"Welspun India Limited

Q4 FY '23 Earnings Conference Call"

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MODERATOR: **MR. NIHAL MAHESH JHAM – NUVAMA INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Welspun India Limited Q4 FY '23 Earnings Conference Call, hosted by Nuvama Institutional Equities. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nihal Mahesh Jham. Thank you, and over to you.

Nihal Jham: Yes. Thank you so much. On behalf of Nuvama Institutional Equities, I would like to welcome you all to the Q4 FY '23 and FY '23 conference call of Welspun India. I will now hand over the call to Mr. Salil Bawa, Head Group of Investor Relations. Thank you. Over to you, sir.

Salil Bawa: Thanks, Nihal. Good afternoon to all of you. On behalf of Welspun India Limited, I welcome all of you to the company's Q4 FY '23 earnings call. Along with me today, we have Ms. Dipali Goenka, Managing Director and CEO. And I also have Mr. Sanjay Gupta, Chief Financial Officer.

We hope you have had a chance to review the investor presentation that we filed with exchanges today. It is also available on our website, www.welspunindia.com. During the discussion, we may be making references to this presentation, please do take a moment to review the safe harbor statement in our presentation. As usual, we'll start the forum with opening remarks by our leadership team and then we'll open the floor for your questions. Once the call gets over, should you have any further queries that we may unanswered post earnings call, please be free to get in touch with me.

With that, I would like to hand over the floor to Mr. Dipali Goenka, Managing Director and CEO. Over to you.

Dipali Goenka: Thank you, Salil. Good afternoon, everyone, and thank you for taking the time to join us today for the quarter 4 FY '23 analyst call. I would like to share some perspectives on the operating highlights of our performance during the quarter under review. After which Sanjay would share some highlights from our financial metrics.

We are starting to see some green shoots of increased order inflows from big box retailers as they're able to destock the high inventory levels of last year. On the back of the same, on a quarter-on-quarter basis, revenues jumped up by 15% to reach INR2,195 crores for quarter 4. Our domestic consumer business continued on its growth trajectory, clocking 31% growth year-on-year for FY '23 with a revenue of INR550 crores and 9% growth in quarter 4 year-on-year.

Welspun, brand has grown 33% year-on-year in FY '23 and continued to the most widely distributed home textile brand in the country, with presence in 500 + towns and 11,170 + outlets, up by 4,500 in FY '23 and 570 added in quarter 4. A reach not hitherto achieved by any home textile player in India.

Domestic consumer business share in the overall revenue of the company has more than doubled from 3.7% in FY '21, to 7.7% in FY ’23. To strengthen our leadership position, we continually being investing in domestic business and our marketing spend has been ~ 8% during FY '23. Despite the continuing investment, the business has reached a breakeven EBITDA in the current year. Operating cash flows from the domestic business has also improved due to efficient use of capital employed as we have been continually bringing down our net working capital. Major reasons apart from a breakeven EBITDA has the reductions in inventory holdings from 123 days in FY '19 to 65 days in FY '23 and debtors from 108 days in FY '19 to 56 days in FY '23. Welspun brand was chosen to be among Top 50 brands of Asia in the prestige brands of Asia Award 2022, '23. Welspun is the only brand from the textile industry to feature among this year's winners.

To realize our vision of Har Dil Se Har Ghar Tak Welspun, we have been investing in brands globally, and we have witnessed tremendous growth there through both owned and licensed brand portfolio. Our global branded business includes Martha Stewart, Scott Living in US as well as Christy in the UK. They have grown by 50% during quarter 4 year-on-year and cumulatively grown 10% in FY '23. Our domestic brands have grown 22% and licensed brands Scott Living and Martha Stewart continue to grow at 65% in FY '23. This is definitely a positive uptick in contrast to the overall market scenario. The share of overall brand has also increased to INR1,584 crores, 22% of our overall revenues in FY 23, up from 16% year-on-year. Economic conditions for the first half to 2023 looks similar to the conditions that prevailed in quarter 4, 2022 in US, with consumer sentiments remaining low due to high inflation. In the last one year, consumers' wallet share shifted towards more necessary items and hence, retailers had landed up with high inventory levels of home textile products, which were at relatively higher price point due to higher input cost of raw materials like cotton and historically high ocean trade. We are now starting to see a gradual decline in retailer inventory levels. Major retailers, however, are providing conservative guidance in the face of inflation worries and macroeconomic uncertainty for 2023.

After touching a double-digit EBITDA last quarter, we're delighted to share that the company has achieved highest EBITDA in last six quarters, clocking 14.6% in quarter 4, up 30% year-on-year and 40% quarter-on-quarter. Out of four C's, cotton, coal, container and finally, the customer, which impacted our margin in the previous quarters, cotton and container have corrected starting last quarter onwards, while coal prices continue to remain at elevated levels as is the case with the energy basket. With the inventory at retailers level starting to come at a normalized level, the revised prices at consumer level, we expect to see an uptick in consumer demand for Home Textile, though due to current downward economic situation, it might be a gradual increase and take a couple of quarters to revive back to normal levels. As we might say, cautiously optimistic.

Our emerging businesses, domestic consumer business brands, advanced textile and flooring businesses grew 24% in quarter 4 year-on-year and 12% during FY '23. Its share to our overall revenues has been steadily going up over the last few years and is currently at 34% in FY '23 as compared to 26% in FY '22.

The Advanced Textile business witnessed a robust 26% growth year-on-year in quarter 4 FY '23 and overall 43% in FY '23, fueled by increased capacity of spunlace in Telangana commissioned in March last year. Following normalization of ocean freight, customer supplies in UK and EU has regained momentum. We have secured a large quarterly business from a new customer who is a market leader in femcare and wipes in the country. Further strong order book from key existing customers in Wet wipes would drive the revenue in ensuing quarters. In domestic market as well, we have penetrated aggressively, resulting in domestic revenue growth of 48% year-on-year FY '23.

Flooring clocked a revenue of INR208 crores in quarter 4 grew 24% quarter-on-quarter and 10% year-on-year. Big ticket buyers of USA and UK are bringing back the business despite the slowdown still continuing in both the geographies. Institutional commercial segment has also shown phenomenal growth, both in the US and UK. Middle East is continuing to strengthen and have been able to make inroads in Australia markets. Our domestic market front in flooring, we are continuing to see substantial growth and good demand built up in commercial and institutional segments. Residential segment has also started picking up. Domestic flooring hit its highest quarterly revenue crossing the INR100 crores mark during this year with 43% growth in quarter 4 year-on-year and overall 81% growth in FY '23.

ESG. Our ESG practices not only make us responsible corporate citizen also makes the business sustainable. Our investment in STP [plant has clearly helped us in lowering water cost substantially. Further, usage and investment in green energy would bring down power costs substantially, at the same time, reducing dependence on the coal and its price variability. Welspun adoption of ESG practices is world leading, and we are by far the best in the industry. It was collaborated convincingly through our latest Dow Jones Sustainability Index of 59 which puts us in Top 5 percentile score among the companies assessed. The average industry score was 21, which reconfirmed that Welspun is the beacon when it comes to doing business responsibly and socially. The latest one is 23% better than the last quarter of 48. We're also glad to inform that Welspun achieved Apex India Green Leaf Award 2022 in platinum category from for its sustainability performance at Anjar facility.

With this, I would like to hand over to Sanjay, who will take you through the financial highlights. Thank you.

Sanjay Gupta: Thank you, Dipali, and greetings, everyone. I'll give you a brief overview of the financial numbers for the quarter 4 and financial year '23 before we open for question-and-answer. During quarter 4 financial year '23, we reported revenues of INR2,195 crores, up 15.2% quarter-on-quarter and down 2.4% year-on-year. Financial year '23 revenues was at INR8,215 crores, down 11.4% on a like-to-like basis.

EBITDA margin for the quarter stood at INR320 crores, that is 14.6% which is up by 361 basis points year-on-year and by 257 basis points quarter-on-quarter. For financial year '23, we reported EBITDA of INR874 crores that is 10.6% with a contraction of 359 basis points year-on-year on a like-to-like basis. Cotton prices and freight costs continue to correct downwards during quarter 4 financial year '23, and impact of the same can be seen in our margins in quarter 4. The average quarter cost during quarter 4 was INR65,000 per candy as compared to 69,000 per candy in quarter 3 of financial year '23. Profit after tax for the quarter is at INR129 crores vis-a-vis INR44 crores last quarter, INR51 crores year-on-year. And financial year '23 that is INR203 crores vis-a-vis INR528 crores year-on-year on a like-to-like basis.

Our consolidated EPS for quarter 4 is at INR1.28 per share as compared to INR0.53 per share year-on-year. Financial year '23 EPS stood at INR2.02 per share vis-a-vis INR5.29 per share on a like-to-like basis. On the forex front, our average exchange realization for the US dollar during quarter 4 was INR80.48 compared to INR77.43 in the corresponding quarter last year.

We continue to use free cash flow to reduce our debt, which is steadily taking us towards making our core business long-term debt-free in a couple of quarters. At the end of financial year '23, net debt stood at INR1,534 crores. This is INR375 crores lower than INR1,909 crores a quarter ago and INR695 crores lower than INR2,229 crores a year ago. Over the last four years, our net debt to equity has come down to 0.38x as on 31, March '23 versus 1.09x as on 31, March 2019. In financial year '23, we spent INR275 crores towards the balance capex for expansion projects of flooring, advanced Textile and home textile businesses and other maintenance capex. The Board of Directors have in its meeting has today approved buyback of equity shares of the company for an amount of up to INR195 crores at a price of INR120 per share. The promoters will be tendering 100% of the eligibility under the buyback.

Apart from this, the Board has also approved a dividend of INR0.10 per share. The company's outflow for the buyback and dividend would be INR250 crores, which includes the tax outflow. Over the last four years, Hence, we have distributed 32% of our free cash flow on an average to the shareholders with cumulative INR648 crores distribution out of free cash flow generation of INR2,002 crores during the same period.

Financial year '23 total distribution also works out to 32% of our free cash flow. During the same period, however, we continued reduction in net debt from INR2,962 crores in financial year '20 to INR1,534 crores by end of financial year '23.

Quarter 4 financial year '23 business home textile revenue stood at INR2,017 crores versus INR1,768 crores in quarter 3, up by 15% quarter-on-quarter, and are almost at the same level year-on-year, which was INR2,073 crores during the same period last year. In financial year '23, core business revenues totaled to INR7,638 crores as compared to INR8,686 crores on a like-to-like basis, which is down by about 12%. Quarter 4 EBITDA for home textile stood at INR293 crores at 14.5% as compared to 11.6% quarter-on-quarter and 11.7% year-on-year. Financial year, '23 EBITDA of home textile is INR798 crores at 10.5% compared to 15% year-on-year on a like-to-like basis. During the quarter, revenue from flooring business was INR208 crores, up by 24% quarter-on-quarter and 10% year-on-year.

EBITDA was INR9 crores as compared to INR3 crores quarter-on-quarter. Financial year '23 flooring business recorded revenue of INR706 crores as compared to INR661 crores year-on-year growing by 7% and EBITDA of flooring business for financial year '23 was INR18 crores compared to a loss of INR14 crores in the previous year. On the back of expected increased capacity utilization and increased customer demand, the companies are well set to achieve a top line growth of 10% to 12% in financial year '24. Over the last few months, input cost have corrected downwards meaningfully, this coupled with our drive towards cost optimization and improved efficiency, aided further by relatively better business prospects and outlook. We believe we should be able to achieve annual EBITDA margin of 15% in financial year '24.

Building on our vision of our Har Ghar Se Har Dil Tak Welspun and our leadership in home solutions space in India. Domestic consumer business is expected to grow in excess of 25% in financial year '24 with a positive EBITDA. With all expansions being over, there will be no new capex except for investing in renewable energy initiatives, where also we would be exercising judicious capital allocation to getting into JVs, where possible. In financial year '24, therefore, projected capex will be approximately INR300 crores. Out of this INR200 crores will be mainly towards investing in renewable energy power plants at Anjar and balance of maintenance capex. To maximizing operating cash flows and potential capital allocation policy, we will continue to bring down our net debt position, and we are striving towards a achieving a net debt below INR1,000 crores by financial year '24 end. We continue to remain focused on our strategic priorities and growth pillars. We continue to lay emphasis on our long-term goal of sustainable growth and profitability and deleveraging our balance sheet.

With this, I'll now leave the floor open for question-and-answer. Thank you.

Moderator: Thank you. The first question comes from the line of Omkar Shintre from Motilal Oswal. Please go ahead.

Omkar Shintre: Hi, congratulations on a good set of number. I just wanted to ask that our gross margins has dropped by around 3% sequentially, while the EBITDA margins have risen on back of muted other expenses. So can you just give a sight on what has happened over here?

Sanjay Gupta: Overall, so margins have been up. There have been some adjustments of inventory in this quarter due to which, there has been a slight increase in the cost of goods sold. However, there is no cause of worry from any other direction.

Omkar Shintre: Okay. And also, our tax rate has been lower as compared to previous three, four quarters due to the deferred tax adjustments. So can you just brief about that? What can we expect going forward?

Sanjay Gupta; Yes, you touched it rightly. So there were some deferred tax adjustments, which were happening in the first three quarters, which is now completed. And from going forward, now the tax rate would be 25.17%.

Omkar Shintre: Great. Thank you.

Moderator: Thank you. Next question comes from the line of Prathamesh Sawant from Axis Securities Limited. Please go ahead.

Prathamesh Sawant: Thanks for the opportunity. So sir, one question, can you just throw some light on how are you planning, how have you done the inventory reduction and in this case going forward, as overall, the inventory cycles have been turning down in the entire industry. So just can you throw some light on the inventory cycle?

Sanjay Gupta: Yes. So overall, operating inventory, we have brought down. So if you see our total inventory is remaining more or less the same because we have built up the cotton inventory in the March end for the season. However, our operating inventory is down by about 20% overall. This has been through concerted effort factories and at our sales locations to reduce our holding levels and also reduce the aging inventory in the system and this will continue, so we would not let the inventory to increase and not let the inventory to go aging.

Prathamesh Sawant: But sir, won't that be a problem because. Largely since earlier, the issue was that timing had to match. That's why we used to maintain high inventory level. So don't those issues concern us going further?

Dipali Goenka: So I will just step in here. I just wanted to say that for us, I think to hold on the cotton inventory is something that is very, very important. The rest will be managed by complete kind of analytics and the turnaround times, which we are working on in efficiency. And you already know that we have ancillary parks, which are absolutely close to our factories. So our packaging also comes just in time. we are going to really follow a prudent inventory management system and as I spoke earlier about the retail inventory as well. So we are definitely going to be focusing on actually reducing our working capital exposure as well.

Prathamesh Sawant: Okay. Fair enough, ma'am. And secondly, ma'am, we won't be concentrated in the cotton inventory like earlier. Will that be the thing?

Dipali Goenka: Beg your pardon. Your question, please, again , if you can repeat.

Prathamesh Sawant: You won't be holding on to the cotton inventory. One of your competitor intent was in holding on to cotton inventory, do you – basically, my question is to understand what is your take on the cotton prices going up? Do you see this staying at 60,000, 63,000 levels because there was some news of cotton association stating that cotton prices may rise to 70,000 because cotton farmers are holding on to cotton. So that's our view on the cotton, please?

Dipali Goenka: So I'll just give you a perspective. So hence, I mean, as Sanjay pointed out, we have holding cotton for the next six months right now. And our average price would be between 60,000 to 65,000 per candy. That is where we are looking at average, and that's why we are looking at the business plan as well.

Prathamesh Sawant: Okay. And just some highlights on what are the cotton yarn spreads right now that you are witnessing?

Sanjay Gupta: The cotton yarn spread has not changed. So it has remained the same, more or less. There have been a 3% to 4% increase in the last two months, but it has now remained flat.

Dipali Goenka: So I just also wanted to tell everybody here that I know there has been an aberration in our cotton planning last year. And there has been a lot of diligence in the way we are going to be looking at our cotton planning. So a lot of focus on how are we going to look at our prices even in the cotton. So hence, we have taken on and built-in six months of cotton and capped our numbers from 60,000 and 65,000. And everywhere, there's been a lot of prudence, looking at our prices in the terms of cotton.

Prathamesh Sawant: Okay. And just my one last question from my side, is that I've seen your marketing spend has been increasing, and it has also been resulting into a higher share from the higher growth in the branded business. So just wanted to understand your focus on the branded business. And just can you throw some light on whether it will be more focused on the domestic part on the export way?

Dipali Goenka: So let me just tell you one thing. As we've seen the global dynamics and looking at India becoming the fifth largest economy, the markets in India are relatively growing. So while our focus on the mobile markets will still continue, but we are growing and investing in our own brands here, which are spaces and Welspun and you already have seen that our growth has been. We already have around 11,170 stores this year. And the same-store growth rate will be continuing to be every year. So next year, we're targeting around 25,000 MBOs. So that is something that we will be in the quest of. So in principle, in short, India is going to be a very key focus for our growth for our domestic brands. because India is a great story and a great opportunity.Focus on our global markets will continue.as we spoke about Martha Stewart and Scott Living that definitely is a licensed brand focus ,Second, Christy, which has our own brand in UK has another growth strategy. And we've already signed off a licensed brand in UK and Europe as well, Disney, which will again have its own growth plan as well.

Prathamesh Sawant: Okay, ma'am. Thank you. I'll get back in the queue.

Dipali Goenka: Thank you.

Moderator: Thank you. Next question comes from the line of Biplab Debbarma from Antique Stockbroking. Please go ahead.

Biplab Debbarma: Good afternoon and congratulations on the good set of numbers. So my first question is Dipali mentioned that in a couple of quarters, will return to the normal levels. So just trying to understand. What are the parameters of -- what numbers would suggest that we are back at the normal levels, that's my first question?

Dipali Goenka: Your definition of normal levels that you can define in terms of cotton, in the terms of growth, if I just want to know. But however, I like this question and give you a perspective about the core business growth and overarching business, right? So I just wanted to tell you that the last couple of quarters, we got hit by the four Cs, cotton, coal, container and customer. Destocking has happened in the global markets. And I'm talking with United States of America, while people have been talking about recession, but the retail numbers actually grew by 2.9% in USA. So we definitely see that destocking is done, the commodities are down, the freight costs are down. And the retailers who are holding higher cost inventories. They're also coming down. And hence, there is an opportunity for kind of the growth there. So that's what we are seeing. However, when I talk about UK and Europe, I still will be a little bit conservative in the approach. So USA definitely will be cautiously optimistic. UK, Europe are a little slow. However, GCC markets, Australian markets, we definitely will see some growth there. And India will be a market where we definitely are focusing on. And when we talk about commodities, like cotton, we already are derisking ourselves and freight factors are also behind us. We already know that the freight cost is at $2,000 today.

Biplab Debbarma: Okay. My second question is, in terms of numbers, in FY '24 in the export market, would you be going back to FY '22 kind of level numbers in terms of sales, would that be considered as normal? I'm talking about export only will numbers will surpass FY '22 numbers

Dipali Goenka: So I will just put in a few things here in perspective. And when you're talking about exports, I'm going to put in a kind of a rider here, and it is being cautiously optimistic. So while destocking is happening, we are looking at a growth of around 10% to 12% in entirety at WIL and that is where we are looking at the trend to be. So while the core business will also grow, we're also looking at our emerging businesses also continuing to grow. So definitely flooring, advanced textiles and our retail, and brands, which actually have contributed 34% to our top line this year as well. So yes, I will just say, the rider is cautiously optimistic, growth of around 10% to 12% this year.

Biplab Debbarma: Overall growth of 10% to 12%, is that what…

Dipali Goenka: Yes.

Biplab Debbarma: Okay. And ma'am, one final question. So you mentioned debt, target debt being zero in the next -- in few quarters, and just trying to understand by FY '25, '26 by when we expect the net debt to be zero?

Sanjay Gupta: So we are guiding towards less than INR1,000 crores net debt by financial year '24 end. And by financial year '25, we should be getting closer to net debt zero.

Biplab Debbarma: By FY '25?

Sanjay Gupta: Yes.

Biplab Debbarma: Okay. One final question is, sir, just on the flooring business, in this financial year,did you breakeven in this financial year in flooring business?

Sanjay Gupta: Yes. Flooring business EBITDA was INR18 crores this year. which was about 3% EBITDA and it has remained positive EBITDA for all the quarters.

Biplab Debbarma: Okay, I'll come back in the queue. Thank you.

Moderator: Thank you. Next question comes from the line of Bhavin Chheda from Enam Holding. Please go ahead.

Bhavin Chheda: Yes. Congratulations to the team for excellent performance across all businesses. Just a few questions. First on the flooring, if I see the quarter-on-quarter utilization levels, it has gone up, but from 30% to 34%, plus 10%, but the value sales have gone up by 34%. So what's the mismatch there?

Dipali Goenka: So actually, here, I'll just add on, I'll give you a perspective here. So while you see that, I must tell you, we also have another business of bath rug, which is again a part of the core business. And so that's where you can see the yarn, everything coming together in the terms of the numbers. So our demand on rugs has also increased. So it is complementing both our core business of bath rugs as well as our flooring business together.

Bhavin Chheda: Sure. And I think even the margins for the quarter has improved substantially, I think, for the flooring for the first time, you're crossing 4% EBITDA margin. So any margin outlook for flooring business since now it's close to achieving a critical size of INR200 crores quarterly run rate, this would improve further going into '24 and also on the top line run rate if we are confident on improving the run rate further?

Sanjay Gupta: Definitely, Bhavin. So as we have been speaking earlier as well. So the margin in flooring business would continue to grow as we increase our capacity utilization and as our revenues grow. And we have a good growth target for this business as well as the Dipali mentioned, and so the EBITDA would definitely go up from this level as well. As to how much we are not in a position to give you a number right now, but it will be higher than this.

Bhavin Chheda: Second question is on the buyback of INR195 crores, which is announced , it's a tender of INR120 a price. Company is already undergoing an ESOP related buyback and completed, I think, close to INR70 crores out of INR150 crores. So can both these schemes go simultaneously or ESOP buyback is largely over?

Sanjay Gupta: No, both are changes can go side-by-side. There is no embargo.

Bhavin Chheda: Okay, there is no embargo. So both can continue until the time line, until the monetary limit of what we had already announced?

Sanjay Gupta: Correct.

Bhavin Chheda: Okay. And Sanjay, I'm assuming your INR1,000 crores net debt below INR1,000 crores in '24 is also assuming you're completing INR195 crores buyback and whatever ESOP-related buyback. So I assume you have included all those numbers when projecting net debt -- guiding a net debt below INR1,000 crores?

Sanjay Gupta: Correct. You are correct.

Bhavin Chheda: Okay. Thanks a lot Sanjay.

Moderator: Thank you. Next question comes from the line of Abhishek Nigam from B&K Securities. Please go ahead.

Abhishek Nigam: Yes. Hi everyone. Congratulations on a great set of numbers. So just three questions. One, with respect to guidance, so I understand the 10% to 12% top line guidance but margins, EBITDA margins, should we assume maybe slightly higher than what you had in the fourth quarter, is that a fair assumption?

Sanjay Gupta: So we have given Abhishek, guidance for about 15% EBITDA for the whole year.

Abhishek Nigam: Okay. So this is for FY '24 full year. Okay. That helps. And the solar plant, which starts in the second half of this year. How much annual savings can we expect in FY '25 because that is the first year of full year of operation?

Sanjay Gupta: So Abhishek, solar plant, the per unit cost is actually much better than the coal plant, which is roughly about 50% cost. And the solar plant that we are putting ups is, will meet about 20% of our energy requirement. So taking into account that 6% is our energy cost for the year, when it start in half year time, it should save us about 20% of 6%, half of that to about 0.5% to 0.6%.

Dipali Goenka: Also, I must just add on here, it also gives us stability in our supply. I mean, we all know how the crude and the coal behaved. So definitely, this will give us a sustainable source of energy too.

Abhishek Nigam: Yes, sure. So 0.5%, 0.6% EBITDA margin and a very stable supply. And last question. So what is exactly driving down the lower debtor days and lower working capital? And could we expect further correction, or is this kind of where things should be,I mean, given that it's already down quite a bit?

Dipali Goenka: No. Actually, we'll maintain this or try to do better. It is all by financial prudence, planning, everything. It is at all levels, actually. It is at the warehouses, whether in the United States of America or retail warehouses in India, to our planning teams, how are they working at the factory and also the manufacturing teams working on a turnaround time to deliver faster. So that's where we are looking at. And as I said, that our ancillary vendors are just right across. So we also have just-in-time inventory there. So it is going to be the prudence we are going to definitely follow. And will maintain at the same level or maybe a little bit more better. The only inventory that will be carry will be cotton, which is around six months.

Sanjay Gupta: And so turnaround time, time all across the system is being tightened. So we are questioning ourselves whether the time line can be further reduce. So even in debtors, turnaround time of all the documentation are being brought down to half and then to further below that. And hence, this will continue. And we'll try to bring down our net working capital cycle further down from this level.

Abhishek Nigam: Fair enough. Thank you so much.

Sanjay Gupta: Thank you, Abhishek.

Moderator: Thank you. Next question comes from the line of Vikas Jain from Equirus. Please go ahead.

Vikas Jain: Thank you so much. Thank you for the opportunity. My first question is with respect to or commentary with respect to the inventory that you talked about at the retailers level. So just a few more comments from your side as to like how would you rate the inventory versus a normalized level right now? And is there some more pain left into the system where they are either or it will take some more time for the complete normalized ordering from the retailer side? Or is it like the end demand is itself weak that is why the retailers are like holding on with their order book or giving a normalized order? So what is exactly it is the still the inventory levels are relatively higher or it is the end consumer which is weak or which is driving a load order from a normalized time?

Dipali Goenka: I'll give you a perspective here. So to your point about the inventory, it's a combination. So destocking has already started, but we see that it might just be extended to the quarter 1 as well to a little bit because we all know that they might be holding on some stocks, which could be a higher and that enhance that is where it could be also impacting them. So it's a mix. So while the destocking has already started, we definitely will see it the quarter 1 as well. I honestly feel one more thing on this that the retail sales are owing to the, there are three price points that the consumer looks at. And that's where you can definitely see the offtake on. And the commodity prices have played a great role in it, whether it's cotton or the freight. So quarter 1 would be where we'd be seeing a little bit better position also coming in.

Vikas Jain: So, just to extend this question. So are you seeing since the quarter end rate prices have come down. So, is it like the realization for feed that we used to do probably for the last couple of quarters. Is there a decline that we are seeing right now in the orders that we have received, the issues that we talked about? 41

Sanjay Gupta: No.. So what we are saying is that because the goods goes in a FOB now four months back a container of towel of $40,000 was going at $8,000 which was 20%. It is now going at $2,000 which is 5%. So, the retailer is of course, you know, saving that 15%. And hence that will result into a reduction in the consumer level prices. So, that is what we are alluding to.

Vikas Jain: So, but then there’s no pressure that has been seen from the retailer side to block or reduce our realization. Is that what you are trying to say?

Sanjay Gupta: Yes. So, it is all relative. So, as the cotton prices and freight prices are going down. They are reaping the benefit of that. Cotton prices have not come down to the extent that you know, they can demand certain reductions from us. However, there are some markdown and some promotions that we continue giving to them and hence that is continuing. But as such there is no pressure.

Vikas Jain: Sure. Thank you. Second question, just wanted one clarification that you mentioned about the 15% EBITDA margin that was for the home textile division or you are talking about at the company level?

Sanjay Gupta: It's at the consolidated level.

Vikas Jain: At the consolidated level, okay. So then at a home textile segment probably that number would be transferred into 18% to 20% again reaching the normalize level?

Sanjay Gupta: About 17%, 18%.

Vikas Jain: Perfect. Okay, sir. Thank you so much. I will get back to the queue for the question.

Sanjay Gupta: Thank you, Vikas.

Moderator: Thank you. Next question comes from the line of Umesh Matkar from Sushil Finance. Please go ahead.

Umesh Matkar: Yes, thank you for the opportunity and congratulations on a good set of results considering the tough economic environment. My first question is that considering that the cotton prices have come off, are we competitively in better situation as compared to other neighbouring countries?

Dipali Goenka: Yes, I think I'll just tell you. And I think last year we were at the receiving end. We were actually absolutely, you know, the highest in our prices in the terms of cotton compared to our neighbouring countries. This year, in fact, India has been better off compared to the other countries.. And I must also tell you that India has actually, which had lost its position to our neighbouring countries this quarter, has actually taken on and gained that position whether it is in towels from China and sheets from Pakistan. And it has come back to its original levels.

Umesh Matkar: Okay, that is good to hear. My second question is, pardon me if I have repeated, I am repeating it. I would just like to know about the tie-up with Disney that you have done last quarter. So, what sort of arrangement we have done with them and will it contribute significantly to the top line in one to two years? Also I would like to add that we were expecting around INR15,000 crores rupees of top line in FY '26. So, with this arrangement, can we expect even more revenue in FY '26? Thank you.

Dipali Goenka: So actually, I will give you a perspective, not only on Disney, I will give you a perspective on overarching our licensed brands and I think that is very, very important. So, licensed brands actually have given us the opportunity to get extra shelf space. So, while you have private labels, you have that limiting space with our licensed brands, whether it's United States of America, Europe, we get an additional shelf space. And hence that's where the great opportunity is and it also helps us to target a different profile of a consumer. So, definitely that's the great opportunity that we have.

And when you talked about the INR15,000 crores, we are absolutely focused on our top line numbers and we know that when we, and as I earlier pointed out, that the emerging businesses are contributing around 34% of the top line, that will be continuing to grow, whether it's flooring, advanced textiles, retail and the brands. And that will actually constitute and we are absolutely geared up towards our numbers that we have committed. So, retail definitely is going to grow, our emerging businesses definitely are going to grow. And licensed brands will continue to add on that extra shelf space that is needed.

Umesh Matkar: Okay, great. Thank you and wish you all the best.

Dipali Goenka: Thank you.

Moderator: Thank you. Next question comes from the line of Abhishek Jain from Arihant Capital. Please go ahead.

Abhishek Jain: So just want to understand on the WAMIL side, how the things are shaping up and on the B2B side, how the things are picking up and what is the current utilization?

Dipali Goenka: So, I'll just tell you about WAMIL and I'll give you advanced textile business perspective. You know, we witnessed a growth of around 26% year-on-year in quarter 4 FY ‘23. And we feel that next year, we are definitely going to, we are geared up to, you know, grow this and outweigh this number. Today, our capacities would be at around, say, 50% to 60%, which we’ll continue to grow next year. And it will be owing to the freight costs as we spoke about, the freight costs have come down and EU markets and the, you know, the UK markets have opened up and globally also the markets have opened up. And India market definitely is again a great opportunity for our wet wipes as well. So, that's where we'll see that, you know, we will definitely have an upside there too.

Abhishek Jain: Okay. And on the gross margin side, on the overall basis, do you see from, as you just mentioned, there are some inventory adjustment was there in Q4. Do you see from this quarter onwards, there will be some pickup and what is your outlook on the same now?

Dipali Goenka: definitely, I mean, we spoke about the numbers of quarter 4 where the destocking has already happened by the customers. And it might still continue because some retailers might be having some high price inventories till the quarter one. So, I think it will take one more quarter for them to just destock in entirety. But however, that trend has already begun because we also have seen that the freight costs have come down, the commodities have come down. So that has added on them to revert back to the original retail prices.

Abhishek Jain: And last question, what will be the, because yes, we want to get into the more retail presence right now. So what will be our advertising and marketing costs for FY ‘24?

Dipali Goenka: So we have spoken about 8% of our revenue for retail. So, retail today is at around 8%. And we are looking at growing that by 30%.

Abhishek Jain: And by FY '25?

Dipali Goenka: No, no, same year, year-on-year I'm talking about. Yes.

Abhishek Jain: Okay, ma'am. And ma'am, what will be like FY ‘25, I see right now, X exports or X the traditional business, what will be the mix on the residual business like the retail and the WAMIL side? Retail will be 45%, 30% to 40% on overall, means what will be our target in three years? Are we seeing retail shared on overall price?

Sanjay Gupta: So, retail currently is at about 7.7% of our total revenue. It will grow up to about 11% to 12% by FY ‘26. Our overall emerging businesses, if we talk about which includes retail, branded, advanced textile and flooring, which is currently at 34% share of the total revenue, will grow up to about 45% of our total revenue by FY 23

Abhishek Jain: Thank you, sir. And what will be the capex number sir?

Sanjay Gupta: Capex for next year will be INR300 crores, INR200 crores will be for putting up the renewable energy plant and balance 100 for maintenance.

Abhishek Jain: Okay, okay, sir. Thank you, sir. Thank you for taking my questions. And congratulations on good set of numbers.

Sanjay Gupta: Thank you, Abhishek.

Moderator: Thank you. Next question comes from the line of Roshan from B&K Securities. Please go ahead.

Roshan: Yes, thanks for the opportunity. so the standalone revenue seems to be flat, despite if you see the home textile revenue is up. So, is there anything to read into this?

Sanjay Gupta: So, on a quarter-to-quarter basis, we can't see and, you know, get any meaningful result out of it. But if you're asking, yes, so sales would have happened to US in the last quarter. And now this quarter, US sales must have happened larger than the export from India. So, that's why this difference you see in the standalone and the consolidated business. But on a year-to-year basis, it will, it will look to be the same.

Roshan: Okay. And can you tell me what would the impact be from, Bed Bath & Beyond to the top line approximately?

Sanjay Gupta: So Bed Bath & Beyond used to be a major customer for us. But we have now, you know, we have not taken that into account for our future.

Dipali Goenka: In fact, for the past two to three years, we have been looking at and been very, very conservative on Bed Bath & Beyond. So, we actually also, and I think I also will say that we will also not respond to this retailer in specific. But I will just say that, you know, we have adequately covered through a policy of credit insurance in advance. And that's where we are.

Roshan: Okay. Yes. Thanks a lot. That's all from me.

Moderator: Thank you. Next question comes from the line of Monish Ghodke from HDFC Mutual Funds. Please go ahead.

Monish Ghodke: Hello. Thank you for the opportunity. In flooring business, what would be the mix between export and domestic?

Dipali Goenka: So I will actually, here, I will just give you a perspective. Definitely both the businesses are growing simultaneously for us. And this actually facility was actually put in as a green facility for the domestic business. And now we are seeing an opportunity in the domestic business and as well as in the exports. While, you know, it took a lot of time, a couple of years for the Indian market to open up because of the COVID and the other issues. But now with the institutions, hospitality, they are really growing significantly. Whereas also our domestic business in the terms of residential is very, very high.

So, I feel that I will just give you that both are growing quite well. And our impetus will also be on the domestic business more than anything else. We achieved the highest ever number in the domestic flooring business this year, around INR100 crores.

Monish Ghodke: Okay. And in our investor presentation, this annual capacity of flooring, it shows operational is 18 and expected is 27. So, is there any capital work in progress?

Sanjay Gupta: No, no. So just some balancing equipment should be required to, you know, start the additional capacity, which we are not doing till we reach the 18 capacity. Once we reach that capacity, we'll put those balancing equipments to make it to 27, which will not be much capital investment.

Monish Ghodke: Okay. And so what is our strategy to reach full capacity in flooring? Like, is there any, what would be our focus area?

Dipali Goenka: So our focus area will be, you know, also the soft flooring here. And we want to grow the soft flooring, whether it's a wall-to-wall carpets, carpet tiles, and a bath rugs. And we are seeing a great potential there across the globe. And that will be in the segments of institutions, hospitality, retail and residential.

Monish Ghodke: Okay. And if I may ask, what are the key raw materials for the soft flooring business?

Dipali Goenka: So it is basically microfiber, nylon. These are the two, you know, two important materials that we need for the soft flooring.

Monish Ghodke: It's available in India or imported?

Dipali Goenka: So, you know, the microfiber is available in India. Nylon is something that we import.

Monish Ghodke: Okay. Okay. And ma'am, this renewable capex, which we are doing INR200 crores, what kind of payback period and ROCE we can expect?

Sanjay Gupta: Yes, payback period is less than about three years,

Monish Ghodke: Okay. And then what kind of net savings we will have, annual savings, approximate number?

Sanjay Gupta: I had just given it out to our toll. This will meet our 20% of our energy bill. So, this year we should save off about 0.5% to 0.6%.

Monish Ghodke: Okay. So could you give me a number?

Sanjay Gupta: So 0.5 to 0.6 will come to about INR40 crores. Yes.

Monish Ghodke: Okay. Thank you, sir.

Operator: Thank you. Next question comes from the line of Chinmay from Emkay Global. Please go ahead.

Chinmay: Sir, I just had a request if you could repeat the guidance which you had given in terms of top line and EBITDA margins for FY '24.

Sanjay Gupta: You want it to be repeated?

Chinmay: Yes. If you could just repeat it. I had missed that.

Sanjay Gupta: Yes. So we have given guidance for about 10% to 12% growth over this year, financial year 2024 in terms of revenues. And in terms of EBITDA around 15% on a consolidated basis.

Chinmay: My next question is with respect to the cotton prices. So although the cotton prices have fallen down from their highs, however, the Cotton Association of India has been stating that because of low output expected going ahead, there will still be volatility. So, how are we going to tackle that? Is it only the basis of the six-month inventory that we have in terms of inventory management?

Sanjay Gupta: Yes. So, as per our cotton buying policy, so we buy our season cotton by March. And so we have bought the entire season cotton, which will see us through the season, which will end by September. And when the new season comes in, we'll start buying for the new, at the new season prices. So any intervening increase in prices is not expected to hit us if there is any.

Chinmay: If you could please share the average cotton price per kilogram or maybe cotton candy.

Sanjay Gupta: It's 60,000 to 65,000 per candy.

Chinmay: All right. And in terms of supply chain management, there has been recent study as well in terms of supply chain disruption. So, are there any other improvements or any other positions we have taken in order to improve the supply chain?

Dipali Goenka: The supply chain, I must tell you that we are completely looking at the entire supply chain in the terms of our turnaround times and also I must also give you a perspective. You know, the freight costs had gone up and also we knew that there was an uncertainty when those products are going to reach the shores of, you know, the retailers or the countries. Now that has opened up. But for us at Welspun, we are absolutely investing in technology. We are looking at actually how we are planning our cotton, as we've already spoken about, how are we planning our trims and packaging. And how are we actually effectively planning our turnaround times. And reverting back to our customers. So, from the point of sale to our manufacturing, there's a complete alignment in the terms of visibility as well and the speed to market. So, there's a lot of work on that that's being done here.

Chinmay: I understood, Ma'am. Thank you. Those were my questions.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of question and answer session. I would now like to hand the conference over to the management for closing comments.

Dipali Goenka: So thank you, everyone, for being here. So Welspun has always led the industry in setting benchmark of performance as well as corporate governance. We are committed towards growing our domestic consumer business aggressively to improve our leadership here further. India is the shining star among all global economies and this would be a priority area of growth. So as to touch as many lives as possible and, to realize our vision of Har Ghar Se Har Dil Tak Welspun. On the export front, while we are seeing a definite uptick in demand, we are cautiously optimistic given the slowdown worries still persisting for the near term. We are, however, committed towards the guidance we have provided for FY '24 and our long-term objectives of profitable growth through continued investments in brand and innovation. At the same time, it is in our DNA to do business socially and responsibly.and in this direction, our work towards achieving our ESG goals would continue unabated, be it in energy, water, carbon footprint, diversity, or governance front. Our recent industry leading score of 59 by DGSI reaffirms our leadership on ESG front. Thank you for your continued interest in Welspun India. For any other queries, please feel free to connect with Salil and Sanjay.

Moderator: Thank you. On behalf of Welspun India Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.
