



“Welspun India Limited
Q3 FY2019 Earnings Conference Call”

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- Moderator:** Ladies and gentlemen good day and welcome to the Welspun India Limited conference call hosted by Equirus Securities Private Limited. Please be advised that this call would last only for 45 minutes. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” 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 Private Limited. Thank you and over to you Mr. Jain!
- Vikas Jain:** Thank you Bharat. Good evening everyone. On behalf of Equirus Securities, I would like to welcome all of you to the 3Q FY2019 Earnings Conference Call for Welspun India. From the company, we have with us the key senior management including Mr. Rajesh Mandawewala, Managing Director, Ms. Dipali Goenka, Joint MD & CEO, Mr. Altaf Jiwani, Director (Finance) & CFO and Mr. Akhil Jindal, Group CFO & Head Strategy I would now like to hand over the call to the management for their comments, post which we will open the floor for the Q&A. Thank you and over to you Sir!
- Altaf Jiwani:** Thank you very much. Good evening ladies and gentlemen. Welcome to this Q3 con call for Welspun India's Performance. In Q3 we have actually achieved a turnover of Rs.1657 Crores, which is a phenomenal growth of 17%. This is a kind of growth rate, it is after a gap of two years. We have adjusted EBITDA of about Rs.289 Crores with 17.4% margin in Q3FY19. So in this quarter as you know currency had played a truant actually. So we had seen a situation where during Q3 currency had depreciated to almost 74.5 and towards the end it appreciated to 69.5. The actual realization for us is Rs.69 per dollar against a quarterly average of Rs.72.
- Now we have been following this foreign currency hedging policy consistently for last 8 to 10 years where we have been hedging 50% to 60% of our receivables on 12 months rolling forward basis. So in this, as we start exhausting the whole hedges, we will see the situation will correct itself in the next financial year when we start realizing the exchange based on the new hedges.
- In the current year, what has happened is the actual impact of the currency has already reflected on the cost, but the effect of that is not reflected in the revenue which will come in the next financial year. Apart from this we had a realignment of debtors. So you know in 30th September it was Rs.72.4 per dollar which appreciated to Rs.69.8 per dollar on 31st December. So all our debtors had to be realigned so that, which is a notional figure which keeps fluctuating a month-to-month, so as we speak today rupee touched 71.8. So it is already now we have actually got gain against that. So this figure will keep fluctuating. If we add back this figure of Rs.38.5 Crores to reported EBITDA of Rs.250 Crores then we will have an EBITDA margin of 17.4%, which is comparable to Q2 EBITDA margin and the YTD reported EBITDA margin is

actually 17.8%. If we adjust for this impact of Rs.16.5 Crores for a nine months' figure then we actually have a margin of 18.2%.

In this quarter we had an exceptional item of about Rs.29 Crores. This is towards a legal fee, which we are incurring for the putative class action suit. Now this quarter has been a very highly time effort intensive as far as our lawyers are concerned in the US and therefore we have seen this kind of cost, which is coming into this quarter.

Going forward we expect this cost to be in the range of Rs.10 Crores to Rs.12 Crores per quarter. Now while this kind of situation it is difficult to put a timeline, but our endeavor is to settle these issues as quickly as possible. In this quarter we also incurred marketing expenses of Rs.21 Crores, which is in line with our strategy to build our own brand and create that tool factory in a market, which reflects 1.3% of overall revenue. So the EBITDA margin which is reported as an impact of 1.3%, the benefit of this is going to be coming in the subsequent years.

We have also seen a substantial traction as far as Wel-Trak is concerned. Now Almost 3% of our revenue is being contributed by Wel-Trak. So we are seeing a huge traction coming in this Wel-Trak programme, which is our patented industry defining solution for traceability. So going forward we expect this will create a huge differentiation for the company as we start getting more and more such programmes where traceability becomes key.

We have also during this quarter, we have started our first experiential zone in Mumbai and that is where we are actually showcasing all our innovative products and I am pleased to inform you that the Hygro, which is a commercially most successful innovation for us. In India it almost contributes now 11% to 12% of our overall revenue. So that is the kind of full factor Hygro has been able to achieve in the domestic market.

We have also launched the "Rangana" product range during this quarter and this was our first product range which had its own heart and soul. So normally we would focus on design and pattern. This is the time when we actually launched our range, which was inspired by Indian artisan and we were pleasantly surprised to see the traction, the velocity which we achieved. Most of the products actually got sold out from the shelf, which is a kind of exemplary launch which we have seen in the recent past.

Also we are almost we are ready with our mass brand product strategy and as we speak, we are actually going through a pilot in couple of cities with this mass brand. This mass brand will actually open up addressable market of almost Rs.6000 Crores. So we have SPACES brand, which is positioned as a premium brand, which addresses about Rs.1500 Crores of market size and the mass brand, which we call it as "Welspun" which will actually address Rs.6000 Crores of market size in India.

On the Welspun flooring side, we are actually hopeful to commission this plant actually one quarter ahead of its schedule. So originally we had planned to commission it during Q3, now we are planning to commission it in Q2 itself. So this in the initial product seed marketing which we have done we have actually seen huge attraction for this particular product, because we believe this is going to be a game changer. So most of us actually keep deferring the decision to replace the tiles and the kind of convenience, which this product actually brings in, can cater to that replacement market, which is sort of right now it is unaddressed in the portfolio.

In terms of borrowings, we are at about Rs.2935 Crores on the core home textile borrowing and there is a borrowing of Welspun Flooring which is about Rs.203 Crores. So from last quarter, we have started reporting borrowings for flooring separately. So on overall net debt basis we are at Rs.3139 Crores as of December 31, 2018 vis-à-vis Rs.3026 Crores in March 2018.

In terms of innovative product portfolio, we launched copper- and charcoal-infused products, which were well received in the US market and the advanced textile actually, we have been approved as a supplier by one of the largest players in the wet wipes. So this is our very significant achievement for the advance textile business.

The actual capex during the nine months has been Rs.563 Crores which includes Welspun flooring capex of Rs. 372 Crores and for a full year we are looking at about Rs.900 Crores of Capex. Having said that we have been always calibrating our capex based on the cash flow available.

With this I would request Mr. Mandawewala to share his views on the quarterly performance.

Rajesh Mandawewala: After this Altaf's financial comments. I will take you through this what we believe is the current market scenario. So things are as usual as far as our key markets are concerned, particularly in the US as you would have seen this, this has been a good topline quarter for us and so things continue to grow for us there and our customers continue to lap up this new products, new innovations that we have been constantly churning out within our portfolio. We are also making good progress with our hospitality business and which continues to expand and this bring us more and more customers over a period. So we are pretty excited and it is opening up. This is now a reasonable channel for us to grow our business.

Europe is a little slow for us for obviously reasons, this Brexit situation occurring. So UK has been very slow for us and in fact we are actually looking at the UK market in a different way now and this depending on how and what consequences happen post Brexit. So this is we are looking at various options, but this things are considerably slow for us in the UK market, but the rest of the world continues to do well and our business continues to grow double digit in rest of the world. India this continues to be our focus market because Altaf mentioned this we have been

increasing now our marketing spend and I am sure some of you must have seen our advertising campaign both on the television as well as radios, some outdoor stuff that we have been doing and in fact we have also started now this building a distribution network for the floorings business. So we have beginning to bring some imported products and started test marketing those products. So we participated in some of the trade shows including Acetech for our flooring products as well and what we see and the response that we are getting is encouraging us and this hopefully as we get into production sometime in the Q2 of the next financial year, this we feel very hopeful that this should turn out to be a good business for us. One more thing on the financial side and which is our exposure to be NBFC treasury, so this we do not have much investment, so overall this our exposure to all total corporate bonds is about Rs.25 Crores and not all of this 25 Crores is with the NBFCs. So whatever provisions that we had to make we have already made anything which is visible on mark-to-market so actually we are not too impacted here, this on account of any of our treasury operations. Also just coming back to the business on the ecommerce side so this I think we are making good progress with the likes of Amazon and some of our other market place customers and so also our main brick and mortar customers who continue to grow their online business. So with their business, our business continues to grow and we are sufficiently focused on e-commerce let us say this as a platform now all put together including our sites, market places, our customer sites, is close to between 4% and 5% of our revenue. So it is coming alone pretty fine and there is a huge amount of focus as a company that this we are emphasizing this on this channel and we are building good teams.. This is taking shape in our US business and also I think this is sufficiently focused in the Indian market which continues to remain a focus area for us. We are very enthused with the way Wel-Trak is growing with our customers and more importantly let us say this while it is 3% of our business. All this has come in the recent past and it clearly demonstrates that there is respect for what we have done as a company with reference to traceability. So it is being considered by our customers as a breakthrough technology by providing them the desired comfort in terms of traceability and where the product is coming from. The cost which had gone up in terms of cotton prices and the higher oil prices consequently our fuel prices, dyes and chemical prices so those have started correcting. So cotton has corrected, dyes and chemicals have corrected, also fuel prices have started to correct. So there is a little bit of negative impact on the margin that we have had on account of these commodity prices, hopefully as we get into the next year this we should be able to recover and to attain a 19%, 20% kind of a EBITDA margin, we are down to about this 17.5%, 18%, but we believe that our costs have been aligned to the new exchange rate already whereas our realizations are based on our historical hedges. So our hedges are still at around 67, 67.5 levels, but the good thing is that all the old low price hedges in terms of dollars would exhaust themselves by the end of this Jan to March quarter. So we will enter the next year, let us say this with a reasonable exchange rate and so which means that it should just give a positive kick to our margins as we get into the next financial year. Our core business is impact I think this our margin is we believe is intact and as we get past these old hedges I think we will witness this margins returning to our business and also as I mentioned that the short-term cost increases

which happened over the last couple of quarters. So they have started receding so some kicker to margins will also come from the improved cost, while the cotton looks pretty stable. It is currently traded at less than Rs.43000 a candy and we believe that is where this is likely to stay and this we continue to cover our cotton and as we speak, this we are almost 50% done with our this cotton coverage for the current season so all in all this we believe that our business continues to stay, this continues to perform as per our expectations which we are mindful that our margins have been already disappointing but as I said there is a big part of that is actually coming from the exchange hedges that we have made and we believe that those margins will come back as we get into the 70s in terms of average exchange realization and that will happen let us say this from the Q1 itself for the next financial year. So with that just one last thing on this we have had some investor friends asking us about incentives. So this we suggest we are through our associations very actively pursuing, there is some of unrebated taxes which are not getting refunded to the industry. I think the government is sympathetic so I think we are able to get past the logic that taxes should not get exported out of the country so very hectic work is happening through several textile associations and we believe that net-net, I think there is potential for these drawbacks and export benefits to actually grow up on a net-net basis. So we are hopefully that this incentive should actually improve going forward to some extent.

Altaf briefed you about the flooring business. So we are very excited about that business and the construction of the factory is coming along very nicely and so we should be in business between July and September of 2019 and as I mentioned so we are building our sales and distribution network. We are making our presence felt by participating in associations and all business development activities are already started. We have started to import some products so that we could actually build up the distribution network. So this by the time our production begins we are hopeful that we will have a decently penetrated sales and distribution network in India to market and the intent is also to export some of the products this upfront and so this work happening let us say to build customer relationships on the export front as well.

Also work is happening on the marketing side. So this is a B2C foray for us for the domestic market and some very exciting work is happening on the branding side as well communication side as well. So this hopefully let us say that October quarter should see some aggressive communication coming from our side for the flooring business as well.

So with this I will leave this floor open to questions and we will be happy to answer questions that you have.

Moderator:

Thank you. We will now begin the question and answer session. The first question is from the line of Nihal Jham from Edelweiss Financial Services Limited. Please go ahead.

Nihal Jham: My first question was on the growth as Altaf Sir pointed out this has been in the highest quarterly growth in the last two years. So just wanted to understand that the growth improvement that we have been seeing over the last one, two quarters specially in terms of volumes could it be attributive to say higher procurement because of the issues that were happening in China or is it more company specific in relation to some of the new innovations or products that we have launched? Just wanted your comments on that.

Rajesh Mandawewala: Hi Nihal, Rajesh here, so first of all you should take this growth with the word of caution. So I would encourage you to look at the nine-month numbers and not only this quarter number which have been very handsome. So this as we have been talking about our comfort zone is around double digit growth level and which is where we see our business were growing going forward as well, so having said that at this most of our categories have not been impacted in this tariff war that is going on between China and US. So none of our products has been caught into crossfire except the bath rugs and which is let us say 7%, 8% of our business.

So in fact there is nothing that we have benefited out of the tariff. So there was some sizzle as the whole thing was newer a quarter back, but I think these all died down now with the settlement discussions happening. So we are not seeing anything substantial. So for the current quarter the results are on the back of the regular business that we do. So there is no China factor playing out here. One area for where we are seeing some activity though is the fashion bedding, basic bedding business. So there I think the level of activity is a little higher and so although it is not still translated into business for us, but we are certainly seeing more customer interest in that area of business, but otherwise for the December quarter there is absolutely zero impact of the tariffs on the business.

So all in all this if this business as usual for us and this whatever this our growth has been for the first nine months hopefully that is what we expect that all you guys should expect this going forward also on an annual basis.

Nihal Jham: So would fashion and hospitality as you mentioned these two segments are significantly added to the growth for this quarter and nine months have still been decent at 10%?

Rajesh Mandawewala: No, so fashion in fact this as I said this while we are seeing more activity in terms of discussions and all but actually this not much business has happened so it has been a very insignificant this part also in the first nine month and also this in the Q3 and bath rugs is let us say is growing double digits for us as it has been growing in the previous years as well. So this will continue to grow around double digit mark in bath rugs and carpets as well.

Nihal Jham: Sir the second question was on this Rs.29 Crores exceptional cost that we have taken on the legal fees. Now in FY2017 we have provisioned Rs.500 Crores which was for returns as well as the

lot of other items and I am guessing we have run out of that, but since then we have not ever seen that bigger hit taken on the legal fees for the last six quarters or a year and a half, so is it that this happens whenever there is a hearing which comes along and as you mentioned a figure of Rs.10 Crores to Rs.12 Crores that is a figure every quarter that is going to accrue going forward just wanted more details on this?

Rajesh Mandawewala: First thing, you never saw the direct hit on the P&L because there were some provisions that we had made within the Rs.500 Crores that we had provided. So once we ran out of the provisions the expenses started hitting the P&L. Having said that I think that the big flurry of legal activity is behind us now. so I think this Rs.10 Crores kind of a guidance is a reasonable guidance now for going forward in the future. As Altaf mentioned from our side we are desirous of bringing this to an expeditious end, and it is obvious that we will continue to make efforts in that direction.

Nihal Jham: This Rs.10 Crores is every quarter.

Rajesh Mandawewala: Yes, this is on a quarterly basis, but I would suspect this is a reasonable estimate and so you should not see this Q3 kind of numbers going forward in the future.

Nihal Jham: Fair enough Sir. I will get back in the queue for further questions. Thank you.

Moderator: Thank you. The next question is from the line of Kaustav Bubna from Rare Enterprises. Please go ahead.

Kaustav Bubna: Just wanted to get some view from you. On this marketing expense which was around Rs.11 Crores this quarter. So is this mainly in the domestic business with Spaces and the mass brand that you have know catering to or does this also includes the flooring business?

Rajesh Mandawewala: So first thing is it is not Rs.11 Crores, it is Rs.21 Crores and most of it I would say this in excess of 80%, 85% is for the domestic business and a part of it is also for the flooring business so we did participate in all the four Acetech's exhibitions and this and there were also collateral marketing spend, more than half of it actually went for the Spaces and the Welspun Brand on our core home textile products.

Kaustav Bubna: As we get closer to the initiation of the flooring capacity and to obviously step the word and then the product there will also be a lot of marketing advertising cost when it comes to the flooring business and this I am assuming this is with the beginning of the marketing cost for the domestic business we have to scale this business also. Could you give us some guidance on FY2020 marketing expenditure for this company?

Rajesh Mandawewala: We will be happy to give you the guidance Kaustav we are working on the plan and so the next quarter the earnings call is we will give you more specifics, but you are generally right, so the domestic market is a focus market for us and we want to get this more and more visible more and more aggressive but at the same time we do not want to blow money with the web so where it is not required. So we have been following a very calibrated way of increasing our marketing spend which has been going on for the last year and a half two years now and very gradually this we are increasing the spend as we see success in various modes of communication. So all I can say is that yes you are right and will continue to grow and we will come back to you with more specifics as we freeze with our annual budgets for the coming year.

Kaustav Bubna: But could it be around Rs.100 Crores for FY2020?

Rajesh Mandawewala: It should be, so that should be the lower end of the estimate so this yes we will be in three digits in the next year for sure.

Kaustav Bubna: Also I have spoken to a few suppliers, cotton suppliers even some to Welspun I do not want to take names, but they are of the view that in 2019 cotton prices are going to see a massive surge in price. Now I did not understand in detail from then the reason for this but they were mentioning supply issue. So this is in variants to what you are saying. So I just wanted to get your view on what these multiple cotton suppliers are saying about cotton prices going ahead?

Rajesh Mandawewala: View is a view and we respect every body's views and maybe this we have an angle there, but what we see is enough supply of cotton worldwide. We have had a decent crop here in India as well and right from the beginning of this season prices have been around these 43 levels and also I do not think there is any premium that is reflected in the future cotton prices as well on New York. So today you can hedge your cotton futures, if you see prices going up. So there is no bullishness which is reflected by the futures market as well, in fact prices are actually a little down. So last year at peak they had gone up to 46000, 48000 a candy so they are down to about 43000, 43500 now so in fact cotton prices have come down and none of the future markets is reflecting very bullishness on cotton.

Kaustav Bubna: And so your interest cost is sequentially gone up is this mainly because of the flooring capacity only from Rs.34 Crores to Rs.40 Crores.

Rajesh Mandawewala: Kaustav this has gone up because of the working capital blockage which has been there, so our term loan interest has remained same. In fact the interest cost related to flooring is actually getting capitalized. It is the working capital blockage which has actually resulting into higher interest cost and secondly the volume which has gone up compared to last year actually volumes are higher, so if you see as percentage to revenue for compared to last year we are in line with that. Kaustav third reason was the interest rate for example commercial paper rates had gone up

actually in Q3 this year compared to Q2 in the same year. So these are the three factors which have actually affected the interest.

Kaustav Bubna: But how do we address this working capital blockage issue?

Rajesh Mandawewala: Yes, So there are these government receivables which are blocked so we are working on that and we are hopeful to realize substantial portion of that in the next couple of quarters.

Kaustav Bubna: Pretty high I mean this increased sequentially and what is the rate the after subsidy the rate the interest rate will be same on our borrowings taking for the flooring business?

Rajesh Mandawewala: The flooring business are the long-term borrowings should cost us this net of what will come back to us should be about 2% or thereabouts and even in the existing our textile business by and large, our long-term debt is around it is about 1.4%, 1.5% on the long-term borrowings.

Kaustav Bubna: And just last question who are we targeting exactly for this flooring business because depending on that we will have a different structure of cost if we are looking at going to hotels etc., who already have corporate floorings and we had different cost structure but we are looking at replacing as I had pointed out if you are looking at the facing the tile market which is very steep task which is the name that the references are not indicated to our product then we will have a different type of expenditure scenario. So who are we actually catering to and what is our plan over there?

Rajesh Mandawewala: A good question Kaustav so all in all with the various products that we will begin to produce this in our plant. Our intent is to go in for this commercial sector which means offices so through carpet tiles. This we will get in to the commercial side of the business.. A big part of consumption is residential market which we cannot afford to stay away from. Thus for this category we have specific products. And also for hospitality we have wall-to-wall carpets. So actually there are three different products which will get made within this facility. So they will cater to three different areas of course there will be cross-selling of products in the various sectors as well, but this by and large our goal is to actually just put a floor on every building that gets made and...

Kaustav Bubna: And how are you connecting to architect because we do not have this distribution, we are not experienced with this form of distribution. Currently we are not catering to this business. We are entering a full new business vertical. So when you understand this building material space there is a lot of discretionary decision on the architect. So how are we...?

Rajesh Mandawewala: You are absolutely right so this is influencer marketing and so there are ways to do it and the first starting point is to build an effective distribution and business development network and also honestly we have started putting the right people in place who have done stuff like this and

influencer marketing within their career. So we are putting together a right set of people and so as we speak we are already on way by not waiting for the production to start. We are getting into that activity through various conferences, one on one meetings, through Acetech. All this business development activity with the architects and the influencers in fact already is a work in process. There are several people on the ground who are constantly building those relationships so while we have a challenge ahead of us but as I said the response that we are getting just a sheer technology in the product and the ease that it is bringing, so whatever we are hearing from the influencers is positive and that is encouraging us that we should see definite success in the business.

Kaustav Bubna: Great, thanks. That is it, Sir.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: I would like to understand your foreign exchange loss this quarter that you have reported of Rs.38 Crores. So we saw an appreciation of around Rs.3 on a closing basis in this quarter whereas in the past few quarters we have seen much higher depreciation. So whereas we have seen loss of very huge quantum and we did not see that kind of gain in the previous quarters. So I just wanted to understand what is actually affecting this gain and loss to a very large extent?

Altaf Jiwani: See last quarter the currency fluctuation has been very unprecedented actually. So we have never seen in one quarter where currency moving from 74.5 to 69.5. So this in our case what happened is we had to revalue all the debtors at the terminal rate. So on 31st December we have revalued our entire debtors at Rs.69.78 that has resulted into Rs.38.5 Crores of loss so what happens is it is during the month suppose currencies at 71, 72 and then the same debtors which you need to revalue on the terminal rate that results in to this kind of this is a notional loss it is not the actual loss. So as I mentioned actually every month I had to keep revaluing my debtors at the terminal rate. So while realization will happen say over a period of 60 days which will be at the prevailing exchange rate at that point of time, which will be really coming and hitting my P&L but I need to revalue my debtors at the terminal rate. So this is what the Rs.38.5 Crores has come in and also see the hedges were made last year in line with the company's foreign exchange hedging policy so the hedges were at the 66, 67 level so it is obvious that as you go out and start using those hedges it is going to impact with your realization and consequent margins.

Prerna Jhunjhunwala: But I thought that maybe in Q2 we should have got much more gain then because the Q2 ending value was Rs.72 and if we had 72.5 and if we had hedges at around 67 odd number then the gain should have been also higher in the last quarter?

Rajesh Mandawewala: See Prerna if you look at nine months so that all these put together lands up at 16 Crores on mar-to-market, but our average realization has been on an average at 68 whereas the spot was averaging at around 71, 72 so we should fundamentally have realized about Rs.3 or thereabout less on account of foreign exchange because of the hedges so that is the underlying thing and this if you cancel, if you take the quarter-on-quarter thing out and this just neutralize the foreign exchange then we have our margins on a nine month basis are also at about 18% or so. So by and large because of the difference in the exchange rates on a month-end basis sometimes this one quarter is plus the other one is minus but if you look at nine months these are the numbers that will be happy to explain this to you in more details with this you could just get in touch with Harish.

Prerna Jhunjunwala: Sir second thing that I wanted to understand now from the market perspective we have seen 17% growth in top line which is largely led by volume which is fantastic. Just wanted to understand what kind of capacity utilizations we are in so that for future we can understand what kind of growth can happen and also if there is any kind of interest panning out in the current product categories like towels and bed sheets or if you have any stress points there.

Rajesh Mandawewala: See first of all as I mentioned this I do not think we should get carried away with the 17% growth in this one quarter so for the year we are at around that 9%, 10% or thereabout which is a more realistic growth rate when you look at the future and as we have mentioned, so this we have sufficient capacities now to continue to grow our business around the double digit mark for the next two or three years without making any substantial capital expenditure. So there is room for us to grow without adding any capex so in the next two or three years a double digit so this gets where our utilizations are. We will come back with specific numbers at the end of the year the utilization and all that we give out those numbers at the end of the year, but we are in the 80s, this high 70s early 80s in terms of utilization so that leaves about very easily let us say this growth for the next couple of years at least if not three.

Prerna Jhunjunwala: So existing product categories can also grow at double digit and over and above the addition of flooring capex can give you a decent growth over the next two to three years is what we should look at?

Rajesh Mandawewala: Yes, that is what we are hoping for.

Prerna Jhunjunwala: And any stress point Sir opportunities in the current category that you are looking at because of macro changes maybe US, China trade war intensifying or settling for any currency depreciation happening in other countries and stuff.

Rajesh Mandawewala: Look, no volatility is good volatility. We are better off in a stable world but this thankfully it is still not impacting our business either positively or negatively so which is why as I said this we

had a fabulous quarter in terms of topline and hopefully this it should continue. So if you really look at the underlying business both in towels and sheets. So India's market share is by and large intact so see we do about 40% of US imports in towels and about 50% on sheets and that has created impact over the last two, three years and we see no reason for that to change and within that now the business is continuing to consolidate in terms of suppliers, so our customers want less complexity in their sourcing supply chain. So they continue to consolidate their supplier base and which benefits companies like us this with this very where we work very, very closely with our plan. So it actually works in our favor and so that is how it is, so coming back to your questions and we are pretty comfortable with where we are and right now this our business is not disturbed with the macro events and hopefully it should not in the future as well.

Prerna Jhunjhunwala: Thank you Sir this clarifies lot of questions. Thank you so much.

Moderator: Thank you. The next question is from the line of Sanket Baheti from GeeCee Investment Management. Please go ahead.

Sanket Baheti: I have a couple of questions. Sir in Q4, what has been the volume growth trend you have seen till date?

Rajesh Mandawewala: Q3 is what you mean?

Sanket Baheti: Q4, what has been the trend because if you see the Q3 if the double digit growth that has continued so partly it is because of the base impact which was subdued last year. So till date what has been the trend in the Q4?

Rajesh Mandawewala: See I will tell you this you look at an annual growth number and we should be this one quarter to the other can be different based and also here one quarter in a given year can be different from the other. So quarter is not a long in a period for us to just make this analytical conclusion. So I would suggest we look at the annual period when we look at growth and which is around 9%, 10% mark that we are currently doing so. So this annual is a much more representative period than a quarter is.

Sanket Baheti: And Sir for next financial year for FY2020 what kind of volume and value growth in the topline we are expecting and margin guidance for the next year?

Rajesh Mandawewala: Allow us one more quarter yes this year in our budgeting exercise currently and we will come back to you with the guidance for the next year in the next quarter results this call but as I said this business is a usual for us so there is nothing substantially changing so this we should hopefully this continue to grow the business like we have been doing this in the current year and also hopefully restore margins that we have lost in the current year, when we look at FY2020.

- Sanket Baheti:** Okay Sir, that is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Sagar Parekh from Deep Finance Private Limited. Please go ahead.
- Sagar Parekh:** Sir firstly could you give us nine months geography wise split how much did US grow by Europe, US and India?
- Rajesh Mandawewala:** US have grown almost similar to the overall growth whereas other geographies in fact Europe was marginally down actually and so this growth has been predominantly led by the US market.
- Sagar Parekh:** And India would have grown by how much?
- Rajesh Mandawewala:** India actually growth, we have seen a huge traction visibility in terms of the front end but there were some backend challenges and therefore the growth was muted but those have been removed and we expect two, three years about 20% growth going forward.
- Sagar Parekh:** So FY2020 can we see the 20% growth, but nine months FY2019 was flattish?
- Rajesh Mandawewala:** See first half was very good it is in the Q3 we had some challenges on the backend constraints which have been removed so we should see Q4 back to 20% plus.
- Sagar Parekh:** And Sir secondly on the gross margin front cotton prices have been going down since October, still we have not seen in fact Y-o-Y and Q-o-Q both we have seen deterioration in gross margins. So how do we look into this because cotton prices have been lower since last two three months and since the start of the season?
- Rajesh Mandawewala:** See if you look at our inventory see by the time the new cotton comes and it starts impacting cost so it is normally a three-, four-month process so you will see improvements coming in this as we go forward in the year and by and large you will see the impact in the next financial year because as I said it also gets impacted because of the exchange rate that we realize so if you are realizing let us say just 4%, 5% less so this your gross margins to that extent will look to that extent lower so this as the exchange rates normalize this the margins will automatically start looking better.
- Sagar Parekh:** So even power cost was actually in Q3 everything had started to come down so that also we can start from Q4 onwards we should see...?
- Rajesh Mandawewala:** Yes power cost should definitely start looking better so this because that impact this will start showing in the next quarter.
- Sagar Parekh:** Sir on your advanced textile division how big is the division currently in terms of revenues?

- Altaf Jiwani:** We have current rate I think is about Rs.200 Crores but this year, we will be profitable at the PAT level and while it is not a very large profit but this will be a profitable year for us.
- Sagar Parekh:** So with this new client addition the big one that we got how big can this Rs.200 Crores go to next year or maybe...
- Rajesh Mandawewala:** So with the current investments that we have this we could go to Rs.300 Crores and without this putting in anymore capex so there is fair bit of growth still left there and now there are two or three different parts to our business so with a couple of them, we have settled down so we know exactly what we want to do and how are those businesses headed so this we are hopeful that this we should be able to bridge this 200 to 300 gap very quickly now.
- Sagar Parekh:** So that is it, it cannot go above more than Rs.300 Crores?
- Rajesh Mandawewala:** Not without making some additions on balancing equipment and so on and so forth, but right now we are at, as Altaf said we are at 200 so to get up to 300 this we do not need any investments and just we do not need anything honestly.
- Sagar Parekh:** And any update on the Target front can we, we were expecting the resolution to happen by March.
- Rajesh Mandawewala:** Even we are expecting so it continues to be about in process and not that there is any effort lacking from our side but it is a process so I guess this will have to go through it but we are as desirous as anybody else to get past this as quickly as possible.
- Sagar Parekh:** But FY2020 we can see some kind of... are you expecting some kind of revenues coming in through target or we were still...?
- Rajesh Mandawewala:** See still so we need to put this issue to bed. We will have to wait for this issue to disappear before this we can make a realistic discussion around that.
- Sagar Parekh:** And on your flooring solution part what kind of losses can we expect in FY2020 because...?
- Rajesh Mandawewala:** We are currently in the budgeting exercise and so this we will share more with you this as we get on the next call with you.
- Sagar Parekh:** But on a full year on a peak turnover basis we can still see margins and ROCs similar to our base business?
- Rajesh Mandawewala:** On a peak turnover basis we expect very handsome margins but it will take a few years maybe three years for us to realize the potential of the business so the basic thing that gives us comfort is

that as we are bringing imported product in so the assumptions on our business plan in terms of selling price and all are getting materialized. It is showing us that the business should be a decent business for us going forward and it is about how quickly it can be accelerated in terms of sales. Then it will perhaps determine how quickly we should start seeing profits and margin. So end of the day the faster you get your operating leverage, the higher the margins will become. So your utilization levels have to come up to a significant level, this potential has to be realized. So it is about how quickly can we scale up the business in terms of sales.

Sagar Parekh: It would be largely B2C driven right so then your...?

Rajesh Mandawewala: It will be a little bit of both, it will be B2C. The offices that we will sell to the hotels that we will sell to will be B2B and there will be a lot of export business also that we intend doing so it will be a mix of both.

Sagar Parekh: Okay. That is it from my side all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to the management for closing comments.

Rajesh Mandawewala: Thank you everybody and if you have any more questions please get in touch with Harish will be happy to answer all your questions and see you soon in the next quarter. Thank you.

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