



“Welspun India Limited
Q4 FY2018 Earnings Conference Call”

May 17, 2018



ANALYST: MR. AVI MEHTA – IIFL CAPITAL LIMITED

MANAGEMENT: MR. RAJESH MANDAWEWALA - MANAGING DIRECTOR - WELSPUN INDIA LIMITED

MR. ALTAF JIWANI - DIRECTOR (FINANCE) & CHIEF FINANCIAL OFFICER - WELSPUN INDIA LIMITED

MR. AKHIL JINDAL - GROUP CHIEF FINANCIAL OFFICER & HEAD STRATEGY - WELSPUN INDIA LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Welspun India Limited Q4 FY2018 Earnings Conference Call, hosted by IIFL Capital 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 “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta from IIFL Capital Limited. Thank you and over to you Sir!

Avi Mehta: Thank you Inba. Hi good evening everyone. On behalf of IIFL, I would like to welcome all of you to the 4Q FY2018 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) & CFO and Mr. Akhil Jindal, Group CFO & Head Strategy. I would now like to hand over the call to Mr. Altaf Jiwani for their comments. Over to you, Sir!

Altaf Jiwani: Thank you, Avi. Good evening, ladies and gentlemen. On behalf of Welspun, we would like to welcome all of you to this quarterly concall. During FY2018, our revenue was Rs.6132 Crores and EBITDA was Rs.1205, which is 19.65%, which is in line with the guidance, which we had given at 20% at the beginning of the year. During the Q4, our revenue has seen sequentially 8.5% growth, so we are seeing a green shoot now withuptakes in the off-take from the retail.

The key highlights for the current year FY2018, one, we have seen a substantial growth of 19% in domestic retail business, so all our investments into building our brand, putting a team, launching the campaign and our product strategy seems to have been yielding results now and similarly in Christy, which is our global brand we have seen actually almost 71% growth in the e-commerce business. Now almost 10% of their revenue is contributed through e-commerce, so that shows the power of branding, which we have achieved in Christy and we hope to repeat a similar for other brands as well.

During the year, actually we have spent almost Rs.60 Crores in brand building, which is 19.65% of EBITDA margin is after taking a hit of 1% impact because of the brand building exercise for which the benefit is going to come in future, but all these expenses are being booked right now.

For the current financial year, we are seeing early signs of revival and the off-take for the destocking phenomena, which started in the month of July last year we seems to have seeing the end of that almost and we expect to return in the growth trajectory again in FY2019. Some of the key initiatives, which was launch of “Spaces”ad campaign, which some of you would have seen was well received and as I mentioned earlier we have seen 19% growth.

During the year, we also launched Wel-Trak, which is the industry defining traceability solution, which has created a buzz in the home textile industry and these products are now currently available on the shelf in USA. We are going to spend a couple of million marketing dollars on Wel-Trak and we believe what we did with Hygro in 2015 by creating a pull factor when we started creating a marketing campaign there, we believe a similar promising situation we are in right now vis-à-vis Wel-Trak and the millennials are quite excited when they see that the power of traceability comes in their own hand and they can know exactly the fiber which has gone into that particular product. So we believe that the Hygro cotton, which was one of the most successful innovation so far, we believe we will be able to achieve similar story here in Wel-Trak.

In terms of innovation, we have almost now 30 innovations, so we added three more innovations during the year and the total revenue coming out of innovative products is about 37% now and the total revenue coming from the branded product is 17%. The topline degrowth, which is about 8.8%, there is a volume impact of about 5%, there is an exchange impact of about 1.6%, and there is an impact of the drawback rate because of the GST that is about 2.2%.

So our Flooring project is now proposed to start in Telangana. The project cost will be approximately Rs.1100 Crores. This will be about 27 million square meter and we will be ready with the commercial production by October to December 2019. This will be funded through debt equity of 72%, 28%. In terms of the object clause, we had just to align the parent object clause with the flooring, the subsidiary's object clause. We had actually passed resolution in board of WIL.

The guidance for the current financial year that is FY2019, we will be able to achieve 8% to 10% topline growth, which will be predominantly volume driven. We will have an EBITDA margin of 19% to 20% for the full year and a capex guidance of Rs.900 Crores, which will be mostly because of the flooring project. Now the topline guidance, all these are actually annual numbers, so we might see in the first half the topline growth could be muted because of the base effect pre-GST where the drawback rates were higher. So for the full year, we will be able to see in the second half, we will be able to touch the double digit growth and we have also revisited our 5-year plan and we are confident we will be able to deliver on the \$2 billion topline and a zero debt situation by end of fifth year. So with this, I would like to open the floor for question and answer. Thank you.

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Bhavesh Chedda from Enam Holdings. Please go ahead.

- Bhavesh Chedda:** Few questions. Sir, your topline growth for next year, if I understand, this year everyone has been facing sharp volume declines in towels, so is that volume decline run rate reduced, it is flat now and what are assumptions for next year and what are you hearing from clients on that segment?
- Rajesh Mandawewala:** Bhaven, this is Rajesh. Yes, so we believe this the worst is already behind us. So I think the whole industry suffered this on account of destocking in the last year and we believe this we are at the end of that cycle. We are already seeing better off-take and commensurate buying as compared to what our clients are selling, so this we are already seeing that happening, so let us just hoping for the future. We are already beginning to see that happening in the towel product category as well. So as we speak, this we are already seeing this tapering of the effect of destocking as it happened last year. So the growth will come. As Altaf said, the first couple of quarters because of the base effect of the GST, I think where duty drawback were also reflected as part of revenue. So on an annualized basis, as Altaf mentioned, so we are looking at 8% to 10% this revenue growth and definitely volume growths at those levels.
- Bhavin Chheda:** Second is rupee has depreciated sharply by almost 4% in last one-and-a-half months, so our 10% growth guidance is partly factoring that because rupee depreciation helps us a lot, so can you give some guidance there because I assume 40% of your exposure is always open, so we benefit there and that is the reason that we are already factoring that in 10% growth?
- Rajesh Mandawewala:** First of all if there is any movement in the exchange rate, this generally would not impact P&L, let us say this in the immediate two, three, four quarters and the reason being we are even hedged for 60% of our business in the next 12 months this exports and the other thing being see this, end of the day this all ingredients that go into the product, may it be cotton, may it be fuel, may it be coal or dyes and chemicals, which are oil derivatives and so on and so forth, so while we buy in rupees, they are dollar denominated. So it is natural to assume and believe that as the rupee depreciates, the commodity prices will go up in Indian rupees and so that will compensate any gain that we get out of the remaining 40% unhedged this exchange rate benefit that we might get. So I am afraid this we might not see a very positive impact of the exchange rate in the current year, but definitely this we keep selling exchange rate this as per our policy. So right now, let us say that the sales that are happening are at 70 plus and they will continue to happen at that, which would start impacting, hitting our P&L in the next year. So as we run out of the current hedges, which are at a slightly lower price the impact of the exchange rate will start reflecting.
- Bhavin Chheda:** My last question, if you can give us the geographical sales mix of FY2018 versus FY2017?
- Altaf Jiwani:** U.S. is about 64% and Europe is about 18%. India is around 6.5% and ROW is 11%.
- Bhavin Chheda:** Thanks a lot.

Moderator: Thank you. Our next question is from the line of Priyank Boricha from B&K Securities. Please go ahead.

Priyank Boricha: My question is the guidance you have said that you are increasing the flooring capacity to 27 square millimeters do we see any major demand coming in that sector, so where we are increasing it?

Rajesh Mandawewala: So what we are looking to do, Priyank, earlier our goal was to actually cater to the institutional side of the business. Looking to the opportunity, now we want to make it a comprehensive offer and also get into the residential side of flooring, which in fact is a much, much bigger addressable market, and consequently this higher capex and also we are moving the project from Gujarat to Telangana. So in fact this we will start executing the project as we speak. So there is some impact of moving the project away from Anjar into Telangana as well, but principally, the status about adding things into our offer, which are more holistic and which will actually cut across institutional, commercial and residential markets. So in short, while we are increasing the capacity, it is also disproportionately also increasing the addressable market for us.

Priyank Boricha: While shifting from Gujarat to Telangana, are Telangana offering any major benefits than Gujarat?

Rajesh Mandawewala: Obviously, so we did our math and it looked obvious that considering apple-to-apple the incentive, we are much happier, looking at the package that we got at Telangana and then there has been enormous amount of concentration that is happening in Gujarat as well. So we thought this is the right opportunity to move our site to another location. We employed close to 18000-20000 people there in Anjar already, so from that perspective we thought now that we have some better incentives in Telangana and which kind of covers the additional cost that we are going to incur on the project, so we thought this is the right time for us to move site.

Priyank Boricha: Sir, can you give you some colour on what incentives are you getting, if it is possible?

Rajesh Mandawewala: We can take this offline and it will be very happy to discuss whatever and in any which way it is in public domain, they have a policy that they have announced, but our team will be happy to take you through details.

Priyank Boricha: Next question, a few years back, we had started ancillary model, which we have implemented, so what is the status of that?

Rajesh Mandawewala: So we are on course. We have about this 11-12 ancillaries, which are already in operation and so most of our important trims, packing materials and everything most of them we have covered. There is a spinning ancillary, which is already operating and also growing and so we are now in

discussion with a couple of this interested parties on the weaving side as well and so it is working well for us and I think this within the company we have now enough yarn making and fabric making capacity and then outside these ancillaries are happening and this we are also finding it comfortable now to source, some of the commodity stuff that we need to do both for yarn as well as fabric, so I think that is it. It is moving, I think this we are making progress there and this we would want to see this at least one if not two fabric this company has emerged there to actually complete the story and so we are in discussions with a couple of them.

Priyank Boricha: Thank you and I will get back in the queue.

Moderator: Thank you. We will take our next question from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: Sir, my question is related to the currency movements. So now we see that the rupee has depreciated sharply from Rs.63 to Rs.68, so how do you see this impacting your topline as well as EBITDA for in the current year FY2019?

Altaf Jiwani: Dhruv, actually as I mentioned earlier since we have 60% hedges, which is locked in and remaining 40%, which is open, where we will get the benefit of the rupee depreciation, but there are corresponding costs, which are fitting in rupee terms, but these are actually dollar denominated. So we do not see a significant impact on EBITDA. So our guidance of 19% to 20% we say is what we are giving for the current year after knowing this fact that rupee has depreciated to current levels.

Dhruv Agarwal: How do you see the volume numbers moving, if you could tell me what was your total volume growth for FY2018 overall around bed related basis?

Altaf Jiwani: In FY2018, as I mentioned, we had 5% degrowth in volume terms. Just to share the specific number for towel and bed sheet, actually our plant utilization for towel and bed sheet is almost 80% for FY2018 and rug was about 65%.

Dhruv Agarwal: Rug was 65%?

Altaf Jiwani: Yes and the capacity is 80,000 tonnes for towel, which was effectively it was 76,000 for the full year because it got commissioned late during the year. We have 90 million meters for bed sheet and we have about 10 million square meters for rugs.

Dhruv Agarwal: For rugs it is?

Altaf Jiwani: 10 million square meters. That is the capacity.

Dhruv Agarwal: For FY2019, how do you see the volume growth, do we see it in the lower single digits or what is your view on it?

Altaf Jiwani: So this 8% to 10% guidance, which we are giving, Dhruv, actually is predominately volume driven.

Dhruv Agarwal: Thank you so much.

Moderator: Thank you. We will take our next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: My apologies if this question was asked, Sir I was just able to connect, but I look at the Q4 growth for this quarter degrowth it has been highest among the four quarters in FY2018 when we had the impact of target in the base for Q4 FY2017, so just wanted to understand that anything specifically changed in this quarter and how has the situation on the destocking that we have been discussing changed because in Q3 you did mention you believe that Q4 should be more or less the last quarter where we do see the destocking reaching its peak post which you expected to improve.

Rajesh Mandawewala: See, Nihal, this is a quarter-on-quarter thing. So there is nothing that is worrying us about this quarter-on-quarter situation. As we mentioned, so FY2019 we feel good. I think the destocking impact and the only reason was destocking impact and nothing else and we are seeing the tapering away of the destocking already happening in the marketplace and we are seeing better order flows into the company, which will start getting reflected partly from the second quarter of the current year, which is making us more confident in terms of guiding 8% to 10% kind of a volume growth for the current year. So there is nothing in particular, I think it was a destocking thing that impacted the business and I think going forward we are clearly seeing that the tapering of that is already happening.

Nihal Jham: Sure Sir. Sir, the second question is reading one of the press releases you have given that you are looking at altering the objects clause, so is there any new venture that we are planning on new line of business that we can expect in the coming years from Welspun?

Rajesh Mandawewala: Not really. So this is about the floorings business. So just as a matter of abundant caution we are just altering the object clause, but there is nothing else that is planned, so it is about the floorings business that we have been discussing.

Nihal Jham: And just one last question on the flooring business, I do understand that we are planning to shift it from Gujarat to Telangana, but there has been an increase in our capex cost from Rs.600 Crores to Rs.1100 Crores right now am I getting that right?

- Altaf Jiwani:** Yes, you are getting it. It was not Rs.600 Crores it was slightly more than that, so we were at about Rs.700 Crores, which is moving up to Rs.1100 Crores, but consequent there are two things: A, there is a fairly larger level of integration that we are building in the project and the second thing is the capacity is much larger upfront and also it is a wider product mix that we will start with, so that is the reason why the capex is going up.
- Nihal Jham:** And what is the new capacity?
- Altaf Jiwani:** It is 27 million square meters on a nameplate capacity level, and it is a much more wider product mix that we are talking about.
- Nihal Jham:** This was earlier when we were having the earlier plan, what was the capacity then?
- Altaf Jiwani:** It was 13 million square meters earlier.
- Nihal Jham:** I will get back in the queue for further questions. Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.
- Saket Kapoor:** Just continuing to the last participant, Sir, the new facility will be coming up in which financial year?
- Rajesh Mandawewala:** So FY2020 Q3 is when we are expecting commercial production.
- Saket Kapoor:** What are the margins we are contemplating from the previous, Sir?
- Rajesh Mandawewala:** It is a new business. The business will take a while to ramp up. All in all, but we are looking at this high in the middle digits in terms of, let us say this, project IRR over the lifecycle of the project, so definitely in excess of 15% IRR.
- Saket Kapoor:** And this is totally export dominated?
- Rajesh Mandawewala:** No. In fact, it is going to be more domestic driven than exports, so the heart of the business is going to be in the domestic market.
- Saket Kapoor:** In the domestic market and currently Sir if you could just throw some light, what is the market size and who are the dominant players in the segment?
- Rajesh Mandawewala:** So see, these are all new kinds of product categories that is essentially generally serviced by imports than anything else, and we are looking at it as a complete flooring as an alternative

flooring, so we are looking at the entire floorings as a market for us whether it is commercial, residential, whatever, so this we believe the market size is between Rs.30,000 Crores and Rs.50,000 Crores. This we are still working on, let us say this is the addressable market for us, but it is a sizeable market and we are looking to take a piece of that market.

Saket Kapoor: So I leave the initial comment, it is just a very small brief on that. What were the factors that resulted in degrowth for FY2018 numbers and how many factors are we able to mitigate and reverse for the current financial year?

Rajesh Mandawewala: So we believe there was a destocking phenomena, there was an impact of some online, offline sales moving to online and also there was an impact of the incentives as they changed this on July 1, 2017 and also there was some impact of the Egyptian cotton issue that we had year-on-year, so these are the four reasons why we saw some kind of degrowth and mind you the volume degrowth is only 5% while financially it looks higher, but volume was only 5% and we believe we have mitigated everything and as I said that we are already seeing symptoms of growth getting reflected, let us say, in the current order position and hopefully it will start getting reflected from the second quarter.

Saket Kapoor: But the first quarter is a lean quarter because of the GST factor?

Rajesh Mandawewala: Correct. This is the baseline, so it is not an apple-to-apple comparison, which is why we are talking about the second quarter here, so we should start seeing some impact of it coming from the second one.

Saket Kapoor: Sir, in the bed sheet segment, sir, what is our market share globally?

Rajesh Mandawewala: Essentially U.S. is our big market there and where we own about this definitely in excess of 10% market share there.

Saket Kapoor: Sir, out of this Indian players, Sir, I wanted to understand what is our pie share in the bed sheet segment and who is the second, third player?

Rajesh Mandawewala: There are several players out of India and there are no published numbers as such for us to know who is doing, how much is a little difficult, but there are some significant players and earlier it used to be Alok, now it is to some extent Indo Count, Himatsingka, so these are some of the key players that we compete with.

Saket Kapoor: JSK is also somewhere in?

Rajesh Mandawewala: Yes, they are also a part of the mix.

- Saket Kapoor:** They are your competitors, right?
- Rajesh Mandawewala:** Yes.
- Saket Kapoor:** Thank you Sir. I will come back in the queue. Thank you for answering this.
- Moderator:** Thank you. We will take our next question from the line of Abhishek Jain from Almondz Global. Please go ahead.
- Abhishek Jain:** My question has been answered, most of the questions has been answered. I just want to understand the debt repayment plan because we have already seen there is hardly any repayment till now and what I understood is basically we are on a way to repay become debt free or net cash company by 2020, so what will be the debt reduction problem?
- Rajesh Mandawewala:** Not 2020, now 2023, this we would not be debt free by 2020, we will be by 2023 and this one big reason being this, the capex that we are making on the floorings business and see if you look at the way we have managed our balance sheet, so we have been almost flat on net debt, so we have actually calibrated our capital expenditure to the cash flows that the company has generated and consequently our net debt at Rs.3000 Crores has been flat for almost five years now, and that is our intent for the coming year as well and beyond that we are expecting sharp reduction in the net debt.
- Abhishek Jain:** This year I am not going to see any increase in debt because of this Rs. 900 Crore capex?
- Rajesh Mandawewala:** No, so this we are still looking for to maintain, our net debt position in the current year despite the capital expenditure that we have planned.
- Abhishek Jain:** Thank you.
- Moderator:** Thank you. We will take our next question from the line of Nisarg Vakharia from Lucky Investment. Please go ahead.
- Nisarg Vakharia:** Congrats on a decent set of results in challenging times. First I wanted to ask you, Sir, that incrementally you have said in your presentation that a large part of our export revenue will come from online in the U.S. The realizations that we make over there are similar to what we made to the bed, bath and beyond type of customers?
- Rajesh Mandawewala:** Look, most of our online revenues are coming from our existing customers there, so it is the same realization, it is almost the same products, and they are bought by consumers of our customer's websites in most cases, so there is not much this difference, so in most of the cases in fact is the same product at the same price.

- Nisarg Vakharia:** Sir, when do we endeavour to reach a \$2 billion topline?
- Rajesh Mandawewala:** Our early goal was FY2021, but we will have to push it back now by two years for obvious reasons, so this we still believe FY2023 is the year when we should be able to double from where we are now.
- Nisarg Vakharia:** So forget about FY2019 where you are guiding for a 10% growth, but from FY2020 onwards you will have to start pushing for double-digit growth?
- Rajesh Mandawewala:** Right. See the floorings business will also come on stream by then, so we are very hopeful that that will also give us some impetus and also with investments that we are making into brands, both Christy as well as this in the domestic market, so that will bring some acceleration on the B2C side of our business as well. So consequently this all put together I think this we should be able to get to what we desire to.
- Nisarg Vakharia:** Sir, FY2020 onwards, can we start clocking much higher EBITDA margins because of natural delta and operating leverage in our business?
- Rajesh Mandawewala:** The times are such that it is difficult to forecast now, the next three months you forget about three years, but to give you comfort, see, if you look at the company's performance on the continuing business, so we have on an average delivered 20% EBITDA, some years have been good where we have had some tailwinds, there have been some headwind year, so generally this if you take 8 out of the last 10 years we would have delivered around this 18 to 22 kind of this EBITDA. So the business is good for the current 18%, 20%, 21% kind of margin and because of the variability playing into our business, so from year to year the margins can be different, but I think when you take a 10-year view of the company I think we have delivered those kinds of margins and we believe this we are good to deliver those margins in the future as well.
- Nisarg Vakharia:** There was a severe hypothesis of significant capacity additions by players across India and some sort of a price war and price competition in the U.S. for selling bed sheets. Has there some sort of, has it subsided or that is still going on because we have some large players sitting on unutilized capacities?
- Rajesh Mandawewala:** Yes. Very candidly, there is unused capacity in the business and it is not only in sheeting, it is in towels as well as sheetings, so there is unused capacity, it is not new. So this has been sitting there for almost a couple of years and so this it will take a while for this capacity to get absorbed, but whatever the impact of this you see it in the results for FY2018 already and we have factored all that into our guidance when we say we will be making 19%, 20% kind of margins in the current year, so this we have actually factored all that in.

- Nisarg Vakharia:** So we are actually selling the same products at lower prices?
- Rajesh Mandawewala:** No, we have not reduced prices with any of our existing businesses or with any of our clients, we have held our prices. Albeit, the industry was in a position to increase prices and the cotton prices went up and the currency appreciated, which we could not because of, let us say, the overhand of the capacity. Honestly otherwise, there was all the reason for prices to go up in the market.
- Nisarg Vakharia:** But now we are again experiencing those tailwinds of lower cotton prices and depreciating?
- Rajesh Mandawewala:** Look, the cotton prices are not going to be low. So with the depreciating currency, the rupee cost of cotton will go up it is a natural thing. Cotton is an internationally traded commodity. So Indian cotton will start looking cheap at the current prices internationally and it will start getting exported more. So the prices will catch up. I do not think we are going to see cotton advantage here.
- Nisarg Vakharia:** Thank you so much for answering my question Sir. All the best.
- Moderator:** Thank you. Our next question is from the line of Dimple Kotak from SKS Capital. Please go ahead.
- Dimple Kotak:** Sir, I would like to know what is the cotton inventory currently standing at?
- Rajesh Mandawewala:** So we are at about this four, five months right now, that is we are currently stocked until August and plus of course we have WIP and other forms of inventory as well.
- Dimple Kotak:** There are certain reports that said that cotton prices have gone up from 112 and 115 levels to 119, so our new procurement will be at these higher levels post August?
- Rajesh Mandawewala:** Of course. So this we will have to procure the new cotton at current market prices, but see, as Altaf mentioned, so the unhedged part of our exports, which is 40% will hopefully compensate the higher prices that we will pay for the cotton.
- Dimple Kotak:** And Sir, there are reports from the likes of J.P. Morgan that may see Walmart Bed & Bath they are not doing good in the markets, they have not been able to perform well even in the best of the season, so then if your end customer is not performing well, how do you see incremental growth coming in over the years?
- Rajesh Mandawewala:** No, when we look at the market in totality, so the sales, the American market is even now currently growing at 1.5%-2% and even in our product category it is growing, even last year it has grown and our customers are also doing well in our product category. So last year was a year

of destocking, there is some rebalancing happening between offline and online retail, but the market is looking good, the market is continuing to grow and there is some rebalancing, so some retailers, some of our customers are doing better, some are not doing as well, but all in all the market in totality is growing and there are reports out there, which are suggesting that this retail is not going anywhere, so it is going to stay, it is going to continue to grow, and it looks like in our product categories the offline-online, this formula is also now set and so all in all things are actually stabilizing and retail also will continue to grow from here. So you might have lesser stores, but they might be offering omni-channel experience and selling much more out of their existing stores and so on and so forth. So there is nothing to be despondent about. The market is growing exceedingly well, this is growing and it will continue to grow.

Dimple Kotak: In terms of your online disruption, what would be the disruption for your product categories?

Rajesh Mandawewala: We expect this to be around 15%-20% and we believe that has already happened. So beyond this, we are only likely to gain from the situation and not lose and perhaps it is a pendulum effect, so when things start swinging sometimes the pendulum swings too far down the other side, so in our product categories we believe that is happening. I think the market is almost settled down and if at all there is change it is only going to benefit us.

Dimple Kotak: Finally the margin guidance, which you had given, is it including other income?

Rajesh Mandawewala: Yes. So we are talking about total EBITDA here and look most of our other income other than treasury is actually in the form of operating income, so most of it comes from exchange rate and that is a part of our business strategy. Now this accounting standards mandates us to report it as an other income and so on and so forth, but otherwise it is all business, income other than some treasury income that we make.

Dimple Kotak: What would be the quantum about the treasury income so that we can deduct?

Rajesh Mandawewala: Actually most of it is in the nature of exchange, let me tell you, so this very little of that would be treasury.

Altaf Jiwani: In Q4, out of Rs.28 Crores of other income, almost Rs.14 Crores is actually relating to operation, which is exchange gain. So as per accounting standard, we have to classify it as other income, but actually it is operational income.

Dimple Kotak: So what would be the ballparkish run rate if you can give a breakup even in your note that would be helpful from the next quarter, that what would be the forex exchange income?

Altaf Jiwani: Yes. So this gets disclosed actually in the annual report separately.

- Rajesh Mandawewala:** I have a slightly different view on this. Actually it is a part of our income, this hedging is a part of our strategy and so it is a part of business income now. Unfortunately, we have to call it other income, but it is a part of our business, so we would not want to complicate things. It is actually more than 50%. If you ask me the treasury income is about Rs.10 Crores out of the total other income, and the rest of it is all actually related to business.
- Dimple Kotak:** That is all from my side. Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Ram Modi from Prabhudas Lilladher. Please go ahead.
- Ram Modi:** What is the status of the class action suit, Sir?
- Rajesh Mandawewala:** So still work in process. Unfortunately, we have not made much progress and as we get into this we are learning, things move further way, I am afraid not much progress has been made on that.
- Ram Modi:** Any chances of out of court OTS there?
- Rajesh Mandawewala:** Early days, the matter is still there, but nothing substantial has changed from, the last time that we discussed about this, so we are more or less at the same position right now.
- Ram Modi:** Another question was, Sir, how much is these online players also would be brokering our bed, bath linen from the players, so how much is our penetration?
- Rajesh Mandawewala:** We are pretty happy with our penetration. So with the large players, we have already begun doing business with them, so both private label and otherwise. When that kind of business starts happening it makes us happy because they become just another customer like all our retail customers, so the business is taking that shape and direction now and that gives us a lot more comfort now.
- Ram Modi:** And are the margins similar?
- Rajesh Mandawewala:** Yes. So we treat that business just like any other business. So there is nothing different about it.
- Ram Modi:** Another question was on the flooring business for us, what kind of asset turnover we can expect into this business, Sir?
- Rajesh Mandawewala:** So between 1.5x and 2x, but it will take a while for us to develop those kinds of, as you will appreciate like any new product, any new business that you get into, but 1.5x to 2x is what we expect.

- Ram Modi:** So it would be similar to our businesses right now.
- Rajesh Mandawewala:** Right now, we are less than that, so we are more 1x than 1.5x to 2x, so this will be a better terms business actually.
- Ram Modi:** Largely domestic?
- Rajesh Mandawewala:** Right.
- Ram Modi:** Thanks a lot Sir.
- Moderator:** Thank you. We will take our next question from the line of Resham Jain from DSP BlackRock. Please go ahead.
- Resham Jain:** I was just looking at this Q4 where our margin is roughly around including other income around 19% and in FY2019 now we are riding for roughly 10% volume growth and I think like in textiles typically with this incremental volume growth, majority of the incremental gross profit, the other expenses or the below gross profit expenses typically do not increase significantly, so there should be a good amount of operating leverage, which we were not able to get this year and that is why the margins are little lower. It seems that the margin guidance, which you are saying 19%, 20%, is there a scope for upside risk to this?
- Rajesh Mandawewala:** You know we like to be cautious when we guide Resham, but there are some valid reasons why we have tried to be conservative on this and clearly the commodity prices are moving up. oil has gone through the roof now. Some of the inputs that we use are oil derivatives. Fuel prices have moved up. Cotton prices will move up in line with the exchange rates and so on and so forth. We like to be a little cautious this guide, but thankfully with the exchange rate moving in the direction that it is moving, so we are now starting to sell currency for FY2020 and that is all 70 plus, so at a future date hopefully it should start reflecting into margins one way or the other, we try and be cautious while we are guiding.
- Resham Jain:** Second question is currently the branded business which we have, mostly the Christy and we have also launched in U.S., with this currency depreciation typically maybe some of this gain we need to pass to the retailer because of the competitive intensity, but in the brands, is the pricing in our hands or it is like negotiated with the retailers where we are retailing?
- Rajesh Mandawewala:** No, it is entirely in our hands. So Christy determines its own prices. Spaces, we determine our own prices. It is the ingredient brands where we do not have that control. So for example Hygro would be sold in ingredient brand, so those we cannot leverage, but honestly we are not seeing any renegotiation of pricing with our brand position.

- Resham Jain:** No, what I am saying is in the branded part of the international business, which we have, is there a scope of that business margin to move up or volume to go up because we would be able to offer more discounts now because the pricing part is in our hand, the whole currency game partially in the private label we need to pass on some of that?
- Rajesh Mandawewala:** So, look, we have firm contracts with our client which normally run into two, three years unless something substantial changes. So normally, see, prices do not change midway, Resham, this we sell in our program with our client, so unless there is something very disruptive that happens prices generally would not change. So we are not expecting honestly price discussions with any of our clients. So it will, of course, be helpful for us to make future sales on our branded products to sell in newer programs to our clients, so the exchange rates will always be helpful with the newer businesses that we discuss with our customers.
- Resham Jain:** Finally you mentioned 30 innovated products now in the portfolio and three of them introduced this year any of this product, which you feel has a scope to become like in Hygro?
- Rajesh Mandawewala:** So actually not a product, but this as a concept we are getting increasingly more confident about the Wel-Trak, that is this initiative that we launched, Resham. So it is giving us more and more confidence. I think we are going to sell into our clients with this concept. It is just giving them that bit of assurance that they are looking for and our confidence on Wel-Trak continues to grow. So I think this hopefully as time goes by and see, look, brands take a little time to develop. So we are getting pretty hopeful on the Wel-Trak brand that is the number one thing right now that we would rest our hopes on.
- Resham Jain:** Thank you Sir and best of luck.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference back to the management for closing comments. Over to you Sir!
- Altaf Jiwani:** Thank you everybody and we will be happy to answer more questions if you have. So either you can get in touch with Harish or me, and thanks a lot for your support. Look forward to interacting with you in coming weeks as well. Thank you everybody.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.