me start with the back half of your question and the Dipali will take the textile part. So, on the flooring side, let's say, slightly in excess of Rs. 800 crores have been invested, just to refresh the project is about Rs. 1,130 crores - Rs. 1,140 crores. So, the rest of the money will be spent over the next eight to 12 months. And there is no need for us to buy equipment that we don't currently need, we have staggered this our investment there. So, we will end this project investing about Rs. 1.100-odd crores in the floorings business.

And as we have discussed this in the past, so give or take a couple of hundred crores beyond that, should take us to a revenue of in excess of Rs. 2,000 crores over a five year horizon. So, as we ramp up and as we utilize all these capacities, our guess is that another Rs. 200 crores, so Rs. 1,100 crores plus a couple of hundred, Rs. 1,300 crores, Rs. 1,350 crores of investment. So, the balance Rs. 200 crores we don't need to invest now or, let's say, for that matter another couple of years. So

that kind of investment should give us a Rs. 2,500 crores kind of revenue. So, those kinds of capacities have been built up

And as I said, we are aggressively looking to find a house for selling and marketing that capacity. So, like any new business it is going to take us some time. But we are seeing good symptoms. I think we have made our presence felt in the marketplace, both in the domestic as well as international markets. And see, leading companies, leading distributors, dealers in India, leading importers, distributors, leading OEMs, are engaged with us. So, they have seen what we have built, they have seen very quickly that in a four month time that we have put our collection together. And, let's say, from a technology standpoint, we are second to none. So, there's respect in the marketplace for what the company has done. But to answer your question, this should be good to deliver a Rs. 2,500 crore kind of sale over a five year period.

Vijay Sarda:

Thanks. Sir, just one more. In terms of this, how the mix will be in terms of domestic and export? Because currently what we have ramped up is a domestic presence of distribution. Simultaneously, we are done for the international as well in terms of distribution?

Rajesh Mandawewala:

See, this mix is likely to change year-on-year. But all in all, if you ask me a five year view, we have built the business on a 50:50 kind of a portfolio. So, we are looking at an excess of Rs. 1,000 crores of revenue from the domestic market over the next three to five years and an equal amount, let's say, coming from exports as well. So, we are looking at a 50:50 mix in both these markets.

I will get this Dipali to talk about the textile side of the question, but I want to start that, look with what is happening in China, so don't want to build our business on the corpses of the people there. So, pardon us, we are not seeing this as an opportunity, and we don't want to see this as an opportunity. But yes, the saddest part is helping the flooring business and the rugs business. And, Dipali will take you through some of the key initiatives that we are taking on that side. So, look, it's already close to a \$1 billion business, we have a 25% market share of towels in America, we have close to 15%, 16% in sheets.

So, the businesses has already developed a very strong market share and so just to continue growing the business at the rate at which it has grown over the last is a bit challenging. And which is why I see this as the right time the company took the initiative of investing cash flows into the flooring business, now we are investing money into the Spaces and Welspun brand for home textiles. And by the way, we are looking at a Rs. 1,000 crores plus business in India for the home textile business as well. So, were aware that the growth is going to slow down and the business cannot continue to grow at that rates forever. So, this we have taken all the decisions that at the right time, at the appropriate time. And all within the cash flow that the business is generating.

And having said that, look, we are still very positive, our business is going to grow between 5% and 10%, so don't get us wrong. So, our endeavor is going to be to grow our business or the core

business also 10%. So, it is challenging, we acknowledge that. A realistic number would be anything between 5% and 10%. And Dipali, you might want to quickly share some key initiatives that you are taking?

Dipali Goenka:

So, absolutely rightly, I mean, we will be closer to the higher single-digit. But looking at our growth, channels will be ecommerce and hospitality. And hospitality will be growing at a double-digit going forward. Innovation will become a kind of a vehicle of growth as well, Hygro will be growing at 15% and Martha, the brand that we have licensed actually is making us find doors in the Tier-2 retailers which Welspun wasn't present in. So that is a great opportunity. And also, an opportunity towards rugs and bedding will be very, very important for us. And RM pointed out that China tariffs have laid an opportunity for Welspun in the category for rugs and carpets, definitely so.

So yes, our business definitely looks robust as we go forward. And our initiatives that we have taken this year will definitely see a growth for us in a strong single-digit as well. And positively also, our class action has also come to a closure. So definitely that was very positive for us.

Vijay Sarada:

Ma'am, one more question in terms of just continuation, this export part of textile. We were doing good in US, any which way we have a robust presence. How about the Europe and the rest of the world where we started with a strategy to penetrate deeper. So how is that happening and is that a good market to watch out for incremental growth?

Dipali Goenka:

Yes, absolutely. In fact, I would say, while with the kind of conversation on Brexit and the challenges in the European economy, we have continued to grow. We have in fact grown at 8% in Europe itself. And this is actually because of the kind of different initiatives which are non-traditional channels that we took. So loyalty programs is again a very important initiative. And a lot of couple of other things, including promotions in this part of the world. So, this will be an important part of our growth, UK, Europe and Rest of the World.

Moderator:

Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead

Sumant Kumar:

So, my question is, for this quarter 2.5% growth, can you give me though breakup of volume, realization and currency breakup for that?

Altaf Jiwani:

Yes. So Sumant, the exchange impact is about 5.7%. There's a volume degrowth of about 4.2%. And there Welspun flooring has a favorable impact of about 1%.

Sumant Kumar:

Okay. So, 4.2% volume degrowth?

Rajesh Mandawewala:

Yes, but let me just qualify this, don't read too much into this degrowth of the volume. We compare this quarter against a very large couple of promotions that we had done in the last year. So, these

promotions will come in the coming quarters and the quarter after that, this April to June quarter. So, those promotions have been postponed. So effectively the business has not degrown, it is just the shifting of a couple of large promotions that we did last year from a timing perspective. So, a couple of large businesses just have shifted a quarter or two. So perhaps that is the reason of the degrowth.

Sumant Kumar: Can you give us breakup for nine months, the 5% growth we have shown?

Altaf Jiwani: So offline I can give you, Sumant, later. I don't have the finger readily available right now.

Sumant Kumar: Okay. And when you talk about the overall guidance, you have given double-digit growth and 20% EBITDA margin. So, what is the growth for the core business? Is double-digit growth including flooring solution or you are talking about the core business?

Rajesh Mandawewala: Look, our ambition is to grow the core business also, let's say, between 5% and 10%. So, we will aspire for 10%. But realistically, we should fall anywhere between 5% and 10%. And, so that's where the core business is going to be. And the rest of the growth will actually come from the emerging businesses that we have.

Sumant Kumar: Okay. And when you talk about the 24% margin, what overall will we see the industry margin, is in the range of 16%, 17%. What is the key reason for higher margin for Welspun in the home textile segment?

Rajesh Mandawewala: See, again, I would encourage not to look at this from a quarter basis. As I said, this product mix can change from one quarter to the other, so these things will keep going up and down. But, I would suggest that we just go by our guidance. We are saying this good for 18% to 22% margin with a mean of 20%, it's likely to be there. If you look at the core business performance of that over the last several years, we are averaging that kind of margin and we believe our business is good to deliver that kind of margin. So, in some quarter product mix is good, in some quarters it is not that good, so quarter-on-quarter. So, don't read too much at this 24% and don't expect this this for us to be delivering this forever. So, end of the day we will be in that range and that is what you should expect out of us.

Sumant Kumar: So, when we talk about the flooring solution run rate from March, it is going to be double from Rs. 7 crores to Rs. 15 crores. So what kind of margins we are expecting from this business? Is it going to breakeven?

Rajesh Mandawewala: This is another quarter, we are into our just the second quarter of operation. So, see there's a huge amount of equipment in the plant. As I said, the collection is still getting built up and all that. So, I would refrain discussing margins for the Jan to March quarter as well. So, don't read too much into it because there's a lot that is going to just build the collection and just feed the network with catalogues and so on and so forth. So, I think this will come back as we come with the annual

numbers, we will come back with a proper plan. So, we are working on our business plan for the next year. As I told you, BCG is helping us with that. So, as we close the year, we will come up with a firmer top-line guidance, also a firmer expectation on what the EBITDA is going to look like. So please allow us this one more quarter to settle down, because very frankly, while we have capitalized the business, because the equipment's are being commissioned, by accounting standards we have to capitalize it. But this is all pre-work that is happening, and last quarter was about that. This quarter, by and large, half this quarter is going to be about that. So, don't look at the margin profile in this quarter, I think this will come back to you with firmer estimates.

And also, as we as we come out with the estimates it will also include a substantial, let's say, spend on marketing. So, obviously we have signed a star brand ambassador, so we want to take the maximum mileage. We are new as a product, we are new as a brand. So, we want to create the right noise and communication around this new product category. So, we have built all that in and we will share all those things with you as much as we can as we close the year. So, again a word of caution, please don't look at the last quarter financials and also please don't look at Jan to March numbers as well, because they will not represent this state of the business. So, look at the guidance that we will come out with at the end of the year. And that hopefully should define what you should expect out of the flooring business in the next year.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Congratulations on good set of numbers. Sir, I have two, three questions actually. First is this the class action suit which is now over, you mentioned in your previous calls that possibly there is a chance that one of this large retailer who was not there from last two, three years can come back. Any comments on that?

Rajesh Mandawewala: So, the good news is that there is no class action now. So, we have buried that ghost. And finally, after three, three and a half years all of us are actually sleeping in piece. So, it's behind us finally. So, obviously, we aspire now to go back to our customer, esteemed customer and as a vendor we have missed them over the last three, three and a half years. So we will go knocking, we will try and do all the best that we can. In previous calls also I mentioned this, we are very proud with the way which we took the crisis head-on, we are very proud with the way this Wel-Trak solution got introduced. And look, our customers have given us credit for what we have done, and we are today running several programs with absolutely watertight traceability solution that we offer to our clients. So, coming back, we aspire and we will make all efforts to get our esteemed customers, let's get, back to discussion. And hopefully get to start this business. It won't happen overnight, and we don't know. So, don't read too much. But it certainly allows us now the opportunity to go knocking and start business development from ground zero all over again.

Resham Jain: Sir, my second question is on the margins in the domestic business. You said you are growing at a very strong healthy growth over there. If we compare with the company average margins, how will they look like?

Rajesh Mandawewala: So as Altaf already mentioned this, so we are investing in creating a brand. So, the marketing spend are substantial. So we are able to recover, let's say, a part of the marketing spend as we speak. So as the brand matures, I think as we find the comfortable level of distribution and velocity, we will calibrate the marketing spend to where the revenue numbers are. And that's when these margins will start looking, respectable. So all in all, we hope to make the same kind of margins in the domestic business as well. But right now, we are actually investing more for obvious reasons. We are a young brand, we are doing Rs. 250 crores - Rs. 275 crores or thereabout, we are aspiring to turn this into a Rs. 1,000 crore business, and this also not in too distant a future. So, these are years to invest. So, we will keep investing the next couple of years till the time, which we find comfort in the level of business that we have.

Resham Jain: Sir, the last question is on the debt going into FY21 and 2022. So generally, if we you just look at the cash generation, we are generating more than Rs. 1,000 crores now, and with the remaining CAPEX in Flooring, at around Rs. 250 crores, Rs. 300 crores, should one expect the remaining free cash to be used for reaping that completely or do we have any other plans in other core businesses.

Rajesh Mandawewala: So, look, we are a growth company and we have already guided on this. We want to invest the depreciation back into our businesses, whether it is flooring or the advanced textile business or some, let's say, this maintenance capital expenditure on the textile side. But all in all, we want to stay within the depreciation guideline that we have discussed. So, this all PAT that we generate should be cash. And we want to invest back the depreciation from here on. So by and large, you should take that as our intent for the future.

Resham Jain: Yes. Sir, just one related question with debt. This quarter, actually, when you mentioned this Flooring related debt actually is a low cost debt. And you have repaid the old debt, which is a high cost debt. But when we look at the interest cost, even after capitalization, it looks to be significantly higher than what it should be. So, if you can just explain this mathematics on this front, Rs. 12 crore increase in interest cost. But I think you mentioned the cost rate of interest is around 4%, 4.5% only?

Altaf Jiwani: Yes. So, Resham, you are comparing quarter-on-quarter debt, 33% has gone up to 45%. So there are two main reasons there. One is there are certain long-term debt which we have taken for core business, where the TUF incentive is over on 30th September. So that is one impact which is there. The second is the flooring debt which was earlier the interest cost was capitalized is now coming and hitting us in the P&L. So that's the second.

Third is, you know that there are certain working capital requirement had gone up because there are certain amount which are receivable from the government, particularly on the RoSTCL side and the TUF side. So there has been additional working capital draw down which has happened. So, these are the reasons why you see this kind of increase, but year-on-year, it is about Rs. 4.5 crores, but quarter-on-quarter, it is about \$12 crores.

Resham Jain:

Okay. But this run rate should come down?

Altaf Jiwani:

Yes, so we expect the government receivables to get realized in this quarter. So, we have guided for about Rs. 2,700 crores of net debt as of March 31st, we are currently at Rs. 2,900 crores. So, we should see at least Rs. 200 crores of reduction in the net debt position in this quarter.

Moderator:

The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda:

Excellent performance in a challenging environment. Just a question on the China impact because China has a big market share in U.S. market, both in bed sheet and towel. So, have you seen in last two months clients, are they asking for more inquiries because I believe the factories have not yet started there? So, what is your feedback from clients? And have you seen incremental inquiries?

Dipali Goenka:

I think here, we would not like to comment. We just wait and watch here. If we can, just let it here please. Because this is a very grim issue, and we would not like to just talk on this please.

Bhavin Chheda:

Yes. Second question on the domestic retail business, has that business breakeven at the EBITDA and PBT level?

Dipali Goenka:

So, we spoke about the marketing that we are taking on here. So, I think lot of our initiatives have gone in that. And I think as we go forward, in the next two years, we will see it going EBITDA positive. At the moment, we are actually investing in our marketing and the reach with consumer. And if I look at the consumer reach, I mean, I must share that in Spaces, we are at around 1,800 stores. And with our Welspun brand itself, we have around 2,500+ outlets over 50 cities and which is growing stronger by the day. So definitely, there's a lot of potential there, and it would need a lot of marketing outreach.

Moderator:

Thank you. Due to time constraint, we will hand it over to management for closing comments.

Altaf Jiwani:

Thank you, everybody. And if you have any more questions, we will be happy to answer. You can please get in touch with Harish or Vipul. And I look forward to interacting with you in the coming days as well. Thank you.

Moderator:

Thank you. On behalf of Equirus Securities we conclude this conference. Thank you for joining us. And you may now disconnect your lines.