



“Welspun India Limited
Q3 FY2021 Earnings Conference Call”

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ANALYST: MR. NIHAL JHAM – EDELWEISS SECURITIES LIMITED

MANAGEMENT: MR. RAJESH MANDAWEWALA - MANAGING DIRECTOR - WELSPUN INDIA LIMITED
MS. DIPALI GOENKA –CEO AND JOINT MANAGING DIRECTOR - WELSPUN INDIA LIMITED
MR. SANJEEV SANCHETI –PRESIDENT FINANCE AND CFO - WELSPUN INDIA LIMITED
MR. AKHIL JINDAL – GROUP CHIEF FINANCIAL OFFICER – HEAD STRATEGY

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2021 earnings Conference Call of Welspun India hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nihal Jham from Edelweiss Securities. Thank you and over to you!

Nihal Jham: Thank you Rutuja and good afternoon to everyone. On behalf of Edelweiss, I would like to welcome you all to Q3 FY2021 result of Welspun India. From the management today, we have Mr. Rajesh Mandawewala – Managing Director, Ms. Dipali Goenka – CEO and Joint Managing Director, Mr. Sanjeev Sancheti – President Finance and CFO and Mr. Akhil Jindal – Group CFO and Head Strategy. I would now like to hand over the call to Ms. Dipali Goenka for her opening remarks. Over to you Madam!

Dipali Goenka: Thank you Nihal. Good afternoon and a very warm welcome to all of you to Welspun India Q3 FY2021 earnings call. I hope that you and your family are keeping well and safe. The year 2021 begins at the ray of hope with recent breakthroughs on COVID-19 vaccines. This should play a major role in the next round of economic recovery.

I will cover the key business updates and later Sanjeev will take you through the financial highlights.

I am delighted to report record breaking quarter as we have been able to register our highest ever quarterly income. The incredible efforts and commitment of associates who also kept the workplaces safe during these uncertain times has been a key driver to a superior performance. This has resulted in highest ever bath linen and rugs and carpets sales volumes in a quarter. Demand based on an order book seems well distributed and across retailers and other formats. Current order bookings are upbeat for upcoming quarters.

The strong emergence of homebody economy is becoming apparent and there is visible structural shift in consumers spending for home products. The holiday periods saw a significant change in the share of holiday purchase spend and we saw heightened demand during the holiday period as compared to previous holiday seasons on the back of strong record-breaking online sales. As we have mentioned in our last earning call, consumers were reluctant to resume their normal out of home activities and are spending more time at home. The retail home furnishing category has seen tremendous growth in the last few months owing to conscious presence for quality and performance driven by hygiene and wellness over heavy discount products. This has gone a long way and increased demand for a product home textile. Home textile revenue grew by 26% year-on-year.

During the quarter under consideration, our plants at the Vapi and Anjar operated at peak capacity with a customer demand continuing to beyond, the board has approved a capacity expansion to de-bottle necking and rebalancing a facility at both the plants. It will be a capital light, quick turnaround expansion resulting in an increase capacity of towels by 7%, bed linen by

20% and rugs and carpets by 80%. The company is expected to spend around 225 Crores over FY2021 and FY2022. This capital light investment will help us to create additional annualised revenue of over Rs.1200 Crores by the second year of operation. The benefits from this expansion will start accruing in phases from as early as Q1 FY2022.

Innovation is an integral part of Welspun's DNA and the foundation on which our customer-centric solutions are built. Welspun has always focused on consumers' needs and catered to them with innovations like Nanocore technology, industry-defining, multi-level traceability process Wel-Trak™ that tracks finished products back to the raw material, as well as HygroCotton technology. Our innovation-driven approach has helped us to challenge the status quo, set new industry benchmarks, and build an industry leading portfolio of 30 innovations over the years. Our Innovation product sales during the quarter was more than Rs. 600 crores, registering a growth of 36% YoY and 61% QoQ.

We are proud to be amongst the most influential innovators at the Clarivate South and South East Asia Innovation Award 2020. Welspun won the award in the corporation segment and was the only player from the textile and apparel industry. The award is a testament to our efforts and motivates us to keep developing more relevant and innovative solutions for our customers.

While the COVID got the worst attention in 2020, the climate crisis continues to be the biggest concern for planet Earth. Business are increasingly changing the way is to adjust for the climate crisis by innovating more sustainable and environment friendly solution. Consumers now demand the brands should be more transparent environmentally conscious in the production and delivery of their goods. At Welspun India, we are completely conscious about the challenges as society faces and the role WIL can play in surmounting them. Over the last few years we have made significant investments in the areas of sustainability including amongst others, initiatives like Rain-Water Harvesting Lagoons and Sewage Treatment Plant to lower the freshwater footprint. We also run a social initiative called "Spun" which is not only based on upcycling, but is also dedicated to women empowerment.

With significant progress already made in the areas of sustainability, the company is at the cusp taking its ESG initiatives to the next level. To achieve its mid and long term ESG goals, the company has embarked upon an ambitious ESG strategy explained more elaborately in the earnings update. I am glad to share that Welspun is already rated "Low Risk" on ESG factors by one of the top ESG rating agency and we are conducting gap-assessment study and identifying measures to move to "Negligible Risk" rating. Welspun's Sustainability journey is now a case study on Ivey publishing website.

Recent trend shows that China's share in the US market continues to be under pressure and this is more evident especially in the rugs and flooring products. We are seeing shift from China to India already happening over the last few months. Walmart has recently announced that it will triple its sourcing of goods from India to \$10 bn each year by 2027. Walmart's new import commitment is expected to provide a significant boost to companies like Welspun. Welspun and Walmart go back over two decades and have been sharing a relationship built on mutual respect

and trust. We are truly humbled to be recognized by Doug McMillon, President and CEO of Walmart, as one of their key suppliers at the recent HT Leadership Summit 2020.

Pandemic has accelerated online spend significantly beyond prior years and online spending on home goods continue to post record-breaking numbers. Online sales continued its trend with Amazon led early start to holiday buying, followed by major big box retailers who also witnessed multifold increase in online sales compared to previous years. Our e-com business has grown 22% YoY. In order to give further impetus to our e-com growth strategy, we have embarked upon Project Wave (accelerated e-com growth), which should lead to a topline of over \$100 mn by FY23.

We are taking rapid strides in our B2C business through licensed brands which will enable us to deepen our connect with consumers across markets and aspirational categories. Martha Stewart brand will see expansion, both online as well as offline. The Martha brand has already clocked a turnover of about \$20 mn since inception and we continue to see strong performance. We are also very excited about the prospects of Scott Living brand which we had signed up last quarter. Licensed brand brings to us new opportunity pockets by opening up new channels and shelf space without cannibalizing our existing business; and we expect annualized revenue from licensed brands to cross \$100 mn in the next 2 to 3 years' time.

Emerging businesses:

The company witnessed strong performance in the domestic retail as consumer confidence recovered quicker than expected, supported by the festival season and fall in covid cases. E-com continued the stellar run whereas modern trade fared better in Q3 after soft Q2. We added 6 new towns & 341 outlets for Welspun brand distribution. Modern Trade grew 14% backed by best-in-class execution at stores. We reached 350 million consumers through our Rangana Campaign and our new Health Life campaign reached around 12 mn views on youtube and around 2 mn reach through social media. We are glad to share that the domestic retail business achieved its highest ever revenue in a quarter at more than Rs. 82 crores, growing by 16% YoY. We are extremely enthused with the significant turnaround seen in the retail demand over the last few months and it gives us the confidence of crossing annualized revenue of Rs. 1,000 crores over the next 4 years.

During the quarter advanced textile business continued to meet the growing demand of disposable non-woven category with the industrial segments also showing recovery. In Spunlace, we are seeing better price realization and improved operation metrics. Buoyancy in global demand especially for disposable non-woven category, strong customer relationship and superior product and service offering will keep our plants fully occupied in the coming quarters. Revenue during the quarter stood at Rs.74 crores, registering 20% growth YoY. The new disinfectant wipes line is expected to commence production in February 2021 while the expansion of Spunlace business is expected to commence operations by September 2021. These would help this business achieve topline of around Rs 600 crores by FY 23.

During the quarter the SPC plant ran at optimum capacity. We saw positive traction in our export business especially in hard flooring as we added new clients across geographies and also added

B2B distributors to our network. The ticket size of orders also increased from clients with whom we have established relationships in earlier quarters, indicating a very good level of customer satisfaction from our product offerings and services. We also bagged our first orders from EU, South East Asia & Australia-NZ regions for Q4 dispatches and these geographies are expected to contribute significantly to overall business going forward.

Our soft flooring business has also started taking shape with strong enquiries from US, Canada & ROW. In order to optimize capacity utilization of the soft flooring plant, we plan to produce rugs and carpets for our Home Textile customers from Welspun flooring facility, as our facility at Vapi is running at peak capacity.

Coming to our domestic flooring business, Q3 saw tailwinds as we added business from large marquee brands across both commercial and hospitality channel. With continued focus on network expansion, we have added 20 plazas and 82 portals to our retail footprint. We have also upgraded our plaza format retail stores to enable a better visualization of our products. In order to strengthen digital channel we have overhauled the Welspun flooring website to make navigation more intuitive and easier. Our digital strategy of customer acquisition saw 210% growth QoQ.

Total Flooring business grew more than 3x YoY and our branded product revenue grew by 107% YoY.

With business looking very strong in the hard flooring segment, and with soft flooring starting to gain traction, we are confident that we should be able to achieve EBIDTA break-even in Q3FY22 and cash break-even during FY23. The company maintains an optimistic outlook for the rest of the year. The Company remains committed in its long-term aspiration of delivering sustainable and profitable volume led growth, building on strong brand equity and gradually driving and scaling up new pillars of growth.

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

Sanjeev Sancheti:

Thank you Dipali. Good afternoon ladies and gentlemen. Many thanks for joining the Q3 FY2021 Welspun India earnings con call. I will give a brief overview of the financial numbers for the quarter before we open for Q&A. I hope everyone must have got a chance to look at the earnings presentation and press release by now.

After my interaction with various stakeholders keep that received I am happy to share that for this quarter we have not only started distributing volume numbers for each of our businesses but also other granular statistics which will help you to track the company's progress with clear lens. We have always been ahead of the curve and we will take your suggestions feedback to improve on the disclosure.

I am delighted to share during the quarter, the company achieved highest ever sales ever volume in bath linen and rugs and carpets. Bath linen sales grew by 17% Y-o-Y, bed linen sales volume grew by 43% Y-o-Y and rugs and carpets sale volume grew by 28% Y-o-Y.

During the quarter, the total income grew at 27% from 1,605 Crores to 2,050 Crores and EBITDA grew by 75% to 419 Crores versus 239 Crores in the same quarter of last year with an EBITDA margin of 20.4%.

Even though the plants do not run-in initial period of the current financial year because of government impose lockdown on account of COVID we have been still be able to achieve EBITDA growth over YTD20.

While on an absolute basis EBITDA margins improved by 554 basis points over the previous the revenue and EBITDA of Q3 FY2020 were impacted due to reversal of 95 Crores on account of MEI. Even after adjusting this reverse the EBITDA margin of Q3 FY2021 is higher by 80 basis points. We have been able to improve our EBITDA margin despite increase in input cost.

The increase in other expenses is mainly volume linked expenses viz, stores & spares, dyes chemicals, power & fuel etc, apart from increase in logistic cost due to global increase in freight rates. Finance cost has increased in this quarter due to accounting charge of Rs. 16 crores on redemption of preference shares by one of our subsidiaries, which is a one-time charge as we preponed the redemption due to higher cash flow in that company.

Profit after tax (after minorities) stood at Rs. 181 crs, up 147% YoY. Reported TTM EPS stood at Rs 4.93 versus Rs. 3.41 in the same period last year.

Average exchange realisation for this quarter was 74.08 versus 73.01 in the corresponding quarter last year.

Net debt of the company stood at Rs 2,469 crs, a reduction of Rs. 493 crs over March 2020. Over the last 3.5 years our Net Debt / Equity came down to 0.70x as on 31st December 2020 versus 1.27x as on 31st March 2017 and there is a continuous improvement in ROCE in spite of adding capacities in various businesses which will yield significant cash flows in future.

Net debt of the core business has reduced by Rs.535 Crores in the last nine months.

Till date we have spent Rs.293 Crores in capex and for the full year it is expected to be around 500 Crores including the recent investment announce for home textile business. Despite investments in our growth businesses then that is expected to remain below 2,400 Crores as on March 31, 2021.

Coming to segmental result:

Q3FY21 Home Textiles revenue stood at Rs. 1,967 crs versus Rs. 1,549 crs during the same period last year, growing by 27% YoY. EBITDA margin stood at 22.1%, up 308 bps versus the previous quarter of the same year.

During the quarter, revenue from flooring business was Rs 98 crs, up 348% YoY and 27% QoQ. EBITDA loss narrowed marginally to Rs. 24 crs versus loss of Rs. 30 crs in Q2FY21. We are

seeing improvement QoQ and we expect that we should be able to clock over Rs. 300 crores of revenue in this financial year.

As Dipali had already mentioned, in the flooring business we should be able to achieve EBIDTA breakeven by Q3 of the next financial year.

During the quarter advanced textile business clocked revenue of Rs. 74 crores, up 20% YoY.

Emerging growth business which includes branded business, e-com business, flooring and advance textiles cumulatively grew by 46% YoY and contributed 23% to the topline during the quarter.

Dipali has already covered on the capital light expansion in the home textile business.

So advanced textile expansion project we have recalibrated our investment and out of Rs.496 Crores project announced earlier Rs.196 Crores have been deferred.

Hard flooring plant is running at optimum capacity due to the strong demand and order book. While the capacity of the hard flooring plant has been doubled in January 2021, it is being further doubled by Q2FY22 to cater to the growing demand.

Increase in minimum support price by 3% to 5% has resulted in 8% to 10% increase in cotton prices in the last quarter. Decrease in production estimates increasing global consumption and ban on Xinjiang cotton in US will keep pressure on raw material prices.

RoSCTL has been discontinued since January 3, 2021 and RoDTEP scheme have come into effect from January 21. New policy rates for RODTP scheme is yet to be announced by the government.

All round increase in input prices and global freight cost will keep the margins under pressure in the coming quarter and hence we have already started discussions with our key customers for price increase. With our drive towards cost optimization, use of technology and improved efficiency, aided further by strong business prospects and robust outlook, we believe we should be able to maintain overall EBITDA margin between 19% - 20% on an overall topline of over Rs 7,300+ crs in FY21.

We 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 will leave the floor open for Q&A. Thank you

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kirti Jain from Sundaram Mutual Funds. Please go ahead.

- Kirti Jain:** My first question is with regard to the RoSCTL and RoDTEP, currently given that the rates are not available, will we be recognising the revenues based on the provisional rate or how the accounting will happen given that there are no rates available currently with regard to RoDTEP?
- Rajesh Mandawewala:** Let me take this, first thing is the policy change has been announced from January 1 and between now and end of March we expect the rate to get announced and this of course were very hectic work that are associations are doing and it appears to us that it is in final stages now, so we believe that before March all these rates will get announced and what we will get recognised is what is visible, so we will recognise this year new RoDTEP rates as they are declared in this quarter.
- Kirti Jain:** About old rates which is expected to be lower than the new rates, do you expect a pass on over two to three quarters, pass on happen?
- Rajesh Mandawewala:** Yes we have consistently maintained that our business is good for a sustained 20% kind of an EBITDA margin and we have seen this cost pushes and pressures and the exchange rate movements and the incentive movements both in the upward and downward direction, so I believe our business is robust enough to pass on all such eventualities to our clients, yes you could take a couple of quarters to get there but I guess this we have built enough strategic relationship with our clients will be able to get back to our this expected that is margins, so and as Dipali said that despite this whatever the pressure, so we believe that we will be able to pass on all these two.
- Kirti Jain:** Sanjeev Sir had highlighted about 7,300 Crores of turnover, that 7,300 Crores turnover was about what?
- Rajesh Mandawewala:** 7,300 Crores for the full year FY2021.
- Kirti Jain:** Okay, this year you have highlighted around 500 Crores capex, next year approximately what would be the capex given the projects which you have planned?
- Rajesh Mandawewala:** We will be around 600 Crores or thereabouts in the next year and this covers of course the new home textile capacity growth that Dipali just mentioned about, so which is a good 200 Crores – 225 Crores, so all inclusive we should be around the 600 Crores a month.
- Kirti Jain:** Okay, next year again we will be targeting double digit growth at minimum given the ramp up in the flooring business at the corporate level?
- Rajesh Mandawewala:** Kirti, again on the growth part, we have been consistent that we will deliver double digit growth and it is not about this year or the next year, so on a consistent basis, we believe our business is good for double growth. We will come back with revenue guidance and more as we come to the Q4 earnings call but this business is robust I think our emerging businesses are doing well, there is no reason for us not to believe that our business will grow double digit.
- Kirti Jain:** Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: My questions is regarding soft flooring and you have mentioned press release that is strong enquiries from US, Canada, and ROW, so can you discuss about more, is the soft flooring is going in similar way of the hard flooring, what are the dynamics changing in the global market for soft flooring?

Rajesh Mandawewala: Let me say that this hard flooring business has taken off a little faster and for the simple reason that you can install the floor almost no time and in COVID times it becomes very helpful, so while Sanjeev mentioned that we are doubling and capacities all over and again but the fact is that we actually deferred our capacities waiting for sales to come so which we are just completing our project, so with whatever capacity that we are growing it is just about completing the initially envisaged capacity of 10 million meters or thereabout, so we will complete the project now that we are seeing some traction in that area. Coming to the soft flooring, so this we are seeing now good response in the market place, so it will take a little more time for the simple reason that it is a floor which takes a little longer to install and having said that I think this week we are seeing enough positive this drive all across both were Indian market as well as international markets to believe that the investment has been put in the right place and the second thing which Dipali also mentioned is that look from a manufacturing process perspective there are a lot of common thing between our rugs business and the soft flooring business, so we have also put in a plan in place now that our Vapi rug facility is working full so we are also putting plans in place where we will be producing materials for the rugs business as well, so we will use a part of our capacity to grow our rugs business in Vapi as well, so all in all we feel much better with the soft flooring side of the businesses well and hopefully in the next quarter we could be a little more emphatic and little more granular in terms of numbers on the soft flooring side as well.

Sumant Kumar: When you talk about a strong enquiry coming from US, so what dynamics have changed in four months to five months you are talking about our overall enquiries has increased and all?

Rajesh Mandawewala: Look, it is a start-up, start-up and you make projections in a start-up that this will get off the ground in six months or 12 months and sometimes it just takes a little longer for you to get off your road and start seeing traction in the business, so we believe that the business was good enough right up front. It is just that this within six months we have got hit by the COVID situation and before this we could make inroads with our clients, travels stop communication this became almost reduced to digital while for a new start-up this makes things more difficult to open doors in an environment like this, so it just took us a little longer for us to open the doors but it is just about what we are currently seeing is what we anticipated and what we have projected in the past as we committed the large capital expenditure. Yes, the China plus one factor is also playing out, so this on one side of the business the COVID situation accelerated our shares but on the other it slowed down the sales on the soft flooring side but you put the business in totality I think this we are where what we will be just about a couple of Q2 or Q3 late as compared to where we thought is we would get to, so we are just seeing reinforcement of the thesis on which we actually made the flooring investments.

Sumanth Kumar: Okay, talking about overall what we see in past three year-four years we have seen you were talking about domestic business Rs.1,000 Crores then you have entered in licensing business also and then your flooring solutions. So, overall, the business dynamics the dependency on particularly Home Textile is going to lower. So, in next four year to five years how much dependency is going to reduce from all these new verticals?

Dipali Goenka: So, I think the dependency on Home Textiles will not reduce but, I think it will compliment because when you are talking about the consumer in the Indian context or the global context, I think the consumer is looking at home and we provide a complete home solution, for towels, Sheets, linens, bedding, rugs, carpets and now flooring. So, I think Sumanth, from your point we are going to compliment our home textiles the maturing business here and we definitely see a robust growth in retails, and we are absolutely positioned to achieve Rs.1,000 Crores as we have committed.

Sumanth Kumar: No, I am asking the dependency on towel and bedsheets, when we have entered into the flooring solutions where we have a higher growth potential, export particularly then we have also entered into in licensing business so, that is another one and then third is domestic business what you are talking about Rs.1000 Crores, I think currently Rs.200 Crores-Rs.300 Crores in next four year it is going to be Rs.1000 Crores, correct?

Rajesh Mandawewala: Absolutely.

Sumanth Kumar: Dependency on towel and bedsheet is going to reduce where the market share of India is 40% to 50%. So, the growth is going to come from the flooring and domestic business and technical textile and also you have entered into in licensing that is also going to compliment. So, my question is in four year to five years what is the mix of the towel and bedsheets versus others?

Dipali Goenka: I will tell you Sumanth, I will just cut it short or give you a perspective. You are actually talking about the core business, the private label business, you are talking about the brands and the licenses and the e-commerce business. I will give you, the core business definitely will be a strong part of but, if I can talk about the other businesses where we are growing for example: our license business is going to go to \$ 100 mn, our retail business I spoke about is Rs.1,000 Crores and of course the flooring is absolutely positioned. So, the basket is going to grow bigger. So, definitely that is where our focus on brands and licenses will definitely be there, our advanced textile definitely has an impetus. But they are all going to be there as a big basket there.

Rajesh Mandawewala: Let me just add here Sumanth, that our core home textile business is still good enough to grow and it will continue to grow we believe every product category in our core business is still good enough to continue to grow despite whatever market share that India has got and we have demonstrated that in the current year and we believe we will continue to do so in the future as well. So, all parts of our business will continue to grow, and the core business will just be augmented and supported by all the emerging businesses and look we have been investing in these emerging businesses for almost four year-five years now and hopefully the time over the next four year or five years all those investments will start paying back and start looking much

more productive. But, to answer your question we believe that our core business and within the core business also every single product category will grow, will continue to grow as well.

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

Prerna Jhunjunwala: Thank you for the opportunity. Sir, congratulations on a good presentation and increasing the transparency in the business that we can now see sharing the capacity utilization and B2B branded, global, domestic all these kinds of break up just gives us an insight that you are getting into sharing more information and improving the transparency with us. So, that is commendable, my question is largely on the cost increases that we have seen in this quarter, other expenses have increased, and gross margins have also improved at the same time. So, is there the increase in yarn prices and other cost pressure is not there a part of this quarter. If you could through some light, there and what are the increases in other expenses major items and whether this can increase further in the coming two quarters. So, just wanted to understand the cost pressure that you are facing right now?

Sanjeev Sancheti: Okay, just to come to on the major cost movement and when we talk about YoY then obviously the raw material prices compared to last year, they were still on an average a bit benign so, actually we gained a bit on the contribution side from as far as this input cost are concerned from a YoY perspective. But, if you look at the Q o Q perspective then of course we had some pressure on us but, what happens as there has been there was the product mix which helped us in having a better margin, number one. Number two is of course as there is some increase in about 5% our exchange rate was which happens in covering up the target increase it happened. Apart from that profitability from the US business the flooring business and textile business also helped in maintaining the margin. Coming to the other expenses, the way we look at the other expenses they are reported because of our IND AS that some part of the dyes and chemicals, job work and contract labors, even trade channel are a part of other expenses. So, we did see a large part of these increase the volume there but, some the increases there are fall because of price increase they shrink trade fall where we did say it is about Rs.20 Crores to Rs.25 Crores of higher what we could have lived and similarly there has been some head wins on the dyes and chemicals in other state zone. So, largely these are fueled by volumes and a very small part of it also because of specially the freight cost which has been because of the higher freight globally which we all are experiencing now. Does this answer your question?

Prerna Jhunjunwala: Yes, Sir a part of it remains, how are these cost pressures going forward for the next two quarter to three quarters?

Rajesh Mandawewala: So, we have seen some major movements on lot of the cost that we incur and particularly raw material which is cotton and yarn and also the freight rates have moved up significantly. Now, when you look at it from a year-on-year perspective the last quarter as Sanjeev Sancheti, said was by and large where we were in the same quarter last year. But you should certainly expect the cost pushes and the increased cost coming and impacting the margins in the future, purely if you look at it from a cost perspective. But, having said the company has got historically been

following foreign exchange policy so, while the currency is appreciating that we have got some very strong hedges going forward into the future too is with this growth and capacity there will be operating leverage that will significantly improve and also the sheer quality of demand where the innovative products are contributing a larger share of our business both the innovative as well as the branded business which have better margins. So, all these things put together aided by let us say, this hopefully significantly reduced or eliminated losses coming from the flooring business. And let say the continuing demand push coming from this home body economy and the China plus one factor. So, we believe that all these things along with our ability to move these prices upwards with the customer so, we believe our business is still good to go for the kind of margins that we have been promising over the last several years which is let us say this 20% of whereabouts, so plus-minus couple of points here and there.

Prerna Jhunjunwala: Sir, thank you that answers my first question. Second question is largely on the advanced textile portion. So, you differed a part of it, could you just help us understand what part of it is differed and why and will it definitely come back into the system may be in FY2023 or beyond or it is before so good any reason for that?

Rajesh Mandawewala: We have been, if you have looked at our net debt profile over the last five year or six years, we have tried to remain a free cash flow plus company and this year in fact this significant amount of debt is getting reduced. So, we believe that the parts first thing is what we are deferring is the cotton bleaching project which was a part of the advanced textile business, so we are deferring that out. But with no immediate strategic impact on the business what we have decided to do is wait for this capital expenditure for some more time and in the mean while they will source this bleached cotton from the outside and we need to use this bleached cotton for our spun lacing business so, instead of producing it this we will source it from outside, build up the business and this feedback the investment at an appropriate time and in the mean while this calibrates a capital expenditure in a way that we will continue to remain free cash flow positive and also continue to reduce the debt in the company.

Prerna Jhunjunwala: Okay, understood Sir, it was a cost reduction major which you have postponed for some time, okay?

Rajesh Mandawewala: Yes, and very honestly the business is in very good health right now and the margins will continue for the moment with or without the bleach cotton is our own producing of bleached cotton. So, we will continue to have robust margin so, we just want to defer it out for some time, and we can live without it and there is no let us say, there is immediate strategic impact to our business.

Prerna Jhunjunwala: Understood Sir, market capture versus vertical integration, so market capture makes sense.

Rajesh Mandawewala: Correct.

Prerna Jhunjunwala: Thank you Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Ankit Gor from Systematics. Please go ahead.

Ankit Gor: Hi! Thank you very much Sir. I am just trying to understand our broad break up between a soft and hard flooring, because despite rise in PVC resin prices we have done really well on our absolute EBITDA front. So, still there is lesser loss on that front so, going ahead how do you see this trends out will it impact us, or it will not?

Rajesh Mandawewala: I cannot answer your question if you ask me what is going to happen in the next quarter but, what I can say is these are global movement in cost. So, the cotton or let us say the PVC just does not impact us as a company that is a global commodity it impacts every single let us say, this supplier factory in the world and when things like these happen there is this tendency for all these cost to that passed on to that customer. So, we believe that we will be able to pass this on a given quarter I do not believe there is much impact that has come in the December quarter there might be some impact in the quarters going forward but right now the capacity ramp up is happening so significantly that it will perhaps get mitigated by let us say, this much higher operating leverages. But the business is good enough boast for us to say that over a period of four year-five years we will build a Rs.2,000 Crores business and the margin profile will be similar to the Home Textile business and we have already started passing on our cost increases to our clients there will be some orders in the system at old prices where we might be putting some weight on which we will. So, we are an honorable company we will honor every single commitment that we have made. But we have the confidence to pass on all these cost increases to our clients and we are already passing them on and with most of them we have also got prices increases with some fully, with some not as much as we would desire, we will bring those price changes about in more than one branches. So, but everybody is receptive these cost increase has been so disruptive in the recent past that there is no way that you do not pass on cost increases like this to client. So, we believe, and we are confident enough and we have done enough conversation with our clients also on the flooring business to understand that we will be able to move them on, yes one quarter or two quarter here and there but, this we will definitely pass these things on to our clients and we are still new to the business. So, there is still lot of product improvements that will happen and still be a lot of innovations that will come about in the business and in the future we will all go to contribute let us say, this better margin in the business. So, you look at our Home Textile business the hygro cotton came let us say, it is almost 15 years after we got into the business but, we learned from it and that came let us say, the margins started improving and likewise in this business now we have let us say, this is a much more matured company as Welspun India. So, we have kick started our innovation process even before we started our plant, and you will see over the next two year-three year-four years that some incredible products will get rolled out of our flooring business as well and as you mature as the business you get to the middle end of the market to the upper end of the market and that starts driving better margins in the future. But one thing at a time right now it is about gaining market share and passing on cost increases so, the next twelve months will be about that and then let us say, margin improvement kickers will start flowing in as we mature as a flooring business.

Ankit Gor: My second and last question would be Sir, we announced some de bottlenecking our Rs.225 Crores. Now, I wanted to see that this will give us about 5.5X of asset turns since it is de-bottlenecking. When there will be need of sizeable capex in our Home Textile business for example: setting of a 30 million meters - 40 million meters capacity or something like that. Will there be

any pressing need or next two year- three year we will see some de-bottle necking and just continue to do in the business?

Rajesh Mandawewala: Right now, we believe we are doing enough for us that we need at least for the next financial and beyond that also for example: we are significantly growing the rugs capacity and we are significantly growing our bed linen capacity also. Towel is about 7% let us say this we are sitting on huge capacity there and what we do not want to do is this invest in capacities and then wait for the business to come you know this over the last four year-five years we have not done that, and we will not do that just going forward in the future as well. So, we will build capacities as we need them, and we have two sizeable sites in operation both in Vapi as well as Anjar. So, now nothing green field need to get done for our Home Textile business and they will be such as de-bottle making so on and so forth. So, as I said this, we will continue to calibrate our capital expenditure and calibrate it to the needs of the business and the requirements of the business. But we do believe that right now what we are doing should be enough and we will see as things go by market dynamics change nobody anticipated where the cotton prices will move the way they are moving now, that the yarn prices will move the way they have moved now. So, we believe that whatever these yarn prices movements are not going to sustain so they will come back to normal levels over the next few months but if they don't as company you have to react and you have to do the right things to protect your margins and to protect your business for future insulation. But right now, we believe that what we are doing I enough and hopefully this should stand us in good state for the next coming year and we will keep coming back to you quarter-on-quarter if there are major changes in our thought process. But right now, we believe we are doing enough.

Ankit Gor: So, from on this Rs.1,200 Crores revenue from this de-bottle necking it is expected to come in in probably a year and year and a half or what is the timeline we should expect here?

Dipali Goenka: So, first of all even to your point of the expansion that you spoke about as a stand on, our focus is on value added products or brands and licenses and also with joint partnerships with vendors, ancillary's OEM's. so, that will actually give us that expands if we need that and secondly, your question what you spoke about, can you just repeat it I am sorry I just slipped?

Ankit Ghosh: That de-bottle necking which we are expecting to do?

Dipali Goenka: De-bottle necking is something that we will be continuing to do. We will be having partnerships that we can talk about and the rest I think we will continue to grow and focus on a brand actually. I think that is where we will be working towards, brands, innovations, licenses, and partnerships. I think that is our focus so, we will do that.

Sanjeev Sancheti: I will answer it little more specifically. So, this plant the expansion, the de-bottle necking is being done in phased manner so, the fruits of this will start coming in towards the end of first quarter of next year and towards post second half towards September to December quarter we will be able to complete the entire project so we will be able to start getting the 100% fruits of this may be towards the fourth quarter of next year. So, if you ask me on annualized basis it is well under would really be FY2023 but next year also we will get a significant amount of this

because this is happening in a manner where it starts getting implemented towards the end of the first quarter of next year itself. Does that answer your question?

Dipali Goenka: Yes, towels and the sheets you will start taking in in the next six months itself. So, it is going to evolve in in the next one year.

Sanjeev Sancheti: Yes, towels and sheets will be actually Q1 FY2022 already and rugs is happening two parts in Q2 and Q3.

Ankit Gor: Thank you very much.

Moderator: Thank you. The next question is from the line of Pritesh Chadha from Lucky Investments. Please go ahead.

Pritesh Chadha: I just wanted to check on the flooring side and the advanced textile side, advanced textile we have given the investment and the asset turn. I want to know what would be the margins and the peak revenue and when it will be achieved and same way in flooring what is our investments and what is the asset turn on that business and the margins that you would achieve at the peak revenue?

Rajesh Mandawewala: For advanced materials, the margins are in line with our current business and we are hoping that they will continue to remain at those levels going forward in the future as well. Right now, of course the margins are a little better, so we have tailwind but over a period of time and we have been around for five year-six years, so just over a period of time we have delivered margins which are in line with our core business. So, that is where it is likely to be as I said the business is doubling or more than doubling capacity on the funding side and in FY2023 from a Rs.300 Crore business we should more like Rs.600 Crores or thereabouts and at peak utilization we should get to about Rs.800 Crores in revenue but, that could happen perhaps in FY2024 or may be even FY2025. So, Rs. 800 Crores of revenue from the advanced textile business with the current expansions that we are doing. On the flooring side we are currently invested about slightly north of a Rs.1,000 Crores there is another Rs.250 Crores odd of capex that still remains, and we are spending that money as we needed. So, on a Rs.1,200 Crores – Rs. 1,300 Crores kind of a capex at full throttle this will give us revenue in excess of Rs.2,000 Crores and we believe that we will get to those kinds of revenue levels over the next four year-five years and at those levels we will make again these margins in line with our current business and give us a 15% - 20% kind of return on capital employed. So, that is where we started from and we maintain that as the business matures even the flooring business will look like our current Home Textile business is looking.

Pritesh Chadha: At what level you should break even in the flooring business?

Rajesh Mandawewala: So, our goal and we will come back with more specific towards the fourth quarter. But I think this we are seeing now enough traction and positivity to say that black half of the next year third quarter we should be breaking even at EBITDA and hopefully FY2023 we are looking to cash breakeven, but we will come back with a little more equipped to answer this question as we come

into the fourth quarter earnings call and by that time with our budgets also would have been drawn up for the next year. So, we will take more specific about the next year and the years beyond as we come into the next earnings call.

Pritesh Chadha: Okay, and just lastly, the net working capital cycle for the company should look like what number considering all the businesses?

Sanjeev Sancheti: So, presently we are at about 90 days and that this could come over the next six months because we presently in the cotton season so it is little heightened but, on an average, we would look at something like 80 days on working capital cycle, net working capital cycle.

Pritesh Chadha: By the annual year end, right?

Sanjeev Sancheti: Yes, absolutely.

Pritesh Chadha: These 80 days will it look different when the flooring and the advanced textile business starts?

Sanjeev Sancheti: So, the net working capital in advanced textile is probably negative and the flooring also does not have a better that is very low so, it actually as the business grow probably the net working capital in the time should improve.

Pritesh Chadha: Okay, thank you very much and all the best to you, Sir.

Moderator: Thank you. The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Good afternoon sir. Sir, I have recently seen the presentation of Trident and the conference Call of Indocount, they are quite bullish on fashion and institutional bedding and over five years they are projecting a very high turnover for the company so, we are also looking in that business?

Dipali Goenka: You are talking about institutional business?

Aman Sonthalia: Yes, institutional and fashion bedding?

Dipali Goenka: I will just give a perspective on what Welspun India focuses on that. So, for us we spoke about Martha Stewart and we talked about Scott Living, so these are the brands that are definitely going to have an impetus on a fashion bedding. As you know that when they are brands the sales of the fashion bedding definitely has a thrust on. Basic bedding will be ruled by our complete vertical integration because with our inhouse with the technical textile and our innovative products and fabrics that will enable us to do basic bedding. So, in short, we definitely have a thrust and we are powered by our brands, licenses and our innovation settled give us that growth there.

Aman Sonthalia: And Madame, how big the opportunity is because of China going forward in the Home Textile and Southern and institutional bedding side of the business?

- Dipali Goenka:** So, China actually has a bigger majority in micro-fibers and the CVC. Cotton is India's area of growth so, definitely for basic bedding and CVC is something that we see as an opportunity. So, that is where the growth could come in actually. But it has to be really competitive so, let us see how that share comes in here. But yes, definitely that becomes a big opportunity for India and also for Welspun because we are completely vertically integrated in what we do.
- Aman Sonthalia:** And going forward Madame, whether we should go for only forward integration or we should go for both backward and forward integration?
- Dipali Goenka:** If I talk about Welspun India, what has held us together in the terms of strength and what we are is our vertical integration from farm to shelf, from cotton to spinning to the whole process. I think that is where we have had the strength but going forward with the brands and our portfolio coming in, we definitely would also be looking at partnerships that could be also a combination with the vertical integration and the front integration itself.
- Aman Sonthalia:** Okay, and Madame, because of this rise in yarn and cotton prices over the next two quarter-three quarters how much margin prefer we can see in the Home Textile business?
- Dipali Goenka:** As we have already spoken about it, definitely the cotton and yarn are looking steeper and freight of course, these all are the commodities have all gone way all out. So, definitely the margins will be under pressure but of course we go with the price indexing model to our customers and share wherever the gaps are, and they definitely get addressed. So, that is the way it is going to be, and I am sure the margins will definitely be under pressure but yes, we have an opportunity to share that with our customers itself.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question for today. I would now like to hand the conference over to Ms. Dipali Goenka for closing comments.
- Dipali Goenka:** First of all, I want to thank everybody for being here in Welspun India's Earnings Conference Call. The company, I just want to say that the company remains committed in its long-term aspiration of delivering sustainable and profitable volume led growth and the robust growth in core Home Textile. Domestic business looks very strong, growth and innovation, e-commerce is the way forward and we will see a double-digit growth there. Flooring is coming on track and advance textile sales will double by FY2023 and our margins for FY2021 will be around 19% to 20%. So, thank you everybody for being here today.
- Moderator:** Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.