"Trident Limited Q1FY 2018 Earnings Conference Call"

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MANAGEMENT: **MR. PAWAN JAIN**
DIRECTOR (CORPORATE AFFAIRS), TRIDENT LIMITED

MR. GUNJAN SHROFF
CHIEF FINANCIAL OFFICER, TRIDENT LIMITED

MR. VIPUL GARG
VICE PRESIDENT (INVESTOR RELATIONS), TRIDENT LIMITED

Moderator: Ladies and Gentlemen, Good evening and Welcome to the Trident Limited Q1 FY18 Earnings Conference Call. Today, we have with us senior members of the management team, including, Mr. Pawan Jain – Director, Corporate Affairs, Mr. Gunjan Shroff – Chief Financial Officer and Mr. Vipul Garg – Vice President, Investor Relations.

We will commence the call with an opening remark from the management team, and follow that with an interactive question-and-answer session. Before we begin, we would like to highlight that certain statements that may be made and discussed on the conference today may be forward-looking in nature. And a disclaimer to that effect has been provided in the earnings presentation shared with you earlier. The company does not undertake to update them publicly.

I would now request Mr. Pawan Jain to make his initial remarks. Thank you and over to you, sir.

Pawan Jain: Thank you. Good evening and a warm welcome to everyone. I would take you through the business updates as well as share the operational performance of the Company, while our CFO - Mr. Gunjan Shroff, will share the financial highlights for Q1 FY18.

Firstly, let me take this opportunity to welcome the move by the government on implementation of GST. To summarize, GST rate for Textile Business in which we largely operate is taxed at 5% and for Paper business is taxed at 12%. Going forward it will be beneficial for organized players and we see huge potential going forward, as domestic home textile market is largely dominated by the unorganized players. However because of this transition phase to new tax structure domestic business witnessed subdued growth which is a temporary phase and we believe that GST would be beneficial for overall business in long term.

Export Duty Drawback scheme has been extended till 30th September 2017 & the rates are kept at about 7.4% without taking input tax credits and it will be reviewed again in the current ongoing quarter. Rebate of State Levies (ROSL) scheme has also been extended till 30th September 2017 in the latest circular dated 31st July 2017 where the rates are kept at 3.9%.

In Home Textile, Bed Linen continued to get encouraging response in the International market and reported healthy sales volume growth of 32% Q-o-Q and operated at 36% utilization levels. We are growing our order book with large retail chains which is helping us in improving our incremental Volume and Value growth in this segment. Bath Linen operated at a capacity utilization level of 51% in Q1 FY18. Bed & Bath Linen contributed 49% of the total revenues. Yarn business operated at utilization level at 95%. Yarn business contributed 33% of the total revenues Q1 FY18. Yarn captive consumption increased to 40% in Q1FY18 as against 34% in FY17.

From Apr'16 to Jun'17 period, Indian Rupee has appreciated approximately 2.7% while Yuan has depreciated around 4.5% relative to dollar and Cotton price was up more than 20%.

In the last cotton season we saw Cotton price remained in a very tight range of Rs 123 Kg - Rs 126 Kg which is unusual and was one of the reason where margins continued to remain under pressure. According to International Cotton Advisory Committee (CAC), Indian total area under cotton is projected to increase by 7% in FY18. We are expecting that the price should be moderated upto 5-10% in the coming cotton season which should aid in margin expansion.

EBITDA margins in the Home Textile Business including yarn for the Q1 FY18 stood at 16% down by 2% compared to same period last year due to external factor like stronger rupee & higher raw material cost which remained a key headwind in growth and impacted the margins.

Latest statistics from OTEXA reflects India's inherent advantage over China and other countries despite temporary challenges faced by the Industry and we are positive that the Industry will be able to withstand all these headwinds and continue to gain from the opportunities in the International Market.

We are surpassing our own set benchmarks in the Paper business which clocked ever highest EBITDA margins of 44% even after domestic market witnessing weak demand because of GST implementation. Paper operated at 83% utilisation during the quarter. Factors like lower raw material costs, higher branded copier sales volume and better realization which abetted in margin expansion.

Further, for continuous improvement in energy efficiency and supporting India's journey towards climate change mitigation; the company has been conferred with SEEM National Energy Management Award 2016; Gold Award for Paper & Chemical Division and Silver Award for Yarn Division.

The board of Director has made some important announcements which I would like to highlight:

- With strong emphasis to reward the shareholders, Board has declared first interim dividend of Rs 0.60/- (6%) per fully paid up equity share of Rs 10/- each.

- Approved the appointment of Mr Dinesh Kumar Mittal, a retired IAS Officer, having a remarkable professional journey in the public service domain and has made rich contributions in areas such as Infrastructure, International Trade, Urban Development, Renewable Energy, Agriculture Development and Micro- Credit, Corporate Governance/ Affairs, Banking, Insurance, Pension, Commerce and Financial Services.

- As an alternative source of funding, board has approved the proposal for raising of funds for an amount not exceeding INR 500 crores. This is an enabling resolution which will be put up at the upcoming Annual General Meeting for shareholders approval. It will help us to strengthen our balance sheet by way of deleveraging along with healthy free cash flows to avail any exciting and attractive growth opportunity; at an appropriate time in the near future including but not limited to replacing high cost debt, organic or inorganic growth opportunity which can create value for business.

With that, I would like to call upon our CFO – Mr. Gunjan Shroff to continue the discussion with his views on the financial performance.

Gunjan Shroff: Thank you Pawan. Good Evening everyone. I will share the financial highlights for the Q1 FY 18.

During the quarter, Trident Ltd; Total Revenues stood at Rs. 1210.4 crores, higher by 3.3% compared to Rs. 1171.7 crores in Q1 FY17.EBITDA improved by 4.5% to Rs. 259.4 crores translating to EBITDA margin of 21.4%. Profit After Tax grew by 13.2% to Rs. 88.9 crores against Rs. 78.5 crores reported in the corresponding quarter of last year.

During the quarter, our Home Textile business including Yarn; Total Revenues stood at Rs. 996 crore, higher by 3% compared to Rs. 964 crore in Q1 FY17. EBITDA declined by 7% to Rs. 164 crore translating to EBITDA margin of 16%.

During the quarter, in ourPaper business; Total Revenues stood at Rs. 214 crore, higher by 3% compared to Rs. 207 crore in Q1 FY17. EBITDA jumped by 33% to Rs. 95 crore translating to healthy EBITDA margin of 44%.

Coming to our key financial parameters, our; Net Debt stood at Rs. 2669 crore as on 30th June, 2017, down from Rs. 2714 crore as on March 31, 2017. In the last 5 Quarters our Net Debt came down by Rs 752 crores. Our long term debt as on 30th June, 2017 stood at Rs. 1821 crore, out of which more than 75% is covered under the TUF scheme. As a practice, we will continue to repay high cost term debt ahead of our repayment schedule which will strengthen our balance sheet and also help reduce the overall interest costs. This led to decline in the Net Debt to Equity Ratio which stood at 0.9 against 1 as on March 31, 2017. In the current quarter, we repaid term loans of Rs. 227 crore including high cost debt of Rs. 187 crore.

With this, I would request the moderator to open the forum for questions. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Giriraj Daga from KM Vesaria. Please go ahead.

Giriraj Daga: A couple of questions. Would you like to reiterate the guidance for the full year with regards to our towel, bed linen and paper we saw a bit of lower utilization, so what do you expect for the full year?

Pawan Jain: So, we expect about 90%+ for paper, about 40% to 50% for bed linen and around 55% plus for towel business on full year basis.

Giriraj Daga: Okay. And my next question is on paper EBITDA, we saw substantial rise and correspondingly we also see increase in other income also. So, is there any one-off in the paper division or we can expect this kind of EBITDA to sustain?

Pawan Jain: Yes, for paper this is the quarter when the raw material cost is at a lower level and we expect that around 36% to 40% EBITDA in paper is sustainable going forward. This quarter EBITDA was higher due to lower cost of raw material and higher realization. Due to GST implementation the off-take will be subdued in the first half of FY 18 but we expect off-take should improve from third quarter onwards.

Giriraj Daga: And sir my next question is on fund raising, like we have been seeing continuous deleveraging, in this quarter also we paid our long-term debt. And we look very comfortable on the overall deleveraging plan, then why the capital raising?

Pawan Jain: As of now we have about Rs 450 crores to Rs 500 crores of high cost debt in the books and in the next two years we will be able to generate free cash flows from the business.

Firstly, we see opportunities coming in terms of both organic and inorganic growth, and we foresee that in the next one year or so there will be consolidation happening. This can create some attractive and lucrative opportunities which we can take advantage wherever we see business synergies.

Secondly, with the increase in business, the requirement for working capital utilization will also be on the higher side. Going forward, the 3% interest subvention which is applicable on working capital right now, might not be available post March 2018 which can increase the cost of funds.

We are evaluating these parameters & taking enabling resolution for fund raising at an appropriate point of time.

Giriraj Daga: Just a follow-up there, when you say inorganic opportunity, you also understand under space home textile there are very limited companies available. So, we are looking to get into this sector or looking to diversifying other sectors?

Pawan Jain: As of now nothing on the table, we are seeking an enabling resolution which will be valid for a year. So, we do not know at what point of time we will be able to have that kind of opportunity and how we can be able to synergize with that.

Moderator: Thank you. We have the next question from the line of Abigail Fernandes from Crisil. Please go ahead.

Abigail Fernandes: I just had a few questions. Firstly, is there any reason for your home textile margins contraction? Like in Q4 it was 17%, for FY17 it was 18% whereas for Q1 2018 it has fallen down to 16%. So, any substantial reason?

Pawan Jain: So, one is the raw material cost which has increased, the cotton is almost 20% higher year-on-year basis. Secondly, the continuous rupee appreciation which is impacting our realizations in towel and bed linen both. So, these two things have impacted the margins in home textile business.

Abigail Fernandes: Okay. And has there been any change in your revenue from import-export in the home textile division?

Pawan Jain: No, not much.

Abigail Fernandes: Okay. And what kind of outlook do you all have on your exports for this year? So, do you see any demand coming up from any non-traditional market?

Pawan Jain: First half looks to be subdued, but the second half is looking better in terms of volume growth.

Moderator: Thank you. We have the next question from the line of Sangeeta from Cogito. Please go ahead.

Sangeeta: My question is related to the outlook for the home textile sector as a whole. You have a fairly new plant where you are trying to ramp-up the capacity utilization. Your competitors have also either added capacity or are thinking of adding capacity. So in the next couple of years we would see a substantial increase in capacity available from India. So, how do you see the scenario panning out, given that the target markets only grow at 2% to 3%, are we likely to see and are we already seeing increased price competition amongst the Indian players? Could you just comment a little on this?

Pawan Jain: See, as correctly said the global market is growing at 2% - 3%, even this 2% - 3% is a substantial number because if we shift all this to India for supply it can create sufficient room for the industry players in India to grow at this point of time. That is one. Secondly, if you see the data for this first half of 2017, which is six months ending June 2017, the share of India in US in bed sheet has been increased from 49% for full calendar year to 52% in first six months only. It is almost increasing by more than 5%. And even in towel we have seen it increased from 40% to 41% in this six months period. Growth is there, the differentiation is, how better can you offer in terms of; value for money, new product development, certain distinguished functionality in the product mix.

Sangeeta P: Right. So, actually my question was really because of this. You see, if you look at our market share, it is already about 52%, that is India. Now in that case when the market itself grows at 2% to 3% even if we are increasing our share it is not going to led to a huge amount of growth, it is not like we are moving, our market share was 20% or something and we have a lot of room to grow. So, at some point we are getting constrained by the growth of the market. And everybody has capabilities which are similar. So, are you seeing price competition amongst the Indian players when you are marketing to clients and you are trying to ramp-up your own capacity utilization?

Pawan Jain: First of all, India is having a sufficient room to grow further because of the inherent advantage that India is having in terms of the cotton availability. India is currently the largest producer of cotton with adequate availability of cotton along with the right Quality and Cost. Globally India is competitive in terms of supply where the 100% cotton made ups are concerned. If you see the share of China in some of the apparels, it is almost 80%. So, if China is able to grow in the manmade fiber apparels segment upto 80%, so there is no reason why India cannot grow further from these levels. Also, in the last 4-5 years Indian Government has incentivized the industry in terms of technology, export incentives, etc where any Indian company can have a place in the market where the products are distinguished and niche in its own within the sector. And demand in China domestic market is growing because of which overall share is getting shifted to India.

Sangeeta P: Right. So sir, in that case why it has been not seen for the last two quarters, at least two to three quarters we have seen subdued growth coming from all the textile players. So, what is the reason for that?

Pawan Jain: I think it is the INR appreciation related to dollar vis-a-vis Yuan related to dollar, as Yuan related to dollar has not moved much. India so far for the last 4-5 years has three advantages, one is the cotton, the other is the labor cost and third is the currency. As of now India stands at disadvantage in currency but still has the advantage on the labor cost and cotton availability. Going forward, even the labor cost is not going to be favorable as the government is planning to raise the minimum wage for Indian labor also. Whosoever has invested their CAPEX in high automation, new technology, better productivity, can leverage for getting that share.

Moderator: Thank you. We have the next question from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: I have two questions. First is, just now you mentioned about India's competitive advantage as compared to China on back of currency front. But as you have mentioned in the presentation, INR has appreciated last year versus China which has depreciated. So, how much differential or arbitrage do our clients have between India and China and how long can we sustain this?

Pawan Jain: The advantages are blend of labor cost, cotton cost as well as currency. It is very difficult to say in numbers that this kind of room is still available and how much room has already been availed due to this currency depreciation. But overall India is still into a position to grow the market share in US further.

Pankaj Bobade: Right sir. But in the period mentioned we have appreciated around 2.7% and China has depreciated by nearly 5%. So, together it comes to be 8%. So, do we have that much arbitrage?

Pawan Jain: Yes, so we have more room for that. One, the labor cost is almost more than double in China, and labor cost is almost 10% of the manufacturing cost. Secondly, the raw material cost is also higher in China by more than 30% and the cotton costs stands at almost 30% - 40% for bed linen or a towel business. So, looking at these figures there is still sufficient room where India has the advantage.

Pankaj Bobade: So, any premium can we get on quality or is there any quality differential?

Pawan Jain: So, premium is again a combination of quality, design, functionality of the product, which everything put together can generate a premium.

Pankaj Bobade: Okay. Second question regarding your fund-raising initiative, in the background that our competition is going asset light, how does it make sense for us to raise more capital and go for inorganic or organic growth?

Pawan Jain: See, as of now the objective is to deleverage the balance sheet which this fund-raising is might be through NCD or might be through securities, including equity. But however, the prime objective is to deleverage the balance sheet and strengthen it further. Whenever there is a right opportunity available, whether it is organic or inorganic, we should be ready for availing that opportunity at an appropriate time.

Moderator: Thank you. We have the next question from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Sir, I had a question on hedging. Now that rupee has appreciated, going forward how are we hedged for rupee? Say, for example, you might be hedged 60% of your order backlog for FY18 or maybe 50%, if you can guide us?

Gunjan Shroff: We have three business verticals, yarn, paper and home textiles. For yarn and paper, we are hedging back to back with the orders only. In case of home textiles, we are hedging on a program basis, so we are hedged for around five to six months and it's a rolling policy which we have adopted till now.

Bhavesh Chauhan: Okay. So, basically the rupee appreciation impact, has it come into the quarter or we should get in the coming quarters?

Gunjan Shroff: It has come but since we have been selling forward so that impact is not immediate, but the impact will come. If rupee appreciates further, then this impact will come with a time lag.

Bhavesh Chauhan: Okay. And secondly sir, on ROSL and export duty drawback, now these are uncertainties after September, so if these do not come through, as in maybe they are hard or something like that, how much impact that will have on our margins?

Gunjan Shroff: I think this is an industry wide phenomena and not specific to any particular company. So, I am sure that if such kind of an industry level change happening, there are many faces to it that obviously at a company level we need to optimize. But obviously, there would be a strategy to how sometime needs price uptick to be also evaluated.

Pawan Jain: Bhavesh, just to add on. If you see, as compared to the last year this ROSL is an additional benefit which the government has announced towards the last week of March this year. This was not in FY17. We expect that going forward the duty drawback and ROSL may be merged together or neutralized to kind of rates which will not have much impact in terms of overall margins.

Bhavesh Chauhan: Okay. Sir, last couple of quarters we have seen paper capacity utilization fall actually. So, what was the reason for the same?

Pawan Jain: During this June quarter the domestic market, whether it is yarn, paper, bed and bath, all markets were basically subdued in terms of dealers and distributors not taking inventory on their books and the purchases commensurate with their ongoing consumption. So, the off-take in paper particularly lowered down in this quarter and even in the next quarter it is expected to be subdued. Therefore, the overall inventory level has increased in paper and the subdued off-take has given a lower production also.

Moderator: Thank you. We have the next question from the line of Rakesh Jain from Asit C Mehta. Please go ahead.

Rakesh Jain: Sir, I have two questions. First is, what is the currency impact which had on our revenue from exports? And if we adjust those currency impacts, what would be the normalized revenue growth? And my second question is, how much was the yarn realization, have they improved on year-on-year basis or how is it, since the cotton prices have sequentially year-on-year increased by 20%?

Gunjan Shroff: As Mr. Jain has briefed earlier, this currency has appreciated by approximately 3% on an overall retail basis on this particular quarter. So, rupee as was trading at 68, so now rupee is trading at 64. But still, nevertheless our impact has been around 3% on the realization front from the export perspective.

Pawan Jain: So, when you say that if we remove this currency kind of impact what should be the overall, so on an overall basis the realization has improved, both in towel and bed sheet year-on-year. And again, the significant increases in the volume of bed sheets that has given the positive kind of impact.

Rakesh Jain: Sir, would you mind sharing what was the realizations?

Pawan Jain: No, we are not reporting the realization numbers.

Moderator: Thank you. We have the next question from the line of Sanidhya Daga from Athena Investment. Please go ahead.

SanidhyaDaga: Firstly, could you give me a breakup of the kind of sales numbers for yarn, bed linen and bath linen?

Pawan Jain: So, we are not giving the breakup for bed linen and bath linen separately, home textile contributed (bed and bath put together) 49% of the total revenues, 33% of revenue came from the yarn and about 18% came from the paper.

Sanidhya Daga: Okay. So, if we talk about bed linen we actually had very low realization when compared to our peers because we are basically starting from the basic level and then we were planning to go up to the mid and then the premium segment. So, any light on that part where we are exactly at this point?

Pawan Jain: Yes, it is improving on quarter-to-quarter basis. If you see the last year FY17 first half we have more of greigh fabric which is an unprocessed fabric. And gradually by Q4 of FY17 we had narrowed down that greigh fabric and selling processed fabric. And in this first quarter of June almost everything is processed fabric. So, we had just reduced the grey fabric production to the negligible level.

Sanidhya Daga: Sir, what kind of realization jump we have seen there?

Pawan Jain: We are not reporting on utilizations but it is improving quarter-on-quarter basis.

Sanidhya Daga: So, any percentage, in terms of percentage how much we have jumped from Q4 to Q1 in realizations?

Pawan Jain: We are not reporting the realization numbers, but yes, it is improving quarter-on-quarter.

Sanidhya Daga: Okay. And going forward, what kind of margin can you expect particularly from bed linen?

Pawan Jain: So, bed line is currently generating EBITDA loss and we expect that breakeven by the month of September or October. In next year which is FY19 we expect about 15% to 20% EBITDA margin in bed linen.

Moderator: Thank you. We have the next question from the line of Mithun Soni from Geecee Investments. Please go ahead.

Mithun Soni: Sir, just two bits of clarity. If we see the raw material side, the cotton price increase what we have seen, now we have yarn sales also as well as the bed linen, so part of the yarn we consume in house and in part buy from outside. So, where is the cost pressure more, is it yarn prices have not increased commensurately along with the increase in the cotton price or has that increase and that is where the pressure is coming more on the bed linen and the bath side?

Pawan Jain: It is both ways. One, yes the yarn prices have not increased commensurately with increase in cotton prices, that is one. Having said that, due to this currency impact and high cost of yarn as compared to the last year, the passing on the cost to the customer will have a lag period of two quarters. Definitely it has some impact due to passing on to the customer, as it cannot be passed on one go, and has three months to six months lag which we can be able to pass on to the customers. If we see the cotton prices have increased sometime in November last year, and part of that increase in cotton prices has already been passed on, but still there is a gap which enables to improve the realization going forward.

Mithun Soni: So, you think that we should be able to pass through all the cost increase by the end of second quarter or it will take some more time?

Pawan Jain: It is again a gradual process, and we expect the cotton prices to further moderate from current levels with the new season of cotton coming in October. It will give us cushion in terms of lowering our raw material cost. At the same time, to some extent we can be able to pass on to the customers also.

Mithun Soni: Okay. And sir just to understand, in the bed linen side we will be mostly using the compact yarn, right?

Pawan Jain: Yes.

Mithun Soni: So, how are the prices over there gone up for us, is it gone up big time or not as much along with the cost of cotton increase?

Pawan Jain: As a comparative, the compact yarn has higher realization as compared to a normal yarn. But yes, as we are into a competition in bed linen segment as we are offering a better product at a entry level to give better customer experience and value for money. Because our bed linen plant is 100% vertically integrated with compact yarn, so for manufacturing any bed linen from a normal yarn we have to outsource yarn from outside. Our endeavor is to offer a better product to the customer.

Mithun Soni: So, what I am trying to understand is, let's say of the yarn that we manufacture, all the compact yarn what we manufacture is consumed in house, right?

Pawan Jain: Not all right now because, the utilization levels in bed linen is around 36%, so compact yarn is at 90% plus utilization. So, almost 50% to 55% we are selling outside also.

Mithun Soni: So, with the cotton price increase what we have seen, are we able to pass on the price increase in the compact yarn also?

Pawan Jain: Yes, definitely.

Mithun Soni: It will neutralize your impact on the bed linen side?

Pawan Jain: Yes, that is right. Manufacturing yarn in-house will give us advantage in terms of inventory management, as we will keep lower inventory for yarn, No sales commission, the packing cost or the insurance cost or any other kind of benefits including taxation. Overall, having vertical integration facility we are able to have so many levers to use within the process value chain.

Moderator: Thank you. We have the next question from the line of Shraddha Agarwal from Asian Market Securities.

Shraddha Agarwal: Just one of your peers reported results, they have had reported financial stress in one or two of their client accounts and which is why they proactively refrained from supplying to that account. So, have we seen any such stress in our client portfolio?

Pawan Jain: See, we have a policy of secured sales. For all our international clients either we take LCs or we take credit insurance from insurance companies to supply to all these customers. We do not foresee any kind of write-off or any impact on that.

Shraddha Agarwal: No, this is for existing sales but I am talking about any such thing expected, which is why you would refrain in the future to work with those accounts?

Pawan Jain: Obviously if somebody is particularly not performing well or the payment terms are not in line with our expectation or the credit insurance company is not able to give credit insurance on that account, obviously we will not be able to sell to that kind of customers.

Shraddha Agarwal: So, have we seen any such casualty till date?

Pawan Jain: No, as of now no.

Shraddha Agarwal: And out of our home textile business how much is export and how much is domestic contribution?

Pawan Jain: So, about 85% to 90% is exports and 10% to 15% is domestic.

Shraddha Agarwal: And in our home textile division again, what is the percentage of sourcing that we would have to do for yarn from outside?

Pawan Jain: So, as of now for our towel business about 20% - 25% yarn we procure from outside. But we are utilizing about 40% of our yarn as a captive consumption and 60% we sell it outside.

Shraddha Agarwal: And for bed linen, what is our sourcing from outside?

Pawan Jain: No, we are not procuring any yarn for bed linen from outside.

Shraddha Agarwal: So, for any special quality of bed linen you would have to supply, do we have the in-house capabilities to manufacture that kind of yarn?

Pawan Jain: Yes, we have flexibility.

Moderator: Thank you. We have the next question from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria: I just wanted to know what has been the volume growth YoY in towel and bed linen?

Pawan Jain: So, bed linen, the volume growth on a year-on-year basis is about 36% and in towel it is down by about 7% to 8%.

Ronak Morjaria: 7% to 8% de-growth you are seeing?

Pawan Jain: Yes.

Ronak Morjaria: And could you just help me with revenue share from yarn in first quarter FY17?

Pawan Jain: It is again 33%.

Ronak Morjaria: And the balance home textile segment, bed and bath?

Pawan Jain: 49% is home textile which is bed and bath.

Ronak Morjaria: So, same as last year.

Pawan Jain: Yes, same.

Ronak Morjaria: So, overall we have seen bed and bath linen also grown by 2% YoY?

Pawan Jain: As a whole, in this quarter though this bed linen volume has increased and overall the captive consumption on yarn has increased to 40%. Overall figures remain the same but the allocation in between bed, bath and yarn has changed.

Ronak Morjaria: If you could just throw some light, what led to such de-growth in our Terry Towel business? Because if we look at the textile data overall for this quarter, overall India's revenue growth has been close to 11% to 12% odd. So, why have we suffered a de-growth?

Pawan Jain: One, It is because of previous corresponding quarter the base is high. Two, there was some spill-over from previous quarter also, that is why the base is little high.

Ronak Morjaria: And have we added any new clients in our bed linen segment in this or previous quarters?

Pawan Jain: We had added few clients in the previous quarter, so they are continuing; our order book needs to be ramping up in the following quarters also.

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

Bhavin Chheda: Pawan, few questions regarding the guidance for capacity utilization at the start of the year. We were expecting a 55% to 60% utilization on towels and now you are saying 55%. So, is there some downward revision in the towels guidance?

Pawan Jain: No, still we can be able to manage 55% to 60% by the year end. So, in the first half it is a little subdued and we expect that the volume growth in towel will start expecting from third quarter onwards.

Bhavin Chheda: Okay. Second thing, does the quarter accounted for all the duty drawback, ROSL and the MIES benefits or any accounting is yet pending?

Pawan Jain: No, it is all accounted for.

Bhavin Chheda: So, MIES is also at 2% which is accounted, right?

Pawan Jain: Yes.

Bhavin Chheda: And this MIES is not impacted by GST or that will also need some clarification?

Pawan Jain: No, that is export incentive, that is not related to GST.

Bhavin Chheda: So, that will remain and not need any further clarification on October one?

Pawan Jain: Yes.

Bhavin Chheda: And regarding this export duty drawback of 7.4, how much is right now your input credits?

Pawan Jain: Input credits is mostly raw material 5% except some dyes and chemicals.

Gunjan Shroff: They are mostly at around 18%, so 15% to 18% is normal input credit for dyes, chemical packing, stores item. But otherwise for raw material it is 5% which is predominantly our input cost.

Bhavin Chheda: So, right now you are getting export duty drawback of 7.4% and input had around 5%, so there was an incremental benefit of close to 2% which in worst case scenario would be at risk if duty drawback is not continued, right?

Pawan Jain: Yes, that is one. But the input credit is on the raw material, whereas the duty drawback is at the FOB value. So, that impact is also there.

Bhavin Chheda: So, that will be slightly more than 2%?

Pawan Jain: Yes.

Bhavin Chheda: And this refund of state levies of 3.9%, how much is your internal calculation of the impact of state levies in the company? Because if at all this rate is also adjusted?

Pawan Jain: See, earlier the condition for getting this 3.9% is that you have to leave your state levies input credits. Post GST scenario, in any case we are not be able to avail those credits because of the duty drawback condition. On an overall basis we can avail this significant part of 3.9% as an additional benefit. However, still the ministry had clarified that it is applicable till 30th of September, and they would clarify again that what should be the rate going forward on this account also.

Bhavin Chheda: And 3.9% was effect from January 1, right?

Pawan Jain: No, it is March 23 I believe.

Bhavin Chheda: Wasn’t it retrospective from January 1?

Pawan Jain: No, it is applicable from that date only.

Bhavin Chheda: So, this is the only quarter which is seeing this 3.9% benefit?

Pawan Jain: Yes.

Bhavin Chheda: So, how should I calculate this absolute number, this quarter would have ROSL benefit of how much?

Gunjan Shroff: No, but while you take the ROSL benefit for the quarter we do have to spend around input credit also.

Pawan Jain: Because in this quarter GST was also applicable from 1st of July, so in this quarter whatever credits in the input cost which we were taking earlier, that we have to take. Roughly around 2% to 2.5% kind of benefit you can take on this account.

Bhavin Chheda: On the ROSL front?

Pawan Jain: Yes.

Bhavin Chheda: There is incremental benefit of 2% - 2.5% on export duty drawback over input and a couple of percentage points. So, roughly 4% to 4.5% incremental benefits over and above the input credit is there in the quarter?

Pawan Jain: That is right.

Bhavin Chheda: And ROSL is from the MP state government or it comes from center?

Pawan Jain: It is a center scheme.

Moderator: Thank you. We have the next question from the line of Sahil Doshi from Birla Sun Life. Please go ahead.

Sahil Doshi: Sir, this question relates to the home textile portion. Sir, have we broken even in the home textile business, particularly in bed linen space?

Pawan Jain: As you know that the rest of the towel and yarn business we are already generating EBITDA margins, only it is the bed sheet business which we had not still breakeven. And we expect that breakeven to be sometimes in September or October month.

Sahil Doshi: This will be EBITDA level?

Pawan Jain: EBITDA level.

Sahil Doshi: And this quarter sir, if you were to exclude bed linen losses and may be even home textile, just wanted to understand, home textile ex of yarn, would we be positive on PBT levels?

Pawan Jain: Home textile?

Sahil Doshi: Ex for yarn.

Pawan Jain: That is right.

Sahil Doshi: It will be positive on PBT Level?

Pawan Jain: Yes.

Sahil Doshi: Sir, second question is, what is the real reason for sudden dip in towel volumes?

Pawan Jain: Sometimes there is a spill from one quarter to another quarter and because of this the base is high due to which we are seeing de-growth. But, overall on a yearly basis we still maintain the guidance of 55% - 60%.

Sahil Doshi: Just last question in terms of the outlook, overall for the full year on the home textile business, where do we see margins settle at ex of any currency deviation? And also with the duty drawback or other benefits?

Pawan Jain: See, I think the duty drawback and the ROSL we do not have any clarity as of now, we expect this clarity to happen sometime towards the end of September. And baring that, with regards to the cotton and rupee appreciation, so these two headwinds continue to be challenge for textile industry. And going forward with the new season of cotton we expect the cotton prices to be moderated, which can be able to absorb the headwinds with regards to currency appreciation, if any.

Sahil Doshi: So, wanted to just understand from you where do you see margins settle at the end of the year, when we will be able to breakeven in the bed linen piece? Given, with the same assumption of rupee and cotton, etc.

Pawan Jain: We can give you the guidance on the company and not to any specific business segment. We still hold our guidance of 18% to 22% EBITDA margins on a company, in spite of all these headwinds.

Sahil Doshi: This would be home textile division?

Pawan Jain: All company put together.

Sahil Doshi: And in paper what is the estimate in terms of margins?

Pawan Jain: Paper business in this quarter the margins are 44% and we believe around 36% to 40% is sustainable margins. In this quarter, particularly the cost of raw material is much lower because it is a season for wheat availability. And going forward the margins need to be a little subdued with the rest of year.

Moderator: Thank you. We have the next question from the line of Charmi Mehta from Prabhudas Lilladher. Please go ahead.

Charmi Mehta: I just wanted to know what is our order book visibility for the current year?

Pawan Jain: We would not be able to share the order book numbers, we can only be able to share the guidance with respect to bed sheet business. We expect that 40% to 50% kind of utilization we can achieve in FY18. And in towels we will be able to achieve 55% to 60%.

Charmi Mehta: And my second question was on outlook of cotton prices, do we see it reducing going ahead, like right now it is Rs. 123, it going to Rs. 120 for the current year?

Pawan Jain: Prices have softened for cotton and at this point the October, November prices are hovering around Rs. 108 kg to Rs. 109 a kg. Definitely there is softening in the cotton prices. But however, as the prices open up in the cotton season we would be able to know better. At this point in time it looks like the prices are soft and we expect it around 5% to 10% decline in the cotton prices going forward.

Moderator: Thank you. We have the next question from the line of Ritesh Badjatya from Asian Market Securities. Please go ahead.

Ritesh Badjatya: Sir, my most of the questions have already been answered, just one question is with regards to the terry towel capacity utilization. In the last two, three quarters we are utilizing closer to 50% - 52% kind of utilization. So, this is due to some demand condition or some technical issue because of which we are not able to ramp up the terry towel capacity utilization?

Pawan Jain: It is more of a demand.how we can able to ramp-up our utilization it depends upon how quickly we are able to get the improved order book from the customers. All put together enhancing our business with the existing customers, getting new customer onboard and getting new geographies to penetrate for a better utilization.

Ritesh Badjatya: Okay. So, going ahead, which geographies we are focusing as of now?

Pawan Jain: The prime focus is US followed by Europe, and we are working for other territories like Australia, New Zealand, Middle East, Japan, those are the markets where demand is there, the only thing is that how fast we can able to penetrate that is important.

Ritesh Badjatya: Okay. So, margins are different in the different geographies?

Pawan Jain: Yes. Overall, the margins are different. But yes, the product composition is different, the packaging is different. All put together it is a kind of a penetration which we need to focus on these territories.

Moderator: Thank you. We have the next question from the line of Abigail Fernandes from Crisil. Please go ahead.

Abigail Fernandes: Sir, just a follow-up question. So, apart from the export impact that is going to come on your sales figures, etc, is there any impact of GST on your domestic market offering, like have you seen any disruptions coming out of GST?

Pawan Jain: Yes, the domestic demand has been subdued, particularly from mid of May, even post June also the demand is subdued. And the off-take is much lower as compared to the earlier quarters. This is basically due to transition phase of the GST implementation and the distribution and the entire network is sluggish on putting up the inventory on their books.

Abigail Fernandes: So, even in this quarter, I mean in say July, August, September the demand…

Pawan Jain: Domestic market is subdued, yes.

Moderator: Thank you. We have the next question from the line of Sanidhya Daga from Athena Investment. Please go ahead.

Sanidhya Daga: Firstly, could you please give us the revenue guidance for FY18 and FY19? And spread that into what volumes and value guidance would be.

Pawan Jain: So, see we are continuously growing by double-digit up to even mid-teen we can enhance our revenue. However, whether it is early teens or mid-teens or high-teens, that depends upon two things, One is, if the rupee continues to appreciate that can have an impact on the overall realizations. Two, the enhancement in the captive consumption also, that can have a certain impact on overall revenue. If you see the first quarter, the captive consumption of yarn has increased to 40% which was earlier 34%. When we have the revenue coming from the bed linen business, that has been offset by the reduction in the yarn sales which we do to outside.

Sanidhya Daga: Also, just going forward one or two years from now how can we see the revenue mix changing, especially given that our emphasis is on bed linen and yarn the captive consumption is going up. So, if I see from last year it has been flat, 49%, 33% and 18% respectively. But how do we see it changing?

Pawan Jain: On an overall basis, the headroom is more in bed and bath and the revenue on an overall basis the proportion should improve in favor of bed linen and bath linen.

Sanidhya Daga: Any figures for that?

Pawan Jain: I cannot give you the ballpark numbers, but yes as soon as the utilization levels improve our order book improve, we will improve this 49% to further going forward.

Sanidhya Daga: And do we see it happening this year or next year onwards?

Pawan Jain: Yes, it will be from within this year also.

Moderator: Thank you. Well, that was the last question. I would now like to hand the conference over to Mr. Pawan Jain for his closing comments.

Pawan Jain: Thank you, everyone, for joining us on the call. Hope we could answer all your questions. Should you need any further clarifications or would like to know more about the company, you could reach out to our Investor Relations team. Thank you.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Trident Limited, that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.