



# “Welspun India Limited”

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*Welspun India Limited*  
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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY15 Earnings Conference Call of Welspun India Limited, hosted by Reliance Securities. As a reminder all participants' 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 call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note this conference is being recorded. I would now hand the conference over to Mr. Nitesh Sharma. Thank you and over to you Sir!

**Nitesh Sharma:** Thank you Chitrasu. Good evening ladies and gentlemen and welcome to the post results conference call of Welspun India Limited. From the management team we have with us Mr. Rajesh Mandawewala, Managing Director of Welspun Group and Mr. Akhil Jindal Director Group Finance and Strategy. Good evening and a big thank you to the management team for coming on the call. I would now like to handover the floor to the management team for initial remarks post which we can start the Q&A session. Over to you Sir!

**Rajesh Mandawewala:** Thank you Nitesh. Good afternoon everybody. This is Rajesh Mandawewala, Group Managing Director Welspun and with me is Akhil and Harish from our Investor Relations Cell. Welcome all of you to this Q1 financial review. I will take you through some significant highlights on the performance of the company for the current quarter.

Starting with the revenues, the revenues came in at 1147 Crores which is a 21% improvement over the corresponding quarter of last year. Operating EBITDA was 251 Crores, which is 24% above 201 Crores reported in the corresponding quarter of the last year.

The reported EBITDA is 305 Crores this is the 37% improvement over Q1 FY 2014 and the profit after tax has come in at 105 Crores which is the 17% improvement over the Q1 FY 2014. During the course of the quarter, we also have other income of about 54 Crores and it is the major breakup of this 54 Crores gentlemen is about 22 Crores is on account of the positive foreign exchange hedges that we had, so the hedges have given us 22 Crores of positive income in the current quarter about 7 odd Crores has come from treasury income. This is from the cash and the bonds that the company holds and about 23 Crores has come from let us say one time SHIP (Status Holder Incentive Scrip) which the company had during the quarter, so all in all this significant improvement over corresponding quarter in the last year.

The outlook continues to be positive. The order position is good and this clients continue to pour more business and as 80% of our business is anyways replenishment in nature. So there is a fair degree of visibility going forward in the coming quarters as well. I will also share some capacity utilization numbers. Towels were almost fully utilized, which is on an expanded capacity of about 50,000 tonnes. Sheets and the basic and fashion bedding put together the utilization was about 85% and the rugs and carpets business the utilization level was at 53% in the current quarter.

The networth of the company stood at 1220 Crores at the end of the first quarter. The gross debt came in at 3007 Crores and this is against 3029 Crores at the end of FY 2014. So there is roughly a 22 to 23 Crores reduction in the gross debt however the net debt stands at 2726 Crores this is against 2664 Crores at the end of FY 2014. The net debt to equity is 2.23 and the net debt to operational EBITDA is 2.72 at the end of the first quarter of FY15.

Our project continues to be on stream. We are almost halfway to this, against 2400 Crores of capital expenditure at the end of the quarter we have already spend about 1200 Crore plus and a big part of this was ofcourse the 1,70,000 spindles that we are implementing. We are currently in the phase of commissioning of that big spinning mill other than that everything is in operation. But the spinning mill this year currently is under commissioning and as we speak about 60,000 spindles have already started production out of this 170,000 spindles. So pretty much on course and rest of the capex money would be invested over whole of FY'15 and FY'16.

All in all the markets look positive in the second quarter. The GDP growth in the US was stunningly improved at nearly 4%. Europe is also showing signs of good improvement and this zero duty preference into Japanese and Korean markets or far eastern market have also started opening up for us. So all in all we feel pretty good about the business of the company in these regions going forward.

The cotton situation also is fairly stable as we speak. The prices are quite stable in India although in the international markets the prices have come down a little but this being the backend of the season. So the cotton prices relatively were as they were. It is within let us say, 2% or 3% price band. The expectation on the crop is positive. The new crop will start arriving in October of 2014. So the expectations are fairly positive. So we are hoping the cotton prices will actually correct from here to some extent as the new crop starts arriving and will settles down, so we by December of 2014. We are expecting the cotton prices to soften a little say may be about 5% from where they are right now.

Our interest burden actually increased in this quarter significantly. A big part of that actually came from the fact that we used to get a 3% interest subvention, which was a short-term benefit given by the Government till last year to boost up exports when the rupee was struggling against the dollar. This was valid only until March 31, 2014 so that has not been extended so consequently our working capital borrowings where we were getting a 3% interest is rebate till now, is no longer available with us. So consequently for this quarter about 9 Crores of additional interest has actually been paid on account of the interest subvention going away, which is a big reason for the interest increase and the rest of it is of course the capital expenditure that the company is incurring. So which is that is why the rest of the interest increases actually happened during the current quarter.

So all in all this fairly stable quarter; good order position going ahead so is we are pretty happy with the way things are and this cautiously as I would say we are cautiously optimistic about the business of the company going forward.

So with this I would like to open the house now for questions if there are any.

- Moderator:** Thank you very much Sir. The first question is from the line of Niraj Mansingka from Edelweiss. Please go ahead.
- Niraj Mansingka:** Thank you for giving me the opportunity. I think it was wonderful results. Congratulations for the same. Sir two questions; one was on the cotton purchase how much was the average cotton purchase price that. Exactly what is the price right now?
- Rajesh Mandawewala:** We are average rate, Niraj is about 41,500 per candy and which is where cotton is today. Having said that, as you come to the second half of the cotton season which is April - September the quality of cotton actually significantly deteriorates so we had bought most of our cotton in the first half particularly the good quality cotton that we need. So while the prices are where our average cost is but let us say this in terms of quality what we bought is significantly better than what is today available in the market.
- Niraj Mansingka:** In terms of order book you said the comfortable. Can you give some color on the order book that you have.
- Rajesh Mandawewala:** Niraj as I mentioned that it is 80% of our business is actually replenishment in nature. So there is a fair 80% of the business is fairly let us say is constant. So unless we lose our business generally the 80% our business will not get impacted and we have not lost any business with some additional business has been gained, which I think should fairly answer question because see our business is not getting orders quarter-on-quarter, month-on-month so this business is run by what you call the programmes and it has an average life in between two to three years. So unless there is a compelling reason for the clients to discontinue the programme we will just continue to ship on a periodic basis sometimes it is weekly, biweekly or monthly. So 80% of our business is actually that which is why this I say that there is a fair degree of visibility because all the programs are intact and which means that 80% of our businesses if fairly secured.
- Niraj Mansingka:** On the capex front of the 2500 Crores how much would have been spent cumulatively till June 2014?
- Rajesh Mandawewala:** About 1200 Crores has been actually invested until June of 2014.
- Niraj Mansingka:** So then it is right say right that remaining 1300 Crores will be turnover till March 2016?
- Rajesh Mandawewala:** Yes. So that is the goal and this balance money will be spent over the next 21 months. Our endeavor is to actually spend the money in a very calibrated manner so that we do not put too much pressure on the debt book of the company. So this as you will see in the first quarter this we have managed to keep the debt in check and it is a very conscious aim within the company to actually make sure that the debt does not run away and which is why we are calibrating our capital expenditure.

**Niraj Mansingka:** It is right way to assume that once like the depreciation and profit added as well the deferred tax added is closed to 167 Crores. So if you use that for seven quarters 1200 Crores of approximately cash flows. So it is right to then assume that the gross level will be one way remain almost the similar range and over from here to March 2016?

**Rajesh Mandawewala:** Couple of 100 Crores here and there Niraj, but that is the goal. So within the company we are working to actually achieve that. But at a peak level sometimes major equipments arrive all at one time so for a momentary short-term a month a two it could actually the debt could go up couple of 100 Crores but by and large over the 12 months we hope to keep the gross debt level constant.

**Niraj Mansingka:** Any thoughts you had on if the anything you heard on whether you have started?

**Rajesh Mandawewala:** Not yet Niraj unfortunately the government is still in the settling down mode and they are actually reviewing the existing FTAs that they have signed because some of the FTAs are actually hurting domestic industry. So I think the energies on the FTA is currently being invested within the government circles are reviewing the current FTAs. So the Europe FTA is currently not occupying let us say this mindset. Hopefully this over the next three months things settle down discussions would start so this but at the moment there is nothing that is moving and I am pretty close to this because I sit on the Association Committee so there is actually this unfortunately nothing is moving on that front. Having said that, see this despite the fact that our products attract a 10% duty into Europe vis-à-vis Pakistan and Bangladesh but our business in Europe is actually growing and which is on account of the innovative products that we offer in the European markets and also the 360 degree offer that we make to manage the clients business better so the clients are getting this meaning of our offer and this they are putting more business into our company in Europe as well.

**Niraj Mansingka:** Thank you Sir. I will join the queue again.

**Moderator:** Thank you. The next question is from the line of Bhautik Chauhan from Span Capital. Please go ahead.

**Bhautik Chauhan:** Congratulations for the good set of numbers and thanks for giving me an opportunity. Sir what is your assessment of cotton and the yarn prices going forward if the rupee stabilizes at Rs.60 a dollar.

**Rajesh Mandawewala:** I think the cotton next season, my estimates and again this is only an estimate is it should be between Rs.38000 and Rs.40000 per candy. It should average in this range considering the fair amount of surplus all over the world in cotton and the general belief in the market that China will buy less from the international market. So actually China has been driving the market the last couple of years. So now that this is the general feeling is China will buy less so it will put a downward pressure on the cotton prices in the international market. Having said that there is a support price mechanism which plays out India and in fact the support prices have just been

announced this week for the current crop season so which is come at Rs.40.50 for the better quality of cotton. Now this translates to about Rs.35000 to Rs.37000 a candy so that puts a floor to the cotton prices that will prevail in the Indian market. So if the floor is Rs.36,000 I think to assume our Rs.38,000 average would be a fair estimate. Having said that this end of the day it is only an estimate of but we do feel that we should be averaging around the Rs.38000 or thereabouts. On the yarn front, I think the prices have come up a fair bit and if the cotton prices reduced my estimate is the yarn price will follow and this also reduced but not as much as the cotton reduces because this on a standalone basis I think there is a margin drop in the spinning mill in the spinning business. So this I think a bit of that hopefully should get recovered. On a scale of 10 if cotton reduced by 10, I think yarn prices would fall about 7 or 8.

**Bhautik Chauhan:** Sir if you can give us the product wise sales mix in the quarter one between bedsheets, towels and carpet flooring products?

**Rajesh Mandawewala:** About 55% of the sales have come from towels. About 30 odd has come from sheets and rest of it from the other products.

**Bhautik Chauhan:** In terms of US, Europe and India if you can split out this revenue?

**Rajesh Mandawewala:** 60% is US about 18% is Europe and the balance of it is in the rest of the world.

**Bhautik Chauhan:** That could be helpful and what will be the capex plan for the full year?

**Rajesh Mandawewala:** The estimate is about 800 Crores. So as I said that we are calibrating the capex. So this looking at our estimated cash flow so we are calibrating the capex so that this as I said the debt does not run away on our book. So we will split the money accordingly.

**Bhautik Chauhan:** Sir it is fair to assume this would be your peak debt or it would be much more?

**Rajesh Mandawewala:** No it cannot be much more. As is said at the peak level or couple of 100 Crores in excess of where we are at the end of June so that would be the worst case scenario and as I said the goal is to keep the gross debt level at where we are currently.

**Bhautik Chauhan:** True absolutely and Sir out of the total debt how much would be at your TUF loans?

**Rajesh Mandawewala:** Rs. 1896 Crores is our Total Long term debt and by and large the TUF loans is about Rs. 1500 Crores.

**Bhautik Chauhan:** Thanks and wish you all the best. That it is all from my side.

**Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

- Dikshit Mittal:** Can you provide the breakup of this 21% growth how much this has come from volume growth and how much from price hikes.
- Rajesh Mandawewala:** This I will come back to you offline on this actually I do not have these numbers available with me right now. But dollar realization in the current quarter is about Rs. 61.70 paisa so and that should be in my opinion about 8% or 10% should have come from the dollar but we will come back to you with exact numbers on this.
- Dikshit Mittal:** In your view what is the sustainable kind of growth rate in topline assuming the rupee stabilize at the current level?
- Rajesh Mandawewala:** We are looking at a mid teen kind of this growth rate over the next few years. So which is where we feel comfortable and which is where we are also taking our capacity so in a very calibrated manner we are growing capacities on all our products and so within the teen I would say is where our comfort zone.
- Dikshit Mittal:** Sir mid teen, can you give breakup in how much will be the volume growth Sir in this?
- Rajesh Mandawewala:** When you talk about a constant currency is give or take 2% or 3% bulk of it has to come from volume. So double digit growth in volume.
- Dikshit Mittal:** Sir secondly when backward integration project will get fully commissioned?
- Rajesh Mandawewala:** As I said this whole thing will go up to March of 2016 but half of it will get commissioned let us say about 25% is already commissioned this over the course of the last 12 months another 25% is commissioning this quarter and the rest of it will happen over the next six quarters. So it is gradually this will happen.
- Dikshit Mittal:** Sir any guidance in terms of when will the margin expansion benefit will accrued to us in terms of percentage you said percent of which is potential margin expansion that can happen?
- Rajesh Mandawewala:** As I said this every quarter something is happening so this will positively impact the margins. Having said that this, you see the company is also enjoying the benefit of some government incentives, so which is always a question mark. So as these incentives fade out we also from a futuristic perspective need to take cognizance of that. So all in all we are looking this, we feel comfortable to deliver on a sustainable basis at 21% kind of margin. Assuming this, the short-term Government benefits will go away. We want to factor that into our projections and just make sure that while the margins are currently looking better, it is our duty to inform all of you that there is this 3% odd this tailwind we are getting on the margin, which could actually continue, not continue, continue for a year, two years, three years, now we have been getting this for 20 years ever since we started the business, but at some stage I think the phase out has to happen, so we want to factor that into our future this projection.

- Dikshit Mittal:** Recently you have seen Yuan again started appreciating against the US dollar, so do we see any short-term impact, positive impact on Indian player because of this?
- Rajesh Mandawewala:** Yuan has been appreciating, but it has been appreciating quite slowly. I think the big differentiator is the depreciation of the Indian rupee and the corresponding appreciation of Yuan. So consequently our competition position has significantly improved over the last three to five years and today this sums the table this and say that this apples to apples if you compare a company in China with that in India, I think our costs are today already looking better than China.
- Dikshit Mittal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Aman Sonthalia from Western India. Please go ahead.
- Aman Sonthalia:** Good evening Sir. Sir as the cotton prices are coming down next year, it is went to be low, so whether it will impact our margins or it will not have any impact on our margins?
- Rajesh Mandawewala:** As I have told you, and has I have been mentioning in a few meetings, these are transitional thing, so this over a couple of quarter it is either ways there is a possibility that they would get passed on to the clients, so if the cost increases that gets passed on, if it reduces that also would definitely needs to get passed on, so all in all this impact would be temporary if at all there is any.
- Aman Sonthalia:** When the price negotiation takes place with foreign buyers once in a year or twice in a year?
- Rajesh Mandawewala:** Each business that we win, 80% of that business is replenishment and within this, the average life of a programme is between two and three years, so unless the cost significantly changes there is no reason for us to go back to the clients for price re-negotiation.
- Aman Sonthalia:** What is the percentage of value added product out of this?
- Rajesh Mandawewala:** We would like to call everything value added, but the innovative products are about 20% between 20% and 25% of our overall revenues.
- Aman Sonthalia:** What about the power plant right now? It is running at full capacity or it is running at a nil capacity?
- Rajesh Mandawewala:** Not yet we are at 75% utilization level and we own 68% of the power plant in the Welspun India, so the results are that you see are this will consolidate the power plant into the results. So in the current quarter we had positive EBITDA of about 7 to 8 Crores within the power plant, but at the net level the loss of about 7 Crores, but the July to September quarter our utilization will be about 80% and this we hope to actually achieve a positive profit after tax in the September quarter.



- Aman Sonthalia:** Sir as you have said that the bedsheet plant is running at around 80% capacity or 85% capacity and the carpet is running at around 53% capacity, so when do you expect that these plants will generate peak capacity?
- Rajesh Mandawewala:** This very soon, so see within our business sometimes the clients tend to destock they buy less in a given month or so, but by and large this I am hoping in the next quarter as we discuss to actually hit 90, and which is where our comfort level actually is.
- Aman Sonthalia:** What is the closing inventory as on June 30, 2014 and what are the sundry debtors for you?
- Rajesh Mandawewala:** The closing inventory is about 900 Crores.
- Aman Sonthalia:** This includes cotton also Sir?
- Rajesh Mandawewala:** Yes all put together. Sorry the inventories are 1065 Crores and the trade receivables are about 404 Crores.
- Aman Sonthalia:** One more thing you said something about 3% you are getting over the last 20 years, what is this I could not get you?
- Rajesh Mandawewala:** There are multiple, Government schemes which get announced in the foreign trade policy, so it is not one scheme, so every year there is something come, something changes, something happens, so right now you have two or three schemes in play which gives us cumulative basis say about between 2% and 3% depending on the different products and these schemes are for different product, for different market, so it is not constant, so these are schemes which apply to some products, which apply to some markets, so this in some form or the other this have been getting them this over several years, but considering the comfortable foreign exchange position and the inflows this my personal feeling is that the time has come to face them out and honestly if they have to be faced out, this is the best time to face them out, when there is a good possibility for us to actually go back to the clients and asked for a price improvement if it happens right now.
- Aman Sonthalia:** It will not impact our margin?
- Rajesh Mandawewala:** In the short-term it will, but having said that as I said the 21% margin that we are talking about, so we feel comfortable with or without the government incentive we feel comfortable to deliver that.
- Aman Sonthalia:** At what this dollar rate we are comfortable?
- Rajesh Mandawewala:** Rs.60 is where we are, even if it this appreciates by let say 5%, we should be able to manage that.
- Aman Sonthalia:** Thanks.



- Moderator:** Thank you. The next question is from the line of Riken Gopani from Infina Finance. Please go ahead.
- Riken Gopani:** Congratulations for a great result. First thing is geographically if you could tell me what would be great rate across US, Europe and the newer markets which you are talking about which have opened up, what kind of growth have we seen there?
- Rajesh Mandawewala:** I am afraid I cannot give you these numbers off hand, but if you look at the US market, this last year in the same quarter we were about say 61.7% and this year we are at 60%, so this overall as a total percentage of our business, the US is slightly lesser as compared to last year, so that share has been actually grown in Europe and the other market. So the other markets are actually growing faster for us.
- Riken Gopani:** Any breakup or rather just some color which would not be the larger contributing within the other markets?
- Rajesh Mandawewala:** Europe, it is a fast growing market for us, so that is this right now the fastest growing market and then the Middle East also is growing well. We were virtually not existing in Japan and the Far East so about 2% or 3% of the company's revenue are started coming from the Far East also, so those would be the few significant this improvements that we would have achieved.
- Riken Gopani:** Japan is also a new market where we have started supplying?
- Rajesh Mandawewala:** Yes.
- Riken Gopani:** So what is the opportunity if you could give some color as to why that market is looking up to you right now any reason?
- Rajesh Mandawewala:** Japan this from a consumption standpoint is a second largest market in the world after America. Now Europe as a union is bigger, but if you look at country by country Japan is the second largest consumption in the world and now this India has got a duty free access into Japan because of this bilateral treaty that we as a country have signed with them. Now this opens up the market and the stress between China and Japan, earlier this almost all of Japanese imports were coming from China, now with the stress in the relationship between the two countries, Japanese have started looking outside and so which opens up the door for us to go out and get some market share there.
- Riken Gopani:** So this could be one big opportunity. In terms of product opportunities also is it similar between Terry Towels?
- Rajesh Mandawewala:** Yes, it applies to all the products.
- Riken Gopani:** For the quarter, you have said that there is dollar rupee realization of 61.7 what would it have been for Q4 and Q3 of last year?



**Rajesh Mandawewala:** This I will come back to you with an exact number, but we should have been around the 56, 57 mark.

**Riken Gopani:** Why I am trying to ask is that for the full year you will have this realization benefit given that you would be realizing at 61, 61.5 for this currently?

**Rajesh Mandawewala:** Yes.

**Riken Gopani:** Within the three products you have said you have not given a volume growth, but is there any product where there is some weakness in terms of growth or all of them are delivering better growth last year, in terms of?

**Rajesh Mandawewala:** There is nothing which is weak right now, every product is growing and if at all this capacities are constraint to grow honestly as we speak, so this almost all products are growing and see the younger products are growing faster, rugs is a four to five-year-old business in the company, so that is growing faster, sheet is about seven to eight year so obviously that is growing faster than towel. So towel is 20 years already into the business, it is a fully matured product for us. So the newer product that we are introducing is the ones which are actually growing faster.

**Riken Gopani:** India as a market you said that that is also going to be one of the focus areas this year, what kind of growth have you seen in India this quarter?

**Rajesh Mandawewala:** This quarter we are actually almost 40% year-on-year higher as compared to last year in the domestic market, so as I had suggested this we are focusing attention and this over the next two or three years there will be a sharp impact us that we will provide through let say this marketing through branding, so this really started focusing attention on the domestic market now.

**Riken Gopani:** So India this quarter what percentage of revenue?

**Rajesh Mandawewala:** About roughly 3%.

**Riken Gopani:** Broad point in terms of margin, do these geographies make any big differential in terms of margin?

**Rajesh Mandawewala:** Obviously see this in Europe our margins would be a little less, but having said that because we are selling more innovative products, we overcome the duty, this disadvantage that we have over this Pakistan and Bangladesh by offering let us say this innovative products into the European market. So by and large this all markets I would tend to think would be margin neutral.

**Riken Gopani:** Even India for that matter right?

**Rajesh Mandawewala:** Absolutely.

- Riken Gopani:** Sir one point on the kind of margin benefit that we have seen in the standalone versus the consolidated, standalone seems to have seen a far better improvement in margins versus consolidated any specific reason for that?
- Rajesh Mandawewala:** I am sorry, but to me this is an irrelevant question, so this look at our business on a consolidated basis and because see all subsidiaries are almost 100%, so Welspun USA, Christy, Welspun Retail everything is almost between 98% and 100% own, so it is a matter of eliminations and things like that, so I would encourage you to look at only the consolidated numbers because those really represent the business of the company.
- Riken Gopani:** Thanks a lot Sir. That is it from my side. Thank you.
- Moderator:** Thank you. We will take a followup question from the line of Neeraj Mansingka from Edelweiss Capital. Please go ahead.
- Neeraj Mansingka:** Sir I just wanted to get some color on other new markets actually, though I know you have shared something on Japan FTA, and second related to this only like when was this applicable Japan FTA?
- Rajesh Mandawewala:** It has been more than a year now Neeraj. We started focusing attention last year on the far eastern market, so it takes you a while to actually establish the connections and things like that, so now we have started seeing results come of Japan, Korea and some of the other Far Eastern market, so this in fact intensive efforts have started this happening in the past 12 to 18 months and which is when the FDA had actually happened.
- Neeraj Mansingka:** Any other color on other markets which can be growing fast for you?
- Rajesh Mandawewala:** As of now this Far East, even China for that matter, so China is a market that we have started this business into China. 1% of our revenues has actually come from China which might surprise this many of you, but China started importing product from us, that is the market which is rapidly growing and we are also making inroads particularly through our Christy brand and this also some shipment out of India and then this also let say the middle east thus we are focusing attention so that is now, it is accounting for about 2.5% or 3% of our revenue so this United Arab Emirates and the other Middle Eastern countries are also started growing. So those I would say are the significant areas where this growth is happening.
- Neeraj Mansingka:** Another question on the Christy, can you give some color on the Christy how is the performance for the quarter and what is the plan?
- Rajesh Mandawewala:** Christy is we are about 30 million pounds on an annual basis and we did about 7 million in the first quarter. The brand represents about 22% market share in the UK of all the branded market, so it is a very powerful brand in the UK and slowly now this we have started taking the Christy brand to global markets. China being one example now. We are also going into Middle East with

Christy, into the USA with Christy and also into affluent markets like Singapore and Hong Kong. So this we have started intensifying efforts to Christy global, although see this in terms of dollars it might actually not look very big because the base currently is about 30 million pounds, but the early results that we are seeing are quite encouraging there.

**Neeraj Mansingka:** Any thoughts on how the revenue growth and margins can look for the company?

**Rajesh Mandawewala:** Let us say at PBT level Neeraj, we are almost zero there and which is what it was last year even the current year that is what our estimate is. Having said that, there is a lot of this supplies that happen from our Indian factories into Christy so the margins get made here apart from let us say the services that we are able to provide to our clients in the UK. So today Welspun would be let us say just almost 17% to 18% of the UK market in home textiles because of the Christy acquisition. When we acquired Christy, we were about 2% or 3% of that market, so you have gained significant market share in the UK.

**Neeraj Mansingka:** Thank you.

**Moderator:** Thank you. The next question is from the line of Abhineet Anand from Quant Capital. Please go ahead.

**Abhineet Anand:** Thanks for the opportunity. I just wanted to know after this 3% working capital interest rebate that was there that has gone, what would be our average cost of debt?

**Rajesh Mandawewala:** It is about 8% or thereabouts.

**Abhineet Anand:** Secondly on sales for the quarter was like 21% up and we have still added only 60000 spindles, 170,000 are which our total additions to happen, so during the course of the year can we expect higher sales growth from even these levels?

**Rajesh Mandawewala:** We are constantly adding capacity, so the capital expenditure is not only about vertically integrating, but it is growing our towel capacity from 45000 to 60000 tonnes, our sheet capacity from 50 million to about 72 million over FY'14, FY'15 and FY'16 so this constantly that some product or other some additional capacity is coming on stream and what we are trying to do is actually follow demand rather than create capacity ahead of demand, so as we see demand happening we are growing capacity so this more capacity will become this available on let say this every quarter-on-quarter basis with one product or the other.

**Abhineet Anand:** Secondly on this other income as I got 23 Crores a one-time receipt and in terms of forex gain through the hedges was around 22 Crores what is the same number for full year FY'14?

**Rajesh Mandawewala:** The full year FY'14 actually there was no gain, it was slightly negative. We will come back to you with the exact numbers of the last year. I know for sure that this was a negative number.

- Abhineet Anand:** In terms of margin, we are somewhere around 21% to 22% and you obviously mentioned some of the tailwinds that could happen, but that would not impact the 21% margin sustainability. Given the condition that those things do not happen in near term, can we expect deal it 100 to 200 points expansion given that we are integrating and adding capacity as well?
- Rajesh Mandawewala:** It is entirely possible so I would not rule that out, but do not judge our company's let us say future performance on that basis. This sustainable number as I said is about 21%, so that would be a sustainable margin over several years, so that would be the right indicator to measure the performance of the company.
- Abhineet Anand:** Lastly this when we say 170,000 spindles is that going to be by FY'15 or FY'16?
- Rajesh Mandawewala:** No this by September we will start all of them.
- Abhineet Anand:** From 60 we will move to 170 by September this year?
- Rajesh Mandawewala:** Yes.
- Abhineet Anand:** Thanks a lot.
- Moderator:** Thank you. We are going to take a followup question from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Sir is there any update on this European Union import duty, which was there, there was some kind of negotiation at the government level to remove that?
- Rajesh Mandawewala:** No, nothing is happening so right now this stands still and I do not think there is anything that is going to happen in the next three to four months either.
- Maulik Patel:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Shaurin Shah from Enam Holdings. Please go ahead.
- Shaurin Shah:** What is our current hedge position and at what rate?
- Rajesh Mandawewala:** Good question, I was just wondering why nobody is asking that, so we are say 300 million plus on future hedges at an average of in excess of 64.
- Shaurin Shah:** If I am not wrong our hedging policy is like 60% of 12 month sales right?
- Rajesh Mandawewala:** 50% to 60% of 12-month sales.

- Shaurin Shah:** So that means the Q1 dollar realization was at 61.7, so going forward the dollar realization will increase because we have an average of 64?
- Rajesh Mandawewala:** It all depends on the spot rates Shaurin, if the spot rate is where it is, we should be averaging this current quarter are actually better than the current quarter, but if the rupee appreciates the average might look a little different so it all depends on the spot rate, but yes if the rupee remains where it is right now our average should improve.
- Shaurin Shah:** One more thing Sir, have you taken any price increase in this quarter?
- Rajesh Mandawewala:** No, not really. There is no reason for us to go out asking for a price increase so we have not neither we have reduced prices so they are fairly flat on all the programmes.
- Shaurin Shah:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Aman Sonthalia from Western India. Please go ahead.
- Aman Sonthalia:** Our Rugs and Carpets capacity is running at around 53% capacity I think. So at what capacity slightly you are setting by the year end?
- Rajesh Mandawewala:** See what has happened is we have just added carpets. So the carpet actually happens the capacity came on stream in the March quarter, so it will take us some time to build that business, so it is a long cycle thing, so you will see utilization numbers a little better than what they are in the current quarter, in the future quarters, but as this the carpet business should start generating results only in the next year which meaningful results only in the next year.
- Aman Sonthalia:** Second question is that our other income in this quarter is around Rs.45 Crores which is often non-recurring nature, so in the next quarter which is profitable be impacted because of this?
- Rajesh Mandawewala:** Look, other income is 54 Crores and as I told 22 Crores is coming from this favorable foreign exchange hedging that we had done. 8 Crores is treasury income and this 24 Crores is the only one time income that this may or may not happened in the next quarter, but by and large this assuming the current exchange rates, so the hedges we have favorable hedges which are continuing so if the exchange rate remains where they are currently this we should see some positive this other income in the future also.
- Aman Sonthalia:** We are spending a lot of amount in modernization, so going forward whether it will improve our margin because of this modernization?
- Rajesh Mandawewala:** Yes, it is certainly, because a big part of the modernization is actually going into vertical integration apart from modernizing so it will certainly assist margins going forward in the future. Having said that as I had mentioned that there is also likelihood of the Government incentive, some of them being phased out, so they could actually end up counter balancing each other.

- Aman Sonthalia:** What type of margin you are expecting in this yarn unit?
- Rajesh Mandawewala:** We do not calculate this because we do not sell yarn, so everything is for consumption, so it will contribute virtually 0 to the topline, but it will improve the EBITDA, it will improve these margins of the company.
- Aman Sonthalia:** Thank you.
- Moderator:** Thank you. We are going to take a followup question from the line of Riken Gopani from Infina Finance. Please go ahead.
- Riken Gopani:** This 21% margin that you are saying is taking into account the integration benefit right?
- Rajesh Mandawewala:** It is taking into account the current business plus the integration benefit and minus the government incentives, if I have to clearly define it. So if the incentives stay the margins will be higher and if they do not then still this we are comfortable at this at the current margin level.
- Riken Gopani:** The other point I want to clarify is that given that some of the commissioning has already started on this integration project has any interest and depreciation on that account hit into the P&L?
- Rajesh Mandawewala:** Yes between 20% and 25% is capitalized, so some interest and depreciation has already factored into the results.
- Riken Gopani:** This interest cost right now you would not have started getting the Gujarat benefit?
- Rajesh Mandawewala:** Not yet, we have not even applied for it, because there is a threshold that we have to hit in terms of capital expenditure before we can apply, our estimate is that the benefit will start coming to us only in this quarter starting January 1.
- Riken Gopani:** So to that extent the cost of debt will come down when the benefits starts coming in on the amount that has hit the P&L now.
- Rajesh Mandawewala:** Yes.
- Riken Gopani:** Thanks.
- Moderator:** Thank you. As there are no further questions I would now like to hand the floor to Mr. Nitesh Sharma for closing comments. Thank you.
- Nitesh Sharma:** Sir any closing comments from your side?
- Rajesh Mandawewala:** We covered everything through the question and answers. Thank you so much.





*Welspun India Limited*  
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**Nitesh Sharma:** Thank you very much Sir. Thank you everyone for participating in the call. I would like to thank the management for taking out time and giving us the opportunity to host this. Thank you and have a great evening.

**Moderator:** Thank you Sir. On behalf of Reliance Securities that concludes this conference call. Thanks for joining us you will now disconnect your lines. Thank you.