



“Welspun India Limited
Q2 FY2020 Earnings Conference Call

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Moderator: Good day ladies and gentlemen and a very warm welcome to the Welspun India Limited Q2 FY2020 Earnings Conference Call hosted by Equirus Securities Private Limited. 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. Thank you and over to you Sir!

Vikas Jain: Thank you. Good evening everyone. On behalf of Equirus Securities, I would like to welcome all of you to the Q2 FY2020 Earnings Conference Call for Welspun India.

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

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

Altaf Jiwani: Thank you Vikas. Good evening ladies and gentlemen. Many thanks for joining on this call for Q2 Welspun India’s concall.

For Q2 we have done EBITDA of about Rs.403 Crores, which is 22% EBITDA margin, which is one of the highest in the recent past. In terms of revenue we are muted. Revenue we have done Rs.1837 Crores of total income. The growth is about 2.2%. This had a favorable exchange rate impact of 7.2% so exchange rate was 73.56 compared to 68.25 in the same quarter last year. Our strategy of focusing on emerging business continues to start to deliver results on that so retail, flooring and advanced textile all three put together have actually continued to grow at 30% plus year-on-year and we have seen about 1.8% of overall growth being contributed from these emerging businesses. Emerging businesses were about 6% last year, now in Q2, they have contributed 8% of overall revenue and we expect that in the next three to three-and-a-half years, the emerging businesses will start contributing almost 30% of overall revenue. The core business will continue to grow at mid single digit. The growth in revenue will actually come from emerging businesses.

In terms of operating income, we had seen about 3% impact on the EBITDA because of the increase in the RoSTCL rate compared to last year same quarter. In terms of unit value realization there is a mix impact of 1.5% adverse and there is volume impact of about 8% adverse, so overall revenue is up about 2.2% compared to same quarter last year.

In terms of domestic business some of the highlights have been our Rangana range, which we had launched again this time festival season. That has grown at about 74% compared to the same period last year, so we introduced three more new art forms during this quarter, which are Kantha, Vallam and Gulrana. We have retained the earlier three art forms so total six art forms we have added now and Rangana range continues to be one of the products, which is selling like hot cakes, so we had

seen almost three times turn in 45 days which is a kind of record in this category. Also the association of Mr. Amitabh Bachchan with Welspun brand actually has catapulted us into a completely different league, so Welspun brand products are now available in about 40 cities and about 2000 outlets where it is available now. Domestic market we continue to see traction and we expect this to actually gain momentum further in the coming quarters.

In terms of EBITDA, we have started disclosing now from this quarter the segmental reporting so for home textile and flooring we are reporting separately. So if we actually see home textile EBITDA is actually 23% compared to 18% in the same quarter last year. There is 1% impact of the flooring on the overall EBITDA and therefore we have an EBITDA of 22%, but as the flooring revenue pickups we will see kind of a change in the EBITDA margin for flooring as well. Flooring business we have actually commissioned in this quarter so on September 13, 2019 we have capitalized about Rs.810 Crores of total capex and this is actually in modular form so as the sales ramp up we will calibrate our capex further. So the total investments, which we had earlier announced we hope to utilize that in the coming quarters.

In terms of other expenses there is a substantial reduction because there has been a reduction in the job work during this quarter compared to last year and there were certain expenses, which are volume linked expenses, which are also clubbed along with the other expenses, so that has resulted in to drop in other expenses. This quarter actually we have prepaid about Rs.284 Crores of high cost debt, which is about 9.8% because we have come to end of our capex cycle so all the cash flow, which is getting generated from the core business will be utilized for dividend payout as well as prepayment of some of the high cost debt. The interest cost has actually come down compared to same quarter last year. One is the debt repayment plus in WCPGL, which is one of the subsidiary that also has become now zero debt company for us. In terms of net debt to equity we are now below 1x. We are at 0.92x. Ratios we have now return on capital employed is 16% and return on equity is about 24% so we are seeing a substantial improvement in the ratios as well now. In terms of net debt for the core business, which is home textile we are down to about Rs.2269 Crores compared to Rs.2741 Crores in March 31, 2019. So there is a substantial reduction in the core business borrowings. If we add the flooring borrowing, which is about Rs.528 Crores we are at a level of Rs.2798 Crores of net debt compared to Rs.3028 Crores as of March 2019.

The target for becoming a zero debt company by March 2023 is on track and every opportunity we will be able to utilize these cash flows to bring down our borrowing level. In terms of the guidance for the current year actually while we are maintaining the guidance for EBITDA margin, which was 19% to 21% and the capex guidance of Rs.600 Crores as well as the borrowing net debt guidance of Rs.2700 Crores the topline guidance we would like to revise it to higher single digit compared to double digit, which we had announced earlier, so looking at the growth rates in all the markets and in all the economies, which are actually slowing down we are actually revising our guidance to about higher single digit for the full year. With this, I would like to keep this floor open for question and answers. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Thank you so much and good evening to the entire management. Sir my first question was on the volume growth and the core business that you mentioned if I remember last quarter we did around 3.5% and FY2019 also I think the growth was around 4% kind of a number so just wanted to understand that why is it that we have seen such a sharp decline in this quarter in our volume growth and even when I look at the industry data at least OTEXA data, I see that India's volume of market share is more or less flat, so if you could just throw more light on that?

Rajesh Mandawewala: Nihal this is just a reflection of let us say what is happening in the key markets out there. Let us say this half year basis we are just about 3% odd down on the volumes and so it is just a reflection of what is happening out there, so there is a little bit of cautiousness. Having said that as far as we are concerned so there are some events couple of our large customers postponing some of the promotional programs that they have been doing, this impacted to some extent the volumes in the current quarter, but having said that we see some level of cautiousness on the part of our key customers, which we are trying to address through the other channel, for example our hospitality channel is doing exceedingly well, where our business is continuously growing and we are also looking good for this consistent growth in that side. We have put together a very strong team on the e-commerce side now, which has become at least double digit 10% to 12% of the overall consumption in our categories now so this we are reinvigorating that side of the business and also focusing attention on newer products like fashion bedding, with that this will try and mitigate some of the challenges that we see on the volume, but by and large I think the back half of the year is going to reflect this what we have seen in the first half in terms of the topline and volume, which to some extent we will try and cover up with our emerging businesses of flooring and the Welspun and spaces brand in the domestic market and also our advanced textile business.

Nihal Jham: Thank you so much Rajesh. Just one clarification on that as I was just checking the industry data is showing flat kind of growth so is that any specific issues to one of the customer that we were primarily serving that has led to this?

Rajesh Mandawewala: Yes. The overall there is not much downside pressure as I said there are promotions, which some of our customers in fact all our customers carry out throughout the year. So from a timing perspective some of the promotions have been pushed out, which consequently you see this kind of impact in this quarter, so this fundamentally nothing changed for this. All businesses and all programs that we have retained those programs, so it is just a matter of timing in terms of promotion, so what promotion means is that where our customer get a little aggressive and just cut down and reduce the retail prices, which triggers higher volumes in that period. Some of those have been postponed, which consequently led to the volume situation in Q2.

Nihal Jham: Sir but in H2 you do not think the volume growth could pickup, say similar to the H1 kind that you are seeing at?

Rajesh Mandawewala: H2 will by and large reflect what we have seen in H1 over a six month period and on quarter-on-quarter things can vary a little bit, but on a half year basis we believe the business in H2 should look like what it has looked in H1.

Nihal Jham: Fair enough. Just one last question now that the flooring business has commenced this quarter and you have set up a distribution network so just some more feedback on are we on track to do around Rs.200 Crores of revenues that we are looking at this year and what would be our target for the coming year?

Rajesh Mandawewala: The network is being established as we speak. We have appointed 42 distributors plus 14 on the commercial side and we have 450 dealers, but these have just been on boarded over the past few months and even our own network is getting established in terms of field force and everything and two is the plant has just commissioned and there is a huge product development, sampling exercise and catalog being exercised that will have to be carried out and we believe this whole of October to December quarter will actually get consumed getting passed that, so our current estimate is to do about Rs.100 Crores of revenue in the current year. Having said that none of the underlying assumptions are changing so this we believe the business is strong and so what we have tested out is pricing and whatever our pricing strategy I think has been accepted in the market place so it is just making A) getting ready at the plant with the entire collection, which is a very time consuming exercise and then getting the entire distribution network to fire. Also from a marketing perspective our first launch is likely to happen in the next week or 10 days so we are actually soft launching the brand with Amitabh Bachchan as a brand ambassador so we want to soft launch this in a couple of cities, which will be Bengaluru and Hyderabad over the next week or 10 days and based on the learnings from there launch it over a few more cities in the current quarter and then may be just go for South India launch, which also should provide us some impetus, but before that I think we need to just fix some glitches and just make our current distribution network a little more robust and a little more oiled and also from our customer service perspective it will take two or three more months to settle down, which is when we want to actually go out and promote the brand just aggressively through a national campaign.

Nihal Jham: Sir last question and on the export side does any resolution of the US and China dispute reduce our potential market for the flooring business?

Rajesh Mandawewala: Not really so we are engaged with almost most of the large players in the US markets with some just we are hoping to sign up long term agreement over the next quarter or two. We do not believe that anything substantial should turn although I must say that it has actually accelerated our business discussions with some of our clients particularly on the vinyl flooring side, so it has accelerated those conversations, but what we are talking about now is long term this two, three, four and five year deals kind of contracts with the client, so once we sign up with them this will be decisive and long term, this kind of contract with some kind of predictability.

Nihal Jham: Fair enough. Thank you so much. I will get back in the queue.

- Moderator:** Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.
- Nisarg Vakharia:** Good evening everyone. If I heard it correctly Sir you said that YoY there is a positive currency impact of 7%, is there a volume degrowth YoY?
- Altaf Jiwani:** Yes. That is 8% degrowth is there.
- Nisarg Vakharia:** 8% degrowth volume YoY?
- Altaf Jiwani:** Yes.
- Nisarg Vakharia:** You also mentioned that there is a 100 business point impact in the EBITDA margins because of flooring being commissioned, if this is the maximum impact that we can expect in the EBITDA or do you think that this impact can be slightly higher going forward?
- Altaf Jiwani:** It could be a couple of points and that is on account of higher marketing spends that we are likely to incur over the next few quarters.
- Nisarg Vakharia:** Sir going forward to next year what sort of domestic and international revenue do you expect in the flooring segment?
- Rajesh Mandawewala:** We will be in a much better situation to answer that perhaps towards the end of this accounting year March to April, but having said that as I said the product seems to have been well accepted in the market. The pricing is kind of established at least in the channel we have been able to establish the pricing so all things okay we should be looking at doing about Rs.250 Crores to Rs.300 Crores if not more in the next financial year FY2021 out of our flooring business.
- Nisarg Vakharia:** That will be purely domestic or mix?
- Rajesh Mandawewala:** Mix of both domestic as well as international business. The international business will get started it will take off with a slow start because the initial first thing is getting into business with the clients and then there will be trials that they will take and once the trials become successful then the bulk orders start flowing and so normally it is a two to four quarter process. The big volume should only happen back half of next year on the export side particularly on the carpet tiles side. On SPC it could be a little faster.
- Nisarg Vakharia:** I understand. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sagar Parekh from Deep Financial. Please go ahead.
- Sagar Parekh:** My questions have been answered. Thank you.

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

Bhavin Chheda: Good evening Sir. Can you update us on all the incentives because today also what we understand MEIS, which was supposed to be replaced by RoDTEP also looks now MEIS may be extended till March 31, 2019 that is one thing and what I understand is that refund of state levies looks to have stooped from September 15, 2019 so what is the status as of now I think duty drawback continues, Gujarat state incentives continues and MEIS as of now continues still December 31, 2019, so refund of state levies is there any clarity for this quarter and second half or what is the status there?

Rajesh Mandawewala: Right now see things are under discussion. As we speak everything is the way it is and so nothing has been finalized, discussed, announced, but we continue to work with the policymakers on this and all in all our sense is Bhavin that incentives are likely to come down by about 4% in one form or the other and the likely timing on that could be tomorrow, it could be this end of December, it could be end of March, but net-net we believe that incentives should be down by 4% so is the indication that we get, in what shape and form this is getting discussed, but net-net, that is what it appears to be. Having said that, look, even the cotton prices have gone down to some extent and so we believe that they will get mitigated by better raw material prices and all in all despite whatever on the incentive side, but we feel pretty okay, let us say, to stay on our margin guidance of 19% to 21%.

Bhavin Chheda: So you are still guiding for pure home textiles margin guidance of 19% to 21%. So we did almost like 23%. So over a longer term, taking this scenario of lower 4% margins, eventually our home textile business per se will settle between 19% to 21% is that a right understanding?

Rajesh Mandawewala: Yes. So the home textile business should settle between 19% and 21% and on a hybrid basis this 1% to 2% depending on how fast we are able to accelerate our floorings business. So yes, your understanding is right. We should be between 19% and 21%.

Bhavin Chheda: Coming to volume growth. So I understand both bed sheets and towels business volumes are down for the quarter and first half, so where do we see, is there non-US market you are trying to push volumes and if US, the volumes if at all are down is this the inventory adjustment low, where will we start seeing the volume growth because that is very important because this year the currency and the incentive is playing lot of help in almost reaching 9% to 10% growth, but going into 2021 you will require higher volume growth so what is the strategy there?

Rajesh Mandawewala: So clearly, the heart of the business will by and large remain the same in the second half as it was in our first half. Having said that, as I said, the hospitality side of the business is growing well, e-com will grow well and fashion bedding is another area where we are focusing on the core home textile business, but the next year, floorings, Welspun and the Spaces brand in the domestic market and advanced textiles should put together contribute let us say this 4% to 5% if not more to the growth of the company. So that is what we currently are looking at. Half two, the current visibility is suggesting that we should be just about where we were in first half in terms of volume.

- Bhavin Chheda:** So you think second half volumes will be more or less similar to first half volumes?
- Rajesh Mandawewala:** Correct.
- Bhavin Chheda:** Which was a Y-o-Y decline, right?
- Rajesh Mandawewala:** Yes. So first half is a Y-o-Y volume decline, although on the topline we are plus between 5% and 6%, I think, 5.5%. So we should be able to see something similar in the second half.
- Bhavin Chheda:** And Sir, I think Mr. Altaf mentioned, if I heard correctly, both advanced textile and the retail, both still growing 30% Y-o-Y in quarter as well as first half?
- Altaf Jiwani:** So actually, collectively, all this three emerging businesses have grown, some are growing faster, some are growing slower. So collectively, all of them are actually growing at 30%.
- Bhavin Chheda:** Collectively, retail, technical textile and which other you have clubbed together?
- Altaf Jiwani:** Flooring. So three emerging businesses, flooring, retail, and advanced textile.
- Bhavin Chheda:** But flooring you have not started booking turnover yet, right?
- Altaf Jiwani:** No. There is about Rs.12.9 Crores of revenue which is there so we have started disclosing now flooring separately as a segment from this quarter.
- Bhavin Chheda:** Okay. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from JM Financial. Please go ahead.
- Nitin Agarwal:** Thank you for giving an opportunity. Sir, my first question is regarding the incentives. So when RoSL was increased from 2.2% to 8.2%, so this 6% increase, are we realizing all of that in the first half of this year so this EBITDA margin of 21.7%, does this include the entire benefit of 6%?
- Altaf Jiwani:** So see, government has still not activated by utility for RoSTCL, therefore, the claims are actually pending. So from March 7, 2019, when they introduce this RoSTCL since then there have been no online claims, which have been submitted. However, offline claims have been submitted, but so far we are awaiting that realization of that.
- Nitin Agarwal:** So we might have not got the cash inflows, but have we recorded it in our P&L as the other incentive?
- Altaf Jiwani:** Yes, that is right.
- Nitin Agarwal:** So it is included in the EBITDA margin.

- Altat Jiwani:** That is right.
- Nitin Agarwal:** So when this 4% goes away from January 1, 2019, so that 4% will definitely impact our EBITDA margin?
- Altat Jiwani:** So that is what Mr. Mandawewala has mentioned earlier. See, we are expecting the current cotton prices, which are about between Rs.39,000 and Rs.40,000 compared to Rs.43,000 to Rs.46,000, which it was last year.
- Nitin Agarwal:** Right.
- Altat Jiwani:** Part of this impact actually will get mitigated through the cotton prices.
- Nitin Agarwal:** My second question is regarding the tax rate. If you see the effective tax rate seems to be quite low in this quarter so have we moved on to the new tax rate or what is the reason for the low tax?
- Altat Jiwani:** Yes. So see, there are two companies where we will remain in the old regime and there are two where we have actually switched to the new regime. So Welspun India because we have a carry forward MAT and therefore will remain in old regime for the next two years and Welspun Captive, which is under 80-IA, so that will also remain in the old regime and the impact, which you are seeing is actually Welspun Global Brands Limited and Welspun Flooring, both these companies have actually switched to the new regime. So that is one impact. The other impact is about the deferred tax liability, which had to be restated based on the new rates, so effectively that is a release, which has happened.
- Nitin Agarwal:** Okay, but this deferred tax liability restatement will only happen if we go to the new rate and when you are seeing that for the previous two companies, Welspun India and Welspun Captive, we are still staying with the old regime then there would not be any deferred tax?
- Altat Jiwani:** Yes. So we can discuss this offline separately, but the computation is done where for the first two years it will be in the old regime and after that the new regime.
- Nitin Agarwal:** Okay. Thank you Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Swan Investments. Please go ahead.
- Sachin Kasera:** Good evening Sir and congrats for a good set of numbers. Just one clarification on this margin band that you mentioned of 19% to 21%, this is including the effect we will have from the flooring business for the full year this is only for the home textile business?
- Altat Jiwani:** Yes. Sachin, thanks. Yes, this is including the flooring business impact also. So for the full year, the guidance, which we give, is actually for the full year. So we do not give quarterly guidance. So we are saying the annual EBITDA margin for current financial year will be between 19% to 21%.

- Sachin Kasera:** Yes. Okay. Secondly, then on the next year, you have indicated that guidance is a little difficult, but from what you have current visibility, you are looking at Rs.250 Crores to Rs.300 Crores, maybe sort of revenue in floorings.
- Altaf Jiwani:** Yes.
- Sachin Kasera:** So does it mean that next year also it will have a negative impact on the consolidated EBITDA or at that level it will at least be EBITDA positive how does it?
- Rajesh Mandawewala:** At that level we will be still a slightly negative at EBITDA, but with the flooring business the good thing is that the interest charge will be minimal because of the incentives that we have. So there will be not much of interest charge. So the gap between EBITDA and PBT is not as large as we normally see in the core business, so that is the advantage with this, but next year also we are likely to be slightly negative on the EBITDA.
- Sachin Kasera:** And Sir, I am not sure, but is it that now we are looking at a little slower ramp up than what you were looking, say, a quarter or two back, especially for FY2021?
- Rajesh Mandawewala:** Not really, not really. See, as we are getting in so if these kinds of, it is an all-India, let us say, this network launch and so this is just a matter of settling down with the network. So I do not think our underlying assumptions are changing so it is a matter of a quarter or two here and there, but underlying there is nothing, none of our assumptions have actually changed.
- Sachin Kasera:** Sir, one question on the currency. How are we looking for the second half in FY2021 will it remain at the current levels as of H1 or it will probably go down?
- Altaf Jiwani:** So Sachin, it is always very difficult to predict currency. I remember last quarter also you asked me and I mentioned to you we will be at Rs.72.5, but we landed up with Rs.73.5. So your guess is as good as mine, but I believe Rs.73.5 will not be sustainable, we will be between Rs.71 and Rs.72 in the second half.
- Sachin Kasera:** Sure. Just one question on the capex. So the 6 billion that you mentioned for the full year, if I understand that, we also have a transaction pending with Welspun Corp., where we need to buy some power plant from them so this includes that or that is excluding this number 6 billion?
- Altaf Jiwani:** Yes. We have already done that transaction, so it is captured now in Q2, so Rs.67 Crores is including that.
- Sachin Kasera:** Okay. And just lastly on this incentive, so if you could just help us what is the total incentive that we have booked in H1 and how much of that is right now pending from the government?
- Rajesh Mandawewala:** So I guess we will have to take that offline. I am afraid we do not have that number ready so if you could connect with Mr. Altaf, and we will share those numbers with you.

- Sachin Kasera:** Sure Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Vikas Jain from Equirus Securities Limited. Please go ahead.
- Vikas Jain:** Hi Sir. Thanks for the opportunity. Sir, my question will be limited to the floorings business. Sir, talking about domestic industry perspective, can you give a fair idea about how much would be the India's this vinyl flooring in terms of volume and value size, any fair idea about it?
- Rajesh Mandawewala:** See, look, floorings, by and large is Rs 40,000 Crores, Rs.45,000 Crore market and over the next five years likely to grow to about Rs.70,000 Crores and right now with the price range in which we operate, so right now we are able to cater to about Rs.7,000 Crores, Rs.8,000 Crores, Rs.9,000 Crores of an addressable market size within, let us say, the price range that we are talking about. Our intent however is through better product development and some R&D projects, which we are already running currently, our intent would be to expand this to between Rs.15,000 Crores and Rs.17,000 Crores, sometime over the next 12 to 18 months so this play in Rs.15,000 Crores, Rs.18,000 Crores, Rs.20,000 Crores kind of an addressable market space over a year and year-and-a-half period with some new products, which let us say, will be a little bit more affordable in terms of pricing.
- Vikas Jain:** Right, Sir. Sir, the debt that we are taking for our flooring capex, what would be an average cost of debt for that, if you could give that number?
- Altaf Jiwani:** So the gross rate is 9.6% and there is a reimbursement of interest from the state government, which is at 8%.
- Rajesh Mandawewala:** To say about 2%.
- Vikas Jain:** Around 2%, okay. Thank you for the opportunity.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Thank you very much for the opportunity. Sir, first question, can you throw some light on the seasonality of your business in terms of on a quarterly basis, which are your best quarters or which are your less good quarters?
- Rajesh Mandawewala:** Look, there is nothing like seasonality. Having said that, in the western part of the world you have Christmas, you have Thanksgiving, when, let us say, some sales get bunched up, but by and large, see this, we look at our business year-on-year, and that is the best way to look at it because as I said promotions is a large part of our business, and sometimes promotions can happen in one quarter, the next year it can happen in some other quarter, sometimes there is de-stocking that happens in one quarter, which might not happen in the next year quarter. So this by and large, we

like to look at our business on an annual basis, which gives a fair estimate of where the business actually stands and how is it growing.

Deepak Poddar: No. I was talking more in terms of revenue part, on the topline part?

Rajesh Mandawewala: Yes. I am referring to the same thing. So look, if the promotions get postponed or preponed, it impacts our revenues in that particular quarter.

Deepak Poddar: Right.

Rajesh Mandawewala: Yes.

Deepak Poddar: Okay, understood. Sure, sure and in terms of what would be your revenue share from rug business?

Altaf Jiwani: We do not share the numbers separately, but just to give ballpark figures, it is about 10%.

Deepak Poddar: It is about 10% and will that also be counted as one of your emerging business or would that be a high-growing business for you, so what sort of opportunity would be there in this business for next maybe one-and-a-half to two years?

Altaf Jiwani: So the rugs remain as part of our core business. So emerging business is actually the flooring products, which are coming out of our new facilities in Telangana.

Deepak Poddar: Okay. So this business would be seeing a normal kind of growth what other businesses are seeing in your core business segment?

Altaf Jiwani: Right now, actually, we are seeing a substantial growth because of these US/China trade issues, so in rugs we are seeing a substantial growth.

Deepak Poddar: Okay and do you see that as a sustainable kind of a thing or it is because only it is China or US problem?

Rajesh Mandawewala: Early days, yes. So right now, this is looking good, but you never know this as you go forward, but right now, yes, the growth is good and also new opportunities are coming our way.

Deepak Poddar: Okay and in terms of EBITDA margin in this business, is this EBITDA margin is better than your overall margin profile.

Altaf Jiwani: So we do not share this product wise EBITDA margin, but just to give, pecking order will be towel, bed sheet and rugs.

Deepak Poddar: Towel, bed sheet and rugs. Okay. Fair enough, fair enough. Sure. That is it from my side. Thank you very much.

- Moderator:** Thank you. The next question is from the line of Sriram Srinivasan from Athena Management. Please go ahead.
- Shriram Srinivasan:** Thanks for the opportunity Sir. September 13th onwards, you have commenced business of flooring, right?
- Rajesh Mandawewala:** Right.
- Shriram Srinivasan:** Yes. Has the full capacity been put into production?
- Rajesh Mandawewala:** No, not the full capacity. So we are work in process on the projects. So out of our total spend of about Rs.1,100 Crores or thereabouts, we have so far capitalized about Rs.800 odd Crores. So there is still Rs.300 Crores of capitalization that is left, which our current estimate is, half of it, it will happen in this year and the balance would go to the next financial year.
- Shriram Srinivasan:** Okay. So what is the utilization that we can expect during the course of time, Sir?
- Rajesh Mandawewala:** Your voice is not clear, my friend.
- Altaf Jiwani:** You are asking about capacity utilization?
- Shriram Srinivasan:** Yes, utilization.
- Rajesh Mandawewala:** So it will be a fraction as I said, we are expecting this revenue of Rs.100 Crores or thereabouts in this current year, so it will just be a fraction. So it is not even worth in terms of percentage mentioning, so it will just be a fraction, so we will just get off to a start in this year.
- Moderator:** Thank you. The next question is from the line of Basant Patil from Mentor Capital. Please go ahead.
- Basant Patil:** Thanks for the opportunity. Sir, just wanted to understand what would be our capex for the next year for FY2021?
- Altaf Jiwani:** We will give the guidance, Basant, when we do the annual results, that time we will give guidance for the next financial year, but having said that we have actually come to an end of our capex cycle, so our core business really does not require much of capex and with the flooring substantial part of it has been already commissioned.
- Basant Patil:** So it would be hardly a maintenance kind of the capex.
- Altaf Jiwani:** It will be substantially lower than the depreciation charge, which we have in our books.
- Rajesh Mandawewala:** So there will be Rs.150 Crores of floorings capex out of the existing project of Rs.1,100 Crores, as I said, about Rs.150 Crores is likely to spill over to the next year.
- Basant Patil:** Next year, okay.

- Rajesh Mandawewala:** The rest of it will be the textile opex and capex.
- Basant Patil:** Okay. Sir, just one more update. If you can share what is the litigation can you comment anything about the US court status?
- Rajesh Mandawewala:** There is no update from the last time that we said. So just to reiterate this, we entered into, let us say, settlement agreement and which received in principle approval from the courts as well. So we are waiting for the final hearing to happen and so we are on course as far as the business is concerned. The business is as usual. I think for practical purposes that issue is behind us. As of now there is nothing which suggests that we need any more provisions compared to what we have only provided. So financially we do not see anything adverse at this moment coming out of that.
- Basant Patil:** Okay. Thanks a lot. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.
- Dixit Mittal:** Sir you mentioned that second half will be at par with the first half in terms of revenues, so if I see last year, if I compare last year Y-o-Y, I think we may see at least 8% to 10% growth, right because last year we had seen dip in terms of the revenues during second half?
- Altaf Jiwani:** So Dixit, we do not give quarterly guidance, actually, as a whole. So for the full year guidance, we expect we will be at higher single digit. So some of the promotions actually have become rear-ended so we might see a substantial growth in second half, but we would like to maintain our annual guidance of higher single digit.
- Dixit Mittal:** Okay. Thank you Sir.
- Moderator:** Thank you. We will take the last question from the line of Sneha Jain from SKS Capital. Please go ahead.
- Sneha Jain:** Hi Sir. I wanted to ask that you revised your guidance from like it was double digit to single digit, what is the new guidance, can I know?
- Altaf Jiwani:** It is a higher single digit. So Sneha, all our guidance remains same that is EBITDA margin at 19% to 21%, Capex at Rs.600 Crores, net debt at Rs.2,700 Crores and the revenue guidance is higher single digit.
- Sneha Jain:** Alright and secondly I would be asking, so you talked about dividend and since you do not require anymore capex, as you just said, so dividend and both in terms of any consideration for buyback that you are doing or not?
- Rajesh Mandawewala:** So far no such, nothing concrete. So there is still some high-cost debt, which is sitting in the company. So our first attempt would be to actually prepay those anything, which is north of 9%.

So we want to repay all that money. So the cash flows that we generate we will first use it to repay that debt.

Sneha Jain: But it might be into the cards or not?

Rajesh Mandawewala: Of course, , this all the high-cost debt is paid out, all the cash flows that we generate, we might look at it, but as of now, as I said, we want to use the cash flow to further substantially reduce the borrowings.

Sneha Jain: Thank you. That is all from my side.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

Altaf Jiwani: Thank you ladies and gentlemen for joining this call and if you have any more questions, we will be happy to answer. You may please contact Harish or me anytime through e-mail or over phone. Thank you very much. We will see you next quarter.

Moderator: Thank you ladies and gentlemen, on behalf of Equirus Securities Private Limited, that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.