Moderator: Ladies and gentlemen good day and welcome to the Q1 FY15 earnings conference call of Trident Limited. As a reminder, all participants’ lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki of CDR India. Thank you and over to you.

Nishid Solanki: Thank you. Good afternoon everyone and welcome to the Q1 FY15 earnings conference call of Trident Limited. Today we have with us senior members of the management including Mr. P. K. Markanday – Chief Marketing officer, Mr. Pawan Jain – Group Company Secretary and Mr. Vaibhav Goel – Manager, Investor Relations. We will commence the call with the opening remarks from the management and follow that with the question and answer session.

Before we begin, I would like to caution that certain statements that may be made or discussed in this conference call may be forward looking in nature and a note to that effect has been provided in the conference call invite sent to you earlier. The company does not undertake to update them publicly.

At this stage, I wish to invite Mr. Pawan Jain to make his initial remarks. Thank you and over to you sir.

Pawan Jain: Good afternoon and a warm welcome to everyone on the Q1 FY15 earnings conference call of Trident Limited.

Our performance during the quarter ended 30th June 2014 was reflective of the progress on various strategic initiatives implemented by the Company. The new terry towel unit in Budhni, Madhya Pradesh has started contributing to the overall efficiencies and the same is reflected in our enhanced margin profile. We will see full benefit of these capacities from FY2016.

In line with our long term strategy of becoming an integrated global home-textiles leader, Trident has integrated its Yarn division with its Terry Towel division during the quarter. The integrated division i.e.
Textiles will enable the Company to draw greater strength from vertical integration by leveraging business experience, resource utilization and synergy more effectively.

Indian Yarn industry has seen some bit of moderation over the past two quarters due to multiple factors including volatility in the cotton prices, forex fluctuations and reduction in demand from China. China’s imports from India have declined by close to 25-30% leading to oversupply and softening of cotton yarn prices conversely the prices of cotton have increased by 10-15%. For Trident, the average price of cotton stood at Rs. 120 vis-à-vis Rs. 105 last year which has led to a moderation in our yarn margins. All this has resulted in slower pace of growth in the yarn segment, which we believe would continue for the rest of the year and will see some improvement in Q4 FY15. However, the home-textiles business has seen improved traction following the commissioning of our new terry towel facility at Budhni which is under stabilization and running at 30% capacity utilization. We hope to close this year with an average 50% capacity utilization. Demand for home-textiles continues to be robust given the visibility in our order book position combined with improved product offerings. Our composite sheeting project is progressing well and we plan to start that by September 2015.

I would like to share that the Company will undertake a Yarn Modernization Project of its spinning plants located at Sanghera, Punjab and Budni, Madhya Pradesh to modernize its existing capacities with a total capital outlay of Rs. 104 crore. This project is expected to be implemented by July 2015. In addition, the Company will also undertake an Infrastructure Development Project at Budhni including Centre of Excellence, Housing Colony for employees, Office Building, Administrative Blocks, etc. at a total capital outlay of Rs. 243 crore. This project is expected to be implemented by Oct 2016.

Let me now give you a brief of the segment wise performance:

Our Textiles business recorded a growth of 4.4% to Rs. 715.8 crore on account of increase in realizations backed by our focus on value-added portfolio. Our new terry towel unit at Budhni has also contributed to this growth. Total yarn production stood at 22,304 MT, while the total sales volume came in at 21,919 MT. Total production of terry towel stood at 8,587 MT, up 28.4% Y-o-Y, while the total sales volume improved by 12.8% Y-o-Y to 7,941 MT. Our efforts towards market research and segmentation have given sustained results and our new brands of towels have been very well accepted in the market place. We are keen on further penetrating in the market domestically through retail outlets and online portals. New Products to be introduced during festivities like Aroma, Organica & Cuddlies would further give a boost to our product portfolio. In addition, we would continue our focus towards improving the contribution of value-added products to total textile revenues which currently stands at 40%-45%.

Performance in our Paper segment remained healthy with 5.6% growth in the topline over corresponding quarter last year. The total production during the quarter came in at 37,388 MT, while the total sales volume improved to 34,953 MT. Realizations during the quarter enhanced by 10.9% mainly on account of skewed
product-mix towards the copier segment which contributed close to 50% of the total paper revenues. We are seeing encouraging results from our branding initiatives and expect to see similar realizations over the forthcoming quarters. Keeping in mind our focus towards the value-added copier segment, we have launched a new identity for Trident Copier Paper thereby enhancing the product branding. Moreover, we are focusing on the large institutional orders thereby improving the overall productivity in Paper segment.

Before I conclude, I am glad to share that Trident Limited has successfully commissioned an open end yarn spinning project, having a manufacturing capacity of close to 10,000 TPA of cotton open end yarn. The project was commissioned on 15th July, 2014 with a capital outlay of Rs. 60 crore.

I am further pleased to add that Trident Limited was conferred with “Inclusive Growth Award from Cisco” on July 30, 2014 at Mumbai for its innovative approach and a special recognition towards leveraging its biometrics and cloud-based authentication for workforce and payroll management through Aadhaar.

While we are focused on consolidating our operations in the near term, we are confident of achieving sustained growth going ahead on the back of larger capacities and improved product offerings. Containing our debt and finance cost would further strengthen our balance sheet thereby delivering enhanced value to our stakeholders.

With that, I would like to hand over the call to Mr. Vaibhav Goel who will share the financial performance of the company for Q1 FY15. Thank you.

Vaibhav Goel: Thank you Pawan and a warm welcome to everybody. I will share the financial highlights of the Company for the quarter ended 30th June, 2014.

During the quarter ended 30th June 2014, our total revenues improved by 4.6% to Rs. 913.3 crore on account of improved utilization rates resultant to increased product off-take across products like Terry Towel, Yarn and Paper. Our realizations improved as a result of enhanced product mix towards value-added products. EBITDA stood at Rs. 184.0 crore translating to EBITDA margin of 20.2% driven by our focus on cost optimization and increased contribution from high margin products. Profit After Tax came in at Rs. 32.3 crore translating to diluted EPS of Rs. 0.68 per share. Cash Profits increased to Rs. 113.1 crore vis-à-vis Rs. 112.2 crore in the same period last year.

Let me give you a segment wise performance overview.

For the quarter under review, the revenues from textiles segment stood at Rs. 715.8 crore, up 4.4% Y-o-Y, while the PBIT came in at Rs. 78.1 crore. PBIT margins came in at 10.9% post implementation of the new terry towel unit in Budhni, Madhya Pradesh.
Our Paper & Chemicals segment registered a growth of 5.6% Y-o-Y to Rs. 196.8 crore on the back of improved realizations led by our focus on the value-added copier segment. PBIT improved by 17.9% to Rs. 40.5 crore, while the PBIT margins recorded 220 bps improvement to 20.6%.

Outstanding net debt of the Company stood at Rs. 2,589.4 crore as at June 30, 2014 resulting in net debt to equity ratio of 1.9x. During the quarter, Trident repaid outstanding term-loans amounting to Rs. 105.4 crore leading to 2% reduction in the finance costs. Outstanding term debt for the Company at the end of first quarter stood at Rs. 1,880.6 crore.

I am pleased to state that the Board of Directors of the Company has recommended an interim dividend of Re. 0.30 (3%) per equity share of face value of Rs. 10 each, for the FY 2014-15.

Going forward, we remain optimistic on the growth prospects given our strong order book in the terry towel segment combined with our focus towards the value-added portfolio and gradual off take of newly introduced products. Improvement in the global economy especially in USA & UK would further aid growth and profitability for us.

That concludes my financial review and we would now be glad to take any questions that you may have.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Kailash Gandhi from KRG Capital. Please go ahead.

Kailash Gandhi: I wanted to know your outlook for cotton prices for the current season.

Pawan Jain: For the current season, we are holding the cotton inventory till September 2014 and we had stored cotton around an average price of Rs.120 per kg. Though the price had gone up to Rs.134-135 per kg in the last quarter, the current market price is around Rs.118 per kg. This is not the season for cotton and the new arrivals would begin somewhere around October-November this year. So, we expect the cotton prices to remain moderate during the next 1-2 quarters.

Kailash Gandhi: So what has led to the improvement in our EBITDA margin for this quarter and for the last year?

Pawan Jain: For the previous year, the margin improvement was on the back of a few reasons. Firstly, we have moved to value-added products. Secondly, there was currency benefit and thirdly, the price of cotton last year was around Rs. 105 per kg. So, all these factors contributed towards improvement in EBITDA margins last year.
For Q1 FY15, our EBITDA margin has moderated in yarn, which is around 12% and for towels, it is close to 22%. So, towel and paper business has recorded better margins.

**Kailash Gandhi:** What is your CAPEX plan for the next 2-3 years?

**Pawan Jain:** We have a few projects coming up. First, we have a composite sheeting project at a cost of Rs. 1,667 crore. Second is the captive power project which is Rs. 393 crore and two recently announced projects which includes yarn modernization at Sanghera and Budhni facilities where CAPEX required would be Rs. 104 crore and an infrastructure project at a cost of Rs. 243 crore which is meant for our Budhni location where all our expansions would come in. Infrastructure project would include staff colony, school, mini-hospital and other related administrative blocks and canteens.

**Kailash Gandhi:** Okay. So, how will you fund these expansions lined-up? Already our book is having close to Rs. 2,500 crore of debt and our debt-to-equity ratio is also around 2.

**Pawan Jain:** Yes. Debt-to-equity is close to 1.9 and as of now, we have close to Rs. 2,500 crore of debt on books. For composite sheeting project, we will take Rs. 1,200 crore of debt and for captive power and yarn modernization projects; it would be close to Rs. 300 crore and Rs. 72 crore respectively.

**Kailash Gandhi:** So, how will you fund these expansions?

**Pawan Jain:** We would be funding it through debt and internal accruals.

**Kailash Gandhi:** So we would be looking for more debt?

**Pawan Jain:** Yes. Debt for sheeting project would be Rs. 1,200 crore and Rs. 300 crore for the power project, so that comes to Rs.1,500 crore and additional debt of Rs. 250 crore on account of two recently announced projects which includes yarn modernization and infrastructure development.

All these projects are planned for the next three financial years and in next three financial years; we would be repaying close to Rs. 400-450 crore of debt each year. So practically whatever debt we raise in the next three financial years, we would pay off a similar amount.

**Kailash Gandhi:** Okay. Could you give some outlook on margins? If the cotton season does not pan out as expected, then you think that the margins will shrink in the next one year.

**Pawan Jain:** We do not foresee any shrinkage in margins for our towels business. However, there could be some pressure in yarn due to volatility in cotton prices.
**Kailash Gandhi:** Yes, that is correct, but then yarn also forms a significant part of your business?

**Pawan Jain:** Yes. As of now, it contributes close to 45% to total revenues and going forward by FY17, it will come down to 20%.

**Kailash Gandhi:** Okay, but 45% is a major chunk. So how will the margins look like over the next 2 or 3 quarters?

**Pawan Jain:** If you see the current quarter, we had allocated more of our capacities towards captive consumption of yarn. So, as and when the scenario is not so good in terms of yarn margins, than we allocate more capacities of yarn to our terry towel segment, which helps us to improve the overall margins.

**Kailash Gandhi:** So are you getting good orders for the towel and other businesses?

**P. K. Markanday:** Yes, we are getting good orders in our Terry Towel business. We have concluded a very large expansion in our Budhni plant. So it is not that we will be able to fill the whole capacity in one day, but otherwise we are very well placed in towel market. We are internationally very well recognized, the existing capacities are full, the capacities in the new factory are already running at 25%-30% and we are estimating that by the end of this financial year i.e. March 2015, we should have almost full capacity running there.

We have added new markets and we have added new programs. Till now, our major focus has been on US and we have forged a major alliance with one of the companies in Europe for helping us market our products in Europe. We have made arrangements for major expansion in Australian market, Japanese market and in South African market. Besides this, we are now present in New Zealand and Middle East in much bigger way as compared to what we were. So we will be seeing a shift of our market from predominantly US to other markets and that is how we are trying to build our order book for the new expansion.

**Kailash Gandhi:** As of now, you are working at 25% capacity utilization and going forward you expect 100% capacity utilization. So, this 75% is substantial and I understand that you are improving your footprint in Europe, Australia and all these geographies. But can you be more specific about how will you fill this order book?

**P. K. Markanday:** We have to see where Indian home textiles’ stands globally. For instance, US is the largest market for Towel business and we have only 35%-36% of this market. Rest of the market is with China and Pakistan. China is no longer competitive and is slowly shrinking and we are expanding. So, one very big thing is that we are taking away market-share from other countries particularly China.
Secondly, as a manufacturer we have very strong footprints in US and therefore we are adding more customers. We have worked with most of the large retailers in the United States and there is a possibility to double our business in the United States itself by increasing number of programs with various customers. Some of them have given us programs which are under development, which will see the day in next couple of quarters and similarly it is not that we have just started in Europe, we have started seeding the market about a year back; even in Japan and Australia we have started executing large orders.

The efforts have not started today or in the last quarter. Our efforts started to bridge this gap during the year 2013 and before that which is reaping the harvest now. Obviously your question is valid, it is a large capacity that we have and it is not so easy to fill it. But with our quality, our resilience, our overall reliability and our competitiveness of the new projects that we have set up, we are confident of filling the order book.

We have taken into account three things. Firstly, we have the capacity and we have economies of scale in terms of production that makes us competitive. Two, we have made sure that we have a quality which is consistent at all times and is A grade at all times and we can have the benefit of quality and cost of poor quality is reduced to near zero. Thirdly, we are trying to be reliable at all times with the customer so that once of the customer is with us, there is no looking back and we are continuing to grow with them. So, we have addressed all these things and we are more cost competitive in the new facility in terms of EBITDA margin and we are very sure that the way we are heading, we will have close to 80% booking or capacity utilization towards the end of this financial year.

Kailash Gandhi: I appreciate your efforts, but I was looking for specific details whether have we tied up with big retailers like Tesco, Asda, in Europe or anyone?

P. K. Markanday: I would not be able to give you specific names but we have tied up with one major player in Europe who will help us sell in Europe. It is a major organization and we have already started working with them. We have already started shipping to them and shipping through them. So it is a major arrangement we have made in Europe.

We have also made a major arrangement in the Australian market with one of the companies who is established there since a long time and who will be working exclusively with us for that market which is at this point in time largely in the hands of Chinese manufacturers. We see no reason why we cannot acquire a much larger part of that market with our competitiveness, quality and overall thrust in this area. Same is for Japan, where 70-73% is in the hands of China. So, these three major tie-ups internationally to address various markets will help us.

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
Dikshit Mittal: The debt of Rs. 2,500 crore is after the merger with TCL?

Pawan Jain: Yes, that is right.

Dikshit Mittal: Okay. Post-merger and expansion, what are the capacities in your towel, sheeting and yarn segments?

Pawan Jain: Currently, we have 688 looms of towels.

Dikshit Mittal: Can you give it in metric tonnes?

Pawan Jain: Yes. In metric tonnes, it is 90,000 per annum.

Dikshit Mittal: Is this commissioned?

Pawan Jain: Yes, everything is commissioned. Out of 688 looms, 388 looms were existing and 300 looms are newly-commissioned in March 14. So, the new looms have started contributing in the first quarter and is under stabilization. It is operating at around 25%-30% capacity utilization and we expect to ramp it up to about 80% by the end of this year.

Dikshit Mittal: And in sheeting, what will be our capacity?

Pawan Jain: There are no capacities in sheeting at present. However, we are implementing 500 composite sheeting looms which has backup spindles capacity of 1.76 lacs. So this will cater to our yarn requirements for sheeting and at present we have close to 3.66 lakh spindles and around 5,500 rotors for our open end yarn requirements.

Dikshit Mittal: How much is the per annum million meters capacity?

P. K. Markanday: In sheeting, it will be about 115,000-120,000 meters per day.

Dikshit Mittal: It would be fully commissioned by second quarter?

Pawan Jain: By Q2 FY16.

Dikshit Mittal: And in towels, what is the run-rate? Is it 8,000 tonnes per quarter?

Pawan Jain: For Q1 this year, it was 8,500 tonnes.
Dikshit Mittal: Okay. So we are working at around 30% of the total capacity currently?

Pawan Jain: Yes, this capacity utilization is only from 300 looms.

Dikshit Mittal: You said that the total capacity will be 90,000 tonnes per annum for towels and we are doing close to 8,000 tonnes per quarter. So that means for the full year we will be doing at best 35,000 tonnes?

Pawan Jain: 90,000 tonnes is the optimum capacity at an optimum GSM and product mix.

Dikshit Mittal: So by when do we expect to reach the full utilization?

Pawan Jain: By the end of this financial year i.e. March 2015.

Dikshit Mittal: By March 2015 we will be doing 90,000 tonnes per annum?

P. K. Markanday: 90,000 tonnes is when the capacity is at an optimum level of GSM. GSM is the grams per square meter. This is the potential of this unit. So depending upon the market requirement, the GSM may vary. It comes down, it goes up and therefore it is not necessary that you will have 90,000 tonnes per annum. What we are saying that by the end of this year, we will be utilizing all looms and depending upon the product mix, we will have volumes of production.

Dikshit Mittal: So that means, you can double your production in the next 1-2 years?

P. K. Markanday: Yes, more than double. We should be more than doubling our production in this year.

Dikshit Mittal: Then how will this impact the competitiveness because Welspun is the largest and they are doing close to 50,000 per annum and you will soon surpass them after this expansion. So will you be competing by cutting margins or you will be competing against other countries for placing your incremental production?

P. K. Markanday: We are already competing with Welspun India. Welspun is one of the strongest competitors we have and we are quite neck-to-neck. We are also opening up to the new markets as I said earlier. Till now we were focusing mainly on US market, but we are now opening up to other global markets like Europe, Middle East, Australia, New Zealand, Japan and South Africa.

So we are now spreading out to these markets, but this does not mean that we will not be competing for market share. For example, Japan is predominantly a Chinese market, Australia is a Chinese market and for Europe, it sources from Pakistan, India and China. So we will be competing with Welspun also but not necessarily with Welspun alone.
Dikshit Mittal: Okay and how much of our turnover comes from countries other than US?

Pawan Jain: Around 40% of towel business.

Dikshit Mittal: That comes from outside US?

Pawan Jain: Yes.

Dikshit Mittal: And apart from your debt raising plan of close to Rs. 1,500 crore in the next three years, you will need additional debt for working capital, right?

Pawan Jain: Yes, that is right.

Dikshit Mittal: So, Rs. 1,500 crore plus whatever incremental working capital you need?

Pawan Jain: Incremental debt is only required for sheeting because other projects planned are for modernization and infrastructure development. So, we do not need any working capital for that. I think close to Rs. 200 crore is required for working capital requirements.

Dikshit Mittal: So all this incremental debt will be under TUF?

Pawan Jain: As of now, our debt is around Rs. 2,500 crore. Out of this, Rs. 1,000 crore is under TUF and the project which is coming up for sheeting, is also entirely under TUF, which is Rs. 1,200 crore and about 75% is eligible under TUF. In yarn modernization also, Rs. 72 crore is under TUF.

Dikshit Mittal: What is the interest rate under TUF that you are getting currently?

Pawan Jain: Interest rate on the debt under TUF is around 12-12.5%; and 5% is the subsidy we will get on composite sheeting project from Central Government and 7% from the State Government, Madhya Pradesh. So, effective cost of debt comes out to be 4-5% as 75% of the debt is eligible for TUF benefit. And in yarn modernization project of Rs. 72 crore, we will get 2% subsidy from center in terms of TUF benefit and this is same with Punjab and Madhya Pradesh. The portion which is meant for Madhya Pradesh, there we will get additional 5% subsidy from State Government.

Moderator: Thank you. The next question is from the line of Resham Jain from B&K. Please go ahead.
Resham Jain: On sheeting, could you give us a brief sense on how the industry capacity is and what is the capacity in India and how much of the capacity is exported out of India. Wanted to get a market sense on how big will you be in the global space after this expansion?

P. K. Markanday: With 120,000 meters of capacity a day, we will not even have 10% of the market share of Indian exports. And India has approximately 45% of the US market share. We are less than 30% of the global market. So there is a lot of sheeting still possible in this arena.

Resham Jain: Can you give a sense on what will be the global capacity of sheeting?

P. K. Markanday: I am not having that data in front of me as of now.

Resham Jain: Okay. And any idea about the sheeting capacity in India?

P. K. Markanday: No. Don’t have that data-point at present.

Resham Jain: And in Terry Towel business, where you have started the new facility from this year, what will be the incremental turnover?

Pawan Jain: Incremental turnover should be about Rs. 2,000 crore, but this year we are expecting to add Rs. 1,000 crore of revenues.

Resham Jain: Ok. So say for FY16, you clock Rs. 2,000 crore of revenue from this facility, then what is the typical working capital cycle?

Pawan Jain: It is from 30 days to 45 days.

Resham Jain: Including receivables, inventory, etc.?

Pawan Jain: Yes.

P. K. Markanday: We work on lean. So we are normally not keeping a lot of inventory in the process. We could probably be one of the most efficient companies in terms of the work-in-process, We work on a very low work in process and very low inventories. We work on JIT basis for raw materials and for other inputs. Most of the funds are tied in the receivables and that too because you discount the bills so they are not tied for a long time, they are tied only as long as you do not negotiate them with the bank.

So we are able to manage between 45 days maximum. However, sometimes it goes to 50 days from time-to-time. That is the cash-to-cash cycle we have.
Resham Jain: But on raw materials front, you are not required to keep inventory - especially cotton?

P. K. Markanday: Yes, we do have to keep inventories for the yarn business. We do keep cotton fiber for much longer time but for towels, we do not keep more than 4-5 days of yarn at any given point in time.

Resham Jain: But your facility is integrated right?

P. K. Markanday: Yes, that is why we do not have to keep.

Resham Jain: But since you have added spinning capacity to support this business, your working capital days will increase?

Pawan Jain: No, it is only upto seasonal cotton that we hold cotton inventories from 6 to 9 months. So this is depending on the cotton scenario.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Canara Robeco Asset Management. Please go ahead.

Pranav Tendulkar: So this means that Rs. 250 crore is the revenue run rate per quarter from the new Terry Towel division?

Pawan Jain: No, it is stabilizing. What I said was close to Rs.1,000 crore on an overall yearly basis.

Pranav Tendulkar: So the quarterly run-rate will be much higher in Q4 because currently it is contributing very less.

Pawan Jain: Yes. That is right. In Q3 and Q4

Pranav Tendulkar: We are seeing that China is losing market share in home textiles everywhere including US and Europe. So can it reverse in 1-2 years and what are the factors making this trend as a five -year trend or four-year trend?

It can stay and we could visualize that ROCE or return capital for Indian home textiles is elevated because of some factors. So could you highlight what factors are driving this?

Pawan Jain: India has a competitive edge over China due to a few factors like lower power and labor cost. Labor cost is almost 50% less in India as compared to China and again power cost is also lower by around 20%. Additionally, the Chinese currency is appreciating and Indian currency is depreciating, so that will further bring in some advantage in terms of competitiveness.
Pranav Tendulkar: Out of the current revenue of Rs. 913 crore, how much is the employee cost or labor cost for our company?

Pawan Jain: The employee cost this quarter is close to Rs. 109 crore.

Pranav Tendulkar: So you are saying that China will be double.

Pawan Jain: China will be double because in India, we have a wage cost of around $5-$6 per day and in China it is $11-$12 per day.

P. K. Markanday: They do not necessarily translate into double of employee cost of 20% of the revenue, because they may have a better revenue realization or productivity. Overall, the absolute cost is close to double the Indian cost.

Pranav Tendulkar: Traditionally our customers are big retailers like Walmart, Tesco, Aldi, etc. So do these clients push you for better prices, in long term you think that you will be able to maintain this kind of margin?

P. K. Markanday: There is always a push from the customers no matter how big or small, they want better margins and you have to make sure that you are giving something innovative to them, something which is appreciated and that keeps their customer excited and brings them back to their store.

So that is a continuous pressure and will probably remain and you have to devise strategies to make sure that you continue to maintain your margins by switching products, by innovating and bringing something new to the market all the time; be on the course of giving them a better edge in the market, that is how you have to deal with it.

Pranav Tendulkar: On a blended basis, what will be the cost of total TUF loans which is close to Rs. 1,000 crore I guess?

Pawan Jain: Yes, it is around Rs. 1,000 crore and we consider this cost on a receipt basis. So if we remove the State subsidy which is yet to receive, it is costing us around 8%.

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

Sumant Kumar: We have shown a topline growth of 5% and we would be fully running our capacities going forward, so what kind of growth are we looking for the forthcoming quarters.
Also, what is your outlook on the yarn business given that it has not done well in this quarter. So what kind of topline growth and margins do we see in the yarn business?

**Pawan Jain:** The outlook for the yarn business for the current quarter and for the next quarter looks moderate with same level of margins seen in the first quarter. In Home Textile business, we will see the revenues and margins improving going forward.

**Sumant Kumar:** So what kind of topline growth and margins would you see in the coming quarter given that the new capacity has already commissioned. Our towel capacity utilization will improve from here onwards?

**Pawan Jain:** On an overall basis, it will add revenues of close to Rs. 1,000 crore during the current financial year. So in the next quarter it may clock around Rs. 200-250 crore of additional revenues.

**Moderator:** Thank you. The next question is from the line of Riken Gopani from Infina Finance. Please go ahead.

**Riken Gopani:** For the quarter, we have seen a volume growth of about 12% whereas our revenue growth in Terry Towels is about 4%. So what has led to the realization correction during the quarter?

**Pawan Jain:** The realization during the current quarter is around Rs. 465 per kg of towel. It was around Rs. 448 per kg of towel last year.

**Riken Gopani:** But I see that the total volume sales have grown by 12.8%, right?

**Pawan Jain:** Yes, that is right.

**Riken Gopani:** And your Terry Towel revenue has grown by about 4%.

**Pawan Jain:** The terry towel revenue has grown by around 17%.

**Riken Gopani:** But your presentation shows it is 4%. Am I missing something here?

**Pawan Jain:** That is on an overall textile basis.

**Riken Gopani:** Rs. 715 crore is the Terry Towel revenue?

**Pawan Jain:** No. It is the total textile revenue.
Riken Gopani: So you have not mentioned Terry Towels revenue separately?

Pawan Jain: No.

Riken Gopani: Okay. So textile would include what else?

Pawan Jain: Yarn.

Riken Gopani: And the margins which are mentioned in presentation, that is including yarn?

Pawan Jain: Yes, that is right.

Riken Gopani: Just wanted to understand from competitive point of view, in terms of cost structure if I look at the reported numbers for the quarters between us and Welspun, the only significant change I see is in the employee cost. So just wanted to understand why our employee cost as a percentage of sales this quarter has risen significantly. It is about 12% for the quarter. So what is it that is sitting in this particular line item?

P. K. Markanday: One of the major reasons for this is that we have started a new Terry Towel plant where we had to employee the entire team including entire top management, manufacturing team and the workers because you cannot be waiting for workers to join after you have started your production. Obviously the ramp-up production as of now is 30%, so it was not that much when we started operation but we had to have the entire management team, entire operations team and the entire worker team. That is the reason our cost this quarter has gone up as compared to previous quarters.

Riken Gopani: So when you reach the runrate which you are talking about with your expanded capacity, your absolute employee cost would still remain here now given that you have already employed the manpower.

P. K. Markanday: It won’t remain the same, but it will not increase in the same proportion because we will not be increasing any manufacturing, so the operational and managerial team will remain the same, all the staff will remain same. There will be increase in the number of workers, but that will not add proportionately.

Riken Gopani: Okay. Could you tell me what were your Terry Towel margins in Q1 FY15 and Q1 FY14?

Pawan Jain: In Q1 FY15, it was 22% and in Q1 FY14, it was around 13%.

Riken Gopani: So there is a big swing in the margin and this is despite the fact that you have such a large employee cost change.
Pawan Jain: Yes, that is right.

Riken Gopani: So how is there such a large improvement in the Terry Towel margin Y-o-Y?

P. K. Markanday: There are major two reasons. One, the yarn cost has come down this year as compared to last year. So raw material has played some role which has adversely affected our yarn business but helped the towel business. Second is that we have been slightly helped by the foreign exchange rate this year. If you compare it with last year, we are better off this year. So these two things have helped us improve our margin.

Pawan Jain: And just to add on, there is some more allocation towards value-added products during the last two quarters.

Riken Gopani: What would be our dollar realization on an average for Terry Towel sales in US per towel or whatever be the matrix on which you could sell it?

Pawan Jain: For Q1FY15, it was close to Rs. 61 per dollar.

Riken Gopani: No, I am asking whatever you sell through Walmart or other stores, what will be the average selling price of your product that you sell in the US?

Pawan Jain: The average price is close to Rs.465 per kg.

P. K. Markanday: This is total average.

Riken Gopani: Would you be comparable with peers like Welspun as well as other international competitors, will you be in the similar realization range or would you be better off?

P. K. Markanday: We will be more or less the same as others. The only difference sometimes can be the change in product-mix. So you can sometimes have more opening orders and sometimes have better goods at this time or mix of better goods. But otherwise on an apple-to-apple basis, it is more or less the same with Welspun or similar companies; not necessarily with the smaller companies in the country.

Moderator: Thank you. The next question is from the line of Resham Jain from B&K. Please go ahead.

Resham Jain: What is the Company’s philosophy on the leverage front because our net debt-to-equity is slightly higher as we are in the CAPEX mode, so at what level is the Company comfortable with either on the debt equity front or on the net debt-to-EBITDA front?
Pawan Jain: I think close to 2:1 is a comfortable level. At present, it is 1.9 and for the last 2-3 years it was around 3-3.5. So going forward, we feel that it will remain below 2.

Resham Jain: And any guidance on net debt-to-EBITDA front?

Pawan Jain: EBITDA on a sustainable basis would be close to 18% (+/- 2% depending on the industry scenario).

Resham Jain: I was actually talking about net debt-to-EBITDA because that is more comparable. So by the end of this year, how much debt you may have?

Pawan Jain: It will be close to Rs. 2,700-2,800 crore.

Resham Jain: And EBITDA?

Pawan Jain: I cannot give the guidance on EBITDA at this point, but basis the current quarter, we see that sustainable.

Moderator: Thank you. The next question is from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

Aman Sonthalia: The 22% margin reported in the terry towel division is sustainable margin or it is just a one-off?

Pawan Jain: It is sustainable going forward. We are saying that on a long term basis, close to 18-20% is sustainable.

Aman Sonthalia: And what is your outlook on the yarn prices going forward given that cotton prices are likely to come down from the current level? Will it impact our profitability?

Pawan Jain: We have stock of cotton inventory till September this year, so if the cotton prices go down from the current levels than it will moderate our yarn margins but would positively impact our terry towel business.

Aman Sonthalia: Any one-time profit is included in this quarter profit?

Pawan Jain: No.
Aman Sonthalia: What is the breakup of revenues from yarn and towel divisions?

Pawan Jain: For Q1 FY15, the yarn revenue is close to Rs. 487 crore and the towel revenue is Rs. 369 crore. Rs. 487 crore of yarn revenue includes captive consumption as well.

Aman Sonthalia: How much is that?

Pawan Jain: Captive consumption is close to 33%.

Aman Sonthalia: What is your view on China given that it is out of the yarn market and their imports have gone down by 25%. What do you think will be the margin in our yarn division?

Pawan Jain: For China, the margin depends upon the inventory of cotton that they are holding. However, India is using a parity of cotton production and cotton consumption. So for instance, if India, on a global scale, is holding around 22% of production of cotton, then the consumption would also be close to the same level; whereas in China they are having cotton production of 29% on global basis and they are having a consumption of 33%. So in any case China will have lower demand in terms of import of cotton yarn or cotton but going forward, after 1 or 2 quarters when the new cotton crop comes in the market, the global prices would again change. Hence, the situation may change in Q4.

Aman Sonthalia: Since you have long-term arrangements with the international buyers as far as terry towels is concerned, if the cotton prices comes down, so will yarn prices, then will they ask for price revision?

P. K. Markanday: It is not that with every jerk of the knee they ask for it, but yes if there is a significant change than there is a demand for price revision.

Aman Sonthalia: If there is a dip of around 10%, then do they ask for revision?

P. K. Markanday: For 5%-10% normally we are able to handle it. But if it is beyond that, then we have to address it.

Aman Sonthalia: What is the percentage of sales in domestic market as far as terry towel is concerned?

Pawan Jain: For Terry Towels, right now it is 10%. But going forward, we expect it to increase it to 15%-16% of overall production.

Aman Sonthalia: So will it also increase your marketing cost?
Pawan Jain: During the last two quarters, we are spending on product branding in paper and towel segments, so that we can gain major market share in copier paper and also in towels. We are planning to launch our new branded products in the domestic market in the ongoing festive season.

Aman Sonthalia: Okay. The margin in our Paper division is sustainable?

Pawan Jain: More or less it is sustainable because we are into agro-based paper manufacturing where about 70% of our raw material is from wheat straw and 20% is from residue of plywood industry which is veneer chip. So, only about 10% of the total raw material is wood-based.

Aman Sonthalia: When do we see the completion of expansion in the paper segment, from 175,000 to 200,000 tonnes?

Pawan Jain: It is not an expansion plan, but just de-bottlenecking of our existing operations. So we are awaiting some environmental clearances. There is no additional machinery or manufacturing lines to be setup, it is only debottlenecking which will modernize our existing facilities. So that will give us additional 15% of production.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Canara Robeco Asset Management. Please go ahead.

Pranav Tendulkar: Out of your cost of goods, how much would be dyes and chemicals?

Pawan Jain: In towels, it is around 8% in dyes and chemicals and in paper, it is around 18%.

Pranav Tendulkar: So with regards to the recent price hike, will that impact us?

Pawan Jain: There is a recent price hike in dyes and chemicals, but we already have strategic tie-ups with renowned suppliers in dyes and chemicals. So that will safeguard us in terms of these price escalations.

Pranav Tendulkar: You expect these prices to sustain or it is just a cartel or anything else that we do not know?

Pawan Jain: It is believed to be a cartel and we expect that some Chinese player is implementing the new capacities in dyes and chemicals. So we expect this to be neutralized in the coming quarters.

Moderator: Thank you. Next question is from the line of Abhijeet Singh from Crisil. Please go ahead.
Abhijeet Singh: Is there an increase in your inventories because as per your presentation, the production volume in textiles has been higher.

Pawan Jain: Yes, that is right. It was the production which happened in the last month of this quarter and we expect the deliveries to happen in the current quarter.

Abhijeet Singh: And on depreciation, we have seen that there is a significant increase from Rs. 64 crore to Rs. 81 crore quarter-on-quarter. So what had led to such a substantial increase?

Pawan Jain: It is because of the new facilities of Terry Towel which was implemented in March 2014 and was subsequently merged with Trident Limited starting 1st April, 2014. So, the depreciation this quarter includes depreciation from these new facilities as well.

Abhijeet Singh: Okay. So, you do not have any commissioning of major projects this year right?

Pawan Jain: Yes, that is right.

Abhijeet Singh: So the depreciation quarter-on-quarter would ideally remain at this level?

Pawan Jain: Yes, at this level or it may even come down from the current level.

Abhijeet Singh: Okay. And how much is the current debt on your books?

Pawan Jain: The net debt is close to Rs. 2,500 crore.

Abhijeet Singh: And gross debt?

Pawan Jain: It is around Rs. 2,600 crore.

Moderator: The last question is from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

Aman Sonthalia: It is expected that the cotton prices would be lower in the forthcoming season. So, keeping that in mind, what would be your yarn margins? At present it is 12%. So you think it would be better going forward?

Pawan Jain: It depends on two things - cotton price and the demand for yarn. Currently, the yarn demand is moderate given that China has reduced its imports. Going forward, if the demand picks up, then we will see improvement in EBITDA.
Aman Sonthalia: But if the yarn prices remain subdued, then the terry towel margins would improve?

Pawan Jain: Yes, that is right.

Moderator: Thank you. I now hand the conference over to the management for their closing comments.

Pawan Jain: Thank you all for joining us on this call. Hope we have been able to answer your queries satisfactorily. Should you need any more information, please feel free to contact our investor relations team or CDR India. Thank you.

Moderator: Thank you. On behalf of Trident Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

This is a transcription and may contain transcription errors. The Company or the sender takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.