



TRANSCRIPT: Welspun India Limited Q3 FY2022 Results Conference Call  
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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Welspun India's Q3 FY '22 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. I now hand the conference over to Mr. Nihal Mahesh Jham from Edelweiss Securities Limited. Thank you and over to you, Sir.

**Nihal Mahesh Jham:** Thank you Aman. On behalf of Edelweiss, I would like to Welcome you all to the Q3 FY '22 Earnings Conference Call of Welspun India Limited. I would now like to hand over the call to Mr. Abhinandan Singh, Head, Group Investor Relations at Welspun Group to introduce Management and take it further. Over to you, Abhinandan.

**Abhinandan Singh:** Thanks Nihal and good afternoon everyone. On behalf of Welspun India, I welcome all of you on the company's Q3 FY '22 earnings conference call. We have with us today Mr. Rajesh Mandawewala, Managing Director; Ms. Dipali Goenka, CEO and Joint Managing Director; Mr. Akhil Jindal, Group CFO and Head-Strategy, and Mr. Sanjay Gupta, the company's Chief Financial Officer. As usual, we will start the forum with some opening remarks by our leadership team and then we will open the floor for your questions. Once the call gets over, should you have any queries that remain unanswered post the earnings call, please feel free to reach out to us. And with that I would like to hand over the floor to Ms. Dipali Goenka, our CEO and Joint MD. Over to you Dipali.

**Dipali Goenka:** Thank you Abhinandan. Good Evening everyone, thank you all for joining us today. We hope that you are safe and in good health. While India has witnessed a sharp rise in COVID-19 cases in recent weeks, the impact of the third wave has been miles so far. The trajectory of the pandemic is still evolving and the recent increase in cases has slowed the pace of economic activities in January, but we expect the economy to regain momentum as this wave abates. Our Board today approved the financial results for the quarter ended December 31, 2021, and I would like to highlight some key points.

The company delivered a resilient performance during the quarter. Our unique value proposition to our customers right from demand planning, forecasting, logistical support, innovation, traceability to quality defining products ensured a stellar top line performance even in these challenging times. The business continued the growth momentum that we saw in the last two quarters clocking revenues of Rs 2,438 crores in Q3 growing at 19% year-on-year and Rs 7,130 crores YTD growing at 36% year-on-year. The home textiles business delivered revenues of Rs 2,251 crores growing at 14% year-on-year and Rs 6,718 crores YTD growing at 32% year-on-year and we are well on our way to another milestone of reaching one billion Dollars revenues in home textiles alone this year. The US economy, which is the largest market for Welspun has been showing a strong comeback, advanced estimates of US retail and food services sales of 2021 were up 19% year-on-year. On the back of this growth, we saw our home textile export grow by 35% YTD.

The market share gain and growth have been broad based across our key businesses. Our flooring business grew 95% year-on-year in Q3 and 136% YTD. Domestic business continued its upward trend witnessing 55% growth in Q3, year-on-year and 88% YTD. This demand resiliency has, however, been accompanied by significant increase in energy costs, highest ever commodity prices and continued global supply chain disruptions. As per Cotlook-A index, cotton prices are presently one of its highest levels ever historically and touched USD 2.64/kilo level this month. Elevated cotton prices due to the increased demand of cotton and yarn resulting from factors such as US ban on cotton products from China's Xinjiang region, which accounts for one-fifth of the global cotton production and expected shortfall in supplies continue to create serious challenges on revenue and profitability; while we have again gone back to our customers for price increases during the quarter to mitigate the Q3 cotton price increases, impact of which would start coming in from Q4. We are now again seeing more than 20% increase in cotton prices recently, and we are watching and monitoring the current situation closely and we may have to revisit our pricing strategy yet again.

On the logistics front, the industry continues to face heat due to container shortages, port congestions, increased ocean freight rates, and sailing time. Further, scarcity of truckers in our key end market i.e. the US, is leading to serious challenges in movement of goods including last mile delivery to the retail stores. The partial availability of holiday season goods at shelf led to upheaval in retail impacting demand and sales at retail levels. We currently foresee a resultant glut of stocks in the supply chain and increase in prices leading to a potential rebalancing of demand and a transitory correction going forward.

We, however, continue to see positive results of our continued focus on growth drivers - innovation products, B2C initiatives and brands and e-commerce are emerging businesses, and a commitment towards ESG and sustainable growth. Our innovation product sales during the quarter were Rs 510 crores taking YTD sales to Rs 1,636 crores registering a YTD growth at 24% year-on-year and contributing 26% to the sales. The e-commerce and branded business at Rs 388 crores grew by over 45% YOY accounting for 18% of our revenues, with US leading the growth with 157% growth in US branded business sales YOY. We added 325,000 unique customers in Q3 and through Black Friday and festive period, over 15 Welspun programs were amongst the top 100 ranking across the categories. In the US, our licensed brands recorded 66% growth in the calendar year and these have taken up 175% more shelf space with our key retailers. We are committed to grow both e-commerce and branded business to \$ 100 million run rate each by FY23 and FY24, respectively.

ESG continued to be the focus area for us through the quarter as we view embedding sustainability as a responsibility and an opportunity to reinvent our business and the textile sector. Some of the highlights of Q3 are,

- Welspun India has been rated by Dow Jones Sustainability Index, one of the worlds most renowned sustainability index, through the Corporate Sustainability Assessment 2021 and in this maiden assessment, Welspun India secured an ESG rating of 48 which is 62% higher than the average industry score.

- Our efforts to conserve, reuse and recycle water are path breaking and led us to winning the National Award for water announced by the Ministry of Jal Shakti. The recognition came on the back of the social and environmental impact made by Welspun's cutting edge sewage treatment plant in the drought prone Kutch district.
- Frost & Sullivan and The Energy And Resource Institute, TERI, also recognized Welspun India for our sustainability practices and impact on the environment and communities at the sustainability 4.0 awards.
- Sustainability remains at the core of what we do and through our 'Well Krishi' program, we aim to build a strong self-reliant and prosperous farming community that empowers over 15,000 farmers and 75,000 farm workers across more than 350 villages to sustainably produce over 15,000 metric tons of cotton from 80,000 acres.
- Circularity adopted across businesses, with focus on use of recycled content, both in textiles and packaging. Welspun joined Sorting for Circularity India Project anchored by Fashion for Good, Amsterdam, a consortium project which aims to build a new textile waste value chain in India.

As a leader in home textile manufacturing sector, we see extraordinary possibilities to increase the positive impact. Be it our aim to be carbon and water neutral by 2030, obtain 100% of our cotton sustainably or impact a million lives through corporate social value interventions by 2030, our ESG efforts drive measurable results.

Domestic retail: Domestic home textile business recorded the highest ever quarterly sales of Rs 127 crores exceeding Rs 100 crores sales for the first time, our 55% year-on-year and 40% quarter-on-quarter. Brand Welspun distribution now covers 470 towns and 5,424 stores with 550 store additions in the past quarter through strong acceleration plan. Spaces became the number one brand on Myntra while also witnessing the highest traffic on Spaces' own website in the current year of about 5 lakh+ customers in the month of November. Spaces launched its unique air purifying range collections with a 360 campaign on digital, OH, print, and theatre with 14 million unique reach.

Advanced textile: Our advanced textile business revenues during the quarter stood at Rs 63 crores. Spunlace business has seen a revival in demand after stocks correction in all markets. However, escalated sea freights continued to be challenging for Europe, South America, and Far East markets. New orders were secured in North America and Wet Wipes business added an upcoming Indian brand for wet wipes and another in cosmetic sheet mask. Industrial filtration demand continued to be healthy. Spunlace capacity at Telangana is underway and is expected to start commercial production in Q4 FY '22.

Flooring business: We are enthused by the growth being witnessed in flooring business which grew 95% year-on-year and 20% quarter-on-quarter achieving a record revenue of Rs 191 crores. We continue to add additional large institutional customers in US and UK, and also made inroads in hospitality chains in UK on the back of strong product differentiation. The hard flooring capacity usage has been enhanced significantly and is fully locked now. Sales momentum is continuing on domestic flooring business seeing a healthy growth quarter-on-quarter. Digital

channel sales continue to do well. Marketing festive campaign featuring Amitabh Bachchan pre-Diwali had a reach of 103 million and post Diwali brand participation in India and New Zealand cricket series clocked a cumulative reach of 173 million. On product assortment, we added warm wood tones and click and lock tiles assortment. Flooring received 'Recycled Claim Standard 100' certification for recycled polyester in carpet tiles. Our order book remains strong for exports and our domestic business is showing green shoots and is adding to the top line of the division.

Now, I would like to hand over the call to Sanjay to provide updates on financial numbers. Thank you.

**Sanjay Gupta:**

Thank you Dipali. Good Afternoon Ladies and Gentlemen. Many thanks for joining the Q3 FY'22 Welspun India earnings concall. I will give a brief overview of the financial numbers for the quarter before we open for questions and answers. I am delighted to share that during Q3, the total income grew by 19% year-on-year and it stood at Rs 2,438 crores. YTD December revenue grew by 36% to reach Rs 7,130 crores. We earned an EBITDA of Rs 331 crores in Q3 and EBITDA margin stood at 13.6% as compared to 16.9% last quarter. YTD December EBITDA stood at Rs 1,178 crores, that is, 16.5% growing by 11% year-on-year. Coal price increases, higher logistics cost including about 4x ocean freight rates hike and jump in commodity prices, all resulted in this adverse impact. As also mentioned by Dipali, we believe this to be transitory with our fundamentals remaining strong, be it in our relationship with customers, our focus on innovation, digitalization, and ESG or in the increased focus in our B2C initiative and emerging businesses including flooring and domestic business. While the current adverse market situation may impact our earnings in the near term, our medium to long term outlook remains buoyant. Also, to mitigate the impact of these cost increases, we have taken several steps; number one being, we are rationalizing our fixed cost across functions and business units to partially set off the increases in power and logistic cost, and number two, working capital is being tightly monitored to ensure more liquidity and savings in finance cost.

Profit after tax (after minority Interest) stood at Rs 132 crores in Q3 and YTD December at Rs 549 crores growing at 34% YTD year-on-year. Our consolidated EPS for Q3 of FY'22 stood at Rs. 1.34 as compared to Rs. 1.80 year-on-year. YTD December EPS is at Rs. 5.52 as compared to Rs.4.08 last year growing by 35% year-to-date.

On the Forex front, as per practice and as mandated by Board, we continue to hedge about 65% of our future receivables. Our average exchange realization for this quarter was Rs.76.59 versus Rs.74.08 in the corresponding quarter last year. Net debt of the company stood at Rs 2,542 crores, a marginal increase of Rs 9 crores over September '21. We have in hand over Rs 377 crores of RoSCTL and RoDTEP scrips receivable and still to be encashed. Along with this, we would have been lower in net debt position as on December '21.

The expansion projects of flooring, advanced textile, and home textile businesses, which were started last year are in different stages of progress. Capital spends in Financial Year '22 on projects is expected to be around Rs. 550 crores out of which Rs.450 crores is already spent, YTD December '21.

Coming to segmental results, Q3 FY'22 core business, home textile revenue stood at Rs 2,251 crores versus Rs 1,967 crores during the same period last year growing by 14% YOY. YTD December '21 corresponding revenue was Rs 6,718 crores growing by 32%. Q3 EBITDA home textile stood at Rs 313 crores at 13.9% as compared to Rs 413 crores in Q2 at 17.4%. YTD home textile EBITDA stood at Rs 1,170 crores. EBITDA margin being 17.4%, growing by 5% year-on-year. During the quarter, revenue from flooring business was Rs 191 crores up by 95% and 19% QOQ. YTD December flooring revenue were at Rs 472 crores up 136% year-on-year. EBITDA was at plus Rs.10 crores as compared to a loss of Rs 24 crores last year. YTD December EBITDA is at a loss of Rs 11 crores vis-à-vis Rs 80 crores last year, a substantial improvement. The business is also witnessing significant increases in input raw material cost and higher freight cost, but we are passing on the cost increase to our customers, which has a lag time of a couple of quarters. Emerging growth businesses which include branded business, e-commerce business, flooring and advanced textile, cumulatively grew by 62% year-on-year and contributed 26% to the top line during the year versus 22% contribution in Financial Year '21.

With this, I will leave the 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. The first question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

**Riddhesh Gandhi:** We have been hearing positive commentary on the overall export of home textile business from all of the players out there, just wanted to get your own sense, is this a demand because end market is growing and then in turn how long is it sustainable, is it India is actually continuing to gain share and how large we could ultimately end up given our share already is quite high or is it some inventory issues or how should we be thinking about the long term growth prospects of the export business?

**Dipali Goenka:** Thank you. I will just give a perspective, I think we have talked about the supply chain glut that has been there. I would just give you a perspective, in fact the goods of Christmas season also have not reached the shores of America, so there has been a complete delay on the East and West coast. The home textile reported a growth of 14% though in the holiday season in December, but however, the commodity challenges, the retail correction that we are seeing in the terms of prices, we definitely will see some correction happening in the Q-1 and Q-2, so though the long term plans for home textile looks good, but as of now there would be an interim blip because of the supply chain issues, the commodity, and the price corrections that we seeing going forward.

**Riddhesh Gandhi:** Just looking slightly ahead two-three years ahead, maybe even five years ahead, given you guys are obviously largest exporter out of India and major exporter to America, how do you see overall end market growth, kind of leaving aside any quarterly blips which may happen in the next six to nine months?

**Dipali Goenka:** I still did not get your question, could you just clarify that please?

- Riddhesh Gandhi:** Sure, given the slightly the longer term outlook five years out, how do we see overall growth in the industry being per se as an export?
- Dipali Goenka:** I think for us definitely USA has been growing and will continue to grow, and UK, Europe, and rest of the world will contribute, but for Welspun as a company, we will have a domestic play that is going to be very, very strong because as we see the Indian economy also growing very robust, we will definitely see a contribution of the Indian brand spaces and Welspun coming into play here and definitely that is going to be a very big play for Welspun. So overarching, yes to your question, the geographies will grow but for Welspun, the focus on our emerging businesses like brands in India, Spaces and Welspun and our flooring business will definitely be something that we will see a lot of impetus, contributing to our top line as well.
- Rajesh Mandawewala:** Let me add to that, overall the consumption is growing, so there is no doubt and through this COVID period, it has gotten reinforced and just like Dipali said, there is almost a 15%-20% year-on-year growth during this Christmas holiday season and this I am talking about America, so there is robustness in demand which we have seen over the last two years. Also, clearly now with the Xinjiang cotton situation, it makes it that much more difficult for China now to export particularly cotton products and sheets of predominantly cotton. So that also is playing to India's favor and the leading players here in India. So, while I agree there is a disproportionate share of India within this particularly category of sheets and towels, but there is room for that share to grow, so that is one. Two, it clearly opens up possibilities in other categories where China historically has been very dominant like fashion bedding where India has got an insignificant market share and China is north of 70% of all imports into the US and likewise the rugs and flooring products where China has got a very decent share. So, these are categories which could actually end up growing much faster, so even if you take a five year view, our thinking is that India's market share will continue to grow both in cotton products and there will be also acceleration on non-cotton products because of the China plus one factor.
- Riddhesh Gandhi:** Sir, anything on the FTA updates with regard to EU FTA or FTA with UK?
- Rajesh Mandawewala:** Riddhesh, there are three FTAs currently under discussion and they have been under discussion for donkey's years now, but what we know is that this is part of the association and policy making process. There is very serious intent now that we see from our Indian Government to actually see these agreements through, there is the agreement with EU, there is one getting discussed with Australia, there is also one getting discussed with Canada, so I think there is renewed vigour but these things are easier said than done. So, while we are seeing energy, we will have to wait and see by when they actually materialize.
- Moderator:** Thank you. The next question is from the line of Prathamesh Sawant from Axis Securities. Please go ahead.
- Prathamesh Sawant:** Sir, I wanted to you to shed light on your flooring business, so what exactly is our current capacity utilization and when will we reach full capacity utilization, is the CAPEX completely

done and what is the market scenario like, I think we are largely catering to the US market, so any light on that?

**Rajesh Mandawewala:**

As Dipali mentioned, there are several parts to our flooring business, so our hard flooring business has picked up very well and our primary market of course is America. It has picked up well. Having said that, there is rising commodity prices and the supply chain ocean freight prices, so the margins are not where we would like them to see and we are making best endeavor to pass on all cost increases to the customers, but it takes some time lag and also there is a sensitivity involved when you discuss pricing with the customer, if you go too aggressive, you will get your price increases but then the consumption starts deflecting and reducing, so we are moving in a very calibrated manner. We are not so happy with our progress on the soft flooring side, this we can do much better than where we are, but obviously with offices remaining closed for a better part of the last two years due to COVID and for our biggest product carpet tiles, the demand was very slack and so the numbers are not where we want to see them. The other part is of course the wall-to-wall carpet area where we are seeing better traction than carpet tiles, but again not as much as one would like to see. Having said that, over the last three-four months, some significant progress on business development has been made. We believe these developments will get fruition over the next couple of quarters and we will see this healthier capacity utilizations on the soft flooring side and I am talking about the international markets here. For the domestic business, it is the same story, so for the better part of the last two years, offices remained closed. There was circumspect attitude of people to let people into their houses to get their floors done and so on and so forth. Having said that, last quarter we achieved where we were pre-COVID in Jan to March 2020. Our October to December numbers in the domestic market are by and large better than where we were in that quarter, so we have reached there and now we are seeing traction coming in the domestic market as well and efforts are being made to become more penetrative with our distribution network. Also, we are discovering what is the right channel of marketing and so on and so forth. So, all in all I think as a company we are making good progress. We have done about Rs. 190 crores in revenue and growing and counting. In terms of capacity utilization, we are at about 40 odd percent and there is also within this idle capacity that we have, we try and make product for our rugs unit. We make rolls and send it out to our rugs business, so we try and keep our equipments occupied from that perspective, but from a hard flooring business perspective, we are at about 40% and there is a large room to grow.

Also, our products are now distributed in 10-12 countries on a regular basis all over the world, both hard and soft flooring, so rapid progress is getting made and we are hoping to see better traction come in the ensuing financial year. Thus in summary, we are not too happy with the progress we are making on the soft flooring side where we believe the traction will start coming in a couple of quarters. On the hard flooring, while good progress is being made on the top line, our good efforts are in a way getting negated by the constant increase in commodity prices. But having said that we are all very happy and enthused with the way our business has come about despite the COVID situation. We believe we have a winner in our hand. We believe this business will achieve potential which we have been talking about for the last three, four-five years and we also believe that the margins that we are aspiring will also come albeit it will take a couple of years for the margins to fructify, but all in all, I think, we are seeing enough in the market



place to give us the enthusiasm and confidence that we will eventually hit the numbers and the glory that we all set out for when we actually started this business.

**Prathamesh Sawant:** Thank you Sir, my second question is regarding the P&L, there is one exceptional item and also your interest cost has increased in your debt, so just clarify on these two things?

**Sanjay Gupta:** The exceptional item that you see in the P&L is for the Q3 of about Rs 36 crores. This we have taken provision because of the reduction in realizability of our scrips in RoSCTL and RoDTEP, so that is the exceptional item that we have taken. Interest cost is slightly down because we got some interest incentives from the Government in this quarter and that was accounted for in only in this quarter and that is why it has reduced our total, overall interest cost. The interest is related to flooring division, the incentive that we got.

**Prathamesh Sawant:** Okay, so do we expect these incentives to be continued in near future and also regarding the Rs 377 crore of e-scrips left with us, do we see any further exceptional charges coming in from those as well?

**Sanjay Gupta:** First question, the interest incentive would continue but not to that limit, so it will now normalize to quarterly one. As far as Rs 377 crores of scrips in hand, we believe that we will be able to not incur higher cost than what we have provided for, we would try to achieve within that.

**Rajesh Mandawewala:** Let me just clarify, so the benefits that we have in our flooring business will continue by and large to the tenure of the loan, so the reason why we got a disproportionate credit this quarter is because this is the first time the incentive got received. Whatever got received, in fact, the provisions that we had made for interest incentives were lesser and we ended up just getting more eligibility and which was of course we were entitled. We were conservative in making this projected gains, so that is the disproportionate gain which has come in this quarter, but the interest incentive will continue through the tenure of the loan as per as the State policy credit and the policy benefits that have been allowed to us. The rates on the scrips are actually moving up now and not down, so we believe that no further provisioning will be required on this account.

**Moderator:** Thank you. The next question is from the line of Aman Madrecha from Augmenta Research Private Limited. Please go ahead.

**Aman Madrecha:** Actually I had two questions, the first one is regarding like can you explain the reason, why there was a different margins of the home textile business quarter-on-quarter because in Q-2, we are standing at around 17% to 18% EBITDA margin and the margins have come down to 14% currently, and also what is the sustainable range of margins we are looking at the home textiles because YOY in Q3 FY '21, we did a margin of 22%, from that time it is coming down only, so are we not able to pass on the increased raw material prices to the customer or what is the scenario happening in this space?

**Dipali Goenka:** Commodities are at the historical highest ever and cotton prices started from 47K to 55K to 65K and we have taken two price increases, one in June-July and the second was as close to

November and December, but even to the extent of just yesterday, the prices have gone up again by 20%. So fundamentally it takes time for the prices to be passed on to the customers, and it is a consumer market that we must appreciate and the retail prices will definitely get impacted and hence the buying also gets impacted of the consumer. Let us not forget we are at the record highest of prices in the terms of cotton, in the terms of coal, power that is, and energy and supply chain upheaval, so it definitely has reflected in our margins. We have managed to pass on the prices in November and December and now we are exploring what needs to be done in the next run because if we are going to pass on any more which we have incurred is going to definitely impact the retail as well.

**Rajesh Mandawewala:**

To clarify, all costs by and large that increased until November was passed on and they were passed on through two price increases to clients and so it is not about the ability to pass on the cost increases to the client, but we need to be sensitive if we rush things through, it might actually affect sales and negatively impact top line, so we need to be mindful of that. Also, the prices of cotton have gone through now Rs 77,000 a candy, so if you compare this to November, we are already 35% higher from that point. Now, these kinds of increases will certainly take time. First thing is we need to see how long are they sustainable, are these prices going to stay, are these prices going to react, come back to more realistic level, so we cannot just jump the gun and start shooting from the hip the next day the price of cotton goes up because we need to allow it sometime. We believe we need to allow another month or two before the cotton prices really settle down and then go back to our clients asking for the increased cost from them. That is the intent and as I said there is a need to calibrate because back to back kneejerk, significant price increases could severely dent top line as well, so we need to calibrate. This is not new to us and we have done this the last time around when cotton prices actually just crossed one Dollar then we did it over three price increases. We have gone through two increases this time, and hopefully, if there is a need, we will go back to the clients with the third one.

To a very important question that you asked what do we believe is our sustainable margin, so gentlemen over the last 10-15 years, this company over any five-year period has delivered a 20% EBITDA margin. The business is strong enough, good enough to continue to sustain those levels of margins. Unfortunately, you will not see that over the next couple of quarters, but eventually we will pass through everything and hopefully some cost benefit will revert back and the rest of it we will pass it on to the clients again. We have historically done it for 10-15 years and there is no reason why we should not be able to do it again. The clients are all receptive. We are in this together, and these are strategic relations. So, as I said we are calibrating the whole approach. and when we get our tailwind, as a company we have also delivered 25%, 26%-27% margins, so this is a necessary evil. The cotton prices will keep going up and down, unfortunately, this time they are up 65%-70% and continuing to rise, so it is taking its toll on the margin, but we have seen this all in the past, this is nothing new and eventually we will get back to our historical level of margins, which is around the 20% mark. Now, it could be a percentage here and there, those things can happen, but eventually we will get there, but I am afraid it will not happen in the next two quarters.

**Aman Madrecha:** Sir, I just wanted to know till what level we are integrated in terms of backward integration from this yarn, what portion of the yarn, like what portion of the yarn is contracted and in house just a percentage number on that side if you can give?

**Rajesh Mandawewala:** Good question, so historically if you look at, let us say, our CAPEX plans, so we have actually not invested much in spinning over the last eight to ten years. At current consumption levels, we are almost 40% of sourcing of yarns and other materials from the outside and we produce 60% of the yarns of the consumption that we need, and this has served very well for us. We believe that historically spinning has the lowest ROCE within the value chain of textiles. It is of course different in the last couple of years where the margins have shot up and candidly that has reflected on our margins as well, but being light on spinning has served us well for 15 to 20 years. The current phase I think may take a few quarters, but the spinning margins will return back to normal and when that happens, we are comfortable with our current blended strategy of making it in-house and continuing to source yarn and fabric from the outside, but I candidly confess that at this moment it is hurting us. Perhaps this is the first year where it has hurt us over the last 15 years. I believe we have always gained by sourcing yarn from the outside.

**Aman Madrecha:** Sir, just to clarify 60% is sourced from outside, right?

**Rajesh Mandawewala:** 40% is sourced from the outside, 60% is made.

**Aman Madrecha:** Sir, one more addition to this, are we seeing any supply side issue from the yarn like, is there any supply side issue on the cotton yarn front or it is easily available?

**Dipali Goenka:** In the supply chain, the challenges are in the cost and the prices, that is where we definitely see kind of a challenge for sure. However, while we might be looking at the availability of fine yarn, the coarser yarn has been a challenge. Somewhere I think there has been the supply chain disruption and also in principle the availability of cotton in the scenario, so yes there has been a little disruption that side, but I think going forward we will be able to, I think, get it mobilized.

**Moderator:** Thank you. The next question is from the line of Dhimant Shah from Oneup Finance. Please go ahead.

**Dhimant Shah:** Thank you for the opportunity, just delving a little bit on the previous question, if one sees the drop in the margins from 21%-22% to I am talking about YOY and if you juxtapose the capacity utilization, you have also gained from the corporating leverage so called on an overall basis, so if one has to kind of dissect cotton sourcing is well within you, the logistics cost which is possibly exogenous to the company and the third part is the operating leverage, so you have already also gained prima facie, I would presume so from operating leverage which means the margins dilapidation has been slightly higher, so how much do you hope to recover over next few quarters and specially this is a repetition because from the other textile companies that we have interacted, their ability to pass on somebody like an Arvind, of course the segment is different, but their ability to pass on has been much higher, and given that in home textiles the value per se is much higher than a garment, is there some resistance to the price changes or our ability to kind of take

on price increases because this is a phenomenon which the buyer would be knowing very openly?

**Dipali Goenka:** I think one thing when you are talking about Arvind - they are very seasonal in terms of garments, it is fashion oriented and season oriented. For home textile, it is core and 70% of our business is replenishment business. This is core business and hence the pricing plays a very key role in the terms of the unit cost for a retailer., So it is very, very different from apparel manufacturer or a Garment manufacturer as it is easier for him to pass because it is a season to season that he can take on that price, so that impact does not show and reflect that much vis-à-vis our core business which is a replenishment program year-on-year. Our programs are going on for now over five to six years, so that definitely does impact on the retail as well, That definitely is to be kept in mind if you are comparing it to garments. However, I think even looking at, and we spoke about it, our relationships with our customers is very-very strategic, and we have managed to pass on two price increases and if we can literally say that, if we talk about a towel or a sheet and if you increase the retail prices to that extent where you have seen the Cotlook index go up by over 60% to 70% in the past seven-eight months, I think it is a tremendous impact for the consumer, so there would be a very calibrated reaction to that, I must say that.

**Dhimant Shah:** Agreed, just to recalibrate that question, what is the amount of price increases you would need to take to if you have to be in line for the previous margins that you have just done, so what is the percentage hike that you would need to take just to be in line with the last year for example?

**Rajesh Mandawewala:** This is a constantly moving goal post.

**Dhimant Shah:** If we freeze the cotton prices to the current prices, which is what you mentioned about Rs 77,000 a candy?

**Rajesh Mandawewala:** Correct, so this is exactly what I was saying previously that everything until November was passed on through the two price increases that we have gained. By and large everything got passed on to the customers, so it is not about the ability of the company to pass this thing on and we have great and strategic relationship with our clients and there is a fair degree of transparency in the way the product gets costed. The question is that how swiftly you want to go back to your clients. We have finished one increase in November and again we go back and sit in front of them in January, so there is a risk of the business getting disrupted and what I mean by that is the sales could just nosedive if we are not careful in this area. The company is now 25 years into this business and understands the consumer behavior, so it needs to be handled very delicately, very sensitively, and some patience needs to get exercised. Unfortunately, we get measured quarter-on-quarter but businesses cannot be run quarter-on-quarter. We have long-term relationships and we need to calibrate our approach and the way we move on these headwinds and cost increases to the clients, so I do not think there is any doubt on our ability to do it. The question here is that what is the rationale and logical way of doing it and when do you time it, so we need to be very sensitive and careful on that area and which is what we are trying to do. , So at these levels we need to pass on 7% to 8% to answer your question, so it is another 7%-8%

of price increases or thereabouts should get us back to let us say those 18%-20% margins levels, but the thing is we have done the last increase and those products that we are shipping with the increased price have not even hit the shelf. Now before that you go back and sit with the customer -, one retail price is not settled and before that we start the discussion - business does not happen that way. So unfortunately, we have to take a slightly longer term view than our measurement criteria which is a quarter, so be it, but we have got to protect the long term sanctity of the business and also our credibility and at times of crisis you need to stand with your clients and be collaborative rather than pushing through every single increase that comes your way. As I said, there have been instances when they have allowed us higher margins, so it is our time to pay back and this will take a few quarters of pain, so that we can calibrate this whole thing, but eventually we will get there. For 15 years, we have done this and we believe that the company's business is strong enough to do it one more time.

**Dhimant Shah:** Two ancillary questions on the same parlance, you mentioned that about 60% is in-house, that 60% in-house would mean how many months of inventory of cotton that we normally kind of store?

**Rajesh Mandawewala:** In a normal situation cotton is seasonal, so the season is October to September, normally you tank up on cotton in December and January, that is when the arrivals maximize, but unfortunately arrivals have not surged to the levels this year as one would have wanted and which is why the spike in current prices, so right now, we are not sitting on big stocks and to be honest at these prices, we are not comfortable to build stocks as well, and as Dipali rightly said these are all time high prices. Any one thing like a Government intervention and the whole thing could come tumbling down or a ban on export or cotton, which happened about eight-10 years back, or something so it could come tumbling down and you are then left saddled with very high cost inventory in your system. We certainly, as a company, are not comfortable building stocks at these levels and we will not build. I am not saying that the prices cannot go up, but as a company we are not comfortable building at these levels.

**Dhimant Shah:** No Sir, what I meant was that if normal situations would have prevailed then this 60% would mean how many months of inventory of cotton?

**Rajesh Mandawewala:** We would have been carrying five-six months of cotton by the middle of February, so in a normal season we would have covered this half maybe five-six months of cotton by this time.

**Dhimant Shah:** Coming to the flooring business, I think two quick things there is a massive ramp up and you know we are close to breakeven, can you give some guidance how would you ramp up this business in the current year and next year, and are the distribution channels and all of that kind of almost in place?

**Rajesh Mandawewala:** Good question and thank you for acknowledging the good work that the company has done. We believe that in terms of top line this quarter, we should be steady and to get locked in on larger volumes of business where enough margins are not getting made. So, we are not in a hurry to do that. We are waiting for the markets to stabilize, and we believe they should stabilize in the next

two or three months where we believe that the commodity prices should definitely stabilize in this quarter which is when we will negotiate long term businesses with our client, and hopefully, the volumes will also start surging. We are not even halfway through, so with what we can do in terms of capacity, we are not even halfway with the current volume and there is a long way to go on the soft flooring side also, but what I can tell you is that despite COVID, we are very proud of the work that our teams have done. For 18 straight months in a new business, there was no face-to-face meeting with the client and with those constraints with the hands tied to the back, we have built this business. Now, the boys have started traveling and face-to-face meetings have started happening, so this will result in to a faster business development. I think internationally we have progressed very well. In the domestic market, I think we have progressed well - there is more than 1,000 outlets today for our products for customers to buy from. But to be very honest there is calibration that needs to be done - Are we in the right outlets? Is our display, right? So, it is a learning curve we are going through. What I know is that we are in very-very capable hands with Manjari leading domestic charge in the business. Symptoms are good, margins are definitely under pressure but as I said we have gotten back to pre-COVID levels in revenues and the improvement in the domestic market we are counting and thankfully all parts of our business are firing in the domestic market whether it be office space, commercial space, carpet tiles, wall to wall in hotels and cinemas, artificial grass or the luxury tiles in the residences of the people, so sales are coming through now in all the areas.

All the products that we are currently doing, of course we are nowhere close to where we aspire them to be, but definitely the traction is improving and if you would ask me are you satisfied, I would say no, there is a lot more work to be done. Have we done enough, I think yes. So, considering it is a new product relatively lesser understood, I think the team has done a fine job and the calibration process will keep happening over the next few years, but what I can tell you is that the product is well accepted in the market. We are doing almost a crore on digital leads already and with an average ticket size of 90,000 to 1 lakh, you can imagine that if such a young company with such a young product and a relatively lesser known product, we have already hit a 1 crore run rate, so I think calibrations are happening on the product placement, positioning as well as price in all the areas and what I believe now is that all of us will see constant improvement in this area. We are not too excited with the current margins that we are currently operating in, but as things stabilize with the commodities, I think margins will also come and I think the top line will also continue to improve in the ensuing quarters and the years.

**Dhimant Shah:** One last question, how do you accrue and book the RoSCTL and scrips in the books of accounts, so you have some pending Rs 377 crores you said, so how does it get?

**Sanjay Gupta:** The booking of RoSCTL is based on the actual exports, so once the export is done, on the basis of that bill of lading, you account for it.

**Rajesh Mandawewala:** So, where there is certainty, we account for it. If there is uncertainty, we become circumspect like we were in the flooring business or till such time we got the eligibility certificates from the Government and there was certainty, we did not account for it and the interest gain is demonstration of that. Generally, as a company we are very conservative in recognizing revenue.

If there is an expenditure risk, we would instantly take it in on books and we have been following this now for almost 15 years, so we have been conservative with our accounting and we want to continue to remain so.

**Moderator:** Thank you. Ladies and Gentlemen, that would be the last question for today. I now hand the conference over to Ms. Dipali Goenka, CEO and Joint MD, Welspun India for closing comments. Thank you and over to you.

**Dipali Goenka:** I just want to conclude by saying that in the near term, I expect the operating environment will continue to remain challenging and inflation is likely to impact the volumes and moderate growth. Commodities remain volatile and elevated witnessing further sequential inflation in the coming quarters. We will continue to work with our customers and different measures and that will help mitigate the cost pressures while driving operational efficiencies and cost savings initiatives at our end. As we successfully transition from being a manufacturer to being the FMCG of home textiles, our investment in our B2C initiatives, digitalization, and analytics are helping us in understanding consumer behavior and forecasting demand thereby enabling us to serve our customers better, so I would end here by saying thank you for being there today and hope you stay safe. Thank you.

**Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of Edelweiss Securities Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

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