



“Trident Limited Q2 and H1 FY 2018
Earnings Conference Call”

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Moderator: Ladies and gentlemen good morning and welcome to the Trident Limited Q2 and H1 FY2018 Earnings Conference Call. Before we begin, I would like to highlight that certain statements that may be made and discussed on the conference call today may be forward-looking in nature. And a disclaimer to that effect has been provided in the earnings presentation shared with you earlier. This company does not under take to update them publicly. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumant Kumar from Emkay Global. Thank you and over to you Sir!

Sumant Kumar: Good morning everyone. 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 opening remarks from the management team and follow that with an interactive question and answer session. Over to you Sir!

Pawan Jain: Thank You Sumant. Good Morning and a Warm welcome to everyone. Thank you for joining us on the call. I will briefly take you through 3 broad topics:

- 1) US Home Textile market,
- 2) Indian Industry structure and Trident's positioning and
- 3) Future Growth drivers

while our CFO - Mr. Gunjan Shroff, will share the key financial highlights for Q2 and share our way forward.

1) Firstly, US Home Textile market:

Total Global home textile market is expected to reach \$ 132 bn by 2020 at a growth rate of around 4% and by choice US is the big market for Indian Home Textile exporters. Presently, India's market share in Bed and Bath category exports to the US has increased to 51% from 49% in Bed Linen segment and 41% in Terry towels from 40% over the past 8 months.

India's rising market share in the US home textile space, is a welcome relief for the Industry especially given the INR appreciation and overhang on regulatory uncertainty over export incentives. This shows that India has undisputed competitive edge in terms of cotton, labour and other factors that has helped the country to continue gaining market share.

2) Secondly, Industry structure and Trident's positioning:

Our industry is characterized by high entry barriers in terms of Scale, Capital availability, long standing customer relationships, Sustainability, maintaining high Quality standards and timely execution of orders.

Indian Home Textile Industry is concentrated with few players commanding more than half of total exports from India.

Trident will keep on leveraging its intrinsic strengths to fortify position as a leading global player in Bed and Bath Linen segment. Trident strengths include – world class manufacturing facilities, Strong Customer relationships over decades, strong brand name with proven track record, near leader in towels and emerging leader in sheeting.

We believe in Constant innovation and offering innovative solutions to our clients which will also give us higher pricing power and lower competition which aids in higher profitability and in turn rewarding our shareholders.

3) Future Growth drivers:

a) US continues to be our major market and we will continue to focus on increasing our market share, not only within Indian exporters but also within US home textiles market.

b) EU, Japan and China are other major global markets. We believe FTA's will make level playing field for India sooner than later. If and when EU opens up, our growth and scale will go to another level.

c) Our country India remains the fastest growing market, characterized by B2C branded play and GST being the game changer for Organised players. Though temporary disruption has been a challenge because of the transitory phase but we believe will gain significant market share in times to come as we have our understanding of the market and we have right to win here.

Before I hand over the call to our CFO Mr. Gunjan Shroff to share the key financial highlights and our way forward, we would like to invite you and experience scale of our state of the art Manufacturing facility in Budhni.

Gunjan Shroff:

Thank you Pawan. Good Morning everyone. I will quickly share the financial highlights:

Last Quarter we witnessed many challenges in the Textile business...

- As spreads widened between spot and forward prices of cotton, yarn prices adjusted itself to the lower forward price, impacting profitability adversely.
- These all led to Sales coming in at INR 952 crores in Q2 FY18 compared to INR 942 crores in the corresponding quarter of last financial year.
- EBIT declined by 65% to INR 36 crores in Q2 FY18 compared to INR 102 crores in Q2 FY17.
- EBIT Margin stood at 3.7% in Q2 FY18 vis-à-vis 10.9% in Q2 FY17.
- There was also a Blip seen in Bath Linen Volume Sales by 11% Q-o-Q due to uneven vendor procurement cycle and change in product mix. That was temporary and we will come back to normalized level this in coming quarters.

However, we demonstrated our resilience during these stress test

- Bed Linen gained healthy Volume growth of 23% with Sales growth of 30% Q-o-Q.
- In domestic business, with presence in around 450 Multi Brand Outlets and e-commerce platforms, our revenues grew at a healthy rate of 24% Y-o-Y to INR 157 crores in H1 FY 18.

The Good news is, as we stand today, worst is already behind us and things have already improved

- Cotton price spreads have narrowed and Yarn product prices have stabilized.
- Captive Consumption of Yarn volume increased by 24.6% in H1 FY18 compared to H1 FY17, bringing down product price risks.
- Clouds of duty structures which were hovering in previous quarter no longer exits as the clarity has been received.

Let me give you the Performance Overview for our Paper business:

- Previous two quarter we witnessed adverse impact of GST which led to decline in Sales by 7% on Y-o-Y to INR 204 crores in Q2 FY18 compared to INR 218 crores in Q2 FY17.
- However, Utilization has improved to 87% in Q2 FY18 from 83% in Q1 FY18.
- EBIT has increased by 76% to INR 76 crores Q-o-Q while EBITDA Margin stood at a healthy rate of 48%.

So even after all these,

- Our Cash generated from Operations reached to INR 623 Crore in H1 FY18 vs PAT of INR 198.8 crores
- Long Term Debt came down by INR 359 Crore in H1 FY18, including High Cost Debt of INR 163 Cr.
- Interest Cost came down by 17% Y-o-Y in H1FY 18.
- High and Comfortable Interest Coverage ratio stands at 7.2x in H1 FY18.
- Our Credit ratings for the Long-Term Bank Facilities have moved higher to AA- from A+ and the Short-Term Bank Facilities to A1+ from A1.
- Dun and Bradstreet has upgraded business rating of Trident Ltd from 5A2 to 5A1. This rating is the highest achievable level and indicates minimal risk and high degree of credit worthiness.
- And we also retain our full Year guidance on EBITDA margins.

These all shows strength of our strategy and execution even in turbulent times.

Now Let me take you to Way Forward:

- We will keep focusing on increasing capacity utilization with better Product Mix, thereby benefit from operating leverage.
- Keep increasing Yarn's captive utilization, which will reduce price volatility risk and improve margins.
- Keep focusing on de-risking in multiple dimensions.
- Focus on improving Cashflow generation and follow prudent Capital Allocation.
- Keep reducing debt.
- And thereby Focus on profitable growth to create long term sustainable value for all stake holders.

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 the question and answer sessions. We take the first question from the line of Giriraj Daga from K.M. Visaria Family Trust. Please go ahead.

Giriraj Daga: Good morning team. Couple of questions; first I would like to do textile used, you spoke about the widening spread for the cotton forward market, one of the prime reason for the disappointed performance in textile segment so would you attribute the entire decline because of that because I see the volumes was also down in the bath linen segment so towel segment volumes is also down?

Pawan Jain: In terms of the profitability it is majorly because of parity between cotton and cotton yarn but on the other hand revenue is almost stable; however, the growth which we gained from bed linen has been negated by the de-growth in bath linen.

Giriraj Daga: Okay but so you mean to say that profitability was not hit because of the volume growth it is primarily because of rise in spread?

- Pawan Jain:** Majorly through the cotton yarn spread; however, because of decline in volume there is a slight pressure on EBITDA also.
- Giriraj Daga:** Okay second question is related to the guidance in terms of capacity utilization so we had guided about like 55% plus for towel, 40%-50% for bed linen and 90% for paper will you stick with that FY2018 guidance?
- Pawan Jain:** Yes we continue with the same guidance for the year as a whole.
- Giriraj Daga:** Third question is more like bookkeeping question, average some reclassification from Q1 to Q2 can you just run us down like what was the reasons for that?
- Gunjan Shroff:** It is basically there is a change in statutory auditor so till last quarter Deloitte was there now E&Y is there, so it is more of regrouping and presentation of the results.
- Giriraj Daga:** My last question is related to the duty drawback and ROSL benefit since anyway these are not there, ROSL has been reduced from 3.9% to about 1.9% and about 2% duty drawback so what kind of hit, do you expect in Q3 and as you mentioned that you will be maintaining the margins of 18% to 22% that was guidance if I remember correctly?
- Pawan Jain:** That is right. As per the latest announcement, there is a hit due to duty drawback which is now kept at 2% along with the input credit. So, on an overall basis its impact to us is 2% on the bed & bath linen margin. This 2% impact from duty drawback going forward will be only 1% on EBITDA on the company has a whole. We can offset this by increase in efficiency and volumes and seeing the cotton scenario this impact we will able to offset that margin and that margins to continue to grow.
- Giriraj Daga:** Perfect Sir. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.
- Manish Ostwal:** Thank you for the opportunity. My question is on how the demand scenario looks in the US market and how is the buying program happening with your key clients and any disappointment on the volume side?
- Pawan Jain:** As of now I think both the bed linen and bath linen, there is a volume growth for the next quarter. We expect that you will continue to see the quarter-on-quarter growth from next quarter onwards. The demand is more of a positioning and how we are able to pass on the higher cost to the customers. Yes, the challenges are there, but in terms of the overall positioning we are well prepared to take those challenges.
- Manish Ostwal:** Second question on the raw material side, again the cotton price even yarn prices also on a higher side. How do you see the raw material things to pan out in next couple of quarters?

- Pawan Jain:** If you compare cotton prices in the last season, which is the FY 2017, the prices are almost 15% to 20% higher as compared to year-on-year basis. But now this had moderated by around 10% in the current season. We feel that there is going to be a kind of breather for the industry to offset the duty drawback challenges and other challenges. So that can make us comfortable in terms of passing onto the customers the high cost.
- Manish Ostwal:** Last point on the currency side, the rupee appreciation that has impact on the overall core margin side?
- Gunjan Shroff:** The fluctuation in rupee did not had material impact on us; however, rupee has been stable for the last six months or so around 64.5 to 65.5. If Rupee does not really appreciate from now, we would see positive movement only coming up, but if it appreciates furthermore then obviously there would be slight margin impact at this point.
- Manish Ostwal:** How we are managing that risk in our business?
- Gunjan Shroff:** We have prudent risk management policy mandated by the board and based on that risk management policy we have been working on our currency management and we have been hedging on back-to-back order basis. We are very much comfortable on the currency side, so it does not really appreciate below 64.
- Pawan Jain:** We do forward selling against the part of the expected revenues. We do not have any kind of exposure in exotic derivatives instruments.
- Manish Ostwal:** Last question on the papers business, in terms of the realization on quarter-on-quarter how much it has increased?
- Pawan Jain:** Quarter-to-quarter, the realizations are down. On an overall if you see the half-year it is a kind of around 2% to 3% kind of growth in realizations.
- Manish Ostwal:** Can you give me the per ton realization Q2?
- Pawan Jain:** We are not reporting realizations on product wise, on an overall basis the realizations for half-year has improved and on quarter-to-quarter it is a decline.
- Manish Ostwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ankit Kedia from CRISIL. Please go ahead.
- Ankit Kedia:** Thanks for taking my question. Good morning Sir. I have couple of questions. First on the volumes in the towel segment, so we learn that there is some degrowth, I just wanted to know exactly what led to this degrowth whether it was some lower orders or may be some seasonal factors or some hiccups in the production side?

- Pawan Jain:** This is mainly because of Vendor procurement cycle because of which there is a blip in this quarter which we feel in more temporary in nature and we will be able to get to the normal kind of order book in the next year. It is not of order book basically in some quarters you have promotional orders and some quarters it is a more of a normal business, so that has again a dip and secondly in this first half of FY 18 we have more value added products and these value added products have lower GSM. Because of this product mix the realizations are higher; however, it has some impact on the tonnage basis but on the equipment utilizations it is same.
- Ankit Kedia:** Got it Sir. I believe those value added items would result into net realizations?
- Pawan Jain:** Yes, H1 FY 18 realizations are more as compared to H1 FY 17.
- Ankit Kedia:** Second on the cotton prices side, if you could provide us more color because I could not quite understand the trend that you are talking about because when I see the cotton price we have hardly moved in the last 10, 12 months or so?
- Pawan Jain:** The cotton prices remained around Rs.120 to Rs.125 a kg range in the last season and as a strategy procure it and store it for using it in the next 4-6 months. Cotton is procured till March and April which is then used till September. Now sometime in this mid of August, the future prices in October, November, December contracts, the prices of cotton has already corrected to about Rs.110 to Rs.112 a kg. Because of this adjustments in future prices there was disparity between the cotton and the yarn prices. During mid of this quarter yarn prices had adjusted with the parity and in the new season the prices are more of Rs.105 to Rs.110 a kg in north and in Maharashtra, Gujarat side it is around Rs.110 to Rs.112 a kg. We expect that the cotton arrival this time will be more, and the prices will continue to be in this range only.
- Ankit Kedia:** Okay in that case, you would see better margins in the next three, four quarters. Lastly just want to have flavour I understand that you do not disclose the realizations on product basis, but if you could just tell us after this GST, how your domestic and export margins would compare in the textile business? Which one would be better slightly better or may be?
- Pawan Jain:** *Exports have always remained the priority for generating revenue as well as margins. However, post GST, domestic brands business is looking very attractive and we expect unorganized share in the market should now shift towards organized players.*
- Moderator:** *The line for the current participant has stopped off. We will move on to the next that is from the line Bhavin Chheda from Enam Holdings. Please go ahead.*
- Bhavin Chheda:** Good morning Sir. Few questions, if I see your bed linen utilization I see your volume has grown substantially in the quarter. So, as you are mentioning the prices realizations have fallen quarter-on-quarter basis?
- Gunjan Shroff:** No, this quarter-on-quarter also the bed linen realization is improving, so definitely last year FY 2017 was the first full year of operations and we have product mix which is not giving us the desired realizations. So from Q1 onwards our realizations are continuously improving.

Bhavin Chheda: In the bed linen segment, our realizations in Q2 is better than Q1 and so it goes better on quarter-on-quarter and Y-o-Y basis?

Pawan Jain: It is about 6% higher.

Bhavin Chheda: On quarter-on-quarter?

Pawan Jain: Yes.

Bhavin Chheda: What kind of utilizations we are looking because we are slightly behind target on the linen side, we were looking 40% to 50% earlier, but we are 39% in first half, so we still feel we would meet that guidance of closer to 45%, 50% for the full year?

Pawan Jain: Guidance which we had given of between 40% to 50% in bed linen, we continue with that guidance and we will able to achieve that.

Bhavin Chheda: Okay and on the terry towel side, what kind of annual guidance you think you will be able to meet?

Pawan Jain: Around 55% is the guidance and we can able to achieve that also.

Bhavin Chheda: Which means you need to do close to 65% in second half?

Pawan Jain: Around 55% to 60% we can achieve, so on an overall basis we will able to touch around 55%.

Bhavin Chheda: You are saying that on annual basis, your margins of 18% to 22% would be sustained, right?

Pawan Jain: Yes, on the company as a whole.

Bhavin Chheda: Okay and in terms of client addition it has happened on the linen side or it has happened on the towel side also?

Pawan Jain: It the additions are happening more in Bed linen side and also in Bath Linen, but the orders are in smaller quantities and that is why it is not reflecting in the overall volumes, but yes whenever overall concentration will improve we will have large orders in towel and bed linen.

Bhavin Chheda: Sir last question what would our hedging position right now would be?

Pawan Jain: We usually have 30% to 40% kind of our estimated export revenue, so we will continue by that.

Bhavin Chheda: Okay and in this quarter was there any hedging loss or hedging gain?

Pawan Jain: There is a hedging gain in this quarter.

Bhavin Chheda: And where is it reflected?

- Pawan Jain:** Other income.
- Bhavin Chheda:** What would be the quantum of that?
- Pawan Jain:** We are not specifying the quantum but the other income is mostly interest and the forex treasury income.
- Bhavin Chheda:** Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.
- Bhavesh Chauhan:** On the paper margins you reported EBITDA margins are 48%, now in the last quarter when we reported 44% we said that the raw material very cheaply available, so what is driving this kind of EBITDA margin despite lower realizations?
- Pawan Jain:** It is more of efficiencies and for Wheat Straw which is our main component of Raw material, April to September is the season and Punjab being the largest wheat producing state, we get raw material within 40-50 km kind of a radius which gives us locational advantage sitting in middle of this Punjab and two, on an overall basis, the volume has also increased in this Q2 as compared to Q1, so Q1 we have temporarily GST transition kind of challenges, so those domestic market is a little subdued demand in the Q1 and it is somehow in Q2 it is again getting to normalcy.
- Bhavesh Chauhan:** Okay and how about the outlook, should we sustain this kind of margins?
- Pawan Jain:** This is little on the higher side, sustainable is around 36% to 40%. We expect that on a long-term basis, we might see some moderation but as of now keeping in the demand supply in the paper industry, keeping in the overall efficiency the company is driving we will able to continue to show decent margins going forward.
- Bhavesh Chauhan:** Okay and on bed sheet side, there have been two of your competitors already declared that couple of retailers in the US are actually facing some problems and also they are reporting of oversupply, so are we seeing those signs?
- Pawan Jain:** No, we are continuing to gain the market share in the bed sheet segment and as a product also the customers continue to appreciate our product, our quality, our delivery matrix and I think we can continue to grow in this segment.
- Bhavesh Chauhan:** Your bed sheet has it break even. I think you had guided that by October we might be breaking even the bed sheet?
- Pawan Jain:** It is a little delayed because of the cotton prices were on the higher side, so we expect that in second half we will able to break even, so it is still not break even in the Q2.
- Bhavesh Chauhan:** Thank you Sir.

- Moderator:** Thank you. We will take the next question from the line of Umesh Patel from TCG. Please go ahead.
- Umesh Patel:** Good morning to the management. Sir few things, you have mentioned in your earlier remarks related to the EBITDA margin decline. So I wanted to know what proportion of EBITDA margin has been declined due to the lower base of volume as well as the higher cotton prices?
- Pawan Jain:** We could not able to report that quantum due to different reasons, but on overall basis the parity between cotton and cotton yarn has mostly impacted the EBITDA margins and the second is the lesser volumes in bath linen.
- Umesh Patel:** Yes, so you mentioned decline between the cotton prices has been narrowed though it has been moderated on YOY basis by 10%, so as of now in first half what was the cotton prices and as of now what rate it is prevailing as of now?
- Pawan Jain:** See in first half the cotton, which we used into operations, is basically procured in towards the end of March and April. At that time the range of cotton price is around 120-126 a kg, so now from October onwards the cotton is available around Rs.110 a kg.
- Umesh Patel:** Have you increased the product prices in the first half, do you know is it the incremental cotton prices to our consumers?
- Pawan Jain:** If you see before the start of this Q2 there is a lot uncertainty over the cotton prices, over exchange rates and thirdly the most importantly is the duty drawback rates. So currency is continuing to be at a similar kind of range going forward also; however, if you see the cotton and duty drawback rates, they are looking to be more certain in terms of the outlook going forward, so that has on an overall basis we can able to pass on to the customer to some extent and most of the extent it has been offset by the raw material prices.
- Umesh Patel:** Yes, but my question was related to the first half. Have we increased our product prices in the first half because what I understand I mean will continue to benefit from the recent depreciation of rupee as 50% revenue comes from the export that will take care of near 2% duty drawback benefit, which will not take place?
- Pawan Jain:** Yes, that is right. If you see overall, we are definitely passing on to the customers, if you compared the half year the realizations in towel and bed sheet both realizations are more as compared to the last half year, so going forward also we continue to pass onto the customers and we are hopeful that we can able to pass on.
- Umesh Patel:** Okay and any timeline I mean to reduce?
- Pawan Jain:** See, it is on a continuous basis. We cannot be able to give the timelines but it is because every such retailers giving us the purchase orders on a fortnightly or monthly basis so both the order book is for a longer tenure of a year or more than that, but the purchases keep coming on a monthly basis, so we can able to negotiate on that pricing on a continuous basis.

- Umesh Patel:** Yes, in the first half by how much proportion we have declined our debt?
- Pawan Jain:** Debt is declined by around Rs.380 Crores.
- Umesh Patel:** In the first half?
- Pawan Jain:** Yes.
- Umesh Patel:** And we were supposed to target around Rs.500 Crores for this year right?
- Pawan Jain:** We had targeted around Rs. 450, but we can able to pass the target.
- Umesh Patel:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.
- Ronak Morjaria:** Good morning. Could you just help me out what was the towel volume degrowth in YOY?
- Pawan Jain:** It is similar kind of number, but overall the realizations are more, so net impact will be little lesser.
- Ronak Morjaria:** Okay and I just want to understand Sir, how is the current quarter you are seeing in terms of the towel demand since you mentioned that there was some issues in the first half?
- Pawan Jain:** We are saying that quarter-on-quarter we can able to have growth in quarter three so that will be more of a normalized kind of going forward.
- Ronak Morjaria:** Okay and what was the proportion of captive yarn consumed in this quarter?
- Pawan Jain:** Around 40%.
- Ronak Morjaria:** Lastly you mentioned still you take some time to breakeven on the EBIDTA front on the bed linen segment?
- Pawan Jain:** Yes that is right, second half we are expecting that.
- Ronak Morjaria:** Okay Sir it could be even Q4?
- Pawan Jain:** Yes.
- Ronak Morjaria:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Abigail Fernandes from CRISIL. Please go ahead.

- Abigail Fernandes:** Good morning Sir. Most of my questions have been answered. I just have one question left that is of the domestic export where you expect margin expansion coming in from after the implementation of GST? So do you see better margins in your domestic business or do you see margins improving from the export business?
- Pawan Jain:** No see domestic market is a big, big opportunity going forward and post the GST and demonetisation, the market is looking very, very attractive and we have continued to grow in the domestic market in terms of percentages, it is much more than the international market, in terms of margin also the domestic market is equally remunerative. The only thing that because of the low penetration in the last two to three years we need to have some ad spend and more of advertising which we need to spend on this market, so going forward if you see as it growth terms of the base is low but the growth is more in the domestic market going forward.
- Abigail Fernandes:** Okay Sir you see better margin expansion is coming in from next quarter?
- Pawan Jain:** Yes that is right.
- Abigail Fernandes:** That is all from my side. Thank you.
- Pawan Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.
- Dhiral Shah:** Good morning Sir. Sir as you just said your cotton price is currently prevailing at 110 to 112 per kg, so what is the subsequent reduction in yarn prices?
- Pawan Jain:** Yarn prices have reduced from earlier levels and there is further reduction possible.
- Dhiral Shah:** So what are the current yarn prices then per kg?
- Pawan Jain:** It is different from count to count on an average basis, our yarn prices to external is around Rs.240 a kg.
- Dhiral Shah:** And what was it six months earlier?
- Pawan Jain:** Six month earlier it was again around Rs.250 a kg, so but that point of time the cotton prices are much more.
- Dhiral Shah:** Thank you Sir. That is from my side.
- Moderator:** Thank you. The next question is from the line of Abhilasha Satale from Crest Capital. Please go ahead.

- Abhilasha Satale:** I want to know what is the roadmap for the utilization. By when we will be able to utilize or where we will be able to reach full utilization level and how was it after FY2018 like should we be doing around 12%-15% kind of volume growth every year?
- Pawan Jain:** Yes we continued to grow double-digit in the volume growth in FY2018 and FY2019 both and we expect that the optimum utilization, which we can able to achieve is sometime towards the end of FY 2019.
- Abhilasha Satale:** So for FY2019 what are our target like for towel and bed linen?
- Pawan Jain:** So we had given guidance of bed linen for this FY2018 to be at 40%-50% and FY2019 50%-60%, so the guidance which we are giving and we are hopeful that we will able to surpass that guidance.
- Abhilasha Satale:** Okay and in towel it will be around 70%-80% in FY2019?
- Pawan Jain:** Around 60%-65% for FY 2019.
- Abhilasha Satale:** Okay. Sir secondly again on the margin front like I understand on year-on-year we are seeing the kind of volatility in cotton and yarn prices but even like our margins have gone down by almost 500-600 basis points on quarter-on-quarter basis, wherein we have not seen so much volatility in cotton yarn spread, so I mean what is the reason and in the second half how will the visibility improve in terms of margin?
- Pawan Jain:** This quarter started with the rupee already appreciated from the earlier levels and cotton prices saw a dip of around 10%. The rupee has now strengthened and from the last quarter till the end of quarter the rupee has again depreciated around 2% and going forward we say that margin will be reinstated in the current quarter itself.
- Abhilasha Satale:** So we are confident that we will be able to again go back to around that 18%, 19% what we have achieved in the textile division?
- Pawan Jain:** So as guidance 18% to 22% for the company as a whole, which we will continue for the year as a whole and quarter-on-quarter from this Q3 onwards we will see an improvement over this Q2. So Q3 will be more of a normalized quarter.
- Abhilasha Satale:** Thank you.
- Moderator:** Thank you. The next question is from the line of Divyesh Shah from Pragya Equities. Please go ahead.
- Divyesh Shah:** Good morning Sir. Sir my question is regarding paper division I think first time in the history of our company half-yearly our paper EBITDA margin is higher than the textile if I am not wrong so in a lighter sense?

- Pawan Jain:** If you see last two years the paper EBITDA margins have continued to be more than the textile company and in paper it is a highest margin in the entire paper industry.
- Divyesh Shah:** Yes, so in a lighter sense can we say that we are a paper company-producing textile? Sir my real question is do you plan to demerger paper industries to get?
- Pawan Jain:** As of now nothing is on the table as of now for with regard to that demerger or reconstruction. So not to comment on that as of now like it is more of a board prerogative.
- Divyesh Shah:** Yes but management can think since the paper is making a good profit and one-plus-one if you demerge the paper company one-plus-one can be a more than two for the shareholders value over a period of time?
- Pawan Jain:** We look the company more from a business point of view rather than from valuations point of view. As far as our business synergies are concerned so there are lot of synergies between utilities and other support systems within textile and paper because at a same location the energies common, the power generated at the paper division can be supplied to the textile division so lot of synergies are there in-between paper and textile and will continue to believe in that business sense rather than from more of a valuation or market perspective.
- Divyesh Shah:** But Sir from the minority shareholders point of view it gets a more value if you demerge both the company one-plus-one can be greater than two that is what our perception of the shareholder?
- Pawan Jain:** Yes, you are right to that extent, but as of now since nothing is on the even at a valuation stage so we could not be able to comment on that.
- Divyesh Shah:** Sir regarding longer-term outlook about domestic business as well as export business after three years what will be the percentage share of domestic versus export in textile.
- Pawan Jain:** If we see the year-on-year the domestic business is continue to grow and the base is small for bed and bath in the domestic markets but overall basis we believe that the brand awareness, the market and the overall consumer preference is for the branded products going forward is the kind of a game changer for the domestic market and we believe that we can able to gain more market share in the domestic market going forward and the proportion towards the domestic will improve going forward.
- Divyesh Shah:** Roughly can you specify after three years what can be the domestic sale?
- Pawan Jain:** We believe that it is the domestic share in bed and bath is right now 10% to 15% of our revenue which will continue to grow and we will have 20%, 25% kind of a revenue from domestic if we consider the three to five years kind of a horizon.
- Divyesh Shah:** Thank you.

- Moderator:** Thank you. The next question is from the line of Parth Parekh from Equity Masters. Please go ahead.
- Parth Parekh:** Thanks for the opportunity Sir. Sir my question is pertaining to the terry towel segment. Sir we are operating at utilization levels, which are well below our guidance levels of 55% which we have already revised downwards from 60% so what are the reasons for that the low utilizations and is it because are we facing increased competition from the Indian players or is it from China?
- Pawan Jain:** I think competition in the towel market is not much, as of now it is more of the procurement cycle of the vendors which has temporarily shifted from quarter-to-quarter basis and it is not a permanent kind of a thing it is more of a promotional orders, which we have in the corresponding quarters, which is not there in this quarter and the business in towel is running as usual and we get a volume growth also going forward and the other thing that in terms of the guidance yes we are hopeful that we can able to achieve that around 55%, which is the around double digit volume growth in this FY2018 also and second volume is in decade due to the certain product mix change, which is though giving us a more realization but in terms of the GSM the value at the towels are a little less bulky than the other normal towels. So in terms of tonnage, it is lesser in terms of the capacity utilization, which you, see in the reporting, is more of on tonnage basis but as equipment utilization it is continue to be the same.
- Parth Parekh:** Sir but is we facing some increased competition from the Indian players currently?
- Pawan Jain:** No, not as of now.
- Parth Parekh:** Sir since eight months have already passed in the current fiscal we would have a fair idea on the EBITDA margins so do we see the EBITDA settling at a lower band of our guidance level which we have given of 18% to 22%?
- Gunjan Shroff:** For first half you are right, but we are more confident to enhance the EBITDA margins in the second half so we will able to achieve better margin going forward.
- Pawan Jain:** May be to upper end of our guidance.
- Parth Parekh:** Sir, have we raised the debt which we have had mentioned in the first quarter of around 500 Crores or which we had taken some permission?
- Pawan Jain:** We have taken the enabling approvals from the shareholders and we have continued to evaluate the opportunities as per our needs and requirements so as of now nothing we have to announce as of now so we continue to evaluate the opportunities.
- Parth Parekh:** So but this debt and which we are going to raise?
- Pawan Jain:** It is more of a replacing the existing debt and deleverage the balance sheet so as of now whenever we feel that we can able so enabling the resolutions are there approvals are there so

whenever we have some that kind of opportunity which can save us the cost or overall improvement in the leveraging so we can able to do that.

Parth Parekh: Sir what is the volume growth, which happened on a Y-o-Y basis on towel yarn and bed linen business if you can share with us?

Pawan Jain: I had given you on a quarter-to-quarter basis, so year-on-year basis in bed sheet it is about 35% volume growth and in towel it is about 12% kind of a degrowth.

Parth Parekh: When are we expecting our bed linen business to contribute to the EBITDA levels going forward?

Pawan Jain: We expect that sometime in H2.

Parth Parekh: Because in the last con call we had stated that in the first half we are expecting it?

Pawan Jain: We are expecting it by Q2 end but due to that higher cotton prices and the overall for us it is as of now the getting a revenue is more important than the EBITDA so as a strategy, as a penetration into the market we are more aggressive in terms of the volume and revenue so EBITDA is kind of the follow on.

Parth Parekh: Sir is the increase in yarn prices commensurate with the prices of cotton in your business.

Pawan Jain: See yarn is more or less it is a kind of a stable however the cotton prices has been so the parity between cotton and cotton yarn is more important other than the cotton yarn prices.

Parth Parekh: Sir what is the lack period with which we can pass on this increase there?

Pawan Jain: Cotton yarn is more of a 45 days so that is the lag and in towel and bed sheet it is about three months to four five months.

Parth Parekh: Thank you Sir.

Moderator: Thank you. The next question is from the line of Jinal Fofalia from Alpha Accurate Advisors. Please go ahead.

Jinal Fofalia: Good morning Sir. My first question is could you give us some sense on the competitiveness in the industry as to how that is hitting our market share? Have we regained market share or have we lost it due to increase in competition?

Pawan Jain: We have continued to gain the market share in our bed and bath segments and we feel that we have the long-term relationship with the customers along with on time delivery. Our products are appreciated by the customers. We have a better technology so that way we are continue to gain the market share in both the segments so we do not feel that we will be able to have some sort of degrowth going forward.

- Jinal Fofalia:** What is our current market share sir bed and bath both if you can quantify?
- Pawan Jain:** Bath we are around 12% to 13% in US market and bed linen we had just started the last FY2017 was the first year of operation so it is very at a nascent stage we can able to have that figures negligible.
- Jinal Fofalia:** Sir my second question is as we are seeing a lot of disruption due to this online retailers like Amazon so is it affecting our margins do you foresee any effect going forward?
- Pawan Jain:** See online retailers are basically at a one side it is opportunity also so when you are dealing with those online customers so it is all together new dimension where you are able to gain the market share in a much faster way as compare to the brick and mortar so that is a new opportunity all together emerging and we feel that, that segment is all together different sound of brick and mortar where you will be able to enhance your market share.
- Jinal Fofalia:** So what is our current presence in online or have we already forayed or we are planning to foray it?
- Pawan Jain:** Yes we are already supplying to these online customers both in bath and bed linen.
- Jinal Fofalia:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sahil Doshi from Aditya Birla Sun Life AMC. Please go ahead.
- Sahil Doshi:** Sir I just wanted to understand in the textile space if you were to, we have seen a significant decline in margins if you were to bifurcate? Sir just wanted to understand within the textile space if you were to bifurcate between yarn and home textile separately would you be able to give us sense of where the margin contraction has been heavy.
- Pawan Jain:** Yarn side.
- Sahil Doshi:** Would it be in a similar company wide margins?
- Pawan Jain:** Almost similar.
- Sahil Doshi:** So from that can I deduce that your home textile margins are more or less stable?
- Pawan Jain:** Yes it is. See in terms of percentages wise obviously you will be able to get to know that when the margins of yarn has been impacted and the realizations are almost same so in certain cases margins in bed and bath will improve also but on an absolute terms overall you get a lesser EBITDA.
- Sahil Doshi:** I was just trying to understand more from the point of view Sir when you maintain your margins for the full year margin guidance of 18% to 20% for full year is it because you are expecting this

loss of margin in yarn particularly to recover as well as bed linen to bed linen breakeven in this year?

Pawan Jain: Two things one we can say that the parity between cotton and cotton yarn is normal so about 33% of our revenues come from the yarn so that parity when come to normalcy in the current quarter, we expect that EBITDA enhancement is there that is one. Two, we expect a good volumes in bed and bath both in this Q3 onwards so in terms of a absolute also it will be more than that so on these two grounds we expect that our EBTIDA for the entire year will be we shall be able to meet that guidance.

Sahil Doshi: This is after taking the impact of duty drawback in everything?

Pawan Jain: Yes that is right.

Sahil Doshi: Sir this is little more on duty drawback do we see in your presentation you have mentioned that there is some clarity but could you really throw more light in terms of where now and how does the compared to earlier in each of your segments in home textiles and yarn particularly?

Pawan Jain: This duty drawback is impacting more of a bath and bed linen. So it is not having a much impact in yarn and other exports so around 50% of our revenues come from these bath and bed so we see that on an overall basis there is an impact of 200 basis point in the EBITDA margins and on a company as a whole basis there is a 100 basis point impact due to this duty drawback and we will offset this with the other efficiencies under raw material cost.

Sahil Doshi: Sir one fine question was on in terms of your bed linen you have said you have seen a significant 35% Y-o-Y volume growth if I am not wrong just wanted to understand more on this how much of this would be process and how much of this have?

Pawan Jain: From Q1 onwards mostly it is a processed only so we are not dealing much into so 90% plus always remain in the process now.

Sahil Doshi: Sir is this growth largely because of same reason because of client additions or it is because of more sales to the same client?

Pawan Jain: It is on both grounds so we continue get clients added on quarter-to-quarter basis so those are the small quantities; however, the clients which we had added about two quarters back that has started the delivery has started in this quarter so that is the volume growth is coming from those orders.

Sahil Doshi: Thank you so much.

Moderator: Thank you. The next question is from the line of Giriraj Daga from the K M Visaria Family Trust. Please go ahead.

- Giriraj Daga:** Just a couple of follow-up. Sir what would be your quarter-on-quarter price decline in paper segment you mentioned would you give the number?
- Gunjan Shroff:** It was around quarter-on-quarter it is around decline of around 4% to 5%.
- Giriraj Daga:** And what would be the current price based versus quarter to average?
- Gunjan Shroff:** Quarter to average it has remained the same so if we say the half-year the realizations are almost 3% higher as compared to the last half-year.
- Giriraj Daga:** I remember that is November current price sales how they are faring compared to last quarter average 2Q?
- Gunjan Shroff:** I could not give you the sense in terms of the current realizations but that remains the same as compared to the last quarter so there is no major differentiation in the paper prices.
- Giriraj Daga:** Second what was the Q-o-Q price improvement and what decline in the towel segment?
- Gunjan Shroff:** Towel half-year to half-year it is around 2% to 3% kind of realizations improvement as against the volume decline of around 11% so on an overall basis 9% to 10% kind of a decline.
- Giriraj Daga:** No but quarter-on-quarter like compared to first quarter and second quarter price number?
- Gunjan Shroff:** Similar number about 10% to 11%.
- Giriraj Daga:** No, I am saying the Q2 prices versus Q1 prices are they same?
- Gunjan Shroff:** In terms of the realization?
- Giriraj Daga:** Yes.
- Gunjan Shroff:** Yes, it is almost flat.
- Giriraj Daga:** Second Sir you gave the utilization number of 60%, 65% in towel for FY2019 what was the number for bed linen?
- Gunjan Shroff:** Bed linen it is at 50% to 60%, which we are giving for FY2019.
- Giriraj Daga:** One thing Sir in the paper segment when I look at Q1 to Q2 we have seen EBIT improving from 72 Crores to 76 Crores and you mentioned there is 4% to 5% decline so is it entirely because of raw material or is there any one-off also the point I am asking is that because if I look at the new new segmentation the other income is part of the segment numbers which was earlier not the case.
- Gunjan Shroff:** That is right.

- Giriraj Daga:** So is it and the numbers of paper has been declassified substantially higher compared to earlier period so that was the reason of asking is it 72 to 76 because of treasury gain or forex income or because of operationally low cost of company?
- Gunjan Shroff:** Not really. Some of it is interest also so when we have good cash flows in paper so we continue to have certain investments in paper also in terms of the treasury and some certain part of that is an interest income also.
- Giriraj Daga:** So this increase you can primarily attributed because of that also. And you mentioned about raw material cost decline also what was that on paper segment?
- Pawan Jain:** In paper, we manufacture the paper from wheat straw, which is April to September is the season so usually the raw material prices in season is a little lesser than the second half so first half is more favorable in terms of the raw material cost and availability and the second half the prices are little higher as compared to first half.
- Giriraj Daga:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ujaswi Agarwal an Individual Investor. Please go ahead.
- Ujaswi Agarwal:** Sir my questions have been answered earlier in bits and pieces, but I just wanted to give it in more consolidated form if you could just answer my questions. Again regarding the EBITDA margin Sir you mentioned that the spread between the spot and the forward prices of cotton have increased and therefore the margin will be separate so is it because you are dealing in some kind of the derivative instruments and we are selling or you are long or short on future of cotton?
- Gunjan Shroff:** No it is not the derivative instruments or such kind of financial products. It is more of the actual storage of inventory so we have a policy to store the cotton during the season so season is October to March and at the March end our cotton inventories are at a highest level and that is going to be used into the operations from April to September so the quantity of cotton, which we procured till March that will be used in April to September period so that is the actual storage of inventory.
- Ujaswi Agarwal:** Sir basically the contraction of margin is purely because of the yarn that you were selling that has come down because it had just sell to the spot prices of cotton that is sure at a higher level.
- Pawan Jain:** That is right.
- Ujaswi Agarwal:** Thank you so much Sir that was all I just want to clarify on that.
- Moderator:** Thank you. The next question is from the line of Nitin Jain from Credit Suisse. Please go ahead.
- Nitin Jain:** Sir just one question on the incentive that you get on your bath and bed business so besides duty drawback what are the other major incentives that you get like ROSL and others?

- Gunjan Shroff:** So one is ROSL the other is the MEIS, which is around 2% and the ROSL is around 1.5%.
- Nitin Jain:** So was not this ROSL increased to 3.9% last year?
- Gunjan Shroff:** It is included only towards the end of quarter four of last year so actually the impact of ROSL was not there in the previous year so it started coming the impact is coming in from Q1 onwards.
- Nitin Jain:** So in this quarter you would have 3.9% ROSL?
- Gunjan Shroff:** Yes that is true.
- Nitin Jain:** What is the risk so like duty drawback there is change in duty drawback so what is the risk of this incentives getting changed?
- Pawan Jain:** In the earlier duty drawback rate then there was no input credit. Now with the cotton also coming in to the GST bracket and if I can take a duty drawback so you can also get the input credit so the risk of that yes there has been a reduction in the duty drawback is but then the input credit is now available.
- Nitin Jain:** Okay because in ROSL there was recent circulate it is again changed the number is – so earlier it was 0.45%.
- Pawan Jain:** See more importantly see the post GST scenario at the start of the Q2 one the industry is not certain about the impact of post GST scenario in duty drawback so government at that point of time tentatively extended due to September 30 and post September 30, there is no certainty that what kind of duty drawback rate should be so that certainty has now come and 2% of the duty drawback rate is announced along with the input credit so the overall impact is above 200 basis point on the margins but the other thing is that we have certain now that what kind of a costing we need to negotiate with the customer so earlier in the past quarters we could not able to know that what kind of the scenario going forward post GST and we could not be able to port adequately to the customers. So I think the certainty of that duty drawback rate is more important than the overall impact.
- Nitin Jain:** But there is similar risk in ROSL as well right it can also come down.
- Pawan Jain:** Yes that way you are right.
- Nitin Jain:** That risk is still remains.
- Pawan Jain:** As of now it is around 1.5% so going forward we could not be able to comment anything that whether it will be continue to be there as of now it is continue to be there.
- Nitin Jain:** It is 3.9% right or 1.5%?
- Gunjan Shroff:** 1.55%.

- Nitin Jain:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Saptrishi Mukherjee from Asit C Mehta. Please go ahead.
- Saptrishi Mukherjee:** All my questions have been answered. Just I wanted an update on the paper debottlenecking exercise, which we had earlier talked about, so is there any update on that?
- Pawan Jain:** We still continue to evaluate that so as of now nothing to be announced as of now and we are working with consultants to evaluate adequately and possibly we will take some time in terms of the internal evaluation and after that we will announce it adequately.
- Saptrishi Mukherjee:** Just to additional question on our utilizations in the paper was last quarter Y-o-Y was around 90%, 92% if I am not wrong and this quarter is around 88% and we have been improving our margins like 48% so that is a substantial gain so is this just coming from the synergies and the raw material or if because this if this synergies and raw material costing stage and we are able to improve our utilizations I see that the margin should improve further ahead?
- Pawan Jain:** Yes that you are right that way the only thing that in Q1 and Q2 there is disruption in the domestic market due to the GST transition phase so lot of the dealers and the distributors they had drained out the inventories on the verge of implementation of GST and that impacted the Q1 in terms of the offtake in paper inventories and the utilizations were quite low of about 83% in Q1 and it has now moved to about 87%, 89% in quarter two so I think Q2 onwards it will getting back to normalcy and they obviously as soon as the utilizations improve further there is a positive impact on the margins.
- Saptrishi Mukherjee:** That is it from my side. Thank you so much and all the best.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now 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 were able to answer all your questions. Should you need any further clarifications or would like to know more about the company you can reach out to our investor relations team. Thank you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes today's conference. Thank you for joining us. You may now disconnect your lines.