"Welspun India's Q4 FY '21 Earnings Conference Call hosted by Edelweiss Securities Limited"

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MODERATOR: **MR. NIHAL MAHESH JHAM – EDELWEISS SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Welspun India's Q4 FY '21 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. Please note that this conference is being recorded. 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 Steven. On behalf of Edelweiss, I would like to Welcome you all for the Q4 FY '21 Earnings Call of Welspun India. From the Management today, we have Mr. Rajesh Mandawewala – Managing Director; Ms. Dipali Goenka – CEO and Joint MD; Mr. Sanjeev K. Sancheti – President (Finance) and CFO; and Mr. Akhil Jindal – Group CFO.

I would now like to hand over the call to Ms. Dipali Goenka for her opening remarks. Over to you Madam and thank you.

Dipali Goenka: Thank you Nihal. A very warm Welcome to all of you to Welspun India Quarter-4 FY '21 and FY '21 earnings conference call. I hope that you and your families are keeping well and taking adequate care.

As we continue to sail through these unprecedented times, I believe that it is aspirative as one family that would help us emerge stronger than ever before. We are all in this together and at Welspun, we are leaving no stone unturned to help our employees fight this battle. I am thankful to all of our colleagues for rising to this challenge and ensuring business continuity. These times will bring along new learnings and would shape us to emerge as a stronger and more resilient organization. The company remains committed in its long-term aspiration of delivering sustainable and profitable volume led growth, building on strong plan equity and gradually driving and scaling up new pillars of growth.

The global economy is exhibiting emerging signs of recovery as countries renew their tryst with growth, supported by monetary and fiscal stimulus. Economic activities remains uneven across countries and sectors with outlook varying from region to region.

Let me discuss the key business highlights and later Sanjeev will cover the key financial highlights:

We concluded the year on a positive note with Q4 year-on-year revenues and EBITDA growth of 31% and 21%, respectively. I am delighted to report that in FY '21, we have delivered highest ever annual revenues with growth of 8% year-on-year. This has resulted in the highest ever bed linen, bath linen, and rugs and carpet sales volume in a year. We are also very proud to state that the company has crossed $1 billion income for the very first time.

Recent US economic indicators show that the economy is on firm footing and is expected to grow fastest in the other three decades. Vaccination, economic stimulus, payments, and tax refund are combining to provide a substantial increase in personal income and thus purchasing power. Increased spending intentions and comfort for resuming pre-pandemic behavior like shopping in stores, travel, and family gathering is likely to translate into higher levels of household spending. Globally, the homebody economy that focus on hygiene will continue to drive demand for home textiles. Big box retailers, supermarkets, and market places are expected to continue doing well across geographies.

As you can see in our earning's presentation, during the year under consideration our home textile plant situated in Vapi and Anjar operated at more than peak capacities. The capital light expansion at both the plants, which we had announced in Q3 is on track and the benefits from this investment will start accruing in phases from Q2 FY '22. On the back of expanded capacity and with customer demand remaining to be buoyant, we believe we will be able to grow our top line significantly over the next few years.

During the quarter, we have partnered with leading European retailer for their textile block chain globally. The challenge was not only to secure the supply of organic cotton without GMO, but also to enable the consumers to get the full visibility of entire supply chain. Welspun India has been named one of the best firms for data scientist to work for by Analytics India Magazine 2021.

Innovation is an integral part of Welspun's DNA, and the foundation on which our customer centric solutions are built. We are adding sustainable product range and increasing product portfolio keeping health and wellness in mind. Our innovation-driven approach has helped us to get 32 patented technology in various jurisdictions like India, USA, and Europe. Our innovation product sales during the year was 1929 crores registering a growth of 6% year-on-year and contributing 20% to the top line.

True to our ideology from Farm 2 Shelf, we partner with the farming communities to provide access to the best agronomic practices and technology to improve the quality and yield of organic cotton and BCI. We are encouraged by successful collaboration that we have formed with leading technology and global funding partners in this area. More than 12,000 farmers have benefited in FY21 and we aim to reach 20,000 by FY25.

To give furtherance to the company's initiatives towards sustainability, it has included all aspects of ESG i.e Environment, Social & Governance and aligned it to its business strategies. The company's newly formed Board ESG-committee will review the ESG activities progress and provide appropriate directions. We have refined our mid and long term goals to further strengthen an ambitious ESG strategy explained more elaborately in the earnings update.

China's share in the US market continues to be under pressure. As OTEXA data in the last three years, we have seen India's market share in towels and bed sheets increase by 4% and reach out to 42% and 53%, respectively.

The pandemic has reshaped our world and more consumers have begun shopping all night in greater numbers and frequency. In US alone, consumers spent more than $ 850 billion online in 2020 up 44% year-on-year as the industry data. Online spending represented about 21% of total retail sales as compared to 15% in the year prior. Our e-commerce business also witnessed similar trend and heighted demand with growth of 84% year-on-year contributing $ 34 million to the top line FY '21. Under E-commerce channel is well set to cross $ 100 million by '23.

Licensed brand brings to us new opportunity pockets by opening up new channels and shelf space without cannibalizing our existing business. This business through licensed brands has enabled us to deepen our connect with consumers across markets and aspirational categories. Martha Stewart brand saw expansion in both online as well as offline and has clocked annual turnover of about $ 14 mn in FY21 and we continue to see strong performance in FY22 with increased customer base. Prospects of Scott Living brand which we had signed up during the year also looks very promising. We expect annualized revenue from licensed brands to cross $100 mn by FY24.

With surge in cotton and other input costs, we are witnessing pressure on margins and we are seeking price increase from customers, which will reflect with a lag of three to four months, however, input prices have off late softened from its peak and this should help reduce pressures and margins.

Emerging businesses:

The Company continued to witness strong business momentum as the COVID impact on the consumer sentiments seemed to fade in the second half of the financial year. Domestic retail business again recorded very strong revenues of Rs. 73 crores, growing by 77% YoY with positive EBITDA in Q4. Despite headwinds, we ended the year with 3400+ outlets in 66 towns for brand "W" and we plan to be at 100+ towns and 6550+ outlets with a distributor in every town we are present in. We have also added 22 towns & 307 outlets for brand "Spaces" during the year.

We are extremely enthused with the significant turnaround seen in the retail demand over the last few months and it gives us confidence of crossing annualized revenue of 1000 crores by FY '25. With the recent surge of COVID wave in India and Government imposing localized lockdowns, we could see normal demand conditions returning with a delay of a quarter.

The advanced textile wet wipes business for commercial engagement with two large global MNCs for the hygiene segment. Demand for baby segments like wet wipes in domestic market remain buoyant while globally the demand remains muted. Commercial activation of wet wipes at a large Japanese baby care chimes who are consistently growing in the Indian market was also achieved in Q4. Industrial segment demand dip of Q3 saw a correction in Q4 supported by growth in safety ware and special application. Product development in pipeline for the commercialization remains healthy.

Greenfield Spunlace capacity addition project in Telangana is on course and we expect commercial operations to commence from H2 FY ’22. Revenue during the quarter from advanced textile business stood at Rs. 85 crores registering 40% growth year-on-year. New disinfectant wipes line at Anjar and expansion of spunlace capacity at Telangana could help this business achieve top line of over Rs. 600 crores by FY ’23.

In Q4, as the lockdown eased out in multiple international geographies, we have entirely booked in our flooring business especially in hard flooring segment with repeat orders with higher ticket size from our large clients from US and Middle East regions. We received trial orders from regions like UK and South East Asia to show our capabilities and services for long-term association. We could also generate and supply trial orders for few big clients of US region. The company has a healthy pipeline of orders for the hard flooring segment.

On the soft flooring side, business started taking shape with strong enquires from US and Middle East regions. The business added new clients with high ticket size to our pipeline for supplies in Quarter-1 FY ’22 from Canada and Middle East regions and positive to generate business from ROW regions in the latter part of the year. These geographies are expected to contribute significantly to the overall business going forward.

Coming to our domestic flooring business, Q4 witnessed highest ever expansion of a retail footprint adding 128 dealers to our channel. We concluded the year with a total of 572 dealers in our network across 192 towns and cities. Digital customer acquisition has been really going strong, clocking a robust 24% contribution to a month-on-month sales. During the quarter, we have continued adding business from a large list of marquee brands across both commercial and hospitality channels. Robust growth outlook for building material segment in India for the near to long term also augurs well for growth of a product lines. During the quarter, flooring business grew more than 3X during year and contributed 5% to the top line in FY ’21. During the quarter, flooring branded business grew 90% year-on-year. With business looking very strong at the hard flooring segment and its soft flooring starting to gain traction, we are confident that we should be able to achieve EBITDA breakeven in the second half of ’22 and breakeven during FY ’23.

Now, I would like to handover the call to Sanjeev to provide updates on financial numbers. Thank you so much.

Sanjeev K. Sancheti: Thank you Dipali. Good Afternoon Ladies and Gentlemen. Many thanks for joining the Q4 and FY ’21 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 earning presentation and press release by now. Just to mention that from Q3 we have not only started disseminating volume numbers for each of our businesses but have also shared granular statistics which will help you track the company’s progress with clear lens.

I am delighted to share that during the quarter, the company achieved highest ever sales volume in bath linen, bed linen, and rugs and carpets. Bath linen sales volume grew by 19% YOY, bed linen sales volume grew by 52% YOY, rugs and carpets sales volume grew by 41% YOY.

During Q4, the total income grew by 31% from 1664 crores to 2174 crores and in full year total income grew by 8% from 6836 crores to 7408 crores. EBITDA in Q4 grew by 21% to 358 crores versus 296 crores with an EBITDA margin of 16.5%. In FY ’21, EBITDA margin grew by 8% to 1420 crores versus 1310 crores with an EBITDA margin of 19.2%.

As you are aware, plants were not running in the initial period of the current financial year because of the Government imposed lockdown on account of COVID. Further the existing incentive scheme for export goods RoSCTL was replaced by RoDTEP with effect from January 1, 2021. However, the rates of RoDTEP are yet to be notified and hence we have not accrued any income on this account in Q4 FY ’21. In spite of these, we have still been able to achieve revenue and EBITDA growth over Financial Year 2020. Had COVID-induced shutdown not happened in the initial weeks of FY ’21, we could have achieved double digit top line growth.

Higher minimum support prices and 10% basic custom duty on custom cotton imports have led to increase in cotton prices of around 30% YOY. With the prevailing second COVID wave, we expect cotton demand to drop and prices to stay stable or drop marginally.

The increase in other expenses in mainly volume linked expenses with stores in spares, dyes and chemicals, job work and apart from increase in logistic cost due to global increase in freight rate as well as due to increase in volume. All round increase in input price and global freight cost could keep the margins under pressure in the coming quarters and hence we have already started discussion with the key customers for price increase.

Q4 profit after tax after minority interest stood at Rs. 130 crores up 52% YOY and FY ’21 profit after tax after minority interest stood at 540 crores up 6% YOY. FY ’21 EPS stood at 5.37 versus 5.05 in the same period last year.

We have been consistent in hedging large portion of our exports and hence our average exchange realization for the exporter has been a very healthy Rs. 76.14 versus Rs. 74.08 in the corresponding quarter last year.

Company has prepaid term loans of Rs. 374 crores as on March 31, 2021, along with other installments which were due as on the year end. The weighted average interest rate of loan prepaid was 8.48% per annum. Net debt of the company stood at Rs. 2333 crores, a reduction of Rs. 629 crores over March 2020. Over the last four years, our net debt by equity has gone down to 0.64X as on March 31, 2021, versus 1.27 as on March 31, 2017, and there is a continuous improvement in ROCE in spite of adding additional capacities in various businesses which will yield significant cash flows in future. Net debt of the core business was reduced by Rs. 702 crore in the last 12 months.

In FY ’21, we have spent Rs. 453 crores in CAPEX. In spite of investment in the growth businesses, net debt has remained below Rs. 2400 crores as on March 31, 2021.

Coming to segmental result, Q4 FY ’21 home textile revenue stood at 2052 crores versus 1585 crores during the same period last year growing by 30% YOY. FY ’21 home textile revenue stood at 7128 crores versus 6663 crores during the same period last year, growing by 7% YOY. Q4 EBITDA margin stood at 18% and FY ’21 EBITDA margin stood at 20.9%.

During the quarter, revenue from flooring business was Rs. 119 crores up 182% YOY and 21% QOQ. EBITDA loss reduced to Rs. 19 crores versus loss of Rs. 24 crores in Q3 FY ’21. During the year, revenue from flooring business was Rs. 319 crores up 265% YOY. EBITDA loss during the year was 100 crores versus loss of 142 crores in FY ’20. In the flooring business, we are seeing improvement QOQ and we expect the top line of around Rs. 800 crores in FY ’22.

During the quarter, advanced textile business clocked revenue of 85 crores and in FY ’21 clocked Rs. 309 crores up 24% YOY. Emerging growth businesses which include branded business, e-com business, flooring and advanced textile cumulatively grew 87% YOY and contributed 15% to top line during the year.

The Board of Directors had its meetings held today has approved buyback of equity shares of the company for an amount of Rs. 200 crores at a price of 120 per share. The promoters will be tendering only 70% of their eligibility under the buyback. Apart from this, the Board has also approved dividend of Rs 15 paisa per share. The company’s outflow for the buyback and dividend would be Rs. 265 crores, which includes the tax outflow, and this is close to 50% payout against the policy of 25% payout. Further the Board has also agreed to consider buyback options on a regular basis.

The expansion projects of flooring, advanced textile, and home textile businesses, which were in different stages of progress in FY ’21 will get completed in FY ’22. CAPEX spend in FY ’22 to complete these projects is expected to be around Rs. 600 crores. In spite of the CAPEX in higher outflow due to buyback and dividend, the company will continue to prepay the high-cost debt as evidenced over the last two financial year. Consequently, the net debt of the company is expected to be around Rs. 2400 crores in March 2022. The bulk of the CAPEX is skewed towards the first half and net debt could be higher than the guidance in the first two quarters. The net debt guidance is without considering incentive dues from Telangana Government. The total due on this account would be around 200 crores by the end of FY ’22 and any amount received on this account would further reduce the net debt.

On the back of expanded capacities and with customer demand remaining to be buoyant, the company is well set to achieve a top line of Rs. 12,500 crore by FY ’25 with a CAGR of over 14%. During this period, home textile business is expected to grow by over 10%, flooring business by over 50%, and advanced textile by over 25%. The top line of the company is expected to grow upwards of 15% in FY ’22 (home textile over 10%, flooring over 125%, and advanced textiles over 50%).

Over the last few months, input costs have increased significantly, this coupled with uncertainty on RoDTEP rates has put pressure on margin. In spite of these headwinds 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 achieve annual EBITDA margin between 17% to 18% in FY ’22 depending on the RoDTEP rates, which are yet to be notified. However, quarterly margin may vary depending upon the cost pressures in corresponding price revisions. We continue to remain focused on our strategic priorities in 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 Ritesh Gandhi from Discovery Capital. Please go ahead.

Ritesh Gandhi: Congratulations on your numbers, so couple of questions any sense on when they expect to like notify RoSCTL because it is slightly strange to be able to be regarding a couple of quarters and not knowing what your incentives are and is there any expectations that you guys have internally or if it is going to be higher end or lower than the earlier incentives?

Rajesh Mandawewala: Hi Ritesh and hope you are well, so this for the obvious reason that we are in nearly lockdown situation so things are actually working a little slower than all of us expected with the policymakers. Nonetheless through our industry association, we have been actively engaged with them, our expectation is for the RoDTEP rates to be between 2% and 4% and so let us hopefully over the next 45 days or at least before the first quarter earnings are announced that we should have clarity on this, but indications are between 2% and 4% and also I think this will have to wait and see how the exact numbers pan out, but these are the indications that we get as an industry.

Ritesh Gandhi: How much, earlier it was about 6% and up?

Rajesh Mandawewala: Yeah, it is little different product to product, but yes it was around 6%.

Ritesh Gandhi: Got it and numbers this quarter effectively you have not included any of the incentive and still been able to do (+20%) margins?

Rajesh Mandawewala: The March quarter results there is no RoDTEP incentives, so since the rates have not been announced as a prudent accounting practice, we have not taken credit of anything.

Ritesh Gandhi: In the event that they are slightly lower and given where the RM prices and the transportation prices are etc., would it be possible to pass on some of this to the customers or they would say that already the profit margins are reasonably high despite not having it, and therefore it being harder to actually pass on to the customers?

Dipali Goenka: Usually the practice is that the commodity pricing that we pass on and that is where it is so the RoDTEP does not get passed on, but the whole commodity definitely is a conversation and that already is happening and we have seen a steep rise in cotton and yarn and the other commodities as well, so that conversation is on and as we share, we definitely would be looking at price increase coming in the latter in the three to four months.

Ritesh Gandhi: Last question is that we have obviously seen a reasonable amount of tailwinds as you had indicated because of work from home, are you kind of continuing to see the same level of orders etc. given that America is actually opening up now or has that slowed down in any way and how should we be looking at it over the next few years?

Dipali Goenka: I will just tell you a few things here, I think post COVID the world has changed. I think we all know that it is never going to be a 100% office going to be a trend. People will be still working from home and home will be the place where people will be continuing to work and we see that happening this year absolutely very, very strongly and next year too, it will be not to the extent this year, but practically to the extent of 60% to 70%, so this is the home will be an integral part of people's lives more and more so actually, I mean we have seen the homebody economy grow up dramatically I mean to the extent of 30% to 40% more this year.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Good Afternoon Sir and thanks for giving me the opportunity Sir, my question is again on the home textile business, so if you consider this quarter the growth was very robust, it was around 35% and we have seen a good year considering the fact that first quarter was not that big, so now things are opening up in US as you said that even the markets are opening, people who have started visiting the retail shops, so in that sense do not you think 10% growth in the home textile assumption is a little conservative?

Dipali Goenka: I think we are looking at the complete year at a view and we are very comfortable with 10% on the base of around what we have achieved over 7000 crores, so I think it is pretty robust and I think we have taken quite an aggressive target here and we actually saw a growth in bath linen, bed linen, and rugs and carpets. Rugs will also see a very big upside here and also so will our fashion bedding and TOB, since our brand mix will increase and so will our e-commerce mix because I mean our digitization has accelerated tremendously, so we will see mega impetus there as well.

Kaustubh Pawaskar: Thanks, and congratulations that you have again re-empanelled with one of your most important client, so that is what exactly are the current deal structure with plant and you know what kind of revenues you are expecting because if we consider FY '16, the revenues were around 450-460 crores if we consider 10% of the business, so what kind of revenues you are expecting from the re-empanelment?

Dipali Goenka: I will tell you one thing, we have continued to do well this year also and I think with the product mix that we have, we definitely are confident to achieve our numbers, so far as you talked about I think I am just actually going to just say fundamentally we have complied with our statutory disclosure requirements, so I cannot say anything further at this stage, so that is where I rest my case today.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Thank you for the opportunity, just couple of questions, first is when we look at the US retail market per se, we are consistently hearing the news on more and more retailers getting impacted and more foreclosures and all, from that perspective obviously we have grown in last year, maybe with few of the last retailers, how do you see the retail environment in US panning out with whatever we are seeing in the last one year specifically?

Dipali Goenka: I think I will give you an insight, definitely the departmental stores have been challenged and they have been struggling, but the big box retailers, mass retailers, discounters have grown and I think if you would have seen our deck, e-commerce would be something that we have seen a massive upside, massive digitization acceleration has happened in US and that is where we see our mega upside happening and it is going to be contributed by our brands like Martha Stewart, Scott Living online and offline, and also our D2C brands like Welspun and Welhome, so definitely we see a very big potential there and we see a robust growth that side.

Resham Jain: Okay, so no major impact because of some of the departmental stores not doing that well, obviously this year we have not seen an impact but no major impact is what you are saying?

Dipali Goenka: Absolutely, we will see the impetus on the mass retailer, big box, e-commerce players, and more and more focus on the online and omni channels, for sure and our focus on brands because if you look at our highlights, I mean 84% growth on e-commerce, 21% year-on-year growth on brand business, and 6% growth on innovation, I think that is going to be the way forward for Welspun India, because it gets a different channels.

Resham Jain: One question on financials, over the last two quarters the interest cost has almost more than doubled actually Rs 36 to Rs 64 crores, you mentioned something on interest subsidy not being received from Telangana Government, is that the only reason or is there anything else because your interest cost which was anywhere between whatever 4%-5% has moved to almost like 7.5% now, just curious to know on that?

Sanjeev K. Sancheti: Thanks for asking, so basically if you look at there are two reasons for this increase in cost, one is that if you would remember in the last call, in the last quarter we had redeemed preference shares of one of our subsidiary companies which is the power generating company and there is an accounting impact when the unwinding happens because we pre-redeemed it and that had an impact of 16 crores and then this quarter, we get subsidy which is a large part of that is interest subsidy. Now, some of this interest subsidy based on our reassessment, we kind of wrote off about 12 to 13 crores of that subsidy, so overall these two were the major reason and third thing is when you compare it with last year, last year flooring business was just started and now the interest, we are getting capitalized and this year we are not getting capitalized because the flooring business has started the business operations, so that also is about 10 crores of impact, so all put together this is impact which is impacting the increase, but the core business interest have actually gone down significantly, so there are two one-time exceptional items of almost about 28 crores, which has caused this variance, I hope I am able to answer to your query.

Resham Jain: Yes, and all that impact has come in this quarter is it, Quarter-4?

Sanjeev K. Sancheti: No, two quarters, this quarter and the previous quarter, so if you look at this quarter, this quarter my interest cost, finance cost has only gone up by 3 crores, it is impact in the last two quarters, this quarter and the previous quarter both together.

Resham Jain: Because your overall gross borrowing has come down even if I adjust for 28 crores your interest cost has gone up actually?

Sanjeev K. Sancheti: We have prepaid significant loan in the end of the year so that impact will come next year, but my net borrowing cost has gone up by only 20 crores for the full year and as I said that the last part of it is preference shares and reversal of the tough benefit which is 28 crores and the whole year if you look at is 16 crores is the flooring business impact because it was getting capitalized last year through most of the year and this is the reason why, and my core business, my textile business if I remove this exceptional item that actually has reduced my borrowing cost by 24 crores.

Resham Jain: So is there any risk on the interest subsidy, which we were earlier promised from Telangana Government?

Sanjeev K. Sancheti: I think there is no risk on that and this is not Telangana Government reversal, these are some old dues, what happens is a very large amount of the subsidies we received and some of them very small amounts have not received, so we just took a call there but Telangana subsidy there are no risk, it is just the timing issue as to when we are going to get it and because due to pandemic, I think disbursement have been slow and RRM may add more on that if he would like to.

Rajesh Mandawewala: There is nothing beyond what Sanjeev said because let us say it is a new business, so from a process perspective also there is work to be done, so the incentive will come but for obvious reasons due to COVID, the Government's for the first half of the previous year and now again, so the whole machinery is involved fighting this situation, so we will wait and see, it is a new State for us. Having said that, the monies are due to us, so there is no dispute on that, it is that from a timing perspective it is as and when is it going to come, so I think things need to settle down and this will have a fairer picture.

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

Bhavin Chheda: Good Afternoon Sir and congratulations to the entire Management for excellent performance all round overall on the operational front as well on the financial front, few questions in the project and guidance given, first on the guidance, next year operating margin guidance of 16% to 17%

is it without assuming RoDTEP rates or have you factored in some RoDTEP rates in that because that will obviously impact overall margins, so just a clarification on the same?

Sanjeev K. Sancheti: Guidance we have given is 17% to 18%, what we have considered in the guidance is 2% RoDTEP.

Bhavin Chheda: I am assuming in some guidance you have already assumed some price hike from customers, so that would already be factored in right?

Sanjeev K. Sancheti: Yeah, some of it factored in. Business continues to be in discussion with customers and obviously they will try to optimize.

Bhavin Chheda: Sure, yeah I think your margin guidance looks conservative because already reported around 17 odd percent in Quarter-4 and which includes RoDTEP of 0 and we are looking strong growth in FY ’22, anyway but the conservative guidance is good enough. Second question would we on the advanced textile business, what was the absolute number of advance textile in FY ’21 and what kind of operating margins we are at now in that business, I think 85 crores was Quarter-4 so full year I missed out?

Rajesh Mandawewala: Yeah, so we were north of 300 crores Bhavin and it was a good year for us last year for this the business and obviously bulk of the revenues come from the health and hygiene side, so for obvious reasons the business did well. We are in the middle of now expanding our spunlace capacities, hopefully by September we should start our Telangana facility where the new spunlace line will come about, so from 300 odd we should be looking North of 400 crores in the current year and the business of course last year there were tailwinds on the margin, so the margins will come back to where they were around 20% mark, so the last overall five years we have been around that margin level and we will continue to clock the same level of margins.

Bhavin Chheda: Sir last question, there have been press reports, couple of weeks back where EU is considering taking away the advantage enjoyed by Pakistan for imports of Pakistan garments into EU, so what are further developments and what are you hearing and is EU a big opportunity for Indian home textile and Welspun what is your current EU component of overall sales and what is our strategy for expanding our sales in EU region over future years, as of now I think there is a duty disadvantage of 9%, so what is the Management hearing and what is the view on that?

Dipali Goenka: In the policy or any kind of announcement, we really have no future takeaways right now so there it is. However, for us UK and Europe have shown very promising growth and so definitely and we continue to be a very prominent part of the shelf space of the retailer there. For example for us UK took in around 13% of the growth and so did EU also grew tremendously as well, so we are pretty confident about the market share there because the contribution comes in strongly from innovation and the products that we give in the portfolio of towel, sheets, fashion, bedding, and rugs, so definitely we will continue to take on that share and grow.

Moderator: Thank you. The next question is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: My question is with regard to the CAPEX plan, what is your CAPEX plan for the next year, Sir?

Sanjeev K. Sancheti: We guided that we will be doing around Rs. 600 crores, there is no new project, these are all completion of the existing project which we had announced during the course of last year which is the completion of the balance portion of the flooring business, that capacity increase which will get commissioned in early H2 and the home textile, the capitalized expansion which we had announced last quarter.

Kirti Jain: Sir, then with regard to this PLI scheme, the production linked incentive scheme which is going to come, anything we will be able to participate in that scheme?

Rajesh Mandawewala: No, it is not relevant to us and this is for Greenfield, anyways it is not such a big incentive, so we will not be participating in the PLI scheme because with PLI as we understand it, things like RoDTEP all had to be foregone, so it does not make this any merit for us to go into PLI, so I am afraid we will have no advantage of that.

Kirti Jain: Sir, given the low rates of RoDTEP which we are projecting, so the duty on imported cotton should not be an issue right, given that RoDTEP is 2% and if we use duty free license we will get 0%, so import of cotton should not be issued right, that Central Government has put a duty?

Rajesh Mandawewala: This when you pay duty, it is worse than not paying duty, so having said that the margin guidance that we have given has factored all that into account at the company we make sure that on transaction to transaction whatever is beneficial whether it is advanced licensing or drawbacks, so we take this transaction to transaction call and accordingly try and optimize it, so the guidance is taking cognizance of that as well.

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

Sumant Kumar: Sir my question is regarding targets, so can you talk about in the past we have a 10% of the overall business and whatever the business we lost after the signing how many years it will take to reach that level?

Dipali Goenka: I think we have said enough right now and I can again just repeat that, we will not be able to share any further comments on this, we have already complied with our disclosure requirements, so that is it right now from our end.

Sumant Kumar: Okay, talking about the license brand, we are targeting next two to three years of US $ 100 million, the current existing brand whatever license we have, are we getting more license brand to reach that level or existing brand is going to reach $ 100 million in next two to three years?

Dipali Goenka: I will tell you like when we talk about Martha Stewart, our license brand, this year we did around $ 14 million. We would have actually done $ 27 million, because of the whole logistics issue we could not achieve that number in March, so our forecast for Martha itself is very robust for next year. It is over $ 37- $ 40 million, then you have another portfolio of Scot Living which again will be another $ 10 -$ 15 million and above all we also have our portfolio for D2C brand Welspun and Welhome Basics, and Christy Living as well, which is also contributing very, very strongly to this and definitely there are some opportunities we are considering in more licensing opportunities, that will be also very important part of this $ 100 million, we are very confident of achieving these numbers.

Sumant Kumar: Currently what we were earlier talking about the key growth driver that we have a B2B, now we have a B2C own brand and then we are targeting license brand that is the third pillar, the fourth one we were targeting and earlier the hospitality and all, so can you talk about the overall the margin dynamics of the inching into license brand and increasing B2C contribution, how the margin dynamics going forward?

Dipali Goenka: I must just share that when you talk about brands, the margins will definitely be better. It also gives us the shelf space in not just the existing retailers, but different retailers as well and so that is where we have seen a growth happening, so our margin guidance will be stronger and our mix will be better because more brands mix, more D2C brands like what we are talking about Welspun and Welhome, Christy which also is a digital brand in the portfolio mix which actually has shown a very tremendous impetus actually, so definitely the mix will be very, very strong here and we definitely will see an upside in that.

Sumant Kumar: The last one can you talk about the competitive landscape of home textile currently, how other countries and competing with China and how we are getting market share, outlook on that?

Dipali Goenka: I think we definitely are seeing China under pressure and the OTEXA data has shown that India has definitely taken some shares and we have seen around a growth of around 2% or 3% this year in both the categories towels and sheets, so that has something definitely we can see that. However, if I look at India as a position we definitely are strong in our cotton supply chain and we see India in a right position and very robust in the terms of our kind of a promise going forward. Pakistan, Bangladesh, and Vietnam definitely are there in the opening price points, but India will take this share in the middle to the upper price points for sure.

Moderator: Thank you. The next question is from the line of Tarang from Old Bridge Capital. Please go ahead.

Tarang: Good Evening and congratulations on very strong set of FY ’21, just a couple of questions from my end, one, in your branded business the $ 100 million franchise that you are trying to build, what would be realization difference there versus you all maybe B2B business, net of our licenses royalty, that is number one? The second we heard something about Xinjiang China cotton ban, so does it impact home textiles as much or is it only restricted to fashion industry and are there any implications for it for Indian exporters and exporters other than China?

Dipali Goenka: I will take the branded question first, so definitely our prospects are better and I can tell you when we talk about branded business the margins definitely are better and since right now it is $ 100 million, so definitely the contribution to our product mix and the volume will be that much only that we are talking about, but I can say that it looks very, very promising to us and when you talk about Xinjiang cotton it is not just about apparel, I think Xinjiang actually contributes around 20% of the supply chain of China and what it did actually, it laid stress on the whole supply chain of yarn and that you can see in the price upside that we see right now in the commodity, so definitely that has actually created a pressure on the whole supply chain as well.

Tarang: Madam, can you give some sort of sense numerical or quantitative sense in terms of what will be the gross margin differential between branded and B2B?

Dipali Goenka: It will be around, I actually cannot give you a consolidated thing right now, but it definitely is upside of around 10% to 15% from the regular B2B.

Moderator: Thank you. The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: Sir basically if you look at your capital employed in the home textile segment your assets less liability there has been an absolute increase of close to Rs 500 crores in that home textile business, if you look at the YOY increase in the capital employed it has been 17% whereas sales has increased by 7%, could you explain me why that has happened?

Rajesh Mandawewala: As you would know the first quarter because of the lockdown situation the revenues were not adequate, so we lost not only revenue we lost this margins as well, so because of the inadequacy of that this numbers look like slightly different and better way of looking that would perhaps be the last quarter or maybe the second half of the year where this business operations were restored and you will see healthier numbers there.

Aejas Lakhani: Thanks for that. Second Sir could you tell me what are the distribution channels for the flooring business and are they more different for the soft and hard flooring and do they significantly different from the textile business?

Rajesh Mandawewala: Yes, the channel is different and the dealerships that we are setting up, these are kind of 300-400 square foot stores within stores where who sell these stone products and the ceramic products, so these are different dealers and also this we are setting up our own gateways, showrooms as you might want to call them, about 1200 square foot to about 1800 square foot each, so they sell a little differently than home textiles, but our intent over this current year is to actually bring out some synergy and make a consolidated offer and this would be more meaningful and more holistic to our customers particularly on the digital side, so we are very enthused with the digital response to our flooring business and so we want to leverage that engagement with the digital customer to actually put forward a very comprehensive home offer and mind you this with the flooring business, we have a huge connect with the interior designers, architects, and designers, so we want to leverage that and as I said put up a comprehensive all soft foam as well as flooring offer together, so we will be attempting that and we are very excited with it, so we will be attempting that in the current year.

Aejas Lakhani: Sir, one last thing is that if you look at your total subsidy income which is the VAT as well as the scheme income that was 666 crores in FY '20, could you share what is that equivalent number for the nine months of FY '21?

Rajesh Mandawewala: Very difficult to bring it out this online, so you might as well connect with Sanjeev offline and he will be happy address to that.

Aejas Lakhani: One last followup Sir the scheme was roughly 7% of our sales, that you have mentioned is going to now come down to anywhere between 2% to 4% right is that understanding correct?

Rajesh Mandawewala: It is around 6 until December it was around 6%, so yes that will go down to 2% to 4%.

Moderator: Thank you. I would now like to hand the conference back to the Management for closing comments.

Dipali Goenka: I would really thank each one of you to be here and thank you everyone and stay safe, and thank you Edelweiss.

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

Please Note: This document has been edited to improve readability