“Trident Limited Q3 and 9M Financial Year 2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen good evening and welcome to the Trident Limited Q3 and 9M FY2018 Earnings Conference Call. 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. Kshitij Kaji from Edelweiss Broking Ltd. Thank you and over to you Sir!

Kshitij Kaji: Ladies and Gentlemen, Good Evening and Welcome to the Trident Limited’s Q3 and 9M 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 opening remarks from the management team and follow that with an interactive Question & Answer session.

Before we begin, I would like to highlight that certain statements that may be made or 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. The Company does not undertake to update them publicly.

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

Pawan Jain: Thank you Kshitij. Good Evening ladies and gentlemen and a warm welcome to the Trident Ltd Q3 & 9M FY18 Earnings conference call. Thank you very much for joining us today. I will briefly touch upon the key business updates while our CFO - Mr. Gunjan Shroff, will share the key financial highlights for Q3 & 9M FY18.

Firstly, let me take you to key updates of our Home Textile Business which is Bed and Bath Linen:

- Due to uneven procurement cycle & destocking by some of large customers in US, the Industry saw pressure in volumes in Q2 of FY18 which also continued in Q3 FY18 as well. Despite in this stress times, stronger rupee and higher raw material prices due to unavailability of quality cotton continue to remain key headwinds for the Textile Industry.

- We have been able to sustain our realization in Bed & Bath Linen business and we sense that destocking is a temporary phenomenon and hope to see volume growth in coming quarters. India is still the largest supplier in this category and is still retaining its competitive advantage over its neighboring countries.

- Bed Linen registered 44% volume growth in 9M FY18 and Bath Linen registered 12% volume de-growth in 9M FY18 compared to the same period last year.
  - Bath Linen 9Maverage Capacity Utilization stood at 45% and Bed Linen capacity utilization over 9M period stood at 42%.
We foresee that volume should be back in the ongoing quarter and will be able to clock about 50% capacity utilization in both Bath & Bed Linen.

- Despite of the overall volume impact in Export business, our Domestic Home Textile Business has seen more than 47% increase in Revenue Y-o-Y over 9M period compared to 9M FY 17. The company’s long term structural growth to remain intact and we believe that we will emerge not only as a leading global player in Bed and Bath Linen segment but will also capitalize on the growing opportunities in domestic market as well.

**Yarn Business:**

- Arrival of Cotton this season was decent as anticipated and price was down nearly 15% as compared to last season. But due to quality issues the cotton prices started going up during December and currently the price is almost up 10% from bottom. We will be selective in buying based on the quality available in the market as we still have two more months to go for the season. Cotton and Yarn spread what we witnessed in Q2 was very unusual but have stabilized in this quarter.

- 9M average capacity utilization stood at 95%.

**Paper Business:**

- Revenue remained flat Y-o-Y despite 7% increase in sales volume majorly due to change in product mix. Copier paper sales for 9M stood 48% vis-à-vis 52% for FY17.

- 9M average capacity utilization stood at 89%.

The Board of Directors has declared 2nd Interim dividend of INR 0.60/- i.e. 6% per fully paid up equity share of INR 10/- each. With this the total dividend declared during 9MFY18 stands at 12%.

During the current quarter, Trident Limited, has been awarded by TEXPROCIL with the following prestigious Export Performance Awards 2016-17:

- Gold Trophy for Second Highest Global Exports (Overall)
- Gold Plaque for Highest Exports of ‘Bed Linen / Bed Sheets / Quilts’ (Category-I)
- Silver Trophy for Second Highest Exports of ‘Terry Towels’ (Category-III)

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

**Gunjan Shroff:**

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

- Total Revenue stood at INR 1168.7 crores in Q3 FY18 compared to INR 1144.5 crores in the corresponding quarter of last financial year.
• EBITDA remained almost flat at INR 231.6 crores in Q3 FY18 compared same period last year but grew by 11% Q-o-Q.

• EBITDA Margin stood at 19.8% in Q3 FY18 down by 80 basis points Y-o-Y.

• EBIT saw 22% jump Q-o-Q to INR 130.3 Crores. EBIT Margin for Q3 FY 18 stood at 11.1% and 11.2% for 9M FY18.

• PAT stood at INR 73 Crores showing an increase of almost 44% Q-o-Q and decline by 7.1% Y-o-Y.

As shared by Pawan that Q2 & Q3 we had witnessed many challenges in the Textile business but we continued to be persistent and remained buoyant during these stress test.

• Textile Revenue grew by 3% on Y-o-Y basis to INR 945 crores in Q3 FY18 compared to INR 920 crores in Q3 FY17 and remained almost flat Q-o-Q.

• EBITDA stood at INR 145 crores in Q3 FY18 showing a growth of 8% Y-o-Y while EBITDA Margin stood at 15.3% vis-à-vis 14.6% in Q3 FY17.

• EBIT increased by 22% to INR 67 crores Y-o-Y with margin of 7.1%.

Let me also share you the financial performance for our Paper business before we open the forum for Q&A session.

• Revenue remained flat Y-o-Y to INR 223 crores in Q3 FY18 compared to INR 224 crores in Q3 FY17.

• EBITDA stood at INR 87 crores in Q3 FY18 showing a growth of 5% Y-o-Y while EBITDA Margin stood at 39% vis-à-vis 37.1% in Q3 FY17. During 9M period EBITDA grew by 27% to INR 280 crores compared to same period last year.

• EBIT Margin in Q3 FY18 stood at 29.7% vis-à-vis 27.2% in Q3 FY17. During 9M EBIT increased by 42% to INR 216 crores.

During the 9MFY18, Long Term Debt have been reduced by INR 385 Crores to INR 1663 Crores as compared to FY17 Long Term Debt Levels and the Interest Cost has been reduced nearly by 17% in 9MFY18 to INR 90.5 Crores as compared to INR 108.9 Crores in same period last year.

With this, I would request the moderator to open the forum for questions. Thank you.
Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from Pratik Kothari from Unique Investments. Please go ahead.

Pratik Kothari: Sir first regarding your employee cost I think this is down about 18%, 20% for this quarter-on-quarter basis so if you can throw some light on what changes have we made and is it sustainable going forward?

Pawan Jain: There is an employee cost rationalization which started in Q2 and completed in Q3 and there is structuring in terms of performance-based pay also. Going forward this is sustainable as of the current revenue and as soon as the revenue will increase, this cost will increase in proportionate to that.

Pratik Kothari: So we have reduced the payable count or it is just on the agreement based on that.

Pawan Jain: Both.

Pratik Kothari: And Sir how is the domestic business looking, what will be the share for the first nine months in our bed and bath?

Pawan Jain: Sorry come again.

Pratik Kothari: For a domestic business in our home textile business, the domestic one, India business what will be the share of it?

Pawan Jain: Domestic business is growing, though the base is small but it is growing at around 45% - 46% as compared to the previous nine months and we are getting good response in terms of our placement of products and demand in both towel and bed linen segments.

Pratik Kothari: So Sir what will be the share for the first nine months or for a year?

Pawan Jain: Within the overall domestic?

Pratik Kothari: Yes.

Pawan Jain: So around, it will still be a single digit around 7% to 9%.

Pratik Kothari: And how many outlets will our product be available currently in India?

Pawan Jain: Around 450 multi-brand outlets and in addition we are also present in e-commerce channels also.

Pratik Kothari: Perfect thank you and all the best.

Moderator: Thank you. The next question is from Devang Doshi from Glance Finance Limited. Please go ahead.
Devang Doshi: Sir, is company considering any kind of demerger?

Pawan Jain: No, as of now nothing on the table.

Devang Doshi: And as you spelled out there are 450 outlets in the country, do you intend to increase more outlets Sir?

Pawan Jain: Yes, definitely we are, considering the domestic market with the additional outlets also and we are also placing the products on all the e-commerce channels and through distribution network also. Like the small home furnishing shops which has come under dealers and distributor network that is also being expanding.

Devang Doshi: Any numbers on new outlet to be open in year or in coming period or something like that.

Pawan Jain: No we are not having any numbers as I said we are definitely enlarging our base in the domestic market.

Devang Doshi: Okay Sir, thank you so much.

Moderator: Thank you. The next question is from Giriraj Daga from Vesaria Family Trust. Please go ahead.

Giriraj Daga: Obviously we saw that the towel utilization has fallen sharply from the quarter-on-quarter basis somewhere about a number calculated coming about somewhere 41%, 42% in the last quarter in-between,. I understand that you have spoken about destocking and some uneven vendor procurement cycle, but what period happened and how is the response in the January so far. Is that the destocking continue?

Pawan Jain: We must understand that destocking means that they are reducing the inventory levels and as such sales is not degrowing, it is almost flat, so we expect that those inventory levels are now near to replenish and we expect the normalcy to come in Q4 and the growth will come in Q1.

Giriraj Daga: Okay you guided about 50% exit utilization for Q4 in bath linen.

Pawan Jain: So both Bath and Bed we are expecting 50% utilization level to exit in Q4.

Giriraj Daga: And any number you would like to put for FY2019 utilization number.

Pawan Jain: For FY19 we have already given the guidance for our bed linen 50% to 60% kind of a utilization in the entire year and for towel, we expect the double-digit kind of a growth in the volumes.

Giriraj Daga: And what was the forex gain during the quarter.

Gunjan Shroff: The forward which we taken?

Giriraj Daga: correct the forward which we have taken.
Gunjan Shroff: We are taking average of approximately Rs. 15 to 16 Crores in the quarter.

Giriraj Daga: My last question is regarding the pricing scenario considering the cotton prices has again looking upward and even the rupee appreciation is not helping, have we able to get any of the price hike at our customer level?

Pawan Jain: It is a continuous process and we are doing this exercise with the customers but as of now, focusing the revenue is the target and because of the cotton inventory which we stored in recent past that is fairly well covered to next three four months so we will be able to see growth in coming quarters, for next quarter at least there is a bit concern in terms of additional cost in the cotton.

Giriraj Daga: Understood sir, thanks a lot.

Moderator: Thank you. Next question is from the line of Abhishek Agarwal from Prithvi Finmart. Please go ahead.

Abhishek Agarwal: Sir my question pertaining to our debt repayment with subdued growth in this quarter and demand outlook is also not so good, do you think that our debt repayment outlook or there is any change in the debt repayment schedule thing?

Pawan Jain: No, there is no change in the scheduled debt repayment on the contrary we have been c repayment of high-cost loans which are also doing in the current quarter, so we are ahead of this schedule in terms of our debt repayment.

Abhishek Agarwal: And Sir related to the EBITDA margin earlier we thought that our EBITDA margin will be around 18% to 19% and we entered into value-added at bed linen part, but it is significantly came down to the 15% because of higher raw material price and some dollar appreciation so what EBITDA margin do you think that there can be further pressure on the EBITDA margin from year onward or how it is?

Pawan Jain: So with the guidance on a year as a whole so we expect that the company’s EBITDA margins will on sustainable basis be 18% to 22% so we continue to go by that guidance.

Abhishek Agarwal: Okay Sir, that is all, all the best thank you.

Moderator: Thank you. The next question is from the line of Abigail F from CRISIL. Please go ahead.

Abigail F: I was just like to know, Sir do we have any plan for adding any capacity in the cotton yarn segment saying that we have already reached 95% utilization.

Pawan Jain: As of now we have no plan to have any Capex in that segment.

Abigail F: So even in FY2019 or 2020 nothing is there...?
Pawan Jain: I think beyond FY 2019 is too far to say right now but as of now, there is no capex.

Abigail F: And what kind of maintenance capex are we expecting in the whole year FY2018 and FY2019, if you could give me both?

Pawan Jain: About 100 Rs. Crores a year.

Abigail F: 100 Crores each year, okay and also Sir what is the outlook on cotton prices in Q4 of FY2018. I mean do we see it coming down or in Jan at least it has been rising so in that context in Feb or March do we see it going down a little and will it impact our EBITDA margin.

Pawan Jain: We wish that the prices will come down but as of now the the quality cotton is not available so large manufacturers who are serving global customers need quality cotton and the good quality cotton is available at a higher prices so that is the challenge in the quarter also we see that there might be a range bound movement or less volatility and we do not expect anything better.

Abigail F: And what has been our internal consumption for the nine-month ended period.

Pawan Jain: It has remained at about 33%.

Abigail F: And so do we expect this will rise going ahead in FY2019?

Pawan Jain: Yes as soon as the utilization in bed linen and towel will increase that definitely this 33% should go to 40%- 45%.

Abigail F: And how are you seeing our export market, is there growth coming in from there or are we focusing on domestic markets saying that no consumption spending is increasing in India.

Pawan Jain: We are focusing on domestic market no doubt about it. The only thing is that the growth which we have expected from the US market that was not there in Q2 and Q3 and in fact there is a degrowth in these two quarters particularly in our towel segment and this is because of the destocking by the large US customers and we expect that normalcy to come in the Q4.

Abigail F: And has our, I might have missed this out so has our bed linen segment turned profitable at the EBITDA level in this quarter?

Pawan Jain: Yes that the entire bed linen segment is now EBITDA breakeven.

Abigail F: So and Sir do we have any plans of repayment of the... what kind of number are we looking for repayment in FY2019 of the debt?

Pawan Jain: We have scheduled repayment of around 300 but as against the scheduled repayment we are targeting around 400 to 450 on a yearly basis.

Abigail F: Okay sir thank you so much.
Moderator: Thank you. Next question is from the line of Paresh Jain from Bajaj Allianz. Please go ahead.

Paresh Jain: I wanted to check Sir what is happening on the paper side how has the realizations moved and if I look at Q3 versus nine month I think your margins are down in this quarter, if I am right so can you just throw some light on that?

Gunjan Shroff: In Paper Segment the realizations have been flat on the current quarter-on-quarter basis, there is a slight softness in the realizations, they are marginal 1%, 1.5%. On the paper front it is true that our profits have come down but that is not for paper because we are also manufacturers of chemicals we also manufacture chemicals and within the segment of chemical which is a small business pie. However in that particular segment in this particular quarter, there have been an increase in the raw material price as well as there is a softness in the sale price. So that is why there is a slight dip in the paper and chemical segment which will be offset in the current quarter more of a change in product mix.

Paresh Jain: Okay so what is our product mix typically like and what it is like in this quarter?

Pawan Jain: Like the copier paper is mostly around 52% or if you compare the last nine months and this time it is around 48%, 49%.

Paresh Jain: And what is the balance product mix that we have in the product mix what is the balance different type of paper that we have out there?

Pawan Jain: So this is the two papers one is the copier and the other is the B2B paper and along with that we have a chemical business also, so this lower realizations and margins are due to the chemical business.

Paresh Jain: But on a like-to-like basis how the copier realization has been like?

Pawan Jain: It is almost flat.

Paresh Jain: It is flat and for the B2B?

Pawan Jain: It is again flat. So basically it is a product mix change which is leading to fall in our profits.

Paresh Jain: Okay thank you.

Moderator: Thank you. Next question is from Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Sir I just wanted to... in this quarter particularly how we have seen the volume growth in bed sheets and towel?

Pawan Jain: You are talking of Q3?

Vikram Suryavanshi: Right.
Pawan Jain: So Q3 on quarter-to-quarter basis about 5% to 6% degrowth is there in bath and bed.

Vikram Suryavanshi: Okay in both the almost similar or we have seen slight difference between it.

Pawan Jain: Almost similar but on a nine-month to nine-month basis the degrowth is about 12% in towel and growth of 44% in bed sheet.

Vikram Suryavanshi: In bed sheet, how is our mix if you look at how much would be your direct export in bed sheet and how about with the domestic?

Pawan Jain: So our domestic is about 15% to 20% and about 75% to 80% is export.

Vikram Suryavanshi: In bed sheets also?

Pawan Jain: Yes.

Vikram Suryavanshi: Okay Sir, thank you very much Sir.

Moderator: Thank you. Next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Sir you mentioned paper margin dip is basically due to lower margins in chemical business right. So the 10 Crores dip that you are seeing quarter-on-quarter I mean is it purely because of that reason only or maybe paper profitability has also come down.

Pawan Jain: Paper profitability is impacted by way of the increase in raw material cost also because we are using wheat straw as a raw material, so usually April to September is the season for that raw material and October to March is the off season, historically also the cost of raw material is a little higher in the second half as compared to the first half.

Dikshit Mittal: So Sir in the segment nine-month margins of 42% can we assume that, that is sustainable for next one two years?

Pawan Jain: 36% to 40% is the sustainable so beyond 40% is as of now due to the better demand in paper segment.

Dikshit Mittal: And Sir any guidance on next year’s utilization levels in both bed and bath segment?

Pawan Jain: Next year for Bed Linen FY2019, we are expecting 50% to 60% utilization level and for this bath linen we are expecting 55% to 60%.

Dikshit Mittal: So bed linen I think at full utilization you can do Rs.1000 Crores right?

Pawan Jain: Yes that is right.

Dikshit Mittal: And Sir lastly in chemical can you explain a little bit like which chemicals are you in and…?
Pawan Jain:  It is sulphuric acid.

Dikshit Mittal:  Sulphuric acid okay and what is the quantum sir in terms of topline contribution?

Pawan Jain:  It will be very small.

Dikshit Mittal:  Okay Sir, thank you.

Moderator:  Thank you. Next question is from the line of Vaibhav Goyal from SBI life Insurance. Please go ahead.

Vaibhav Goyal:  Sir two things specifically this paper mix change what do we explain the reason for the slower paper print grade paper?

Pawan Jain:  It is not only as said due to this post GST particularly Q2 all the dealers and distributors they have reduced their inventory levels to zero, so all stock pipeline inventory they had drained out and that has impacted the Q2 more and it has started recovering in Q3, so still in paper also because it is a 85% about domestic market and 15% is export, so due to that post GST scenario those things has now stabilized and we expect normalcy in Q4.

Vaibhav Goyal:  Sir in chemical you mixed a small quantity but probably on the EBITDA side it would be still be so significant that it changes the margin so or if you can give the specific EBITDA margin that would be great, EBITDA number on absolute basis.

Pawan Jain:  By the reduction in EBITDA on a paper and chemical segment, it is majorly due to the chemical segment lower margins as well as the increased raw material cost of paper also. So because the chemical business is only having a Rs.50 Crores of a revenue and on a quarterly basis it is around Rs.12 to 15 Crores kind of a revenue.

Vaibhav Goyal:  Thanks Sir.

Moderator:  Thank you. Next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade:  Sir our utilization for bath linen is around 40%, 50% for last three years, so is this our company-specific event or it is industry specific, that is my first question and second thing, what is the status of duty draw back and ROSL post GST and are we still competitive or do we have advantage against our Chinese competitors?

Pawan Jain:  Yes we have achieved a highest utilization of 54% in towel business in Q4 of FY2017 so post that it was about 51% in Q1 and now in Q2 and Q3 is the major impact when the utilizations came down to 42%, 43% so on an 9M basis it is 45% so these two quarters have impacted due to more of a destocking by some US customers which we see that the normalcy to come in Q4 and the growth start coming into Q1 of FY2019 so that is the expectation as of right now. Coming to your second point with regard to ROSL and MEIS, ROSL has been increased to 2.2% and MEIS
has been increased from 2% to 4% sometime in November and the full impact of that will come in Q4. So still we as industry are competitive with China and Pakistan as far as the US market is concerned as far as Europe market is concerned, Pakistan a bit competitive in terms of exports.

Gunjan Shroff: However the post GST the reduction in textiles our export incentive has not come down.

Pankaj Bobade: Come again Sir.

Pawan Jain: The post GST scenario is now the incentives are at a neutral basis as compared to the pre GST period.

Pankaj Bobade: Nothing has changed from pre to post GST mean to say?

Pawan Jain: Yes it is almost neutral now.

Pankaj Bobade: And regarding capacity utilization, is this seasonal, does this happen every year in this Q3?

Pawan Jain: This lower inventories by US customers happened every year but this time the quantum was much higher.

Pankaj Bobade: And what gives you the confidence that their orders will increase henceforth?

Pawan Jain: Because their overall sales has not been degrown. So their inventory pipeline has reduced, so obviously because the sales are on a normal basis, they have to fill up the inventories sooner or later, so we expect that the Q4 will be the period when they start increasing their inventory in line with the sales.

Pankaj Bobade: Thank you Sir.

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

Bhavesh Chauhan: Sir my question on this employee cost reduction that has happen in the quarter, now you are guiding for 50% - 60% utilization for bed and 55% to 60% for towel so that is still robust volume growth year-over-year. Then what was the need for man cost rationalization?

Pawan Jain: During these two quarters we expected the volume growth to happen so we had employed the additional manpower at that point of time and due to overall optimization of manpower cost it is in line with our revenue. We started this optimization exercise, in Q2 and completed in Q3.

Bhavesh Chauhan: And at the bed sheet side, we are seeing utilization level of 50% to 60% so on the lower end we are seeing it could be 50 also so which means that we might not have a big volume growth in FY2019, are you confident that we will achieve that 55 to 60 exit run rate?
Pawan Jain: See as of now if you see the nine-month period that destocking of US customers has not impacted our bed linen business so reason being that their sales are being stagnant and whatever orders we get in our bed linen business there they do not have the inventory level so the sales are doing in a normal course of business but yes wherever we have a longer matured business like towel, we have a inventory with US customers, so we face that impact of destocking in our towel business. On a safer side we are giving guidance that it would be 50% to 60% and that we are giving guidance for our bed sheet business over the last one year so for FY2018 we had given 40% to 50% we are exiting at 50% and we are on an average it is more than 45%. So next year also we are giving on a year as a whole 50% to 60% that means that we will exit at about 60 plus but on an overall basis it should be something between 50% to 60%.

Bhavesh Chauhan: Okay Sir. Thank you Sir.

Moderator: Thank you. The next question is from the line of Riya Shah from Niveshaay. Please go ahead.

Riya Shah: I was asking that overall the topline of our company has not been increasing since last two quarters if I see and the bed segment, paper segment, chemicals, yarn everything is in profitable and volume growth is also there. So can I say that as soon as the towel volume growth comes in the revenue will start increasing?

Pawan Jain: Yes that is right.

Riya Shah: And Sir you guided in last quarter that this quarter will be quite a normalized quarter and from the Q4 we will see a growth, so was this somewhere as per your expectations as per the normalized quarter?

Pawan Jain: We are saying that Q4 it is more of a normalized quarter and growth will be back in Q1 of FY19. Suppose towel volume is not good so we have the flexibility to sell that yarn to outside. By this we are offsetting the degrowth by having a better volume in our yarn business so that is a kind of a flexibility we have in terms of our textile within the segments. So as soon as the utilization improve, our captive consumption will improve and that will have a better margin on maybe on an overall sales basis, the growth will be there. In terms of volumes, we will get a better margin.

Riya Shah: Okay Sir, for the Q4, there will be a normal revenue growth at least right?

Pawan Jain: Yes that is right.

Riya Shah: Okay sir that will be helpful. Thank you.

Moderator: Thank you. Next question is from the line of Deepan Shah an Individual Investor. Please go ahead.

Deepan Shah: Most of the questions have been answered. If you can just throw some more light on the cotton prices, you told us that cotton prices had come off and now they are about 10% higher in the
month of Jan. Could you get some number in terms of what was the cotton prices in the Q2, what was it in the Q3 and how is it now that would help briefly, thank you.

Pawan Jain: Last year the average procurement price of cotton during the season is around Rs.120, Rs.125 a kg. So when this new season started, it has came down to around Rs.105, Rs.108 a kg and from that point of onwards the cotton inventories have started building up in Q3 and now the price of cotton again touched to at around Rs.120, Rs.125 a kgDue to quality constraints, the prices have again moved up in January.

Deepan Shah: But would you be having this low cost inventory which you will be using in the Q4 or is it that it will come on during April till the Q1 of next year?

Pawan Jain: No, we are keeping our inventories incremental also at current prices but yes we do have inventories which we stored during October, November.

Deepan Shah: But you expect the average cost of cotton to be higher in the Q4 versus Q3 for your company?

Pawan Jain: Yes, so averaging out on quarter basis, the Q4 will be little higher but yes it will be lower than the market as of now.

Deepan Shah: Thank you very much and all the best.

Moderator: Thank you. Next question is from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.

Arjun Sengar: Sir Q2 as we understand was a very bad quarter for yarn for the industry, as a whole, so could you tell us sir what has been the EBITDA margin in yarn segment as and what has been the improvement in this quarter versus that quarter?

Pawan Jain: We are not reporting EBITDA at a segment level but I guess the EBITDA has improved in this Q3 as compared to Q2.

Arjun Sengar: Would you say like 200 bps margin improvement, that kind of...?

Pawan Jain: No I would not be able to give you the data, the only thing that we are into an integrated kind of industry, we use that yarn into our towel and bed linen business so it is invariably if we get a better margins in yarn or will it be lower margins in towel or vice versa. So we calculate the EBITDA on a consolidated basis that is what we are reporting.

Arjun Sengar: Secondly on this fund-raising resolution that you had passed sometime back so is there any updates on that?

Pawan Jain: Sorry?

Arjun Sengar: The fund-raising resolution that you had passed a few quarters back.
Pawan Jain: We had taken enabling resolution from the shareholders, so we will evaluate depending upon the opportunities and market conditions.

Arjun Sengar: As of now, is there anything which is visible?

Pawan Jain: No nothing.

Arjun Sengar: Okay Sir, thank you.

Moderator: Thank you. Next question is from the line of Sahil Doshi from Birla Sun Life Insurance. Please go ahead.

Sahil Doshi: Sir I just wanted to understand on the bath linen with the degrowth which we have seen in volumes and are we today you able to breakeven on EBITDA level as well as PBT level or what is the situation there?

Pawan Jain: In bed linen segment you are talking?

Sahil Doshi: No in particular to towel sir.

Pawan Jain: In Towel we are EBITDA positive it is only the bed linen which was the new facility be started in last quarter of FY2016 so this is the second year of operation for our bed linen that was into a EBITDA negative that has turned to EBITDA positive this quarter.

Sahil Doshi: Bath linen in terms of towel?

Pawan Jain: Yes that has continued to EBITDA positive.

Sahil Doshi: No since our utilizations have gone below 50?

Pawan Jain: No but this scale is much higher as compared to the bed linen business.

Sahil Doshi: Absolutely okay, point taken sir. Can you share the volume and realization numbers for this quarter for both towel and bed linen?

Pawan Jain: You mean to say that the growth in realization?

Sahil Doshi: Yes, volume growth as well as realization growth.

Pawan Jain: So year-on-year about towel is about 11% degrowth in this quarter and sheeting it is about 62% volume growth in this quarter and year-on-year towel realization at about 3% higher and sheeting about 20% higher realization.

Sahil Doshi: Is that increase 20% higher is because you are moving more from greigh to more upper side?

Pawan Jain: Yes that is right last year it was more of greigh and now it is more of a processing.
Sahil Doshi: Sure Sir. Second question is more on the other income which is increasing significantly, is there some forex or what is the nature of that?

Gunjan Shroff: This is the regular treasury income because we do exports, so this is a regular forex income which every quarter this amount has been very much consistent and constant so this is treasury operations which we get on every quarterly basis. It is more of Ind-AS requirement which you have to show this on other income though earlier it was treated as operating income now it is treating as other income per the requirement of Ind-AS. So we usually use it as a business income because of the majorly into exports.

Sahil Doshi: And Sir just want more clarity on this employee cost decline you mentioned there has been rationalizations I understand but could you quantify in terms of how... what is the kind of cut we have done, which areas have we cut this and is it on the top or senior management level or it is across the board?

Pawan Jain: No it is more of a optimization so rather than cut across the levels, it is more of optimization so we had just taken the initiatives in terms of how we can able to get into the normalcy.

Sahil Doshi: Sure it is a 25% kind of a cut when we are trying to...?

Pawan Jain: No we started this exercise in Q2 and it is completed in Q3 so now onwards it is more of a certain restructuring also in terms of how we can able to link to the performance-based incentives. So it will increase proportionately with the revenue.

Sahil Doshi: How do we realize as a normalized basis where do we want it, you want as what percentage of sales would you like it?

Pawan Jain: It is not like that, it is basically that as soon as you will get the revenue or you will get more order book you can able to enhance your manpower as well as increase the performance pay for that manpower also.

Sahil Doshi: Fair enough Sir. And just a last question on the towel side, Sir have we seen this kind of destocking across retailers, across geographies or...?

Pawan Jain: No it is majorly by large customers in US, a few of the large customers not everywhere.

Sahil Doshi: So off this decline how much we contributed by a few top three or top five for you or how is that so are we seeing...?

Pawan Jain: It is mostly by the top few only.

Sahil Doshi: Okay but that will be 60%, 70% of your sales or how do you quantify it?

Pawan Jain: No so top 10 customers are about 60%, 65% so in the top two or three customers has adopted this policy.
Sahil Doshi: So then if that is correct Sir then those top three would be degrowing by 20%, 30% kind of a thing, is that correct?

Pawan Jain: That is what we had already explained that the sales has not been degrowth, their sales has continued to be in the same line as per the last year. They had reduced their inventory levels to the lowest, so that is why the Indian export has dropped.

Sahil Doshi: Would their quantum be it negative 20%, 30% in this top two three clients or...?

Pawan Jain: Yes that is true.

Sahil Doshi: Fair enough Sir, thank you so much.

Moderator: Thank you. Next question is a follow-up from the line of Paresh Jain from Bajaj Allianz. Please go ahead.

Paresh Jain: Sir just coming back on the paper how was the current realization today vis-a-vis the Q3 end or average.

Pawan Jain: We are not reporting realizations but on a nine months to nine-month period it is almost flat or a little 0.5% higher in the current nine months.

Paresh Jain: No I am saying how that today’s realizations and how do you expect the realizations to move in the coming three to six months’ time?

Pawan Jain: Quarter four quarter-on-quarter it is better, so Q4 we are expecting a better realization as compared to Q3.

Paresh Jain: This is like what 5%, 10% increase in realization?

Pawan Jain: No not that kind of increase because already last two years, there has already been a significant kind of an increase in realizations. It is more of a better demand which is governing this realization growth.

Paresh Jain: And is the trend same across both B2B and the copier segment that you have?

Pawan Jain: Yes that is right.

Paresh Jain: Do we enter into any of these contracts quarterly or a six-month contract with any of our customers especially is in the B2B side?

Pawan Jain: No there is no large contracts in paper, copier it is our inventories and B2B is only make to order.

Paresh Jain: And you said the copier segment volumes were lower in this quarter, any specific reason for that?
Pawan Jain: This is the post GST scenario the most of the dealers and distributors, they had drained out their inventory just to zero on a D-day and after that they have started picking up their inventories in a gradual manner.

Paresh Jain: Okay, fine. Thank you.

Moderator: Thank you. Next question is a follow-up from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Sir my question is on margin in textile segment considering that now cotton prices have gone up, so do we see like current margins of 15.5% to be maintained for next year as well?

Pawan Jain: Yes that is right, we are expecting that to be maintained in fact that will improve going forward as soon as our utilization in towel and bed sheet will go higher.

Dikshit Mittal: So like if I extrapolate like you mentioned that paper margins will be 36% to 40% range sustainable, so I think for next one year it is safe to assume that you will be at lower end of your guidance of 18% margin?

Pawan Jain: As a guidance 18% to 22% is the guidance for FY2019 company as a whole so in that 18% is the worst case scenario wherein you have some issues with demand or your raw material prices are higher but at the same time when these export incentives are also enhanced in this November period and that will continue in the Q4 and FY2019 also so that will have a positive impact in terms of the margin expansion.

Dikshit Mittal: So considering the current cotton prices on a company level 20% margins are sustainable nothing of further...?

Pawan Jain: As an overall 18% to 22% is the guidance so that depends upon that how the cost of raw materials, the dollar sensitivity that will prevail going forward, so that depends on that the worst and better size.

Dikshit Mittal: Okay, thank you.

Moderator: Thank you. Next question is from the line of Sameer Dalal from Natverlal & Sons Stock Brokers. Please go ahead.

Sameer Dalal: I had one question, you talked about volume utilization for the textile business of the towel and the bed linen to increase going forward to 50% to 60%. My question comes more on the side of where do you expect the demand to come from, are you looking at new customer acquisition or is the current trend already giving you a heads up from what kind of demands?

Moderator: Sorry to interrupt Mr. Dalal your voice is breaking so if you could just rephrase your question once again please.
Sameer Dalal: Sure my question on utilization at the textiles front is it clear now I hopefully guess. Where is that increase in utilization going to compromise doing new customer acquisitions or what size of customer acquisitions are you doing or is it the current customers that have given you a heads up on what kind of demand they are going to have next year. I want to understand where you expect the utilization increase in the bed linen and the towels to come from?

Pawan Jain: So it is for bed linen, there is no impact of destocking as of now so we expect that utilization to increase by acquiring new customers or enhancing the business with our existing customers. Second, in terms of towels the major in this quarter-to-quarter, the degrowth is coming from the lower inventories procurement by the US customers and we expect that will come down to normalcy in Q4, so we expect that major volumes will come from the existing customers as well as the growth from Q1 will... as soon as the Q2 and Q3 when this degrowth in volume is there by the large customers. So at the same time, we had started acquiring the new customers and new geographies also. So that impact will be added kind of an impact when we get that the US customers demand at a normal pace.

Sameer Dalal: It is the same continuation to this question, you talked about the fact that you would be able to get some new customers on the bed linen business, now I want to understand what is the competitive advantage on pricing or on quality on what you have that will bring these customers, because they are obviously already existing in the market and buying from someone else, so what will make them shift they are buying towards Trident versus the current operator, so where does your advantage lie?

Pawan Jain: Our USP remains in the best quality at a best competitive price globally so that is due to the technology we acquired that is due to the integration what we had that is due to the automation we have. So in terms of the scale, in terms of the technology, in terms of the integration, we definitely able to serve the best quality at a best pricing.

Sameer Dalal: So if you say you are the best pricing can you give us what is the differential in your pricing versus the nearest competitor, how much more?

Pawan Jain: I could not be able to give you the quantify into it, the only thing that we are into an integrated kind of industry where we have a facility which is from cotton to bed sheet so all the processes whether it is a spinning, weaving or processing or cut, stitch, pack everything is available under one roof. So we have an entire integration automation under one roof only. So that help us in terms of better quality, better tracking of the fiber, better pricing on an overall basis.

Sameer Dalal: And now last question when you scale up your operation, when your utilizations go up, how much would your cost increase because you would obviously need to hire maybe more people, are you fully staffed up, are you... what I am trying to get to it what would be the operational efficiency that come out of the increased volumes, how much more EBITDA could you generate from the increased volume?

Pawan Jain: See there are two things one when we say that we are at a EBITDA breakeven, most of the fixed cost has already been absorbed, so it is an only the variable cost which will be there as soon as
we improve our utilizations level and EBITDA will continue to be added at a PBT level, so when you say that the finance cost, or depreciation everything is already there. So as soon as we improve the utilization level that will not only benefit in terms of the percentage expansion in the EBITDA level but also at absolute level also.

**Sameer Dalal:** Now can you quantify what at 60% utilization next year for your bed linen which you are targeting and whatever the utilization level you are targeting for the towel business, what kind of EBITDA percentage would you be able to generate at that 60%?

**Gunjan Shroff:** We have approximately 15% to 18% of fixed cost in overall textile portfolio so since this cost is anyways absorbed in the existing capacity, so any additional capacity ramps up so definitely it helps us by increasing the EBITDA margin by plus 20% because 20% is the fixed cost which we are absorbing in our current profit loss account.

**Sameer Dalal:** So would you be able to give a percentage number what you could be EBITDA at 60% just roughly?

**Pawan Jain:** Can you please come back to your question please?

**Sameer Dalal:** I am saying if you do 60% utilization would you be able to throw out a number like you said your EBITDA neutral at about 48%, 50% what would you be about 5% EBITDA percentage positive 7% what would the number be roughly would you have any...?

**Gunjan Shroff:** Around 3% to 4% EBITDA margin percentage would increase in case we can go at a top-level utilization but since we are moving from 45%, 42% to 55%, 60% so EBITDA percentage points would increase by approximately 2%.

**Sameer Dalal:** Thank you very much if I have anything I will get in touch with your IR people as well thank you.

**Moderator:** Next question is from the line of Kaushik Dani from Reliance Wealth. Please go ahead.

**Kaushik Dani:** We just discussed that the cotton prices have moved almost double digit from the bottom levels and now roughly Rs.120, Rs.125 a kg, so what we saw in Q2 was that typically the cotton procurement was high as well as the yarn booking was at a lower price, so is there a possibility that we might have a repeat of Q4 of what happened in Q3?

**Pawan Jain:** When the Q2 inventory losses has happened, so from that point onwards we have already started discussing with our customers for price hikes in terms of... gradual movement from that point onwards certain things has been already passed on so we expect that kind of situation will not be there at least immediately in Q4 and Q1 of FY2019.

**Kaushik Dani:** So typically can one safely assume that yarn basically booking has to be a markup or something positive over the cotton prices right?
Pawan Jain: Yes that is right.

Kaushik Dani: Secondly, what I wanted to know was that since we said that the utilizations for towels will go to almost 55, 60 and for bed sheets 260 so that means that home textiles should roughly have a volume growth of double digit around 10% to 15% for FY2019 on the basic assumption so is that assumption right?

Pawan Jain: Yes that is right.

Kaushik Dani: And if that is the case, since last fiscal typically have we got new clienteles or customers added to our portfolio?

Pawan Jain: We have added few customers in towel business, in bed sheet business we had added in a quarter previous to that but that is started doing business in the current year. So there is a three, four months kind of a time for acquiring a customer and then start delivering to that customer.

Kaushik Dani: And typically how has been our retention rate like in terms of continuity of clients, let us say long-term client relationships?

Pawan Jain: We are retaining all of our customers as of now.

Kaushik Dani: And my last question is typically forex does impact our overall revenues so as we know that rupee has been appreciating and quite on the higher grounds in past two quarters, so if let us say rupee depreciate by 5% as a thumb rule what sort of impact do we get on the topline on the EBITDA?

Gunjan Shroff: Rupee depreciation of 5% is a very wishful thing at this point in time we all hope it is really depreciate by 5% but nevertheless an approximate product value of Rs.500 it adds something like a Rs.20, Rs.25 a kg kind of a product sale price, but see that is more of a temporarily...whether that rupee appreciate or depreciate it has an impact only for a quarter or two quarters. So at the end of that when your normal lead cycle is over either you have to pass on the benefit or you have to take the cost addition from the customers.

Kaushik Dani: Great all the best thank you.

Moderator: Thank you. Next question is a follow-up from the line of Giriraj Daga from Vesaria Family Trust. Please go ahead.

Giriraj Daga: Just a few clarifications, assuming that what you are saying on the utilization comes true, what can be the normal employee cost quarterly run rate we should see in FY2019?

Pawan Jain: FY2019 employee cost?

Giriraj Daga: Quarterly run rate or a full year basis?
Gunjan Shroff: Approximately Rs.500 Crores.

Giriraj Daga: Okay Rs.500 Crores for the full year?

Pawan Jain: Yes for FY2019 full year.

Giriraj Daga: If you can quantify what amount of price hikes we have taken in paper segment in January or December or we are going to take on Feb?

Pawan Jain: No it is a stable in these two quarters so there is not much pricing increase, it is a more of a product mix which is giving a higher realization.

Giriraj Daga: Even in January or Feb we have taken any hike?

Pawan Jain: Yes, it is not a hike in the prices, it is more of a product mix better realization.

Giriraj Daga: Just a clarification, this copier was not impacted because of some China import or something it is not because of that right?

Pawan Jain: That is more impacting on the coastal side so we are sitting in north is insulated from that import of the copier paper from out of India. Because the budgetary cost is higher importing paper in to north.

Giriraj Daga: My last thing is that if you can just give maybe a percentage number now maybe not absolute if you are not okay with that, what was that increase in the Q3 between yarn and cotton spread and what is in the let us say in January so far or say Q3?

Pawan Jain: We could not be able to report for January as of now, so obviously the Q2 was a period when the realizations in terms of parity it is lesser and Q3 it is getting back to normal.

Giriraj Daga: And Q4 so far it would be lower right because of higher cotton prices compared to Q3, should it be lower?

Pawan Jain: No approximately around 4% to 4.5% has been the change between Q2 and Q3 in terms of yarn.

Giriraj Daga: Okay you are talking about spread right?

Pawan Jain: Yes.

Giriraj Daga: Okay and that is what maybe the Q4 should be again be bit lower compared to Q3 average?

Pawan Jain: I think Q4 should be around these levels itself.

Giriraj Daga: Okay these levels itself, I understood. Thanks lot and all the best.

Moderator: Thank you. Next question is from the line of Abigail F from CRISIL. Please go ahead.
Abigail F: I just had a couple of questions, I want to know how has our yarn realizations done this quarter I mean last quarter I think we had a degrowth in yarn volumes as well as realizations so in this quarter, how have we done on that effect?

Pawan Jain: So on an yearly basis it is a degrowth of about 6% in terms of realizations but on a nine months to nine months period it is about 3% improvement in realization.

Abigail F: And volume wise?

Pawan Jain: Volume wise, yarn it is about 4% higher both on quarter and nine months year-on-year.

Abigail F: And Sir what kind of stocking levels do we expect to have at the end of Q4, I mean at the end of FY2018, cotton stocking levels?

Pawan Jain: Cotton we usually have about four to six months kind of an inventory level at March end.

Abigail F: So say like what was that in at the end of FY2017 along the same lines?

Pawan Jain: Yes that is right.

Abigail F: Okay, that is all. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question I now hand the conference over to the management for closing comments. Over to you.

Pawan Jain: Thank you everyone for joining us on the call, hope we could be 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 very much members of management. Ladies and gentlemen on behalf of Edelweiss Broking that concludes today’s conference call. Thank you all for joining us and you may now disconnect your lines.