"Welspun India Limited
Q2 FY2022 Conference Call"

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ANALYST:	**MR. NIHAL MAHESH JHAM - EDELWEISS SECURITIES LIMITED**
MANAGEMENT:	**MR. RAJESH MANDAWEWALA – MANAGING DIRECTOR, WELSPUN INDIA LIMITED** **MS. DIPALI GOENKA – CHIEF EXECUTIVE OFFICER & JOINT MANAGING DIRECTOR - WELSPUN INDIA LIMITED** **MR. SANJAY GUPTA - CHIEF FINANCIAL OFFICER - WELSPUN INDIA LIMITED** **MR. AKHIL JINDAL – GROUP CHIEF FINANCIAL OFFICER & HEAD STRATEGY - WELSPUN INDIA LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Welspun India Q2 FY2022 conference call hosted by Edelweiss Securities Limited. Before we proceed to the call let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainty and other factors. It must be viewed in conjunction with our business risks that would cause further result performance or achievement to differ significantly from what it expressed or implied by such forward looking statements. 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. I now hand the conference over to Mr. Nihal Mahesh Jham from Edelweiss Securities. Thank you and over to you Sir!

Nihal Mahesh Jham: Yes, thank you Bilal and good evening. I would like to welcome you all to the Q2 FY2022 result of Welspun India. From the management today, we have Mr. Rajesh Mandawewala – Managing Director, Ms. Dipali Goenka – CEO & Joint Managing Director, Mr. Sanjay Gupta - Chief Financial Officer and Mr. Akhil Jindal – Group CFO & 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 ladies and gentlemen. I would like to welcome you all to our Q2/H1 FY22 results conference and thank you for taking the time-out and joining us here today. On demand side, we continued to witness highest ever global growth across geographies with increasing consumer spending. Both the US and the Euro zone have grown in high double digits, on the back of increasing consumption levels. In the backdrop of this, we continued to see unprecedented levels of order flows, way above the pre-pandemic level, indicating a continued global recovery. We recorded our highest quarterly revenues at ₹ 2501 crores, at a growth of 26% YoY and 12% QoQ and highest Half Yearly revenues at ₹ 4,728 crores, at a growth of 47% YoY. Compared to pre-pandemic levels of H1 FY20 revenues of ₹ 3,568 crores, revenues are up by 33% in H1 FY22.

Our export sales grew by 28% YoY and 16% QoQ as demand for home textiles continues to be buoyant due to growth trend driven by homebody economy, continued increase in online spending and focus on environment friendly products. The structural shift in Retailers' sourcing strategy has resulted in Exports from India growing to 44% in Towels and 59% in Sheets, as compared to 42% and 51% respectively a year back. I am proud to share that today every fourth towel and every seventh sheet sold in US now is being made by Welspun. Also delighted to share that in the list of top 13 towels published by 'Ideal Home' UK, Christy towels topped the list and were accompanied by 4 other Welspun made towels.

This resilient business performance has, however, been accompanied, by sequentially increasing commodity price inflation and logistical challenges. Supply chain constraints are still throttling back manufacturing activity worldwide. Additionally, we are seeing increased cost pressures due to Commodity price increases – be it Cotton, Coal for Energy, Crude oil based products or dyes & Chemicals. With Cotton prices touching a 10-year high level in October, Coal prices moving from about $55 to more than $170, Sea freight increasing three fold on YoY basis, surging of warehousing costs and increased supply chain lead times of 60 to now 90 days has had an adverse impact on our revenues and profitability.

We have started receiving the first tranche of price increases in the past few months which has offset the cost pressures partially. Our discussions for second round of price increases are underway as the commodities play havoc. We are hopeful of getting the increases but it will have a time lag of a couple of quarters.

We are, however, continuing to focus on our growth strategy through our innovation products, D-2-C initiatives in brands and E-Commerce & Emerging businesses on the one hand and continue our commitment towards ESG and sustainable growth, on the other. Overall our D-2-C & Emerging businesses grew 45% YoY and contributed 22% to our Quarterly revenue.

For Innovation Business, During the Quarter, We launched one of the largest traceability and ESG transparency rollouts in textile industry with Wel-Trak 2.0, which would help all stakeholders to track raw materials throughout the supply chain back to its origin through Block chain and AI-based technology.

We have started capturing major ESG-related data points including water usage, fair pay, power consumption, gender equality, among others, to further our ESG agenda.

World Economic Forum selected SPUN as one top 100 global corporate ready social enterprises. We received Clarivate Innovation award for second year in a row- only textile company to do so. We have been recognized in ET- Futurescape as one of the top 100 companies in India for Sustainability and CSR. Our Innovation product sales during the quarter were ₹ 573 crores, registering a growth of 52% YoY and contributing 26% to the sales. Welspun would continue to differentiate itself with more and more Innovation products offerings in future quarters.

D-2-C, brands and E-Commerce business, Our D2C portfolio continued to strengthen with following specific highlights-

Successful launch of two brands in US in 2nd Quarter- Welspun Basics and Martha Stewart Everyday across marketplaces and Omni-channel retailers. Amazon recognized Welspun among top 5 players in Home Textile category during Prime Day in US where our Towels ranked #1 and #3. We saw about 1 bn impressions in Amazon US in H1FY22 with 150K unique customers. In UK, with 100mn impressions, 1.2 Mn traffic and about 1mn unique users, we are today seeing about 17% repeat customers which bears testimony to the brand pull Christy has been able to create. Our E-Commerce and branded business at ₹ 356 Cr, grew by over 42% YoY and 19% QoQ, accounting for 14% of our revenues. We are committed to grow both E-Com and Branded businesses to $100m each by FY23 & FY24 respectively.

Domestic Retail business, It is a matter of great pride for Welspun that per Nielsen's recent retail audit, Welspun is now the highest distributed brand in its category in the country. Despite headwinds from the beginning of FY22, Brand Welspun was able to reach to 100+ cities towns and 5200+ stores. We saw our domestic Home textile reporting its highest ever quarterly revenues of ₹ 91 crores, up 104% YoY and 89% QoQ. Basis the latest brand survey, we saw 100% growth in awareness from 6% to 12% and usage increased from 7% to 12% for Brand W. As for Spaces, we are currently looking at over 15cr monthly impressions on the back of live outdoor campaigns in all leading cities across the country.

Advance Textile, Our Advance Textile business Revenue during the quarter stood at ₹ 67 crores, registering growth of 8% QoQ. Spunlace business continued to face challenges in consuming markets owing to overstocking and logistical issues. However, the business saw gains in dry wipes segment. We have commenced sheet mask sales for a leading wellness brand in India. The Industrial filtration demand continued to be strong in Q2. During the Quarter, we became one of the first Indian companies to receive US FDA 510(k) approval for its 3 Ply Surgical Masks. Spunlace capacity at Telangana is underway and is expected to start commercial production by Q4 FY22.

Flooring Business, Overall Flooring Business stood at ₹160 crores in Q2 FY 22 growing by 107% YoY & 32% QoQ and contributing 6.5% to the topline. With the ease of Covid induced restrictions in Q2, especially in USA and ME markets, we have started getting more traction and enquiries in SPC flooring business. Carpet tiles business is showing phenomenal improvement and we are receiving large orders from UK, ME, USA/ Canada and New Zealand, including repeat orders. The domestic flooring business has seen a healthy QoQ recovery after the second wave impact in Q1 FY 22. Commercial and Hospitality channels are witnessing a resurgence in enquiries. Added to this, the focus on Residential channel would drive the growth in the coming quarters. Our first campaign on click-and-lock tiles featuring Amitabh Bachchan has performed very well, with a total reach of 10.1 Mn customers. With both of our Home Textile plants situated at Vapi and Anjar continued to operate at near peak capacities of more than 95%. During the quarter, the incremental 7% TT capacity at Anjar was operationalized with majority benefits to accrue with effect from the next Quarter. As for the additional capacity expansions underway-

20% enhancement in bed linen should happen towards the end of Q3 FY22.

80% in rugs - benefits would start accruing from Q4 FY 22 onwards.

Additional TT Capacity of 46MT per day being installed at Anjar would be operational by Q4 FY23

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

Sanjay Gupta: Thank you, Dipali. Good afternoon ladies and gentlemen. Many thanks for joining the quarter two financial year 2022 India earnings conference call. I will give a brief overview of the financial number for the quarter before we open for Q&A. I am delighted to share that during quarter two the total income grew by 26% year-on-year and 18% quarter-on-quarter on a like-to-like basis and it stood at our quarterly best at 2501 Crores, YTD first half revenue grew by 47% year-on-year to reach 4728 Crores. We earned an EBITDA of 424 Crores in quarter two growing by 5% year-on-year and 19% quarter-on-quarter on a like-to-like basis that is after adjusting for quarter four financial year 2021 ROSCTL rebate of 105 Crores accounted for in quarter one financial year 2022 and the EBITDA margin stood at 17% as compared to like-to-like margin of 16.7% last quarter. YTD first half, EBITDA stood at 884 Crores that is 18.7% growing by 37% year-on-year. Pursuant to the scheme of remission of duties and taxes on exported products, RoDTEP notified by Ministry of Commerce and Industries, the company has recognized the benefit of 11.7 Crores during the half year ended September 30, 2021 and the quarter ended September 30, 2021, out of which 7.6 Crores pertains to eligible export sales for the period from January 1, 2021 to June 30, 2021.

We provide 360 degree capabilities to our customers for logistical support, planning and stocking, specifically to our US Customers. As already mentioned by Dipali, we continued to face challenges on the Logistics front, which also led to incurring higher costs. This had an impact on the Revenue and EBIDTA of the current quarter. These exceptional costs on higher freight, demurrage and inventory carrying costs had an unfavorable EBITDA impact of 1.8% (YTD impact 2.0%). Going forward we don’t see the situation easing. Had these one-time costs and provisions not hit us, EBITDA would have still been higher.

Q2 Profit after tax (after minority interest) stood at ₹ 199 crores, up 11% YoY and 38% QoQ (on like to like basis).

Our consolidated EPS for Q2 FY22 stood at ₹ 2.01 as compared to ₹ 1.79 YoY, growing by 12%. H1 FY22 EPS is at ₹ 4.22 as compared to ₹ 2.28 LY, growing by 85% YTD.

On the forex front, as per practice and as mandated by Board, we continue to hedge about 65% of our future receivables currently. Our average exchange realization for this quarter was ₹75.83 versus ₹73.63 in the corresponding quarter last year.

Net debt of the company stood at ₹ 2537 crores, an increase of ₹ 157 Crores over Sept 2020 & ₹ 288 crores over June 21. We have, in hand, over ₹ 310 Crores of RoSCTL scrips receivable and still to be en-cashed. Along with this, we would have been lower in Net Debt position as on Sep 2021.

Coming to Segmental Results, Q2 FY22 Core business Home Textiles revenue stood at ₹ 2375 crores versus ₹ 1924 crores during the same period last year, growing by 23% YoY and 17% QoQ (on a like-to-like basis). YTD H1, corresponding revenue was ₹ 4,503 crores, growing by 45%.

Q2 EBITDA of home textile stood at ₹ 413 Crores, at 17.4% as compared to ₹ 375 Crores (Like-to-like) in Q1 at 18.6%, growing by 10%. YTD, HT EBITDA grew by 31% to reach ₹ 894 Crores, EBITDA margin being 19.9%.

During the quarter advanced textile business clocked revenue of ₹ 67 crores, up 8% QoQ. Demand has muted to some extent in advanced textile due to over-stocking at buyers' end and high logistical costs, which is expected to continue in Q3.

During the quarter, revenue from flooring business was ₹160 crores, up by 107% YoY and 32% QoQ. YTD H1, Flooring revenues were at ₹ 281 Crores, up 174% YoY. EBITDA loss till H1 is at ₹ 22 Crores as compared to ₹ 56 Crores LY. The business is also witnessing significant increases in input raw material cost and higher freight cost but we are passing on the cost increase to our customers, which has a lag time of a couple of quarters. With this I will leave the floor open for Q&A. Thank you.

We are enthused with the growth momentum in the emerging businesses and it reaffirms the confidence in our strategy. Emerging growth businesses which include branded business, e-com business, flooring and advance textiles cumulatively grew by 45% YoY and contributed 22% to the topline during the quarter vs 19% contribution in FY21.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: Thanks for the opportunity. My first question, I am starting from your last point, you have mentioned that there is an unprecedented cost inflation that we currently seeing, so two questions here, could you quantify in our major category that towels and bed linens what is the percentage price hike that we have taken and what more that we need to take in order to like return back to earlier level if any?

Dipali Goenka: We are looking at a cotton price of all time high, ten years high, it is at 63,000, the coal prices are up at $180 and dyes and chemicals *prices have also increased* as you know and the packaging is at 30% high, so definitely the impact is in the tune of around 20%. As we spoke about this, we already had the first round of price increase in the earlier quarter, but we are going back to our customers for a second round of price increase and we definitely will see that coming through. I would not be able to quantify, but definitely the customers are partnering with us and we will be able to restore the margins whatever we have committed to the tune of 20% in the quarter four or later.

Vikas Jain: Sure, and for the price hikes that we have already taken any number that you can attach?

Rajesh Mandawewala: This is a continuing process and it is hard to put a number to this. To be honest, this commodity prices if somebody was to tell me where cotton is going to stop or coal is going to stop this we could put a number to get set the price increase, so right now it is a dynamic scenario. As Dipali said, all the customers are receptive and there is a complete commitment from their side to partner. When we get a tailwind on cost, our margins increase and we get a couple of quarters of extra margin, so I am afraid this will take some time to pass this on, but there is absolutely no doubt that we will pass on all the cost increases and it might take instead of one maybe two rounds for us to do that, but this will certainly restore our margins to our historic levels of 20% or thereabouts, it might take a quarter or two, but we will get there and we are getting good response from our customers, so there is absolutely no exception on that.

Vikas Jain: Sure, and just for the number per se if you can breakup the revenue growth that we got this quarter, what would be the volume growth and the realization to that?

Sanjay Gupta: So, the volume growth would be about 60% to 65% and the balance would be the rate increase.

Vikas Jain: My last question is I am sorry if I missed in your opening remarks, the reason for the rise in the net borrowings and your outlook on the same, thanks?

Sanjay Gupta: So, the reason for it if you see we had payout of buyback of shares and dividends during the quarter of about 265 Crores, so that has increased the net debt, however as I mentioned we have over 310 Crores RoSCTL receivable in hand and that when encashed will bring down the net debt below June 2021 level.

Vikas Jain: Thank you so much.

Moderator: Thank you. The next question is from the line of Alpesh Thacker from Antique Stock Broking. Please go ahead.

Alpesh Thacker: Thank you for taking up my question. So, first thing and congratulation for gaining market share in both the terry towels and bedsheets, so the first question is on that front,, You have gained market share in terry towels and bedsheet, is it because of increase in wallet share from the existing customers or we signed any new customers, any colour on that would be very helpful?

Dipali Goenka: Thank you for this question. During the COVID time, the wallet shares of home textiles increased to 13%, usually it is around 5% in the average circumstances, but now everybody is going towards health and wellness, it is moving to a wallet share of around 7% for sure. So, since the hybrid model of working is coming, the homebody economy is growing. Corporates are encouraging hybrid model, so people are staying more at home and working partially at home as well, so the share of the home product is definitely going to rise and that is going to be a part of it as well. For us, apart from that, as I spoke about our licensed brands in the United States of America, like the Martha Stewart plus B2C brands like Welspun that we launched and Christy and Spaces in India, I think that is where we are seeing the share growing up as well, so it is not just the private label, it is also the branded shares that is also finding that way. So just to sum it up, the homebody economy definitely is on the rise, it will be 7% to the wallet share, second is for Welspun, it is the branded share that is also going to grow, increasing the share of B2C because we are also getting more shelf space apart from the existing shelf space of the retailer along with that.

Alpesh Thacker: Thank you that was helpful and the second question of mine would be on the flooring business, so just wanted to understand how much of our capacity is tied up to exports business currently, and have we added any client in this quarter in that segment, both for soft and hard flooring. If you can give the breakup up that would be helpful, that is it, thank you?

Rajesh Mandawewala: Most of our revenues on the flooring side have come from the international business and for obvious reasons last quarter you saw a significant impact of COVID in India, so there is a good traction there and both on the soft and hard flooring, exports are looking pretty robust for the company. We also see that the China Plus One is also playing out and on all sides we are seeing very robust demand on the flooring products and having said that, the domestic side is also coming back now. With opening up of everything in India, that is what we are seeing now. We are very enthused with what is going on in the domestic market as well, so hopefully this coming quarters or maybe quarter four we should see significant improvement in the domestic businesses also.

Alpesh Thacker: Got it, just one clarification, on the longer term two to three years down the line, how will this number look like, segregation between the domestic versus exports in the flooring business, just a rough, ballpark?

Rajesh Mandawewala: In the early stages we have invested in our plant, so our first goal is to use the capacity in the plant and get operating leverage. So if you ask me the first five years, it will be heavy on exports as we build the domestic business, but the heart of the business is in the domestic market and over a period of time we see this settling down at half and half and it might take five years, it might take seven years, but eventually it will settle to half and half. We believe we will get a significant share of the domestic market as our channel penetration improves and also the product is better understood through our communications by the customers.

Alpesh Thacker: Got it. Thanks a lot for the clarification and all the best.

Moderator: Thank you very much. The next question is from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: Thank you for the opportunity, just one question on global supply demand scenario, so is there any disruption at the China exports front because of the energy crisis?

Sanjay Gupta: Can you clarify, Shaleen can you be more clearer, we could not hear you properly?

Shaleen Kumar: So I was saying that because of this energy crisis in China, are you hearing anything in terms of the supply chain disruption at your end or if you are hearing anything or any sense you are getting from your customer so just I am trying to understand global supply demand scenario?

Dipali Goenka: So, I think the global supply anywhere is disrupted regarding coal, whether it is India or whether it is China, I think everywhere. We are seeing that the whole supply chain is disrupted and definitely coal is under pressure where there is a huge price increase and the quality of coal is again also an issue.

Shaleen Kumar: We have got some shut downs in China and even in the textile segments as well, but the same was not there in India right so probably this supply chain disruption was more in China, actually again it is difficult to say because getting something out of China is difficult, so wanted to get your views. The general supply chain constrain specifically to China?

Rajesh Mandawewala: I am sure there is some impact and the fact is that there is impact out of India as well, but it is a little more out of China. Having said that, the real impact of it will be on the price on the shelf perhaps a quarter or two down the road. But as of now we do not see anything very significant, to be honest except, that we are seeing very robust demand on our products and we cannot do enough and so we are seeing that but to quantify the impact in China, it is too early and very honestly we do not have that specific information and nor are we specifically hearing a number from our clients as well.

Shaleen Kumar: Understood. Thank you so much.

Moderator: Thank you very much. The next question is from the line of Rushabh Shah from RS Capital. Please go ahead.

Rushabh Shah: Thank you for the opportunity. I just want to understand given that home textile exports are in a structural dream run for the next 3 to 4 years, so what are the major risks you see here and if you could see some of them occurring giving everything is going well for the industry?

Rajesh Mandawewala: I am afraid the risk has already surfaced, so it is the commodity prices and it has been going on for a few quarters now which means a relentless one way traffic of raw material and energy prices going up, that is the risk and that will continue to remain going forward. Having said that, we have been around for 25 years now and we have seen the cycles before and we have gone through it before, so we know that things will settle down and finally if the raw material prices are here to stay we will pass on whatever the negative effects in the margin, eventually they will get passed on to the customer, so they are all part of the business and unfortunately, it impacts a quarter or two, but eventually they will settle down and as Dipali said that all our customers are very, very supportive at this point of time and they will continue to support our business so we will mitigate that risk as well.

Rushabh Shah: And one more thing since cotton availability is a major factor for India and the last I was just seeing the total production data cotton base mostly 350 to 360 that base for the last 4 to 5 years and the cotton yield is among the lowest even comparing with the neighboring countries, so either it in an on ground happening and how do we increase cotton yield because that is the main factor for home textile exporters, if you can share any thoughts on this?

Rajesh Mandawewala: So, if you look, India's yields on cotton are still half the global average right, so we are at about 600 to 650 kilos, global average is that of 1200 to 1250, so there is still a long way to go, so I am sure with land reforms and renewed focus from the government to improve yields over the next 8 to 10 years one should expect India to catch up to the global yield so I think crop in India hopefully should grow if not anywhere else in the world and even now we are surplus. Whatever we grow we are not consuming, 80% of the crop is getting exported. Likewise about 20% to 25% of our yarns are getting exported, so I think from that perspective while the supplies might tighten, but the India's position looks pretty solid and hopefully for the next 8 to 10 years we should be okay.

Rushabh Shah: Thank you so much.

Moderator: Thank you. The next question is from the line of Venkat Samala from Tata AMC. Please go ahead.

Venkat Samala: Hi, Welspun team. Just one question from my side is that we are seeing a very good order book right and this is something that even some of our peers are also reporting, so this could be again driven by confluence of factors right, I think one point that Diplai did mention is that the wallet share towards home textile is increasing and this time you know China plus one is also helping us sort of improve India's market share, so among the two factors, is it possible for you to sort of qualitatively help us understand which is the bigger factor, which is helping us in the growth?

Dipali Goenka: Overall I think the whole demand has been buoyant and I definitely think the opportunity for India becoming the heart of the whole supply has been a very important part, India actually has taken a center stage, as we spoke about earlier that cotton supply, India will be leading the path and India will be the heart of the whole cotton global exports whether it is a cotton home textile products as well, so definitely that is a very big opportunity for India and of course the whole homebody economy is also very important aspect of what we see and definitely that China Plus One is again a very big one as well.

Venkat Samala: Right, so I am just trying to understand which one is the larger factor, which is helping us in terms of the positive demand outlook that we are seeing?

Dipali Goenka: Cannot say anything here.

Rajesh Mandawewala: Maybe we will take it as a homework and try and find you an answer the next time around, so good question, we will try and do some research on this.

Venkat Samala: Sure, fair enough and the next thing is that obviously you seem pretty confident that despite the unprecedented RM prices that we are seeing in the next couple of quarters you are hopeful of passing that onto the customers so I just wanted to understand because of the higher demand at the customer end are we able to take this price hike so that to ensure that at least they are not squeezed in the margins?

Dipali Goenka: So, the customers will also have a cap to what they can pay, so there is definitely going to be kind of a leverage that could be happen, while we will see that the demand might not decrease, but there will be a kind of leverage that will happen here for sure and I mean we are seeing that the CPG here in India and globally as well they have hiked up their prices. So I think the same thing will happen, but to that extent the consumers would not be able to pay that much because their wallet share to the kind of category they have a cap that as well, so definitely there would be a little bit of leveller in the terms of demand as well.

Rajesh Mandawewala: Just to add to that, see, in times like this what also happens is that almost on an immediate basis, the retail prices move up a little bit, but over a period of a year or so the products gets adjusted so that you expect the product to fit the historical price points in the marketplace, so that becomes a one year process so the product also gets adjusted so finally the retail prices come down to where the consumer is comfortable, so the product gets adjusted to the market requirement.

Venkat Samala: Understood, right and my last question is that obviously you expect in the next two quarters the margins to move closer to the average level that we are seeing, but what could it look like in the next quarter, so will it further reduce before improving or you know it should be a gradual improvement from here on?

Rajesh Mandawewala: So, first thing is let me just clarify the next two quarters I do not think that we will get to 20% in the next two quarters, we may or may not, so things could take a little time to improve, so we will be more confident, to say, next year with more certainty that we will get to these levels, but yes, next two quarters are difficult or it will take us some time. Right now we are in discussions, we are already at the end of October, as for the price increases for them to materialize, this will start hopefully by December-January and will slowly start getting reflected in quarter four, the quarter three is going to be tough one for us and quarter four onwards we believe some improvement should start happening and next year we will hopefully come to our most desired levels of margins.

Venkat Samala: Understood, that was very helpful. Thanks a lot. Wish you a happy Deepavali.

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

Prerna Jhunjhunwala: Thank you for the opportunity. I have just one question on flooring business, this quarter we have seen flooring business reporting profit at EBITDA level of 45 Crores, is this the turn around and it is sustainable or the input cost pressures in the flooring business could also lead to a reversal in this position?

Rajesh Mandawewala: I wish we had a 45 Crores EBITDA in this quarter.

Prerna Jhunjhunwala: It is 4.5 Crores, sorry.

Rajesh Mandawewala: To be honest that we have had some tailwinds in this quarter and which is why we have reported a positive EBITDA, we are close to breaking even and hopefully we will stay there, but the cost pressures are the same just like we are in the home textile business, the cost pressure remain the same here also. Here we use PVC and oil derivatives, but the process of passing on the cost increases is a little faster with the flooring products, so hopefully we should be able to pass it on faster in the flooring business as compared to the home textile businesses so it is just that the nature of the business we are able to do it a little faster.

Prerna Jhunjhunwala: Sir, flooring business, export business what are the nature of contracts like for example in home textiles you have 6 to 12 months contracts with the customers, in flooring how does it work?

Rajesh Mandawewala: The contracts historically were the same, but off late we do not commit beyond a quarter and we have been very, very specific and we keep customers informed in terms of how our costs are moving so that they are prepared as towards the end of quarter when let us say the prices need to get discussed with them again, so we do not go beyond three month commitments and if the price increases are sharper we do not even wait for three months to be honest and we get back to them for discussing the prices.

Prerna Jhunjhunwala: And how do we see this business for this year, what kind of revenues are we looking at based on the order for the flooring business?

Rajesh Mandawewala: thankfully on the top line we look pretty decent, we still have some challenges on the operational fronts where some new equipment that has arrived in the current year unfortunately the erectors and technicians are unable to visit us, so we still have some equipment which is not performing to potential, Having said that I think we should have 650 Crores or thereabouts in top line. It is not lack of demand, it is actually, let us say, from the supply side on part of our business and on the soft flooring side we have been soft in terms of demand for obvious reasons because of COVID, but to be honest we are looking at a very healthy traction on that side as well. So hopefully next year we should see robust growth on the soft flooring side as well. So for current year this is about 650 Crores, if you ask me, or thereabouts, but the business is looking pretty robust for the future.

Prerna Jhunjhunwala: Thank you, Sir, that answers my question and Happy Deepavali.

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

Sumant Kumar: So when we talk about flooring business usually we had the target of 50% domestic business and 50% export business, we got a better opportunity and now most of the business is coming from the export business and due to pandemic we are not scaling up the domestic business in the flooring side, so now what are we doing to scale up this business in domestic market and in the next couple of years what are the conclusion you are expecting in the domestic market?

Rajesh Mandawewala: Right Sumant, our aspiration still remains the same, so we want to make the domestic business 50% of our business, but at this moment we have 1000 Crores plus invested in the business, so we have to find a home for our products which is why there is surge in the export business. Having said that, there is a lot of good work, our team is absolutely ready and there is a lot of good work that is happening on the domestic front as well and we have seen customers from all the channels returning back for discussion, whether it is carpet tiles for the offices, wall to wall for hotels and also residential customers, so October to December quarter we should be back to pre-COVID levels and from thereon we should not look back hoping there is no third wave and see quarterly improvement in the domestic business, so we are still very hopeful. I think the value proposition of the product is driven home so this change on flooring in a day which is resonating very well with the clients. I think even the price points in the marketplace are settled, I think the online engagement with the customer is telling us that the customer really love the change of floor and replacement of the floor concept and as things normalize with COVID I think you should see surge in sales and also very honestly we could not do much work on the channel for the last 18 months, our team is on the road now to build the channel, just appoint the right distributors, dealers for our products and get into discussion with meaningful channel partners and the work has already begun and hopefully we will see this. From here on I think we should see quarter on quarter improvement in our domestic business, so the value proposition is intact and I believe over the next 5-7 years we will get to 40% to 50% of our business in the domestic market and I am sure the Dipali wants to add. She is deeply involved with business, so she definitely wants to add to this.

Dipali Goenka: Domestic market is picking up, I think as you spoke the whole capacity that we have invested in, export became the first one to take on, but I think India is going to see a good demand and I think we are seeing that happening, so October has been a decent month and our whole institutional and the hospitality segment has seen that kind of a demand coming back into force in October itself, so definitely the next two quarters we look good in the domestic flooring as well, and definitely that 50% is the goal and we will see that coming through the next two years for sure.

Sumant Kumar: So, can you discuss about the capex of the segment wise for two years?

Sanjay Gupta: Hi, Sumant, so as we had guided last time, so we are going to have 750 Crores of capex in this year and about 550 Crores next year.

Rajesh Mandawewala: So to answer your question Sumant, I think we have about 250 Crores to 300 Crores of capex left for the flooring business about 250 Crores and on the advance textiles we have by and large done about 25 Crores to 30 Crores of capex and the rest of is around core business so we are growing capacity on towel, sheets, rugs everything because all these areas we are working now almost full throttle so we need to grow capacity so the rest of it for the current year as well as the rest of the next year would be for the core business and that should be around 700 Crores to 750 Crores mark spread over the next 18 to 24 months.

Sumant Kumar: Home textile capacity addition is only for processing or we are doing backward integration?

Rajesh Mandawewala: No we are doing some looms as well so we need to add particularly for towels, and the rest of it is of course dying, finishing, cutting and sowing and also there is a lot of investments that we are making towards automation so that we are able to grow and create a more reliable supply chain.

Sumant Kumar: So, with this capacity addition you are talking about putting looms also, what is the backward integration for our home textile business for yarn and fabric?

Rajesh Mandawewala: Look, so there is no yarn discussion within this capex that I had told you, so by and large say about 50% of our yarn will need to come from outside, maybe between 40 and 50, but fabric again for the bed linen side we are investing a little to make more fabric and that is because of the traceability and the source to origin mandate from our client. So on the fabric side we will be about 65% to 75% over the next two years and on towels we are almost 100% on fabric and we would like it to be that way, so by and large that is the level of integration. Having said that, Sumant, what we are hearing from our clients, at some stage we will need to look at spinning. So our project team is working on and we are also engaged with our clients and at some stage, I believe that we will need to get into more spinning or through ancillarisation to have more control on the supply chain on the spinning side. So as of now we are tying up capacity with ancillary and it has worked well for us until now, but if our engagement with our client tells us that we need to add some spinning capacity we will need to find a way of either aligning more outsourcing partners and ancillary partners or also maybe invest a little bit in that area as well, but as of now whatever numbers that we are discussing, there is no spinning involved in that.

Sumant Kumar: How much towel you said for fabric?

Rajesh Mandawewala: Towel is almost 100% of weaving inhouse and it will stay that way, so there is a lot of technology there and there is a lot of innovation there, so we would like to make sure that it stays inside the company and which is why we have chosen to remain 100% or close to 100% weaving on the towel side.

Moderator: Thank you. We will take the last question that is from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: Thanks for the opportunity, a coupe of questions and clarification, firstly on the brand business if I am reading it correctly we are now doing around Rs.350 Crores quarterly from the branded business, if this number is correct it implies to around 14 to 15 net Crores which comes to around 20% of our total business, I just wanted to reconfirm with you, am I reading it correctly?

Sanjay Gupta: 350 Crores is correct, yes.

Naushad Chaudhary: And what could be the mix of this between domestic and international market?

Sanjay Gupta: About 80% and 20%.

Naushad Chaudhary: So, 80% from the international market and 20% from domestic?

Sanjay Gupta: Yes.

Dipali Goenka: We are looking at the numbers to be intact of $100 million by 2023 for branded business.

Naushad Chaudhary: $100 million would be annually or quarterly run rate?

Sanjay Gupta: $100 million is yearly and that is for branded and $100 million for e-commerce branded, so totally $200 million will be by financial year 2024.

Naushad Chaudhary: But looking at this quarterly run rate we are already at 1500, so 350 this quarter will be reported from the branded business if I am multiplied by four then 1400 we are still and at 1400 we are currently on the branded business?

Dipali Goenka: This is a season time, I think let us also look at the numbers because this is actually the time where you have Deepavali and the maximum sales happen in this time for the global demand as well, this is the time when the holiday season sales happen so there is an upside, but overlooking at, definitely our demand looks robust, our strategy on brands is completely on trust, so it could be earlier for sure.

Rajesh Mandawewala: If you are pushing us for a faster growth then your massage is well taken.

Naushad Chaudhary: Alright Sir, secondly on the European market, I understand that mix of European market is completely different than US market, but if I look at our revenue run rate from the European market, we had been at around of Rs.1000 Crores annually, is there any strategy, which we are discussing or you know having a thought on to how to scale it up from the European markets excluding whatever the other FTA and other stuff, the talks has been in the market, so let us assume if those thing does not come in our favor is there any strategy we have planned to scale up in the European market?

Dipali Goenka: Irrespective of the FTA, even if that does not come through, our strategy has been intact regarding our towels and our towels are the highest selling in UK despite the FTA that is there, so our strategy towards UK, Europe, rest of the world is intact and apart from what we are doing in America as we spoke about the B2C brand launch in Welspun and Welhome in America, we will be launching B2C play even in UK and Europe so definitely the omni channel will also be a play that we see happening here and the category also optimizing. Right now we were talking about towels and sheets for bedding, I think the whole category flow will also be something that we have to optimize as well, so definitely our strategy is intact in the terms of what we are doing in UK, Europe and B2C also be very, very strong here and that will be in the terms of omni channel as well.

Naushad Chaudhary: So, doubling it from the European market from 1000 to 2000 hypothetically how much time should it take for us to double this size?

Dipali Goenka: I think we can talk about it later, but I think fundamentally I think the opportunity here is to say that how the business evolves into B2C and omni channel because the business dynamics are different, we have seen the acceleration of e-commerce go up dramatically over 35%, so I think that is the mix that we see so the whole business and the product mix and the whole thing is changing here for sure, it is more of a brand play and I think that will be something that you will see evolving.

Naushad Chaudhary: Understood. Thank you so much and all the best.

Moderator: Thank you very much. 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: Many thanks for joining the call today. I would like to share my closing thoughts on the company's performance and our outlook for the future. We continue to see strong growth momentum in our core as well as emerging businesses and all macro indicators for top line growth are very positive. The current hiccups we are witnessing in commodity prices and logistic issues are unprecedented in nature, but we are optimistic that they should be short-lived and transitory. We are very buoyant on the medium and long-term sustainable growth on both revenue and margin front for all our businesses. I thank you all and wish you a very happy Deepavali and anymore questions, please reach out to Sanjay. Thank you.

Moderator: Thank you very much. On behalf Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.